2022 Group Consolidated and Bank Separate Annual Report

for the year ended
31 December 2022

RIETUMU
BANKA

Contents

Report of Council and the Executive Board

Business strategy for 2022

In 2022, AS "Rietumu Banka" (the Bank) has continued to implement its main strategy: focusing on services for medium and large companies and individuals based in Latvia, the Baltic States and other EU member states.

Our clients have access to a broad range of services. The Bank particularly focuses on business loans and attraction of investments, that enables the implementation of innovative projects. Therefore, facilitating business and national economic growth, as well as greater welfare for the people of Latvia has always been a priority for us. The Bank primarily finances commercial and real estate projects, financial institutions, and all types of manufacturing.

At the same time, the Bank continues to pursue its conservative lending policies by focusing on financing of stable companies, as well as on supporting new development projects. The Bank's key advantages include an individual client approach, decision-making in Latvia, as well as professional expertise and experience.

Corporate and private clients have access to a wide range of available funds placement options – sale and administration of securities, as well as advantageous deposits and other services.

In addition to the range of traditional services, the Bank is also developing ones that are based on next-generation financial technologies. Deposits from individuals based in Europe are being attracted in partnership with a fintech company and via modern mobile app with video identification.

The Bank is rated as Other Systemically Important Institutions (O-SIIs), and as of the 3rd quarter of 2022, it has taken 4th place among lending institutions in Latvia when it comes to asset and capital volumes. The Bank is among the most valuable companies in the TOP 101 rating prepared by Prudentia in partnership with the NASDAQ Riga Stock Exchange.

External factors which influence business operations

Russia's war in Ukraine has had a deterious effect on the geopolitical and economic environment throughout the world. The Bank has done everything possible to manage the influence of this on the Bank, the Group and our clients, as well as to manage related risks as effectively as possible. Bank managers believe that the Bank has been successful in pursuing this goal. It remains stable under these unpredictable external circumstances, as its liquidity coverage ratio remains at a high level.

Geopolitical tensions continue to hinder economic growth in the world, with inflation rates setting new records month by month. The US Federal Reserve and the European Central Bank have been shoring up monetary policies in an attempt to tame the rise of inflation. The Federal Reserve has been the more aggressive one with 12 interest rate hikes during this period. The ECB plans to raise rates as often as possible so as to return the inflation rate to the goal of 2%.

The influence on Latvia's economy is becoming more distinct, and it is materialised through drops in exports, record-high oil and gas prices, as well as higher food prices. Higher inflation harms purchasing power. We feel that the pressures of the Covid-19 pandemic are over, but the war in Ukraine and the linked economic decline had a negative effect on Latvia's GDP. It increased only by 2.0% in 2022 (2021: 4.8%). The Bank is carefully tracking global processes to ensure that key decisions are taken without any hesitation at all.

Analysis of financial results

The Bank is satisfied with its financial results in 2022. These proved that the Bank's business model ensures stable and effective operations even at times of geopolitical instability and economic turbulence. We have seen once again that strategic decisions taken in the past have been correct and far-sighted. Our financial results ensure a stable foundation of the Bank's ongoing development and growth.

Profitability

In 2022, the Group's net profit after tax attributable to the Bank's shareholders, amounted to EUR 16 million (2021: EUR 27) and for the Bank was EUR 19 million (2021: EUR 22 million).

The Group generated return on equity after tax[1] 4.96% (2021: 8.41%) and the Bank 5.66% (2021: 6.46%). Return on assets after tax[2] was 1.18% (2021: 1.91%) for the Group and 1.29% (2021: 1.41%) for the Bank. Basic operating income for the Group amounted to EUR 72 million (2021: EUR 82 million). The Group's net fee and commission income amounted to EUR 9 million (2021: EUR 13 million). The Group's cost-to-income ratio[3] in 2022 was 62% (2021: 52%). These cumulative effects allowed the Group to achieve a profit margin of 27% (2021: 36%).

In 2022, the Group's total comprehensive losses amounted to EUR 5 million. The losses are due to a decrease in the fair value of the securities (debt securities at fair value through other comprehensive income) in 2022 compared to their fair value at the end of 2021. The Bank plans to manage the securities portfolio in year 2023 and does not expect new significant losses.

Financing, Equity and Expanded Capital Base

The Group's current accounts and deposits due to customers amounted to EUR 0.94 billion. Current accounts represented EUR 601 million or 64% of the overall obligations toward the Group's clients. Term deposits as of December 31, 2022, amounted to EUR 340 million, including EUR 26 million subordinated deposits.

Because of the profile of the schedule of obligations, the Bank is continuing to diversify its base of financing by attracting medium and long-term deposits from individuals in the EU. The average remaining maturity for term deposits as of December 31, 2022, was 1.52 years.

The Group's equity capital on December 31, 2022, amounted to EUR 349 million. The Tier I capital adequacy ratio[4] for the Group was 23.20% (23.92% in 2021), and total capital adequacy ratio[5] was 24.85% (25.43% in 2021).

Assets

As of December 31, 2022, the Group had total assets of EUR 1.4 billion. The Group takes a conservative approach toward the distribution of assets. Approximately 44% of them are invested in liquidity management portfolios.

The Bank's securities portfolios at the end of 2022 amounted to EUR 423 million, mostly based on high-quality state and corporate securities, mostly denominated in euros, but also in US dollars. 71% of the portfolio is invested in investment-grade securities, with 17% invested in US securities. The securities portfolio is diversified in geographic and sectoral terms, and it ensures a high level of risk control. The average coverage term for securities is 2.37 years.

Lending

When the war began, the Bank immediately stopped the issuance of new loans in Russia and Belarus. At the end of 2022, the loan portfolio of the Bank amounted to EUR 584 million (of the Group EUR 545 million), which was a bit less than the balance in 2021 (EUR 595 million for the Group and EUR 638 million for the Bank). The Bank is planning a moderate increase in its lending portfolio in 2023 in Latvia, the other Baltic States and the European Union. The Bank's lending policies focus on individually adapted lending products that satisfy the needs of each and every one of our clients.

Companies in the Group

Most of the Group's companies operate in the areas of financial services, consumer loans, energy services, development and leasing of real estate, etc. The Group has focused on full strategic integration of its

[1] Profit after corporate income tax to the average amount of capital and reserves at the beginning and at the end of reporting period;
[2] Profit after corporate income tax to the average amount of total assets at the beginning and at the end of reporting;
[3] The ratio of administrative expenses to operating income during the reporting period;
[4] Tier I capital to total risk exposure amount (note 4 (h) Capital management);
[5] Total capital to risk exposure amount (note 4 (h) Capital management).

subsidiaries into the Bank's management and internal control processes. The subsidiaries mostly are financed by the Bank via capital investments and loans. In most cases, the Bank owns 100% of shares in its subsidiaries. One company which the Bank partly owns is SIA "InCREDIT GROUP," which is a consumer loan company that is registered in and operates in Latvia. As of December 31, 2022, SIA "InCREDIT GROUP" had a net loan portfolio of EUR 46 million, which contributed profit of EUR 1.5 million for the Group.

Another part of the Group is SIA "RB Investments," and it owns large part of the Bank's major real estate, as well as other assets of the Bank. Most of these are found in Riga and its surrounding area. Some of these assets are being leased or rented out, and that allows the Group to earn money from them while continuing to hold the proporties.

Geopolitical instability led to the immediate halt of new leasing transactions in Belarus. The Group's leasing company portfolio in Belarus is being amortised to reduce the Group's overall exposition in that country.

Risk management

During the course of 2022, the Bank continued to develop its risk management system so as to ensure successful and effective work, proper risk management, observance of internal and external norms, maximally good bookkeeping practices, as well as the provision of precise information at the Group.

Major resources were invested in 2022 in the further development of internal control functions, the aim being to strengthen corporate management, risk management and monitoring of appropriateness of operations at the Bank and the Group. Second line of defence was shored up with new staff, including experienced professionals in areas of compliance and risk management.

The Bank is continuing to do important work in preventing money laundering and financing of terrorism and proliferation (AML/CTPF). The Bank is observing all international sanctions that are in place, constantly monitoring news in this area and immediately introducing new demands vis-à-vis sanctions in all of the Bank's operating processes.

All throughout 2022 there were various initiatives aimed at development the risk management programmes which apply to AML/CTPF and to sanctions. Staff numbers related to AML/CTPF functions were boosted, new IT system were developed, additional transaction oversight scenarios were introduced, client data were audited, and other steps were taken, as well. Recommendations from an independent auditor on ways of improving the approach toward AML/CTPF were all implemented in the Bank's plan of operations.

The Bank has continued its policy of seeking out new clients for long-term partnerships. In 2022 we launched transaction relations with several hundred new clients in Latvia. Given important aspects of sanctions, moreover, the Bank has particularly focused on analysis of corporate clients with additional mechanisms of oversight and research.

Sustainability and charity

A key priority for the Bank is the introduction of ongoing principles of environmental, social and corporate governance (ESG) in its work. The Bank is continuing to introduce fundamental principles of sustainability in internal policies, procedures and processes, doing so in accordance with the United Nations Sustainable Development Goals for 2030.

During the course of 2022, the Bank prepared a three-year sustainability strategy, identifying specific steps to be taken and goals to be achieved along with priorities in the areas of the environment, social issues and management. The Bank plans to improve energy efficiency, encourage employees and their family members to live healthy and responsible lives, improve the motivation of employees through employee involvement surveys, encourage them to improve their professional competence and skills, and to take other steps in these areas, as well.

The Bank wants to ensure that its products and services have a positive environmental impact, and it will particularly support cooperation with customers for whom ESG principles are important as for the Bank. The

Bank has firmly committed to reduce the impact of its operations on the environment, as well as started assessing the impact of customers and cooperation partners on the climate.

Late in 2022, the Bank received Green Office certification from the World Wide Fund for Nature. The Bank is an associate partner for the fund in Latvia, and the certification is issued to companies which approach their work in a responsible and environmentally friendly was so as to purposefully reduce the effects on the environment.

During the course of 2022, the ESG risk assessment methodology of the loan portfolio was created. When considering a loan application, the Bank takes climate change effects into account along with the durability of the potential client's financial situation, as well as specific ESG factors. The Bank consumes environmental resource calculations, monitoring and effect evaluations as steps aimed at reducing emissions.

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

The Bank prepares its Sustainability Report, which is a non-financial report in accordance with the principles of the Global Reporting Initiative (GRI) General Standards (GRI 2: General Disclosures 2021). The information is also disclosed taking into account the principles specified in Regulation (EU) 2019/2088 of the European Parliament and of the Council and the Corporate Sustainability Reporting Directive (CSRD) and in compliance with other binding standards and recommendations in the field of sustainability.

The Rietumu Bank has been an active member of society in Latvia for more than 30 years. We support social projects, health care and medicine, education, environmental protection, culture and the arts, as well as other areas that are of public importance. The Bank's charity fund - the Future Support Foundation - supports around 100 different projects in Latvia annually. In 2022, about EUR 700 000 were assigned to this purpose.

Rietumu Bank and the "Future Support Fund" were involved in a very important project, "Angels Over Latvia," which helped to provide necessary medical treatment for 187 children all across the country.

Another important area for the fund in 2022 was to provide support to Ukraine and to Ukrainian refugees in Latvia. This has been operative and specific work. Immediately after start of the war, the Fund procured several hundred woollen blankets in Latvia, sending most of them to the Ukrainian armed forces. The fund bought new PCs and professional copying equipment for the Riga Ukrainian Secondary School, which refugee children are attending. The fund also purchased a large amount of hygienic products and and delivered these to organizations working with Ukrainian refugees in Latvia.

A separate support programme focused on psychological rehabilitation. An exhibition of drawings by Ukrainian children was organised by the Riga Archdiocese. In partnership with the Ukrainian embassy in Latvia, a children's book was published in Ukrainian. The fund partnered with others to support various cultural events such as a guest appearance by the Ukrainian Classical Ballet in Riga. Ukrainian refugees were given a chance to attend cultural events free of charge. The fund also engaged in a series of other projects.

Future development

The Bank plans to develop its business model with the aim of becoming one of the leading providers of financial services and knowledge center in the Baltic region, which, through professional cooperation with large and medium-sized companies, creates values and new opportunities for the growth of the entire Latvian, Baltic and European society.

The Bank celebrated its 30th anniversary in 2022. As one of the first credit institutions in Latvia, it developed itself constantly so as to become one of the leaders in the financial sector during the course of these years.

The results of the Bank and the Group reflect the effectiveness of the chosen strategy, laying a foundation for its further development by providing the necessary financial and intellectual resources, a firm capital base, as well as modern technologies.

The Bank continues to develop financial services, including partnerships with modern international platforms so as to expand the number of contractors for interbank deposits, to improve brokerage services and individual securities portfolio management services, to offer new services, to continue to develop correspondent relationships, to work actively in the field of lending, etc.

We thank our team of employees, our clients and our business partners for our achievements, along with the loyalty and support which all of them have demonstrated to us over the course of the years. We are certain that we will gain new achievements in 2023 by continuing to work together.

The management's Sustainability report for 2022 can be found in a separate report that is available on the Bank's homepage https://www.rietumu.com.

The Bank was established in the Republic of Latvia as a joint stock company, and on May 5, 1992, it was granted a general banking license with the number 06.01.04.018/245. The Bank's legal address is Vesetas Street 7, Riga, Latvia, Registration Number 40003074497. The Bank's primary areas of operations include acceptance of deposits, administration of client accounts, lending, issuance of guarantees, cash and settlement operations, as well as operations with securities and foreign currencies.

Financial results of the Group

	2022	2021	2020	2019
At year end (EUR'000)				
Total assets	1,395,304	1,554,287	1,469,042	1,703,706
Loans and receivables due from customers	545,151	595,188	560,086	585,291
Current accounts and deposits due to customers	940,933	1,090,276	1,072,456	1,319,833
Total shareholder's equity	348,817	355,459	331,437	324,443
For the year (EUR'000)				
Net profit before tax	19,183	29,859	12,764	24,510
Net profit after tax	17,456	28,884	11,768	23,000
Operating income	72,391	82,092	69,192	72,822
Ratios				
Earnings per share (EUR) – basic and diluted				
After tax	0.14	0.24	0.10	0.19
Return on equity				
Before tax	5.45%	8.69%	3.89%	6.16%
After tax	4.96%	8.41%	3.59%	5.78%
Return on assets				
Before tax	1.30%	1.98%	0.80%	1.51%
After tax	1.18%	1.91%	0.74%	1.41%
Capital adequacy ratio	24.85%	25.43%	22.61%	22.48%
Profit margin	26.50%	36.37%	18.45%	33.66%
Loan portfolio to total assets ratio	39.07%	38.29%	38.13%	34.35%
Number of employees	526	558	603	701

Financial results of the Bank

	2022	2021	2020	2019
At year end (EUR’000)				
Total assets	1,402,576	1,565,182	1,479,183	1,718,724
Loans and receivables due from customers	584,332	638,482	606,346	638,523
Current accounts and deposits due to customers	951,824	1,100,818	1,082,424	1,332,529
Total shareholders’ equity	333,798	341,500	324,014	307,770
For the year (EUR’000)				
Net profit before tax	19,390	21,230	18,826	19,105
Net profit after tax	19,111	21,500	18,125	18,431
Operating income	60,330	59,943	64,742	53,144
Ratios				
Earnings per share (EUR) – basic and diluted				
After tax	0.16	0.18	0.15	0.17
Return on equity				
Before tax	5.74%	6.38%	6.07%	4.93%
After tax	5.66%	6.46%	5.84%	4.76%
Return on assets				
Before tax	1.31%	1.39%	1.30%	1.14%
After tax	1.29%	1.41%	1.25%	1.10%
Capital adequacy ratio	24.66%	25.38%	22.76%	21.96%
Profit margin	32.14%	35.42%	29.08%	35.95%
Loan portfolio to total assets ratio	41.66%	40.79%	40.99%	37.15%
Number of employees	389	323	344	429

STATEMENTS OF MANAGEMENT RESPONSIBILITY

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

The separate and consolidated financial statements on pages 20 to 118 are prepared in accordance with source documents and present fairly the financial position of the Bank and the Group as of 31 December 2022 and the results of their operations and cash flows for the year ended 31 December 2022.

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

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

On behalf of the Management of AS “Rietumu Banka”:

______________________________	______________________________
Chairman of the Executive Board	Deputy Chairman of the Executive Board
Jelena Buraja	Ruslans Stecjuks

3 April 2023

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

The Council and the Executive Board

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

The Council of the Bank

1 January 2022 – 10 March 2023

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

10 March 2023 – 3 April 2023

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

The Executive Board of the Bank

1 January 2022 – 14 October 2022

Name, Surname	*Position*	*Date of the last appointment and current term*
Jelena Buraja	Chairman of the Executive Board	13.11.2019 - 13.11.2022
Ruslans Stecjuks	Member of the Executive Board, Deputy Chairman	13.11.2019 - 13.11.2022
Mihails Birzgals	Member of the Executive Board	19.08.2021 - 19.08.2024
Vladlens Topcijans	Member of the Executive Board	02.09.2020 - 02.09.2023

14 October 2022 – 21 October 2022

Name	*Position*	*Date of the last appointment and current term*
Jelena Buraja	Chairman of the Executive Board	14.10.2022 - 13.10.2025
Ruslans Stecjuks	Member of the Executive Board, Deputy Chairman	14.10.2022 - 13.10.2025
Mihails Birzgals	Member of the Executive Board	19.08.2021 - 19.08.2024
Vladlens Topcijans	Member of the Executive Board	02.09.2020 - 02.09.2023

21 October 2022 – 3 April 2023

Name	*Position*	*Date of the last appointment and current term*
Jelena Buraja	Chairman of the Executive Board	14.10.2022 - 13.10.2025
Ruslans Stecjuks	Member of the Executive Board, Deputy Chairman	14.10.2022 - 13.10.2025
Mihails Birzgals	Member of the Executive Board	19.08.2021 - 19.08.2024
Vladlens Topcijans	Member of the Executive Board	02.09.2020 - 02.09.2023
Sandris Straume	Member of the Executive Board, Chief Risk Officer	21.10.2022 - 20.10.2025

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Independent Auditors' Report

To the shareholders of Rietumu Banka AS

Report on the Audit of the Separate and Consolidated Financial Statements

Our Opinion on the Separate and Consolidated Financial Statements

We have audited the accompanying separate financial statements of Rietumu Banka AS ("the Bank") and accompanying consolidated financial statements of the Bank and its subsidiaries ("the Group") set out on pages 20 to 118 of the accompanying separate and consolidated Annual Report, which comprise:

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

In our opinion, the accompanying separate and consolidated financial statements give a true and fair view of the separate and consolidated financial position of the Bank and the Group, respectively, as at 31 December 2022, and of their separate and consolidated financial performance and their separate and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for Opinion

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

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

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

Key Audit Matters

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

Impairment allowances for Loans and receivables due from customers (separate and consolidated financial statements)	
Group's consolidated financial statements The gross amount of Loans and receivables due from customers as at 31 December 2022: EUR 568 160 (31 December 2021: EUR 617 410 thousand); impairment losses on Loans and receivables due from customers recognised in 2022: EUR 6 796 thousand (in 2021: EUR 15 785 thousand); impairment reversal on Loans and receivables due from customers recognized in 2022: EUR 3 158 thousand (in 2021: EUR 6 598 thousand); total impairment allowance as at 31 December 2022: EUR 23 009 thousand (31 December 2021: EUR 22 222 thousand). Bank's separate financial statements The gross amount of loans and advances to customers as at 31 December 2022: EUR 609 066 thousand (31 December 2021: EUR 660 088 thousand); impairment losses on Loans and receivables due from customers recognised in 2022: EUR 9 585 thousand (in 2021: EUR 16 994 thousand); impairment reversal on Loans and receivables due from customers recognized in 2022: EUR 3 630 thousand (in 2021: EUR 7 970 thousand) total impairment allowance as at 31 December 2022: EUR 24 734 thousand (31 December 2021: EUR 21 606 thousand). We refer to the separate and consolidated financial statements: Note 3 (Significant accounting policies), Note 4 b) and i) (Risk management), Note 5 i) (Use of Estimates and judgements), Notes 13 and 19.2 (financial disclosures).	
Key audit matter	***How we addressed the key audit matter***
Loans and receivables due from customers, collectively represent approximately 39% of the Group's assets as at 31 December 2022 (31 December 2021: approximately 38%) and approximately 42% of the Bank's assets as at 31 December 2022 (31 December 2021: approximately 41%). The Bank and other entities within the Group offer a variety of loan products issued to corporate clients and individuals. The Bank and the Group have a significant exposure to borrowers in foreign jurisdictions, including those in Russia and Belarus. Impairment allowance represent the Management's best estimate of the expected credit losses within the Loans and receivables due from customers items at the reporting date. We focused on this area as the determination of impairment loss allowances requires significant judgments from the Management over both the timing of recognition and the specific amounts, especially considering the current	Our procedures in the area included, among others: • inspecting the Group's expected credit losses ("ECL"), expected credit loss methodology and assessing its compliance with the relevant requirements of IFRS 9; • testing selected key controls over the approval and recording and monitoring of loans; • assisted by our own information technology (IT) specialists, testing the application and general IT controls related to the ECL estimation process and calculation of days past due; • assessing whether the definition of default and the staging criteria were consistently applied and in line with the requirements of IFRS 9; • independently assessing and challenging the forward-looking information used in

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

Valuation of investment properties (separate and consolidated financial statements)

Group's consolidated financial statements

The carrying amount of Investment properties as at 31 December 2022: EUR 93 596 thousand (31 December 2021: EUR 77 877 thousand). Fair value change of Investment property recognized in 2022: EUR 1 498 thousand (in 2021: EUR 5 751 thousand).

Bank's separate financial statements

The carrying amount of Investment properties as at 31 December 2022: EUR 36 258 thousand (31 December 2021: EUR 34 726 thousand). Fair value change of Investment property recognized in 2022: EUR 1 186 thousand (in 2021: EUR 4 593 thousand).

We refer to the separate and consolidated financial statements: Note 3 d) ii) (Significant accounting policies), Note 5 iii) (Use of Estimates and judgements), Notes 12 and 26 (financial disclosures).

<table>
<tr><th>Key audit matter</th><th>How we addressed the key audit matter</th></tr>
<tr><td>The Bank and the Group have a significant balance of investment properties, including the Group having a significant balance of investment properties located in Russia. Investment properties are held either to earn rental income or for capital appreciation or for both. The Bank and the Group measures investment properties at fair value, with all changes therein recorded in profit or loss.

The valuation of the Group's investment properties involves significant judgements and estimates made by the management using the input from the external valuation specialists, particularly in relation to sensitivity of assumptions regarding discount rates, cash flow projections and comparable market transactions.

Due to the above factors, we consider the area to be associated with a significant risk of material misstatement, which requires our increased attention in the audit. As such, we determined it to be a key audit matter.</td><td>Our procedures included, among others:

• based on our understanding of the Bank's and Group's approach to valuation of investment properties, assessing the applied valuation methodology against relevant financial reporting standards;

• agreeing the fair values determined by the Bank's and Group's external valuation experts to the Bank's and Group's accounting records;

• using our own internal valuation specialists, challenging, on a sample basis, the valuation methods and key assumptions applied by the Bank's and Group's external experts, including those in respect of discount rates, capitalisation rates, cash flow projections and comparable market transactions and performing a sensitivity analysis in respect of the above key assumptions to evaluate the effects of their potential changes on the fair values;

• assessing the adequacy of the Bank's and the Group's disclosures on investment properties and the valuation techniques and significant unobservable inputs disclosed in the notes to the separate and consolidated financial statements</td></tr>
</table>

Other Matter

The respective corresponding figures are based on the Bank's separate and the Group's consolidated financial statements as at and for the year ended 31 December 2021, which were audited by another independent audit firm who expressed an unmodified opinion on these financial statements in their auditors' report dated 31 March 2022.

Reporting on Other Information

The Bank's and Group's management is responsible for the other information. The other information comprises the following, but does not include the separate and consolidated financial statements and our auditors' report thereon:

- Report of Council and Board of Directors, as set out on pages 3 to 9 of the accompanying separate and consolidated Annual Report,
- the Statements on Management Responsibility, as set out on page 10 of the accompanying separate and consolidated Annual Report,
- the Council and the Board of Directors, as set out on page 11 of the accompanying separate and consolidated Annual Report,

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

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

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

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

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

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

- the information given in the Management Report for the financial year for which the separate and consolidated financial statements are prepared is consistent with the separate and consolidated financial statements; and
- the Management Report has been prepared in accordance with the requirements of the Financial and Capital Market Commission of the Republic of Latvia – "Regulations on

the Preparation of Annual Reports and Annual Consolidated Accounts for Banks, Investment Brokerage Firms and Investment Management Companies".

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

We were appointed by shareholders on 10 November 2022 to audit the separate and consolidated financial statements of Rietumu Banka AS for the year ended 31 December 2022. Our total uninterrupted period of engagement is 1 year starting from the period ending 31 December 2022.

We confirm that:

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

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

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

KPMG Baltics SIA
Licence Nr. 55

Rainers Vilāns
Member of the Board
Latvian Sworn Auditor
Certificate No. 200
Riga, Latvia
3 April 2023

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

FINANCIAL STATEMENTS

SEPARATE AND CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	2022 '000 EUR Group	2022 '000 EUR Bank	2021 '000 Group	2021 '000 Bank
Interest income	6	48,667	39,604	49,697	37,561
Interest expense	6	(11,548)	(11,089)	(13,564)	(12,681)
Net interest income		**37,119**	**28,515**	**36,133**	**24,880**
Fee and commission income	7	11,496	10,637	16,627	14,930
Fee and commission expense	8	(2,472)	(2,440)	(3,404)	(2,895)
Net fee and commission income		**9,024**	**8,197**	**13,223**	**12,035**
Net gain on financial assets at fair value through profit	9	2,746	2,746	3,966	3,966
Net foreign exchange gain	10	3,547	1,102	4,069	3,085
Net realised gain on financial assets at fair value through other comprehensive income	11	1,185	1,185	2,734	2,734
Share of losses of associates	22	(1,225)	-	(2)	-
Other income	12	19,995	18,585	21,969	13,243
Operating income		**72,391**	**60,330**	**82,092**	**59,943**
Impairment losses	13	(7,920)	(10,242)	(10,428)	(12,923)
Provisions charges	34	(675)	(661)	1,154	1,158
General and administrative expenses	14	(44,613)	(30,037)	(42,959)	(26,948)
Profit before income tax		**19,183**	**19,390**	**29,859**	**21,230**
Income tax	15	(1,727)	(279)	(975)	270
Profit for the period		**17,456**	**19,111**	**28,884**	**21,500**
Attributable to:					
Equity holders of the Bank		**16,369**		**26,917**	
Non-controlling interest		**1,087**		**1,967**	

The separate and consolidated statements of profit or loss and other comprehensive income are to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 29 to 118.

Chairman of the Executive Board
Jelena Buraja

Deputy Chairman of the Executive Board
Ruslans Stecjuks

3 April 2023

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SEPARATE AND CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		2022 '000 EUR Group	2022 '000 EUR Bank	2021 '000 Group	2021 '000 Bank
Profit for the period		**17,456**	**19,111**	**28,884**	**21,500**
Other comprehensive gain/(loss)					
Items that will not to be reclassified to profit or loss					
Fair value changes of equity instruments measured at fair value through other comprehensive income	32	17	17	(135)	(135)
Revaluation of property and equipment	32	4,954	-	(1)	-
Items that are or may be reclassified to profit or loss					
Foreign currency translation differences for foreign		(769)	-	623	-
Net change in fair value of debt instruments at fair value through other comprehensive income	32	(26,830)	(26,830)	(3,879)	(3,879)
Net change in fair value		*(28,015)*	*(28,015)*	*(6,613)*	*(6,613)*
Reclassified to profit or loss		*1,185*	*1,185*	*2,734*	*2,734*
Other comprehensive loss for the period		**(22,628)**	**(26,813)**	**(3,392)**	**(4,014)**
Total comprehensive income/(loss) for the period		**(5,172)**	**(7,702)**	**25,492**	**17,486**
Attributable to:					
Equity holders of the Group		**(6,259)**		**23,525**	
Non-controlling interest		**1,087**		**1,967**	

The separate and consolidated statements of profit or loss and other comprehensive income are to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 29 to 118.

Chairman of the Executive Board
Jelena Buraja

Deputy Chairman of the Executive Board
Ruslans Stecjuks

3 April 2023

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SEPARATE AND CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	31 Dec 2022 '000 EUR Group	31 Dec 2022 '000 EUR Bank	31 Dec 2021 '000 EUR Group	31 Dec 2021 '000 EUR Bank
Assets					
Cash and balances due from the Bank of Latvia	16	248,618	248,584	320,601	320,562
Deposits and balances due from banks	17	34,406	33,757	33,400	32,906
Financial assets at fair value through profit or loss	18	5,966	5,522	8,663	8,264
Financial assets at amortised cost	19				
Debt securities	19.1	66,137	66,137	67,187	67,187
Loans and receivables due from customers	19.2	545,151	584,332	595,188	638,482
Financial assets at fair value through other comprehensive income	20	351,038	351,038	380,800	380,800
Non-current assets held for sale		1,378	1,343	4,415	3,404
Investments in subsidiaries	21	-	40,262	-	40,316
Investments in associates	22	775	-	2,000	-
Property and equipment	23	37,521	22,957	46,168	25,935
Intangible assets	24	1,255	1,246	1,436	1,422
Investment property	26	93,596	36,258	77,877	34,726
Current tax asset		36	5	59	5
Deferred tax asset	31	531	-	551	-
Other assets	27	8,896	11,135	15,942	11,173
Total Assets		**1,395,304**	**1,402,576**	**1,554,287**	**1,565,182**

The separate and consolidated statements of financial position are to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 29 to 118.

SEPARATE AND CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	31 Dec '000 EUR Group	31 Dec '000 EUR Bank	31 Dec '000 EUR Group	31 Dec '000 EUR Bank
Liabilities and Shareholders' Equity					
Financial instruments at fair value through profit or loss	18	551	551	149	149
Due to Bank of Latvia	28	49,811	49,811	49,993	49,993
Deposits and balances due to banks	28	1,679	1,679	5,291	5,291
Current accounts and deposits due to	29	940,933	951,824	1,090,276	1,100,818
Provisions	35	33,719	33,729	33,040	33,067
Current tax liability		112	-	10	-
Deferred tax liability	31	750	-	20	-
Other liabilities and accruals	30	18,932	31,184	20,049	34,364
Total Liabilities		**1,046,487**	**1,068,778**	**1,198,828**	**1,223,682**
Share capital	32	168,916	168,916	168,916	168,916
Share premium	32	52,543	52,543	52,543	52,543
Revaluation reserve	32	6,735	-	1,840	-
Fair value reserve	32	(29,130)	(29,130)	(2,317)	(2,317)
Currency translation reserve		(4,834)	-	(4,065)	-
Other reserves	32	40	23	40	23
Retained earnings		150,704	141,446	134,276	122,335
Total Equity Attributable to Equity Holders of the Bank		**344,974**	**333,798**	**351,233**	**341,500**
Non-controlling Interest	40	**3,843**	-	**4,226**	-
Total Shareholders' Equity		**348,817**	**333,798**	**355,459**	**341,500**
Total Liabilities and Shareholders' Equity		**1,395,304**	**1,402,576**	**1,554,287**	**1,565,182**

The separate and consolidated statements of financial position are to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 29 to 118.

Chairman of the Executive Board
Jelena Buraja

Deputy Chairman of the Executive Board
Ruslans Stecjuks

3 April 2023

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SEPARATE AND CONSOLIDATED STATEMENTS OF CASH FLOWS

	Note	2022 '000 EUR Group	2022 '000 EUR Bank	2021 '000 EUR Group	2021 '000 EUR Bank
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before income tax		19,183	19,390	30,093	21,230
Adjustments for non-cash items					
Interest income		(48,667)	(39,604)	(49,697)	(37,561)
Interest expense		11,548	11,089	13,564	12,681
Dividends		(116)	(8,278)	(139)	(2,764)
Amortisation and depreciation	23, 24	2,053	1,677	2,146	1,842
Revaluation of investment property		(1,498)	(1,186)	(5,751)	(4,593)
Share of (income)/loss of equity accounted investees		1,225	-	(1,998)	-
Increase/(decrease) of provisions		679	662	(1,151)	(1,158)
Revaluation of currencies		(1,554)	-	-	-
Impairment losses	13	7,880	10,202	10,139	12,634
Increase in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations		**(9,267)**	**(6,048)**	**(2,794)**	**2,311**
Decrease/(increase) in financial assets at fair value through profit or loss		2,697	2,742	11,476	11,766
(Increase)/decrease in loans and receivables from customers		45,355	49,497	(43,657)	(39,609)
Increase in financial assets at fair value through other comprehensive income		(59)	(59)	(41,058)	(41,058)
Decrease in other assets		6,160	8,620	2,598	1,454
Increase/(decrease) in derivative liabilities		402	402	95	95
Increase/(decrease) in current accounts and deposits due to customers		(149,371)	(148,833)	19,427	20,001
Increase in amounts due to Bank of Latvia		-	-	49,993	49,993
(Decrease)/increase in other liabilities and accruals		(837)	(1,423)	(4,928)	34
(Increase)/decrease in debt securities at amortised costs		(75)	(75)	(2,919)	(2,919)
Increase/(decrease) in cash and cash equivalents from operating activities before corporate income tax		**(104,995)**	**(95,177)**	**(11,767)**	**2,068**
Interest received		49,711	38,302	49,065	36,009
Interest paid		(11,702)	(11,432)	(15,171)	(14,287)
Corporate income tax paid		(797)	(279)	(1,026)	265
Net cash and cash equivalents from operating activities		**(67,783)**	**(68,586)**	**21,101**	**24,055**

The separate and consolidated statements of cash flows are to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 29 to 118.

SEPARATE AND CONSOLIDATED STATEMENTS OF CASH FLOWS

	Note	2022 '000 EUR Group	2022 '000 EUR Bank	2021 '000 EUR Group	2021 '000 EUR Bank
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property and equipment and intangible assets	23, 24	(1,376)	(836)	(11,128)	(1,188)
Proceeds from sale of property, plant and equipment and other assets		56	3	-	-
Acquisition of subsidiaries		-	-	-	(15,552)
Increase in investment property	26	(3,127)	(2,850)	(8,587)	(1,258)
Sale of investment property		2,427	1,525	10,733	8,612
Net cash from sale of subsidiary		131	-	-	-
Sale of Non-current assets held for sale		3,941	3,040	4,741	(1,144)
Dividends received		116	1,946	139	2,764
Cash and cash equivalents used in / from investing activities		**2,168**	**2,828**	**(4,102)**	**(7,766)**
CASH FLOWS FROM FINANCING ACTIVITIES					
Issued debt securities		-	-	(613)	-
Dividends paid	32	(1,470)	-	(1,470)	-
Repayment of lease liability	25	(280)	(1,757)	(326)	(1,805)
Cash and cash equivalents used in/from financing activities		**(1,750)**	**(1,757)**	**(2,409)**	**(1,805)**
Net cash flow for the period		**(67,365)**	**(67,515)**	**14,590**	**14,484**
Cash and cash equivalents at the beginning of the year		**348,710**	**348,177**	**334,120**	**333,693**
Cash and cash equivalents at the end of the year	33	**281,345**	**280,662**	**348,710**	**348,177**

The separate and consolidated statements of cash flows are to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 29 to 118.

Chairman of the Executive Board
Jelena Buraja

Deputy Chairman of the Executive Board
Ruslans Stecjuks

3 April 2023

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GROUP CONSOLIDATED STATEMENTS OF CHANGES IN THE SHAREHOLDERS' EQUITY

For the year ended 31 December 2021

	Attributable to Equity Holders of the Bank									
	Share capital '000 EUR	**Share premium '000 EUR**	**Revalua-tion reserve '000 EUR**	**Fair value reserve '000 EUR**	**Foreign currency transla-tion reserve '000 EUR**	**Other reserves '000 EUR**	**Retained earnings '000 EUR**	**Total '000 EUR**	**Non-controlling interest '000 EUR**	**Total Equity '000 EUR**
Balance at 1 January 2021	**168,916**	**52,543**	**1,869**	**1,697**	**(4,688)**	**40**	**107,331**	**327,708**	**3,729**	**331,437**
Transactions with non-controlling interest										
Dividends paid to non-controlling interest shareholders	-	-	-	-	-	-	-	-	(1,470)	**(1,470)**
Total transactions with non-controlling interest	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,470)**	**(1,470)**
Total comprehensive income										
Profit for the current year	-	-	-	-	-	-	26,917	26,917	1,967	**28,884**
Other comprehensive income/(loss)										
Net change in fair value of financial instruments at fair value through other comprehensive income	-	-	-	(4,014)	-	-	-	(4,014)	-	**(4,014)**
Foreign currency translation differences for foreign operations	-	-	-	-	623	-	-	623	-	**623**
Depreciation of revalued property	-	-	(28)	-	-	-	28	-	-	**-**
Revaluation of property and equipment	-	-	(1)	-	-	-	-	(1)	-	**(1)**
Total other comprehensive income/(loss)	-	-	(29)	(4,014)	623	-	28	(3,392)	-	**(3,392)**
Total comprehensive income/(loss)	-	-	(29)	(4,014)	623	-	26,945	23,525	1,967	**25,492**
Balance at 31 December 2021	**168,916**	**52,543**	**1,840**	**(2,317)**	**(4,065)**	**40**	**134,276**	**351,233**	**4,226**	**355,459**

The Group consolidated statements of changes in the shareholders' equity are to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 29 to 118.

GROUP CONSOLIDATED STATEMENTS OF CHANGES IN THE SHAREHOLDERS' EQUITY

For the year ended 31 December 2022

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

The Group consolidated statements of changes in the shareholders' equity are to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 29 to 118.

Chairman of the Executive Board
Jelena Buraja

Deputy Chairman of the Executive Board
Ruslans Stecjuks

3 April 2023

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BANK'S SEPARATE STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2022

	Share capital '000 EUR	Share premium '000 EUR	Fair value reserve '000 EUR	Other reserves '000 EUR	Retained earnings '000 EUR	Total equity '000 EUR
Restated balance at 1 January 2021	**168,916**	**52,543**	**1,697**	**23**	**100,835**	**324,014**
Total comprehensive income						
Profit for the period	-	-	-	-	21,500	**21,500**
Other comprehensive income/(loss)						
Net change in fair value of financial instruments at fair value through other comprehensive income	-	-	(4,014)	-	-	**(4,014)**
Total other comprehensive income	**-**	**-**	(4,014)	**-**	**-**	**(4,014)**
Total comprehensive income	-	-	(4,014)	-	21,500	17,486
Balance at 31 December 2021	**168,916**	**52,543**	**(2,317)**	**23**	**122,335**	**341,500**
Total comprehensive income						
Profit for the period	-	-	-	-	19,111	**19,111**
Other comprehensive income/(loss)						
Net change in fair value of financial instruments at fair value through other comprehensive income	-	-	(26,813)	-	-	**(26,813)**
Total other comprehensive income	-	-	(26,813)	-	-	(26,813)
Total comprehensive income	-	-	(26,813)	-	19,111	(7,702)
Balance at 31 December 2022	**168,916**	**52,543**	**(29,130)**	**23**	**141,446**	**333,798**

The Bank's separate statements of changes in shareholders' equity are to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 29 to 118.

Chairman of the Executive Board
Jelena Buraja

Deputy Chairman of the Executive Board
Ruslans Stecjuks

3 April 2023

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

NOTES TO THE FINANCIAL STATEMENTS

1 Background

Principal activities

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

The principal activities of the Bank are deposit taking and customer accounts maintenance, lending, issuing guarantees, cash and settlement operations and operations with securities and foreign exchange. The activities of the Bank are regulated by the Bank of Latvia. The number of full time equivalent employees in the Group on December 31 was 526 (2021: 579) and in the Bank 389 (2021: 333).

Principal subsidiaries of the Group (total assets in excess of EUR 5,000 thousand)

Name	Country of incorporation	Principal activities	Ownership	
			31 Dec 2022	31 Dec 2021
SIA "RB Investments"	Vesetas Str.7, Riga, Latvia	Investments	100%	100%
Rietumu Lizing OOO	Odoevskogo Str.117, 6th floor, office 9, Minsk, Belarus	Leasing company	100%	100%
SIA "Vesetas 7"	Vesetas Str.7, Riga, Latvia	Real estate operating	100%	100%
SIA "OVERSEAS Estates"	Dzintaru str.3A, Ventspils, Latvia	Terminal	100%	100%
SIA "InCREDIT GROUP"	Krisjana Barona Str.130, Riga, Latvia	Customer lending	51%	51%
SIA "KI Nekustamie ipasumi"	Vesetas Str.7, Riga, Latvia	Real estate operating	100%	100%
KI Invest OOO	Nauchnij Str.19, Moscow, Russia	Real estate operating	100%	100%
SIA "Euro Textile Group"	Vesetas Str.7, Riga, Latvia	Real estate operating	100%	100%
SIA "Second Sky Management"	Vesetas Str.7, Riga, Latvia	Other reservation service and related activities	100%	100%

2 Basis of preparation

(a) Statements of compliance

The accompanying separate and consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU IFRS), and regulations of the Financial and Capital Market Commission of the Republic of Latvia (FCMC) in force as at the reporting date.

The Executive Board approved these separate and consolidated financial statements for issue on 3 April 2023.

Shareholders of the Bank have the power to amend the financial statements after their issue, if necessary.

(b) Basis of measurement

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

2 Basis of preparation, continued

(c) Functional and Presentation Currency

These financial statements are presented in thousands of euro (EUR 000's).

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

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

3 Significant accounting policies

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

(a) Foreign currency

(i) Foreign currency transactions

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

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

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into the presentation currency of the Group at exchange rates set by the European Central Bank at the reporting date. The income and expenses of foreign operations are translated into the presentation currency of the Group at average exchange rate for the reporting period. Foreign currency differences are recognised in other comprehensive income and accumulated in a currency translation reserve, except that the translation difference is allocated to non-controlling interest. Upon disposal of subsidiary, the balance of currency translation reserve is reclassified to profit or loss.

(iii) Foreign exchange rates

	31 Dec 2022	Average 2022	31 Dec 2021	Average 2021
USD	1,0666	1,0537	1,1326	1,1830
BYN	2,9156	2,9091	2,8826	3,0042
RUB	78,5651	72,7817	85,3004	87,1527

3 Significant accounting policies, continued

(b) Basis of consolidation

(i) Subsidiaries

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

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

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

(ii) Equity accounted investees

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

(iii) Transactions eliminated on consolidation

Intra-Group balances and transactions, and any unrealized gains arising from intra-Group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with associates are eliminated to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains except that they are only eliminated to the extent that there is no evidence of impairment.

(iv) Non – controlling interest

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

3 Significant accounting policies, continued

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

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

(vi) Asset management

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

(c) Goodwill

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

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

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

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

(d) Fair value measurement principles

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

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

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

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

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

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

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

(i) Financial assets and liabilities

When available, the Bank and the Group measure the fair value of a financial instrument using quoted prices in an active market for that financial instrument. A market is regarded as active if transactions

with the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

3 Significant accounting policies, continued

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

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

(ii) Investment property and owner's occupied buildings

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

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

(iii) Intangible assets

The fair value of licenses acquired in a business combination is based on the discounted estimated cash flows from the business activity subject to the license. The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earning method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the rated flows.

(e) Cash and cash equivalents

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

(f) Financial instruments

(i) Classification

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

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

3 Significant accounting policies, continued

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

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

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

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

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

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

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

All other financial assets are mandatorily measured at FVTPL.

Business model assessment

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

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

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

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

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

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

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

3 Significant accounting policies, continued

(ii) Measurement

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

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

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

All debt securities measured at amortised cost, loans and receivables and financial liabilities at amortised cost are measured at amortised cost. Amortised cost is calculated using the effective interest method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Loss allowance for expected credit losses on financial assets that are measured at amortised cost or at fair value through other comprehensive income is recognised in accordance with note 3 (l).

(iii) Gains and losses on subsequent measurement

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

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

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

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

(iv) Derecognition

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or when the Bank and the Group transfer substantially all of the risks and rewards of ownership of the financial asset or when the Bank and the Group neither transfer, nor retain substantially all risks and rewards of ownership but does not retain control of the financial asset. Any interest in transferred financial assets that qualifies for derecognition that is created or retained by the Bank and the Group is recognised as a separate asset or liability. A financial liability is derecognised when it is extinguished.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

3 Significant accounting policies, continued

(v) Derivative financial instruments

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

(vi) Offsetting

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

(g) Leases

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

The Bank and the Group as lessee

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

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

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

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

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

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

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

3 Significant accounting policies, continued

The bank and the Group as lessor

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

(h) Property and equipment

(i) Owned assets

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

(ii) Revaluation

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

(iii) Depreciation

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

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

(i) Investment property

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

(j) Repossessed collateral

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

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

3 Significant accounting policies, continued

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

(k) Intangible assets

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

(l) Measurement of expected credit losses on financial assets

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

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

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

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

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

- Stage 1 – Performing loans: when loans are fist recognized, the Bank and the Group recognizes an allowance based on twelve months expected credit losses;
- Stage 2 – Loans with significant increase in credit risk: when a loan shows a significant increase in credit risk since initial recognition, the Bank and the Group records an allowance for the lifetime expected credit loss;
- Stage 3 – Impaired loans: Financial assets are recognized in Stage 3 when there is objective evidence that the loan is impaired. The Bank and the Group recognizes the lifetime expected credit losses for these loans.

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

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

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

3 Significant accounting policies, continued

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

- Stage 1 includes loans with below 31 overdue days and loans not defined by Stage 2 or Stage 3;
- Stage 2 includes loans with above 30 overdue days till below 91 overdue days and loans with rating that has been lowered from A or B to C, and loans with credit rating of E and D.

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

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

- significant financial difficulty of the borrower;
- a breach of contract, such as a default or past-due event that result in overdue period above 90 days;
- the restructuring of loan by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or another financial reorganisation;
- the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses;
- a combination of other events that cause a financial asset to become credit-impaired.

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

For significant loans the Group and the Bank determines the expected credit losses individually.

For bonds measured at amortized cost or fair value through other comprehensive income and Deposits and balances due from banks assessment of increase in credit risk is performed by considering composite credit rating. Decrease in credit rating by more than 3 notches since the settlement date is considered as a significant increase in credit risk and bond is transferred from stage 1 to stage 2. Bond is transferred from stage 2 to stage 3 when it becomes credit-impaired. Low credit risk exemption is not used by the Group and the Bank.

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

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

- payment discipline;
- type of collateral;
- cash flow of the borrower;
- financial status of the borrower;
- review of other obligations of the borrower.

Rating classes are assigned according to the following rating scores: $A \in (8;10]$, $B \in (6;8]$, $C \in (3;6]$, $D \in (1;3]$, $E \in [0;1]$.

A, B, C, D and E are bank assigned rating classes based on internal rating approach, where A is the lowest credit risk and E – highest credit risk. If the ratio of the borrower's turnover to credit payments increases to 50% or the ratio of the net income to the sum of payments increases to 70%, the reclassification from A and B to C occurs.

3 Significant accounting policies, continued

The table below provides an indicative mapping of how the Bank's internal rating classes relate to PD. The weighted-average PD is calculated based on the carrying amounts of the assets in each class.

Grading	12-month weighted-average PD
A	3.79%
B	4.30%
C	7.18
Grading	**Lifetime weighted-average PD**
C	17.28%
D	100.00%
E	100.00%

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

Grading	12-month weighted-average PD
AAA to AA-	0.01%
A+ to BBB-	0.12%
BB+ to C	3.32%
Default	100%

Measurement of ECLs

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

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

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

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

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

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

The Bank considers a financial asset to be defaulted when:

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

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

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

3 Significant accounting policies, continued

LGD is the magnitude of the likely loss if there is a default. The Group and the Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default.

The Group and the Bank incorporates forward-looking information into the measurement of ECL. For most exposures, key macro- economic indicators include GDP growth and unemployment. The Group and the Bank use a linear regression model to calculate a forward-looking adjustment based on past events, current accrual estimates and forecasts of future economic events. The Group and the Bank formulates three economic scenarios: a base case and two less likely scenarios – one upside and one downside scenario. External information considered includes economic data and forecasts published by Bank of Latvia, The Central Bank of Russian Federation, National Bank of the Republic of Belarus, International Monetary Fund. 33.3% probability weightings applied in measuring ECL for upside, base and downside scenarios for year 2022 and 2021. For the sensitivity analysis see note 5.

Other financial assets

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

Modification

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

The assessment is based on the following considerations:

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

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

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

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

Presentation of allowance for ECL in the statement of financial position

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

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

3 Significant accounting policies, continued

Write off

The gross carrying amount of a financial asset is written off when the Group and the Bank has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Group and the Bank individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery.

The indicators that there are no reasonable expectations of recovering a financial asset include:

- the financial asset is past due, and no recoveries are expected for the asset;
- ECL is recognised and there are no changes in the status of the financial asset for more than a year.

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

Recoveries of amounts previously written off are presented in note 12 - Other income, Recovery of assets written off.

(m) Impairment of non-financial assets

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

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

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

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

(n) Provisions

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

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

(o) Credit related commitments

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

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

3 Significant accounting policies, continued

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

(p) Taxation

(i) Current tax

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

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

The taxable base includes:

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

(ii) Deferred tax

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

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

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

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

(q) Income and expense recognition

(i) Interest income and expense

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

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

(ii) Fee and commission income and expense

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

3 Significant accounting policies, continued

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

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

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

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

(iv) Income from steel processing

Revenue from contracts with customers that is recognised at point in time. No contract assets are relevant for these types of transactions.

(r) Dividends

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

(s) Employee benefits

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

(t) Non-current assets held for sale

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

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

(u) Changes in year 2021 presentation of profit or loss positions

In Financial statements of 2022 the Bank has made transfer between profit or loss positions:

- recovery of assets written off in previous years transferred from Net realised gain on instruments at amortised cost to Other income;
- Income tax expense from conditionally distributed profit transferred from Income tax to General and administrative expenses.

Changes are considered not significant as total amount of profit for the period was not changed and no material effect on financial results made.

(v) Changes in accounting policies

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

New standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2022 did not have a significant effect to the Group and the Bank:

Annual Improvements to IFRS Standards 2018–2020,

Onerous Contracts – Cost of Fulfilling a Contract: Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets,

Property, Plant and Equipment – Proceeds before Intended Use: Amendments to IAS 16,

3 Significant accounting policies, continued

Reference to the Conceptual Framework – Amendments to IFRS 3 Business Combinations.

A number of new standards and amendments to standards are affective for annual periods beginning after 1 January 2023 and earlier application is permitted; however, the Group and the Bank has not early adopted the new amended standards in preparing this financial statement. The following new and amended standards are not expected to have a significant impact on the Group and the Bank:

IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts,

Classification of Liabilities as Current or Non-current (Amendments to IAS 1),

Definition of Accounting Estimate (Amendments to IAS 8),

Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2),

Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction – Amendments to IAS 12 Income Taxes.

4 Risk management

(a) Risk management policies and procedures

Risk management is an integral part of the business planning process with strong participation from the Management Board and the Supervisory Council. Its main goal is to achieve an optimal balance between risk-related losses and potential profit in the medium and long-term perspective, as well as to ensure compliance with the defined risk appetite levels.

The Bank and the Group is constantly working to improve risk management and meet the challenges arising from the volatile market, geopolitical and macroeconomic environment and the increasing complexity caused by the changing regulatory base. To ensure it, the Group's and the Bank's applies a three line of defence model risk across all functions and defines clear roles and responsibilities, develops and constantly improves the risk management framework, organizes internal and external trainings, segregates duties, implements dual controls and 4-eyes principle, and avoids or escalates any possible conflicts of interest.

In addition, the Bank and the Group ensures that all material risks are identified, assessed, monitored, managed and controlled. The Credit Risk and Enterprise Risk Management Departments are an independent control functions responsible for ensuring that the Bank and the Group has an appropriate risk management system in place and for verifying that all structural units are operating in accordance with this system.

This note presents information about the Bank's and the Group's exposure to each of the risks, the Group's and the Bank's objectives, policies and processes for measuring and managing risk.

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

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

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

- Credit Committee is responsible for managing and controlling credit risk;
- Asset and Liability Committee is responsible for managing and controlling interest rate and liquidity risks;
- Compliance Committee is responsible for managing and controlling Money Laundering and Terrorism and Proliferation Financing and sanctions risk levels.

4 Risk management, continued

(b) Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Bank and the Group. The Bank and the Group have developed policies and procedures to manage and control credit risk. The Group's and the Bank's credit policy and Risk management policy are reviewed and approved by the Council of the Bank.

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

The Bank and the Group uses a range of risk metrics for measuring, monitoring, and controlling credit risk including country risk limits, limits on concentration of credit risk by industry, by collateral and by currency, and limits for portfolio quality. Acceptable levels of credit risk for the Bank and the Group are described in the Strategic Development Plan and in the Credit Risk Management Strategy. Credit Risk Management Department ensures control of acceptable levels of credit risk on a regular basis. The Bank and the Group have a set of early warning indicators to identify crises in a timely fashion, and recovery plan to manage it during market disruptions. The recovery plan is reviewed at least annually or after any significant change in the internal or external environment.

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

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

For additional information see note 3 (l).

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

Maximum credit risk exposure

		Gross maximum credit exposure			
31 December	**Note**	**Group**	**Bank**	**Group**	**Bank**
EUR'000		**2022**	**2022**	**2021**	**2021**
Cash and balances with the Bank of Latvia	16	248,618	248,584	320,601	320,562
Deposits and balances due from banks, gross	17	34,406	33,757	33,400	32,906
Loans and receivables due from customers, gross	19.2	568,160	609,066	617,410	660,088
Financial assets at fair value through profit or loss	18	119	119	471	471
Financial assets at fair value through other comprehensive income	20	351,027	351,027	380,784	380,784
Debt securities at amortised cost, gross	19.1	68,394	68,394	68,320	68,319
Other financial assets		2,389	7,721	8,327	6,395
Total financial assets		**1,273,113**	**1,318,668**	**1,429,313**	**1,469,525**
Loan commitments	35	92,675	101,247	82,159	43,269
Financial guarantees	35	11,499	11,178	6,057	5,739
Other commitments	35	150	150	100	100
Total guarantees and commitments		**104,324**	**112,575**	**88,316**	**49,108**
Total maximum credit risk exposure		**1,377,437**	**1,431,243**	**1,517,629**	**1,518,633**

4 Risk management, continued

The following table sets out information about the credit quality of loans and receivables due from customers, financial assets measured at amortised cost and debt investments at fair value through other comprehensive income. Explanation of the terms ‘Stage 1’, ‘Stage 2’ and ‘Stage 3’ and expected credit losses included in note 3 (l). Risk Management Department calculates an initial internal rating for each borrower. Rating depends on the borrower's previous payment discipline, collateral, cash flow and other financial indicators. Ratings are updated on monthly basis.

The Group's subsidiaries SIA InCREDIT GROUP and Rietumu Lizing OOO determines whether credit risk has increased significantly since initial recognition for loans and receivables due from customers on collective basis by considering overdue period. Loans and receivables that are more than 30 days past due are moved to stage 2. In the category Unrated mainly security deposits, margin loans, loan portfolio of other subsidiaries. Commitments and guarantees in stage 3 consist of conditional limit that can not be withdrawn without Bank's approval thus no ECL for stage 3 recognised. For Bank stage 2 includes a loan to subsidiary in Russia with net carrying amount of EUR 22,414 thousand to which a judgement has been applied to determine that the loan as of December 2022 is classified as stage 2.

Loans and receivables due from customers

31 December 2022
The Group

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

The Bank

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

4 Risk management, continued

31 December 2021
The Group

EUR'000	Gross amount				Expected credit losses and provisions				Carrying amount			
Internal rating	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**
Loans												
A	84,268	4,257	-	-	(654)	(322)	-	-	**83,614**	**3,935**	**-**	**-**
B	161,979	9,852	-	-	(1,139)	(745)	-	-	**160,840**	**9,107**	**-**	**-**
C	-	46,557	17,911	-	-	(1,502)	(3,147)	-	**-**	**45,055**	**14,764**	**-**
D	-	246	4,755	-	-	(32)	(1,273)	-	**-**	**214**	**3,482**	**-**
E	-	-	122,338	-	-	-	(7,003)	-	**-**	**-**	**115,335**	**-**
Unrated	82,900	1	4,882	-	(42)	-	(3,816)	-	**82,858**	**1**	**1,066**	**-**
SIA "InCREDIT GROUP"	48,278	282	2,206	-	(384)	(67)	(1,916)	-	**47,894**	**215**	**290**	**-**
OOO Rietumu Lizing	26,680	-	18	-	(176)	-	(4)	-	**26,504**	**-**	**14**	**-**
Loans Total	**404,105**	**61,195**	**152,110**	**-**	**(2,395)**	**(2,668)**	**(17,159)**	**-**	**401,710**	**58,527**	**134,951**	**-**
Commitments and Guarantees												
A	33,692	-	4,000	-	(53)	-	-	-	**33,639**	**-**	**4,000**	-
B	15,550	24	-	-	(18)	(2)	-	-	**15,532**	**22**	**-**	-
C	-	938	31,930	-	-	-	-	-	**-**	**938**	**31,930**	-
D	-	155	-	-	-	(12)	-	-	**-**	**143**	**-**	-
E	-	-	-	-	-	-	-	-	**-**	**-**	**-**	-
Unrated	1,887	-	-	-	(28)	-	-	-	**1,859**	**-**	**-**	-
SIA "InCREDIT GROUP"	115	4	21	-	-	-	-	-	**115**	**4**	**21**	-
Commitments and Guarantees	**51,244**	**1,121**	**35,951**	**-**	**(99)**	**(14)**	**-**	**-**	**51,145**	**1,107**	**35,951**	**-**

The Bank

EUR'000	Gross amount				Expected credit losses and provisions				Carrying amount			
Internal rating	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**
Loans												
A	149,629	4,297	-	-	(874)	(322)	-	-	**148,755**	**3,975**	**-**	**-**
B	186,920	9,852	-	-	(1,214)	(745)	-	-	**185,706**	**9,107**	**-**	**-**
C	-	66,271	22,974	-	-	(2,198)	(3,313)	-	**-**	**64,073**	**19,661**	**-**
D	-	246	4,755	-	-	(32)	(1,273)	-	**-**	**214**	**3,482**	**-**
E	-	-	124,584	23	-	-	(6,980)	(23)	**-**	**-**	**117,604**	**-**
Unrated	86,696	20	3,691	130	(1,020)	-	(3,595)	(17)	**85,676**	**20**	**96**	**113**
Loans Total	**423,245**	**80,686**	**156,004**	**153**	**(3,108)**	**(3,297)**	**(15,161)**	**(40)**	**420,137**	**77,389**	**140,843**	**113**
Commitments and Guarantees												
A	43,925	2,931	4,000	-	(78)	-	-	-	**43,847**	**2,931**	**4,000**	-
B	45,191	24	-		(20)	(2)	-		**45,171**	**22**	**-**	-
C	-	9,457	32,199	-	-	-	-	-	**-**	**9,457**	**32,199**	-
D	-	155	-	-	-	(12)	-	-	**-**	**143**	**-**	-
E	-	-	273		-	-	-		**-**	**-**	**273**	-
Unrated	1,890	-	-	-	(28)	-	-	-	**1,862**	**-**	**-**	-
Commitments and Guarantees Total	**91,006**	**12,567**	**36,472**	**-**	**(126)**	**(14)**	**-**	**-**	**90,880**	**12,553**	**36,472**	**-**

Debt securities at amortised cost

31 December 2022
The Group and the Bank

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

4 Risk management, continued

31 December 2021
The Group and the Bank

EUR'000	Gross amount Stage 1	Gross amount Stage 2	Gross amount Stage 3	Expected credit losses Stage 1	Expected credit losses Stage 2	Expected credit losses Stage 3	Carrying amount Stage 1	Carrying amount Stage 2	Carrying amount Stage 3
Composite credit rating									
BBB+ to BBB-	1,552	-	-	(1)	-	-	**1,551**	**-**	**-**
BB+ to B-	59,943	3,531	-	(600)	(120)	-	**59,343**	**3,411**	**-**
CCC+	-	3,077	216	-	(347)	(64)	**-**	**2,730**	**152**
Total	**61,495**	**6,608**	**216**	**(601)**	**(467)**	**(64)**	**60,894**	**6,141**	**152**

Deposits and balances due from banks and Bank of Latvia

The Group
EUR '000

Composite credit rating	31 December 2022 Gross amount Stage 1	31 December 2022 Expected credit losses Stage 1	31 December 2022 Carrying amount Stage 1	31 December 2021 Gross amount Stage 1	31 December 2021 Expected credit losses Stage 1	31 December 2021 Carrying amount Stage 1
Balances due from the Bank of Latvia, total	**247,543**	**-**	**247,543**	**319,151**	**-**	**319,151**
AAA	247,543	-	**247,543**	319,151	-	**319,151**
Deposits and balances due from banks, total	**34,460**	**(54)**	**34,406**	**33,414**	**(14)**	**33,400**
AA to A-	28,639	(4)	**28,635**	19,292	-	**19,292**
BBB+ to B	1,090	-	**1,090**	12,888	(13)	**12,875**
CCC	3,161	(50)	**3,111**	-	-	**-**
Unrated	1,570	-	**1,570**	1,234	(1)	**1,233**

The Bank
EUR '000

Composite credit rating	31 December 2022 Gross amount Stage 1	31 December 2022 Expected credit losses Stage 1	31 December 2022 Carrying amount Stage 1	31 December 2021 Gross amount Stage 1	31 December 2021 Expected credit losses Stage 1	31 December 2021 Carrying amount Stage 1
Balances due from the Bank of Latvia, total	**247,543**	**-**	**247,543**	**319,151**	**-**	**319,151**
AAA	247,543	-	**247,543**	319,151	-	**319,151**
Deposits and balances due from banks, total	**33,811**	**(54)**	**33,757**	**32,920**	**(14)**	**32,906**
AA to A-	28,639	(4)	**28,635**	19,292	-	**19,292**
BBB+ to B	1,090	-	**1,090**	12,888	(13)	**12,875**
CCC	3,161	(50)	**3,111**	-	-	**-**
Unrated	921	-	**921**	740	(1)	**739**

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

4 Risk management, continued

Loan to value of Loans and receivables due from customers

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

The Group

EUR '000	**31 December 2022 Carrying amount**					**31 December 2021 Carrying amount**				
	<=50%	**<50% <=70%**	**<70% <=90%**	**<90% <=100%**	**>100%**	**<=50%**	**<50% <=70%**	**<70% <=90%**	**<90% <=100%**	**>100%**
Regular loans	184,574	164,413	17,414	9,504	113,787	231,307	109,986	72,235	7,467	108,989
Security deposits	-	-	-	-	42,854	-	-	-	-	38,018
Finance lease	42	-	11,927	-	48	61	28	26,143	-	36
Other loans	62	5	16	19	486	3	64	34	8	809
Total net loans to public	**184,678**	**164,418**	**29,357**	**9,523**	**157,175**	**231,371**	**110,078**	**98,412**	**7,475**	**147,852**
of which stage 3 Net	*55,132*	*70,698*	*6,346*	*1,142*	*10,867*	*54,829*	*21,508*	*38,709*	*4,726*	*15,180*
stage 3 FV of collateral	*55,132*	*70,698*	*6,043*	*1,142*	*-*	*54,829*	*21,508*	*38,695*	*4,726*	*180*

The Bank

EUR '000	**31 December 2022 Carrying amount**					**31 December 2021 Carrying amount**				
	<=50%	**<50% <=70%**	**<70% <=90%**	**<90% <=100%**	**>100%**	**<=50%**	**<50% <=70%**	**<70% <=90%**	**<90% <=100%**	**>100%**
Regular loans	186,034	233,215	25,685	8,362	78,464	241,797	177,073	76,882	6,325	93,450
Security deposits	-	-	-	-	42,854	-	-	-	-	38,018
Other loans	62	5	16	19	9,616	3	64	34	8	4,828
Total net loans to public	**186,096**	**233,220**	**25,701**	**8,381**	**130,934**	**241,800**	**177,137**	**76,916**	**6,333**	**136,296**
of which stage 3 Net	*55,132*	*70,698*	*10,910*	*-*	*4,383*	*54,829*	*23,776*	*43,592*	*4,726*	*14,031*
stage 3 FV of collateral	*55,132*	*70,698*	*10,910*	*-*	*-*	*54,829*	*23,776*	*43,592*	*4,726*	*180*

(c) Market risk

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

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

The Bank and the Group uses a range of risk metrics for measuring, monitoring, and controlling market risk including open position limits, value-at-risk related limits and currency positions limits, as well as stop-loss. These risk metrics are monitored on a regular basis. The Bank and the Group have a set of early warning indicators to identify crises in a timely fashion, and recovery plan to manage it during market disruptions.

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

4 Risk management, continued

(i) Position risk

Position risk is the risk that the Bank or its subsidiaries may incur losses due to adverse fluctuations in the prices of FVOCI and FVTPL financial instruments. The position risk may materialise when the Bank and the Group takes a long or short position in a financial instrument.

The Bank and the Group uses a range of risk metrics for measuring, monitoring, and controlling position risk including individual limits for financial instruments, projected loss limits and overall portfolio limits. The projected loss limits are measured in terms of value-at-risk, i.e., a calculation of 1-day and 10-days losses caused by historical financial instrument volatility with a 99% confidence interval from past 250 business days. The results of value-at-risk modelling are summarized in the table below:

The Group	**2022**		**2021**	
'000 EUR	**VaR 1d 99%**	**VaR 10d 99%**	**VaR 1d 99%**	**VaR 10d 99%**
Financial assets at fair value through other comprehensive income	(1,441)	(34,382)	(583)	(6,434)

The Bank	**2022**		**2021**	
'000 EUR	**VaR 1d 99%**	**VaR 10d 99%**	**VaR 1d 99%**	**VaR 10d 99%**
Financial assets at fair value through other comprehensive income	(1,441)	(34,382)	(583)	(6,434)

To identify the position risk of FVOCI and FVTPL financial assets, the Bank and the Group uses the following indicators:

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

The Bank and the Group are however aware of the inherent limitations of the VaR model, including the following:

- Massive portfolios – to determine the value at risk for a portfolio, one must not only determine the risk and return of each asset but also their correlations. VaR calculation becomes increasingly challenging as a portfolio's size or asset variety increases.
- Differing approaches – for the same portfolio, different methods for computing VaR might have different outcomes.
- Assumptions – the Bank and the Group make some assumptions and utilize them as inputs while calculating VaR. The VaR figure is invalid if the assumptions are incorrect.
- Does not account for worst-case loss – 99% of VaR denotes the possibility that the loss might be more than the VaR amount in 1% of cases, or 2-3 days in a year with daily VaR. VaR does not depict the extent of losses within this 1% of days or the greatest probable loss.

The Bank and the Group acknowledges these limitations, and they are considered when making related decisions or doing calculations for stress tests.

In addition, the Treasury and Financial Markets Department prepares a monthly report, which includes the main characteristics of the Bank's financial instrument portfolio, general news that might have a significant impact on the portfolio, etc. This report is submitted to the Asset and Liability Committee.

(ii) Currency risk

Currency risk is the risk that the Bank or its subsidiaries may incur losses due to adverse changes in foreign exchange rates. The Bank and the Group has assets and liabilities denominated in several foreign currencies. The currency risk may materialise when the actual or projected assets in a foreign currency are either greater or less than the liabilities in the respective currency thereby creating an open currency position.

To identify the currency risk of open currency position, the Bank and the Group uses the following indicators:

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

4 Risk management, continued

The Bank and the Group monitors currency risk sensitivity from upward and downward changes in the foreign exchange rates. It is measured in terms of sensitivity analysis, i.e., a scenario of a 15% change in USD to EUR exchange rate impact on net income and other comprehensive income, while the other variables remain constant. The results of sensitivity analysis are summarized in the table below:

The Group	**2022**		**2021**	
'000 EUR	**Profit for the period**	**Other comprehensive income**	**Profit for the period**	**Other comprehensive income**
15% appreciation of USD against EUR	519	-	606	-
15% depreciation of USD against EUR	(519)	-	(606)	-

The Bank	**2022**		**2021**	
'000 EUR	**Profit for the period**	**Other comprehensive income**	**Profit for the period**	**Other comprehensive income**
15% appreciation of USD against EUR	(1,088)	-	(294)	-
15% depreciation of USD against EUR	1,088	-	294	-

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

The Group

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

4 Risk management, continued

The following table shows the currency structure of financial assets and liabilities of the Group as at 31 December 2021:

The Group

	EUR '000 EUR	USD '000 EUR	Other currencies '000 EUR	Total '000 EUR
Financial assets				
Cash and balances due from the Bank of Latvia	320,185	329	87	**320,601**
Financial assets at fair value through profit or loss	1,162	7,333	168	**8,663**
Deposits and balances due from banks	3,846	14,950	14,604	**33,400**
Loans and receivables due from customers	507,656	85,800	1,732	**595,188**
Financial assets at fair value through other comprehensive income	239,251	141,533	16	**380,800**
Debt securities at amortised cost	62,077	5,110	-	**67,187**
Other financial assets	5,819	940	1,568	**8,327**
Total financial assets	**1,139,996**	**255,995**	**18,175**	**1,414,166**
Financial liabilities				
Financial instruments at fair value through profit or loss	149	-	-	**149**
Due to Bank of Latvia	49,993	-	-	**49,993**
Deposits and balances due to banks	2,150	3,016	125	**5,291**
Current accounts and deposits due to customers	876,130	170,044	44,102	**1,090,276**
Other financial liabilities	10,049	527	838	**11,414**
Total financial liabilities	**938,471**	**173,587**	**45,065**	**1,157,123**
Net position as of 31 December 2021	**201,525**	**82,408**	**(26,890)**	
Net off balance sheet position as of 31 December 2021	**52,399**	**(78,368)**	**26,382**	
Net total positions as of 31 December 2021	**302,485**	**4,560**	**(407)**	
Net total positions as of 31 December 2020	**212,837**	**27,706**	**1,343**	

4 Risk management, continued

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

The Bank

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

4 Risk management, continued

The following table shows the currency structure of financial assets and liabilities of the Bank as at 31 December 2021:

The Bank

	EUR '000 EUR	USD '000 EUR	Other currencies '000 EUR	Total '000 EUR
Financial assets				
Cash and balances due from the Bank of Latvia	320,146	329	87	**320,562**
Financial assets at fair value through profit or loss	763	7,334	167	**8,264**
Deposits and balances due from banks	3,640	14,950	14,316	**32,906**
Loans and receivables due from customers	554,747	81,943	1,792	**638,482**
Financial assets at fair value through other comprehensive income	239,251	141,533	16	**380,800**
Debt securities at amortised cost	62,077	5,110	-	**67,187**
Other financial assets	3,928	942	1,525	**6,395**
Total financial assets	**1,184,552**	**252,141**	**17,903**	**1,454,596**
Financial liabilities				
Financial instruments at fair value through profit or loss	149	-	-	**149**
Due to Bank of Latvia	49,993	-	-	**49,993**
Deposits and balances due to banks	2,150	3,016	125	**5,291**
Current accounts and deposits due to customers	883,987	172,719	44,112	**1,100,818**
Other financial liabilities	28,115	-	471	**28,586**
Total financial liabilities	**964,394**	**175,735**	**44,708**	**1,184,837**
Net position as of 31 December 2021	**220,158**	**76,406**	**(26,805)**	
Net off balance sheet position as of 31 December 2021	**52,399**	**(78,368)**	**26,382**	
Net total positions as of 31 December 2021	**272,557**	**(1,962)**	**(423)**	
Net total positions as of 31 December 2020	**254,192**	**7,441**	**(555)**	

(d) Interest rate risk

Interest rate risk is the risk that the Bank or its subsidiaries may incur losses due to a adverse changes in interest rates affecting income and economic value. The interest rate risk may materialise when the terms of attracting and deploying funds are not aligned, as well as when there is a significant difference between the amounts of assets and liabilities that are sensitive to interest rate changes.

The Bank and the Group monitors interest rate risk sensitivity from upward and downward changes in interest rates. It is measured in terms of stressed EVE (Economic Value of Equity) and NII (Net Interest Income), i.e., a scenario of a 100-basis (NII) and 200-basis point (EVE) symmetrical upward and downward changes in all yield curves, while the other variables remain constant. EVE stands for the income or losses that the Bank and the Group will experience during the selected horizon or time bucket. EVE thus depicts how assets and obligations might respond to interest rate fluctuations. The short-term replacement for the economic value of equity is net interest income (NII). The NII evaluates the impact of interest rate risks in the near term, whereas EVE assesses interest rate risk over the long run.

The Bank and the Group compute EVE in accordance with the FCMC Regulation No. 209 and EBA Guidelines on the management of interest rate risk arising from non-trading book activities (EBA/GL/2018/02). The Interest rate management policy and related internal regulations establish a thorough approach for EVE and NII computation in the Bank and the Group. The results of EVE and NII modelling are summarized in the table below:

4 Risk management, continued

The Group '000 EUR	**2022** Profit for the period	**2022** Other comprehen-sive income	**2021** Profit for the period	**2021** Other comprehen-sive income
Stressed Net interest income (Parallel up +100bp)	834	(5,969)	531	(8,250)
Stressed Net interest income (Parallel down -100bp)	(834)	5,969	(531)	8,250
Stressed Economic value of equity (Parallel up +200bp)	(9,555)	-	(12,997)	-
Stressed Economic value of equity (Parallel down -200bp)	9,555	-	12,997	-

The Bank '000 EUR	**2022** Profit for the period	**2022** Other comprehen-sive income	**2021** Profit for the period	**2021** Other comprehen-sive income
Stressed Net interest income (Parallel up +100bp)	1,255	(5,969)	958	(8,250)
Stressed Net interest income (Parallel down -100bp)	(1,255)	5,969	(958)	8,250
Stressed Economic value of equity (Parallel up +200bp)	(7,466)	-	(11,755)	-
Stressed Economic value of equity (Parallel down -200bp)	7,466	-	11,755	-

To identify the interest rate risk, the Bank and the Group uses the following indicators:

- GAP analysis results (the volume of mismatches in different time bands);
- modified duration (change of economic value according to a scenario of interest rate fluctuations);
- stress testing results (impact on earnings of the Bank and the Group according to a scenario of interest rate fluctuations and change of economic value according to a scenario of interest rate fluctuations).

4 Risk management, continued

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

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

4 Risk management, continued

The following table shows the interest rate contracted re-pricing risk of financial assets and liabilities of the Group as at 31 December 2021, based on the earlier of contractual interest rate repricing or maturity:

	Less than 1 month '000 EUR	1 to 3 months '000 EUR	3 months to 1 year '000 EUR	1 to 5 years '000 EUR	More than 5 years '000 EUR	Non-interest bearing '000 EUR	Total '000 EUR
Financial assets							
Cash and balances due from the Bank of Latvia	320,601	-	-	-	-	-	**320,601**
Financial assets at fair value through profit or loss	590	30	-	-	-	8,043	**8,663**
Deposits and balances due from banks	33,218	-	-	-	-	182	**33,400**
Loans and receivables due from customers	152,174	171,361	38,246	177,789	14,385	41,233	**595,188**
Financial assets at fair value through other comprehensive income	15,509	16,682	31,119	316,425	1,049	16	**380,800**
Debt securities at amortised cost	2,730	35,401	4,430	24,475	151	-	**67,187**
Total financial assets	**524,822**	**223,474**	**73,795**	**518,689**	**15,585**	**49,474**	**1,405,839**
Financial liabilities							
Financial instruments at fair value through profit or loss	141	8	-	-	-	-	**149**
Due to Bank of Latvia	-	-	49,993	-	-	-	**49,993**
Deposits and balances due to banks	5,291	-	-	-	-	-	**5,291**
Current accounts and deposits due to customers	577,327	45,447	129,750	303,950	10,532	23,270	**1,090,276**
Total financial liabilities	**582,759**	**45,455**	**179,743**	**303,950**	**10,532**	**23,270**	**1,145,709**
Net position as at 31 December 2021	**(57,937)**	**178,019**	**(105,948)**	**214,739**	**5,053**	**26,204**	
Net position as at 31 December 2020	**92,838**	**207,029**	**(113,985)**	**154,000**	**30,230**	**(123,992)**	

4 Risk management, continued

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

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

4 Risk management, continued

The following table shows the interest rate contracted re-pricing risk of financial assets and liabilities of the Bank as at 31 December 2021, based on the earlier of contractual interest rate repricing or maturity:

	Less than 1 month '000 EUR	1 to 3 months '000 EUR	3 months to 1 year '000 EUR	1 to 5 years '000 EUR	More than 5 years '000 EUR	Non-interest bearing '000 EUR	Total '000 EUR
Financial assets							
Cash and balances due from the Bank of Latvia	320,562	-	-	-	-	-	**320,562**
Financial assets at fair value through profit or	590	30	-	-	-	7,644	**8,264**
Deposits and balances due from banks	32,902	-	-	-	-	4	**32,906**
Loans and receivables due from customers	152,231	235,123	30,832	173,480	-	46,816	**638,482**
Financial assets at fair value through other comprehensive income	15,509	16,682	31,119	316,425	1,049	16	**380,800**
Debt securities at amortised cost	2,730	35,401	4,430	24,475	151	-	**67,187**
Total financial assets	**524,524**	**287,236**	**66,381**	**514,380**	**1,200**	**54,480**	**1,448,201**
Financial liabilities							
Financial instruments at fair value through profit or loss	141	8	-	-	-	-	**149**
Due to Bank of Latvia	-	-	49,993	-	-	-	**49,993**
Deposits and balances due to banks	5,291	-	-	-	-	-	**5,291**
Current accounts and deposits due to	582,881	46,973	131,875	305,308	10,532	23,249	**1,100,818**
Total financial	**588,313**	**46,981**	**181,868**	**305,308**	**10,532**	**23,249**	**1,156,251**
Net position as at 31 December 2021	**(63,789)**	**240,255**	**(115,487)**	**209,072**	**(9,332)**	**31,231**	
Net position as at 31 December 2020	**92,556**	**277,000**	**(123,288)**	**136,170**	**18,301**	**(118,250)**	

(e) Liquidity risk

Liquidity risk is the risk that the Bank or its subsidiary may incur losses due to inability to meet debt obligation to customers. This may be caused by a lack of highly liquid assets or in cases where the amount of all claims on a certain date is significantly smaller than the amount of liabilities. The objective of liquidity risk management is to manage, oversee and control liquidity risk exposures within the acceptable parameters, whilst optimizing the return on risk.

Treasury and Financial Markets Department is responsible for managing the liquidity risk within the first line of defence, while the Enterprise Risk Management Department ensures and independent second line of defence control and oversight. In addition, the Bank has established the Asset and Liability Committee (ALCO), chaired by the Chairman of the Management Board. It approves liquidity risk limits, purchase or sale of financial instruments to ensure sufficient liquidity reserve based on the recommendations from The Bank and the Group uses a range of risk metrics for measuring, monitoring, and controlling liquidity risk including Liquidity Coverage Ratio (LCR), the Net Stable Funding Ratio (NSFR), internal Liquidity Ratio

4 Risk management, continued

(LR) and other internal metrics. These risk metrics are monitored on a regular basis. The Bank and the Group have a set of early warning indicators to identify liquidity crises in a timely fashion, and the liquidity contingency funding plan and the recovery plan to manage it during market disruptions. Both, liquidity contingency funding plan and the recovery plan, are reviewed at least annually or after any significant change in the internal or external environment.

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

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

- Changes in the deposit outflow;
- Changes in the value of financial instrument portfolio;
- Reputational risk related operational risk events;
- Changes in the deposit attraction channels.

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

Liquidity coverage ratio

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

	31 Dec 2022 '000 EUR Group	31 Dec 2022 '000 EUR Bank	31 Dec 2021 '000 EUR Group	31 Dec 2021 '000 EUR Bank
Liquidity buffer	345,053	345,021	397,711	397,673
Net liquidity outflow	112,584	113,607	97,338	98,201
LCR	**306.49%**	**303.70%**	**408.59%**	**404.96%**
Max for period	**475.54%**	**479.93%**	**900.28%**	**901.61%**
Min for period	**293.44%**	**290.83%**	**408.59%**	**404.96%**
Average for period	**359.83%**	**358.23%**	**627.28%**	**626.10%**

Net stable funding ratio

To ensure a long-term resilience of the Bank's and the Group's liquidity risk profile, net stable funding ratio (NSFR) is calculated. The table below shows the Bank's and the Group's net stable funding ratio % (minimum requirement 100%, however, the Bank and the Group maintains higher ratios than set by regulatory requirements):

	31 Dec 2022 '000 EUR Group	31 Dec 2022 '000 EUR Bank	31 Dec 2021 '000 EUR Group	31 Dec 2021 '000 EUR Bank
Available stable funding	1,094,554	1,084,940	1,215,892	1,207,934
Required stable funding	950,508	947,129	1,014,489	1,015,144
NSFR	**115.15%**	**114.55%**	**119.85%**	**118.99%**
Max for period	**122.16%**	**121.43%**	**129.75%**	**128.76%**
Min for period	**115.15%**	**114.55%**	**118.58%**	**117.21%**
Average for period	**118.66%**	**117.99%**	**122.73%**	**121.65%**

4 Risk management, continued

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

The Group

	Less than 1 month '000 EUR	1 to 3 months '000 EUR	3 months to 1 year '000 EUR	1 to 5 years '000 EUR	More than 5 years '000 EUR	Total '000 EUR
Financial assets						
Cash and balances due from the Bank of Latvia	248,618	-	-	-	-	**248,618**
Financial assets at fair value through profit or loss	5,522	-	-	-	444	**5,966**
Deposits and balances due from banks	34,406	-	-	-	-	**34,406**
Loans and receivables due from customers	66,646	16,881	53,109	318,074	90,441	**545,151**
Financial assets at fair value through other	288,507	-	-	62,531	-	**351,038**
Debt securities at amortised cost	34,259	-	-	31,878	-	**66,137**
Other financial assets	2,298	-	25	66	-	**2,389**
Total financial assets	**680,256**	**16,881**	**53,134**	**412,549**	**90,885**	**1,253,705**
Financial liabilities						
Financial instruments at fair value through profit or loss	551	-	-	-	-	**551**
Due to Bank of Latvia	-	-	-	49,811	-	**49,811**
Deposits and balances due to banks	1,679	-	-	-	-	**1,679**
Current accounts and deposits due to customers	644,520	34,002	95,004	154,633	12,774	**940,933**
Lease liability	15	33	144	457	365	**1,014**
Other financial liabilities	3,118	966	27	6,881	26	**11,018**
Total financial liabilities	**649,883**	**35,001**	**95,175**	**211,782**	**13,165**	**1,005,006**
Total financial liabilities and equity	**649,883**	**35,001**	**95,175**	**211,782**	**13,165**	**1,005,006**
Net balance sheet position as at 31 December 2022	**30,373**	**(18,120)**	**(42,041)**	**200,767**	**77,720**	**248,699**
Off balance sheet position as at 31 December 2022	**147,327**	**-**	**-**	**-**	**-**	**147,327**

The Bank

	Less than 1 month '000 EUR	1 to 3 months '000 EUR	3 months to 1 year '000 EUR	1 to 5 years '000 EUR	More than 5 years '000 EUR	Total '000 EUR
Financial assets						
Cash and balances due from the Bank of Latvia	248,584	-	-	-	-	**248,584**
Financial assets at fair value through profit or loss	5,522	-	-	-	-	**5,522**
Deposits and balances due from banks	33,757	-	-	-	-	**33,757**
Loans and receivables due from customers	61,691	21,393	46,611	349,029	105,608	**584,332**
Financial assets at fair value through other	288,507	-	-	62,531	-	**351,038**
Debt securities at amortised cost	34,259	-	-	31,878	-	**66,137**
Other financial assets	1,170	-	25	6,526	-	**7,721**
Total financial assets	**673,490**	**21,393**	**46,636**	**449,964**	**105,608**	**1,297,091**
Financial liabilities						
Financial instruments at fair value through profit or loss	551	-	-	-	-	**551**
Due to Bank of Latvia	-	-	-	49,811	-	**49,811**
Deposits and balances due to banks	1,679	-	-	-	-	**1,679**
Current accounts and deposits due to customers	658,512	34,002	91,904	154,633	12,773	**951,824**
Lease liability	76	152	686	5,156	12,699	**18,769**
Other financial liabilities	1,508	117	3	6,710	-	**8,338**
Total financial liabilities	**662,326**	**34,271**	**92,593**	**216,310**	**25,472**	**1,030,972**
Equity	-	-	-	-	334	**334**
Total financial liabilities and equity	**662,326**	**34,271**	**92,593**	**216,310**	**25,806**	**1,031,306**
Net balance sheet position as at 31 December 2022	**11,164**	**(12,878)**	**(45,957)**	**233,654**	**79,802**	**265,785**
Off balance sheet position as at 31 December 2022	**189,090**	**-**	**-**	**-**	**-**	**189,090**

4 Risk management, continued

Assets, liabilities and off-balance sheet items by contractual maturity as at 31 December 2021:

The Group

	Less than 1 month '000 EUR	1 to 3 months '000 EUR	3 months to 1 year '000 EUR	1 to 5 years '000 EUR	More than 5 years '000 EUR	Total '000 EUR
Financial assets						
Cash and balances due from the Bank of Latvia	320,601	-	-	-	-	**320,601**
Financial assets at fair value through profit or loss	8,234	30	-	-	399	**8,663**
Deposits and balances due from banks	33,400	-	-	-	-	**33,400**
Loans and receivables due from customers	110,057	3,943	79,123	294,274	107,791	**595,188**
Financial assets at fair value through other comprehensive income	316,772	-	-	64,028	-	**380,800**
Debt securities at amortised cost	1,569	25,120	8,743	31,755	-	**67,187**
Other financial assets	7,202	44	846	235	-	**8,327**
Total financial assets	**797,835**	**29,137**	**88,712**	**390,292**	**108,190**	**1,414,166**
Financial liabilities						
Financial instruments at fair value through profit or loss	141	8	-	-	-	**149**
Due to Bank of Latvia	-	-	-	49,993	-	**49,993**
Deposits and balances due to banks	5,291	-	-	-	-	**5,291**
Current accounts and deposits due to customers	684,755	29,161	106,501	255,922	13,937	**1,090,276**
Lease liability	15	34	132	616	119	**916**
Other financial liabilities	4,908	-	9	108	5,473	**10,498**
Total financial liabilities	**695,110**	**29,203**	**106,642**	**306,639**	**19,529**	**1,157,123**
Total financial liabilities and equity	**695,110**	**29,203**	**106,642**	**306,639**	**19,529**	**1,157,123**
Net balance sheet position as at 31 December 2021	**102,725**	**(66)**	**(17,930)**	**83,653**	**88,661**	**257,043**
Off balance sheet position as at 31 December 2021	**88,203**	**-**	**-**	**-**	**-**	**88,203**

The Bank

	Less than 1 month '000 EUR	1 to 3 months '000 EUR	3 months to 1 year '000 EUR	1 to 5 years '000 EUR	More than 5 years '000 EUR	Total '000 EUR
Financial assets						
Cash and balances due from the Bank of Latvia	320,562	-	-	-	-	**320,562**
Financial assets at fair value through profit or loss	8,234	30	-	-	-	**8,264**
Deposits and balances due from banks	32,906	-	-	-	-	**32,906**
Loans and receivables due from customers	109,809	3,315	71,663	332,013	121,682	**638,482**
Financial assets at fair value through other comprehensive income	316,772	-	-	64,028	-	**380,800**
Debt securities at amortised cost	1,569	25,120	8,743	31,755	-	**67,187**
Other financial assets	5,299	44	846	206	-	**6,395**
Total financial assets	**795,151**	**28,509**	**81,252**	**428,002**	**121,682**	**1,454,596**
Financial liabilities						
Financial instruments at fair value through profit or loss	141	8	-	-	-	**149**
Due to Bank of Latvia	-	-	-	49,993	-	**49,993**
Deposits and balances due to banks	5,291	-	-	-	-	**5,291**
Current accounts and deposits due to customers	698,398	29,161	106,501	252,822	13,936	**1,100,818**
Lease liability	130	220	989	5,273	15,471	**22,083**
Other financial liabilities	953	-	25	103	5,422	**6,503**
Total financial liabilities	**704,913**	**29,389**	**107,515**	**308,191**	**34,829**	**1,184,837**
Equity	-	-	-	-	342	**342**
Total financial liabilities and equity	**704,913**	**29,389**	**107,515**	**308,191**	**35,171**	**1,185,179**
Net balance sheet position as at 31 December 2021	**90,238**	**(880)**	**(26,263)**	**119,811**	**86,511**	**269,417**
Off balance sheet position as at 31 December 2021	**140,045**	**-**	**-**	**-**	**-**	**140,045**

4 Risk management, continued

Analysis of financial liabilities’ undiscounted cash flows:

The Group

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

31 December 2021 EUR’000	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 months to 1 year**	**From 1 year to 5 years**	**More than 5 years**	**Total gross amount outflow/ (inflow)**	**Carrying amount**
Non-derivative liabilities							
Due to Bank of Latvia	-	-	-	49,241	-	**49,241**	**49,993**
Deposits and balances due to banks	5,291	-	-	-	-	**5,291**	**5,291**
Current accounts and deposits due to customers	684,878	32,795	107,848	264,502	18,858	**1,108,881**	**1,090,276**
Lease liability	19	38	154	564	448	**1,223**	**916**
Other financial liabilities	5,076	-	-	-	5,422	**10,498**	**10,498**
Derivative liabilities settled on a net basis	141	-	-	-	-	**141**	**141**
Derivative liabilities settled on a	-	8	-	-	-	**8**	**8**
Outflow	(254)	(1,912)	-	-	-	**(2,166)**	**(2,166)**
Inflow	254	1,920	-	-	-	**2,174**	**2,174**
Total	**695,405**	**32,841**	**108,002**	**314,307**	**24,728**	**1,175,283**	**1,157,123**
Guarantees (maximum credit risk exposure)	**-**	**850**	**4,800**	**190**	**-**	**5,840**	**5,839**
Credit related commitments (maximum credit risk exposure)	**32,429**	**-**	**-**	**-**	**-**	**32,429**	**32,429**

4 Risk management, continued

The Bank

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

31 December 2021 EUR'000	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities							
Due to Bank of Latvia	-	-	-	49,241	-	**49,241**	**49,993**
Deposits and balances due to banks	5,291	-	-	-	-	**5,291**	**5,291**
Current accounts and deposits due to customers	698,541	29,502	107,848	264,480	18,858	**1,119,229**	**1,100,818**
Lease liability	167	294	1,327	7,077	20,777	**29,642**	**22,083**
Other financial liabilities	1,081	-	-	-	5,422	**6,503**	**6,503**
Derivative liabilities settled on a net basis	141	-	-	-	-	**141**	**141**
Derivative liabilities settled on a gross basis	-	8	-	-	-	**8**	**8**
Outflow	(254)	(1,912)	-	-	-	**(2,166)**	**(2,166)**
Inflow	254	1,920	-	-	-	**2,174**	**2,174**
Total	**705,221**	**29,804**	**109,175**	**320,798**	**45,057**	**1,210,055**	**1,184,837**
Guarantees (maximum credit risk exposure)	**-**	**850**	**4,800**	**190**	**-**	**5,840**	**5,839**
Credit related commitments (maximum credit risk exposure)	**43,269**	**-**	**-**	**-**	**-**	**43,269**	**43,269**

4 Risk management, continued

Assets, liabilities and off-balance sheet items by geographical profile:

The Group

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

The Bank

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

4 Risk management, continued

Assets, liabilities and off-balance sheet items by geographical profile:

The Group

31 December 2021 **EUR'000**	**Latvia**	**Other Baltic countries**	**Other EU countries**	**Other countries**	**Total**
Cash and due from Bank of Latvia	320,601	-	-	-	**320,601**
Financial instruments at fair value through profit or loss	2,501	-	46	6,116	**8,663**
Deposits and balances due from banks	181	-	21,084	12,135	**33,400**
Loans and receivables due from customers	257,191	49,463	83,352	205,182	**595,188**
Financial instruments at fair value through other comprehensive income	8,607	10,190	146,828	215,175	**380,800**
Financial instruments at amortised costs	4,334	2,903	50,869	9,081	**67,187**
Investments in associates and subsidiaries	2,000	-	-	-	**2,000**
Property and equipment	44,643	-	-	1,525	**46,168**
Intangible assets	1,410	-	-	26	**1,436**
Deferred tax asset	-	-	-	551	**551**
Investment property	61,987	-	-	15,890	**77,877**
Non-current assets held for sale	4,270	-	-	145	**4,415**
Current tax asset	29	-	-	30	**59**
Other assets	8,187	33	2,914	4,808	**15,942**
Total Assets	**715,941**	**62,589**	**305,093**	**470,664**	**1,554,287**
Financial instruments at fair value through profit or loss	8	-	-	141	**149**
Due to Bank of Latvia	49,993	-	-	-	**49,993**
Deposits and balances due to banks	-	-	-	5,291	**5,291**
Current accounts and deposits due to customers	255,136	7,413	389,354	438,373	**1,090,276**
Provisions	3,040	-	30,000	-	**33,040**
Current tax liabilities	2	-	-	8	**10**
Deferred tax liability	-	-	-	20	**20**
Other liabilities and accruals	17,464	88	352	2,145	**20,049**
Total Liabilities	**325,643**	**7,501**	**419,706**	**445,978**	**1,198,828**
Commitments and Guarantees	44,619	430	1,566	41,701	**88,316**

The Bank

31 December 2021 **EUR'000**	**Latvia**	**Other Baltic countries**	**Other EU countries**	**Other countries**	**Total**
Cash and due from Bank of Latvia	320,562	-	-	-	**320,562**
Financial instruments at fair value through profit or loss	2,103	-	45	6,116	**8,264**
Deposits and balances due from banks	-	-	21,084	11,822	**32,906**
Loans and receivables due from customers	285,075	49,371	83,295	220,741	**638,482**
Financial instruments at fair value through other comprehensive income	8,607	10,190	146,828	215,175	**380,800**
Financial instruments at amortised costs	4,334	2,903	50,869	9,081	**67,187**
Investments in associates and subsidiaries	35,034	-	2,920	2,362	**40,316**
Property and equipment	25,472	-	-	463	**25,935**
Intangible assets	1,408	-	-	14	**1,422**
Investment property	34,726	-	-	-	**34,726**
Non-current assets held for sale	3,404	-	-	-	**3,404**
Current tax asset	5	-	-	-	**5**
Other assets	5,415	33	2,747	2,978	**11,173**
Total Assets	**726,145**	**62,497**	**307,788**	**468,752**	**1,565,182**
Financial instruments at fair value through profit or loss	9	-	-	140	**149**
Due to Bank of Latvia	49,993	-	-	-	**49,993**
Deposits and balances due to banks	-	-	-	5,291	**5,291**
Current accounts and deposits due to customers	262,162	7,413	393,039	438,204	**1,100,818**
Provisions	3,067	-	30,000	-	**33,067**
Other liabilities and accruals	33,706	13	252	393	**34,364**
Total Liabilities	**348,937**	**7,426**	**423,291**	**444,028**	**1,223,682**
Commitments and Guarantees	54,720	430	1,566	83,329	**140,045**

4 Risk management, continued

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

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

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

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

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

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

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

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

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

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

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

4 Risk management, continued

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

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

Applying sanctions requirements, the Bank performs actions to freeze accounts, funds and economic resources belonging to, owned, held or controlled by designated natural or legal persons, entities or bodies, or natural or legal persons, entities or bodies associated with them. The Bank effectively denies access to funds or economic resources directly or indirectly, to or for the benefit of designated natural or legal persons, entities or bodies, or natural or legal persons, entities or bodies associated with them. The Bank has implemented the procedure for reporting sanctions circumvention and violation as well as attempts of such activity to the competent authorities. The Bank ensures that the execution of all operations related to sanctions subjects is conducted in full compliance with the normative acts and licences issued by the Latvian/EU/US regulators as well as consultations with the Latvian regulator: Financial and Capital Market Commission (FCMC) that as of 1st January 2023 has been integrated into Latvijas Banka.

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

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

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

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

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

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

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

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

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

4 Risk management, continued

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

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

The latest completed comprehensive external AML audit for compliance with the requirements of the Latvian legislation has been performed by AS "KPMG Baltics" SIA from November 2021 to March 2022.

There were 6 main topics reviewed by the external audit: internal control system compliance with the Latvian AML/CTPF regulations (including quality of CDD/EDD and transactions monitoring), sanctions compliance with the corresponding Latvian regulations, IT tools and systems compliance with Latvian AML/CTPF regulations, Risk Scoring system compliance with Latvian AML/CTPF regulations, gap analysis with respect to previous independent external audit of 2020, gap analysis with respect to FCMC inspection and fine.

With respect to the most recent audit of 2022 outlined in the paragraph above - in the framework of internal control system's compliance evaluation with the national Latvian AML/CTPF and Sanctions legislation – the total number of 256 indicators have been checked and 77% of them were assessed as in full compliance. Internal control system's elements, such as risk assessment and risk management, training process, identification of shell arrangements, transaction monitoring of PSPs, internal control system of sanctions risk management, the usage of IT system solutions in ML/TPF risk management, the processes of transaction monitoring and reporting, as well as the customers' reviews and "Know Your Customer" processes were highly evaluated by the audit. Based on the audit results, the Bank developed an action plan for the implementation of recommendations aimed at specific improvements in the internal control system, which were approved by the Bank's Management Board. It is worth noting that most of received recommendations were of low or medium impact.

As of November 2022, the Bank implemented planned improvements to the internal control system, which was reported to FCMC. In addition, in November 2022, "KPMG Baltics" SIA has performed the audit on the completed measures of Bank's action plan to improve the Bank's AML/CTPF internal control system. As the result of this audit "KPMG Baltics" SIA admitted, that the Bank has fully completed all significant and 90% of medium and low influence recommendations. With regard to remaining part of medium and low influence recommendations, it was not necessary to perform additional actions, taking into account the already existing elements of Bank's internal control system.

Furthermore, FCMC (as of 1st January 2023 has been integrated into The Bank of Latvia) regularly performs reviews/audits of the Bank's compliance with the Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing.

On 15th June 2021 FCMC defined deficiencies in the regulatory requirements regarding AML/CTPF of JSC Rietumu Banka and decided to apply a fine of 5.85 million EUR. On 31st May 2022 FCMC has reduced the applied fine by 0,58 million EUR following the consideration of the appeal filed by the Bank. Based on improvements in risk control and risk mitigation measures in December 2022 FCMC decided to lift the previously applied restrictions on attraction of certain categories of heightened risk customers to the Bank.

The Bank in its turn has further strengthened its argumentation and launched an appeal to the Court on 6th July 2022. A hearing of appeal has been set for 11th April 2023. The Bank would like to continue discussions about settlement with the FCMC's Council.

In May-October 2022 FCMC has completed a targeted performance check on Bank's ML/TPF and sanctions risks' management areas. The internal control system of the Bank (risk management and management culture (tone from the top), customer's review and transaction monitoring procedure, detection of suspicious transactions and reporting to FIU, whistle-blowing and anonymous internal reporting; structure, employee rights, duties and responsibilities, qualification, audit) and Bank's fulfilment of the AML/CTPF law and other AML/CTPF and sanctions management areas regulatory requirements were assessed as part of the audit.

During the FCMC audit, it was admitted, that the Bank has made improvements in its internal control system, so it could identify and manage inherent to its activity ML/TPF and sanctions risks in a more efficient way, however, there are still separate deficiencies in place, therefore, the improvements of certain processes are

4 Risk management, continued

necessary. In regard to the Bank's internal control system of the AML/CTPF and sanctions risk's management, there were no deficiencies found that would serve as the basis for initiating administrative case.

In November 2022 the Bank has submitted to FCMC the action plan for the elimination of the deficiencies found during the audit, noting, that out of the 19 deficiencies found during the FCMC audit, by the end of the November 2022 47% were completely remediated, 16% - partially remediated, while the remaining part requires clarifications in internal regulatory documents (procedures) and additions to the existing IT solutions.

(g) Operational risk

Operational risk is the risk that the Bank or its subsidiaries may incur losses due to inadequate or failed internal processes, systems and people or external events. The objective of operational risk management is to manage, oversee and control operational risks and materialised events without significant detriment to the Bank and the Group.

Business and support units are responsible for managing the operational risk within the first line of defence, while the Enterprise Risk Management Department and Compliance Control Department ensure and independent second line of defence control and oversight.

The Bank and the Group uses a range of risk metrics for measuring, monitoring, and controlling operational risk including limits on operational risk incidents, operational risk incident types (based on a single root cause), IT risk, Compliance risk, ML/TF/PF risk, outsourcing management, outdated internal regulatory documents and other internal metrics. These risk metrics are monitored on a regular basis. The Bank and the Group develops and maintains business continuity plans to manage it during the disruption. Business continuity plans are reviewed at least annually or after any significant change in the impacted processes.

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

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

- released changes (including new products and processes, IT systems, outsourcing, etc.);
- issued findings (including regulatory and second and third line of defence findings);
- operational risk incidents;
- other known or emerging issues.

In addition, the Enterprise Risk Management Department prepares a quarterly report, which includes operational risk metrics, reported operational risk incidents, stress testing results, etc. This report is discussed is submitted to the Executive Board and the Council of the Bank.

(h) Capital Management

The Bank's and the Group's maintains a strong capital base to always comply with regulatory capital and liquidity requirements.

As of 31 December 2022, the regulator (FCMC, starting from 2023: the Central Bank of Latvia) had set 11.1% (2021: 11.1%) individual minimum capital adequacy level for the Bank and the Group. The Bank and the Group is also required to maintain 4.5% minimum common equity tier 1 capital ratio and 6.0% minimum tier 1 capital ratio.

On top of the minimum capital adequacy ratios, in accordance with the regulatory requirements, the Group and the Bank must comply with the following additional capital requirements:

- the capital conservation buffer, which is set at 2.5% and must be reached by common equity tier 1 capital;
- O-SII capital buffer, which is set at 1.0% due to the fact that the Bank and the Group has been identified as other systemically important institution;
- the countercyclical capital buffer, which is set at 0.15% based on the regional distribution of the Bank's and Group's exposures;
- the pillar 2 guidance (P2G), which is set at 2.5% to maintain in addition to the binding capital requirements.

4 Risk management, continued

The Bank and the Group uses the standardized approach in its capital adequacy calculations to calculate credit risk and market risk exposure amounts. For the operational risk, the Bank and the Group uses the basic indicator approach. The Group and the Bank complied with all external regulatory capital requirements during 2022.

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

	2022 ’000 EUR Group	2022 ’000 EUR Bank	2021 ’000 EUR Group	2021 ’000 EUR Bank
Tier 1 capital				
Share capital	168,916	168,916	168,916	168,916
Share premium	52,543	52,543	52,543	52,543
Other reserves	23	23	23	23
Accumulated other comprehensive	(26,821)	(29,130)	(4,074)	(2,317)
Other transitional adjustment to CET1	1,658	1,875	3,316	3,750
Value adjustments due to the requirements for prudent valuation	(357)	(356)	(390)	(389)
Retained earnings from prior years	131,838	122,335	105,106	100,835
Current year profit	17,660	19,111	26,673	21,500
Intangible assets	(1,255)	(1,246)	(1,436)	(1,422)
Deferred tax assets	(531)	-	(551)	-
Additional deductions of CET1 Capital due to Article 3 (CRR)	(77,527)	(67,432)	(50,420)	(45,619)
Total tier 1 capital	**266,147**	**266,639**	**299,706**	**297,820**
Tier 2 capital				
Long term deposits qualifying as regulatory capital	18,909	18,909	18,839	18,839
Total tier 2 capital	**18,909**	**18,909**	**18,839**	**18,839**
Total capital	**285,056**	**285,548**	**318,545**	**316,659**
Total risk exposure amount	**1,146,996**	**1,157,981**	**1,252,744**	**1,247,693**
Total capital ratio	**24.85%**	**24.66%**	**25.43%**	**25.38%**

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

(i) Impact of Russia – Ukraine conflict

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

Compliance

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

4 Risk management, continued

regulators and consultations with the local regulator, deny access to funds or economic resources directly or indirectly, to or for the benefit of natural or legal persons, entities or bodies, or natural or legal persons, entities or bodies associated with them.

Exposure towards RU, BY, UA

During the year 2022 the Bank continued to closely monitor and assess its direct and indirect exposure Russia, Belarus and Ukraine. During the year 2022, from RU/BY loans EUR 35 million were received through repayments, refinancing. The Bank is actively working on amortisation and reduction of RU/BY exposure.

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

The Bank's net risk exposure to Russia is EUR 129 million, Belarus EUR 18 million, Ukraine EUR 3 million. By asset type the main exposure is loans and receivables due from customers (94%).

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

In year 2023, the Bank plans to significantly reduce the Russian and Belarusian credit exposure by refinancing loans or selling them to professional market participants. The Bank plans that during year 2023 non-performing loans portfolio will be fully repaid. The entire real estate portfolio repossessed by the Bank's subsidiary KI INVEST OOO is on active sale, and it is planned that it will be completely sold by the end of 2023.

Exposure to RU/BY/UA according risk country:

The Group

'000 EUR	**2022**			**2021**		
	BY	**RU**	**UA**	**BY**	**RU**	**UA**
Deposits and balances due from	352	3,255	-	471	10,659	-
Financial assets at fair value through profit or loss	-	153	-	-	167	-
Financial assets at amortised cost	24,786	102,806	2,615	39,671	120,629	4,381
Debt securities	-	3,051	-	-	3,847	-
Loans and receivables due from	24,786	99,755	2,615	39,671	116,782	4,381
Property and equipment	491	1,286	-	562	1,426	-
Investment property	252	14,853	-	358	15,532	-
Other assets	675	593	-	978	766	8
	26,556	**122,946**	**2,615**	**42,040**	**149,179**	**4,389**

The Bank

'000 EUR	**2022**			**2021**		
	BY	**RU**	**UA**	**BY**	**RU**	**UA**
Deposits and balances due from	6	3,184	-	468	10,350	-
Financial assets at fair value through profit or loss	-	153	-	-	167	-
Financial assets at amortised cost	15,793	124,775	2,532	37,341	138,700	4,255
Debt securities	-	3,051	-	-	3,847	-
Loans and receivables due from	15,793	121,724	2,532	37,341	134,853	4,255
Investments in subsidiaries	2,362	-	-	2,362	-	-
Property and equipment	-	415	-	-	463	-
Other assets	1	32	-	-	27	-
	18,162	**128,559**	**2,532**	**40,171**	**149,707**	**4,255**

4 Risk management, continued

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

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

5 Use of estimates and judgements

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

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

Key sources of estimation uncertainty and judgement:

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

The measurement of ECL requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

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

- criteria for assessing if there has been a significant increase in credit risk;

In determining the expected credit losses, management is required to exercise judgement in defining what is considered a significant increase in credit risk. Significant increase in credit risk is mainly determined by overdue period and credit risk grade migration. Forbearance, breach of financial covenants, dependence of client's activities on import/export from/to Russia/Belarus, susceptibility to energy crisis and other qualitative factors are also considered as significant increase in credit risk. Loans and receivables that are more than 30 days past due are moved to stage 2. Collectively estimated impairment allowance would not change significantly for the Bank and the Group if 15 days past due period was considered a significant increase in credit risk instead of 30 days past due period. Due to increase in credit risk, in year 2022 the Bank and the Group has reclassified all loans with a country risk of Russia and Belarus to at least Stage 2 which led to increase in ECL for EUR 654 thousand for the Bank and for EUR 621 thousand for the Group.

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

Changes in all applied LGD rates by 5 percentage points would result in change in collectively estimated impairment allowance by EUR + /- 545 thousand for the Bank and EUR +/- 571 thousand for the Group (2021: EUR +/- 531 thousand for the Bank and EUR +/- 677 thousand for the Group). Changes in the PD rates by 1 percentage point would result in change in collectively estimated impairment allowance by EUR +/- 5,142 million for the Bank and EUR +/- 5,297 thousand for the Group (2021: EUR +/- 5,632 for the Bank and EUR +/- 5,777 for the Group) and provisions for off-balance sheet commitments and guarantees by EUR +/- 178 thousand for the Bank and EUR +/- 178 thousand for the Group (2021: EUR +/- 30 thousand for the Bank and EUR +/- 30 thousand for the Group).

5 Use of estimates and judgements, continued

- Individual calculation of impairment allowance – For a loan that is credit-impaired at the reporting date, the expected credit losses are measured as the difference between the loan’s gross carrying amount and the present value of estimated future cash flows discounted at the loan’s original effective interest rate. In determining impairment allowance for Russian exposures, the management has used the precautionary approach regarding to Russian ruble exchange rate. Thus, the Group and the Bank has recognised an impairment overlay for its exposures in Russia. The impairment overlay represents an additional loss reserve over the modelled ECL amounts to account for the economic and political uncertainty in the region in relation to the ongoing war in Ukraine were the key driving factors for the Group and the Bank to determine an impairment overlay. The impairment overlay was primarily quantified by assuming lower recoveries through a lower Russian ruble exchange rate from loans as the Group and the Bank continues its controlled exit from the loan exposures. As of 31 December 2022, impairment overlay of EUR 3.5 million for the Group and the Bank was determined and approved by the Credit evaluation committee. No overlay was recognised as at 31 December 2021. The overlay will be released if risks do not materialise as exposures are recovered.
- selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

The estimation of expected credit losses involves forecasting future economic conditions over several years. Such forecasts are subject to management judgement and those judgements may be sources of measurement uncertainty.

Considering the nature of the bank's loan portfolio, which mainly consists of loans granted for clients of Real Estate activities industry and loans secured by real estate, the Bank and the Group does not expect a significant impact from changes in economic conditions. The real estate sector is typically less volatile than other sectors, as property values tend to be more stable over the long term. Many real estate investments are made with a long-term view, which helps to mitigate the impact of short-term economic fluctuations.

This is also reflective of the approach adopted for the Group’s ECL modelling where macroeconomic indicators with lagging effects have been determined to be the key drivers of the regression analysis used for the purposes of ECL modelling. The Group has decided to include macroeconomic inputs from 2020 as a period of negative development to drive the impact from forward looking information incorporation in the expected credit losses model. As of 31 December 2022, incorporation of forward-looking macroeconomic scenarios resulted in additional impairment allowances EUR 518 thousand for the Bank (2021: EUR 486 thousand) and EUR 764 thousand for the Group (2021: EUR 709 thousand). Should only the pessimistic development scenario apply (downside) instead of the used weighted base, downside and upside scenario, then ECLs would increase by EUR 3,119 thousand for the Bank (2021: EUR 2,917 thousand) and by EUR 3,035 thousand for the Group (2021: EUR 3,160 thousand). If the weighting of the downside scenario was to increase to 40%, base scenario to 40% and upside scenario was to decrease to 20% in year 2022 and 2021, ECL of the Bank would increase by EUR 423 thousand in year 2022 and by EUR 396 thousand in year 2021.

(ii) Determining fair value of financial instruments

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

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

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

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

5 Use of estimates and judgements, continued

As at 31 December 2022

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

As at 31 December 2021

Segment of property	5% price increase	5% price decrease
Residential property in Latvia	935	(935)
Land in Latvia	603	(603)
Commercial property in Latvia	1,561	(1,561)
Commercial property in Russia	795	(795)

(iv) Impairment of investments in subsidiaries

Investments in subsidiaries are valued at cost less accumulated impairment losses in the Bank's separate financial statements. On a regular basis, the Bank compares the cost of investment with the carrying amount of net assets of a subsidiary to see whether any impairment indication exists. In addition, the management assessed future cash flows to be generated by the subsidiaries and as a result of this assessments concluded that there is no objective evidence of impairment of the investment. If impairment indication exists, the recoverable amount of the investment is calculated based on discounted estimated future cash flows of the subsidiary. Future cash flows are based on budgets and projections prepared by the subsidiary and assessed for reasonableness. Mainly changes in value of investment properties would result in change of carrying amount of net assets of subsidiaries. Thus, change in value of investment properties by 5% would result in change in impairment allowance of Bank's investments in subsidiaries by EUR +/- 1,000 thousand in year 2022 and in year 2021.

(v) Determination of control over investees

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

(vi) Estimating provisions

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

6 Net interest income

	2022 '000 EUR Group	2022 '000 EUR Bank	2021 '000 EUR Group	2021 '000 EUR Bank
Interest income				
Loans and receivables due from customers	37,566	28,534	39,453	27,404
Debt securities at amortised Cost	7,906	4,800	5,168	5,168
Financial assets at fair value through other comprehensive income	1,461	4,567	4,532	4,532
Loans and receivables due from financial institutions	1,734	1,703	482	457
Other interest income	-	-	62	-
	48,667	**39,604**	**49,697**	**37,561**
Interest expense				
Current accounts and deposits due to customers	6,893	6,932	8,202	8,038
Deposits and balances due to banks	1,074	879	1,188	1,248
Other interest expense	3,581	3,278	4,174	3,395
	11,548	**11,089**	**13,564**	**12,681**

7 Fee and commission income

	2022 '000 EUR Group	2022 '000 EUR Bank	2021 '000 EUR Group	2021 '000 EUR Bank
Commission from account servicing	5,161	5,167	7,700	7,706
Money transfers	1,344	1,370	2,451	1,983
Revenue from customer asset management and brokerage commissions	1,207	733	1,295	712
Commission income from payment cards	1,171	1,171	1,141	1,141
Commissions for trust services provided	509	509	633	633
Commisson income from operation with securities	11	11	304	304
Safe usage	213	213	225	225
Commission from documentary operations	43	43	176	176
Commission from loans	-	-	48	-
E-commerce	-	-	33	33
Cash withdrawals	68	68	31	31
Other	1,769	1,352	2,590	1,986
	11,496	**10,637**	**16,627**	**14,930**

8 Fee and commission expense

	2022 '000 EUR Group	2022 '000 EUR Bank	2021 '000 EUR Group	2021 '000 EUR Bank
Payment card expenses	824	824	756	756
Agent commissions	-	-	1,824	1,381
Brokerage fees	494	494	497	497
On correspondent accounts	98	98	129	129
Loan's commissions	-	-	-	6
E-commerce	828	827	-	-
Other	228	197	198	126
	2,472	**2,440**	**3,404**	**2,895**

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

	2022 '000 EUR Group	2022 '000 EUR Bank	2021 '000 EUR Group	2021 '000 EUR Bank
Equity instruments	2,738	2,738	3,889	3,889
Debt securities	7	7	78	78
Other	1	1	(1)	(1)
	2,746	**2,746**	**3,966**	**3,966**

10 Net foreign exchange gain/(loss)

	2022 '000 EUR Group	2022 '000 EUR Bank	2021 '000 EUR Group	2021 '000 EUR Bank
Gain on spot transactions and derivatives	1,364	1,351	3,198	3,214
Gain/loss from revaluation of financial assets and liabilities	2,183	(249)	871	(129)
	3,547	**1,102**	**4,069**	**3,085**

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

	2022 '000 EUR Group	2022 '000 EUR Bank	2021 '000 EUR Group	2021 '000 EUR Bank
Debt securities	1,185	1,185	2,734	2,734
	1,185	**1,185**	**2,734**	**2,734**

12 Other income/(expense)

	2022 '000 EUR Group	2022 '000 EUR Bank	2021 '000 EUR Group	2021 '000 EUR Bank
Operating lease income from investment property and fixed assets	3,632	78	5,788	94
Fair value change of Investment property (note 26)	1,498	1,186	5,751	4,593
Gain from sale of investment property	1,346	499	3,475	1,144
Income from steel processing	3,561	-	2,781	-
Penalties received	538	203	986	652
Dividends received	116	8,278	139	2,764
Gain from sale of property and equipment	(30)	-	109	-
Loss from derecognition of subsidiary (note 21)	(1,177)	-	-	-
Recovery of assets written off	7,160	7,156	1,602	3,320
Other	3,351	1,185	1,338	676
	19,995	**18,585**	**21,969**	**13,243**

Income from steel processing is generated by a subsidiary of the Group which principal activity is manufacturing.

13 Impairment losses

	2022 '000 EUR Group	2022 '000 EUR Bank	2021 '000 EUR Group	2021 '000 EUR Bank
Impairment losses				
Loans and receivables due from customers	(6,796)	(9,585)	(15,785)	(16,994)
Financial assets at fair value through other comprehensive income	(3,008)	(3,008)	(1,401)	(1,401)
Debt securities at amortised cost	(1,125)	(1,125)	(293)	(293)
Property and equipment	(105)	-	(35)	-
Loans and advances due from banks	(51)	(51)	(17)	(16)
Investments in subsidiaries	-	(1,641)	-	(2,555)
Other assets	(78)	(79)	(599)	(571)
	(11,163)	**(15,489)**	**(18,130)**	**(21,830)**
Reversals of impairment losses				
Loans and receivables due from customers	3,158	3,630	6,598	7,970
Financial assets at fair value through other comprehensive income	-	-	661	661
Debt securities at amortised cost	-	-	270	270
Loans and advances due from banks	11	11	1	1
Investments in subsidiaries	-	1,587	-	-
Other assets	74	19	172	5
	3,243	**5,247**	**7,702**	**8,907**
Net impairment losses	**(7,920)**	**(10,242)**	**(10,428)**	**(12,923)**

14 General and administrative expenses

Services provided by the statutory auditor	31 Dec 2022 Group	31 Dec 2022 Bank	31 Dec 2021 Group	31 Dec 2021 Bank
Annual and interim audit fees (KPMG Baltics SIA)	220	169	-	-
Consulting and advisory fees (KPMG Baltics SIA)	180	169	-	-
Certification task related to the conclusion whether the Bank has complied with the requirements of the Deposit Guarantee Law, and certification task related to the conclusion whether the Bank has complied with the requirements of the Financial Instruments Market Law (KPMG Baltics SIA)	13	13	-	-
Annual and interim audit fees (other)	-	-	287	170
Certification task related to the conclusion whether the Bank has complied with the requirements of the Deposit Guarantee Law, and certification task related to the conclusion whether the Bank has complied with the requirements of the Financial Instruments Market Law (Other)	-	-	10	10

14 General and administrative expenses, continued

	2022 '000 EUR Group	2022 '000 EUR Bank	2021 '000 EUR Group	2021 '000 EUR Bank
Employee compensation	15,731	10,675	15,087	9,979
Repairs and maintenance	4,841	1,519	5,604	1,152
Payroll related taxes on employee remuneration	4,134	2,884	4,057	2,716
Salaries to the Executive Board and the Council	1,985	1,616	2,286	1,583
Taxes other than on corporate income and payroll	2,579	1,108	2,283	853
Depreciation and amortisation	2,053	1,677	2,146	1,842
Provision for bonus and payroll related taxes	1,825	1,825	1,804	1,805
Travel and transport expenses	1,535	1,021	1,324	922
Expenses related to credit risk	466	755	1,184	1,357
IT related costs	1,267	1,261	1,155	1,150
Advertising and marketing	682	262	763	176
Communications and information services	741	633	740	611
Insurance	806	597	631	525
Charity and sponsorship	265	-	528	-
Subscription of information	688	548	485	340
Rent	377	76	446	85
Professional services	501	369	372	139
Audit services	336	214	297	180
Representative office	312	236	246	174
Income tax expense from conditionally distributed	372	304	234	218
Change in accruals for annual leave	(42)	(42)	211	211
Employee health insurance	146	131	147	131
Security	130	3	115	119
Credit card service	136	136	107	107
Representation	84	80	86	81
Office supplies (Stationery)	83	20	67	18
Reversal of provisions for the management bonus	(640)	(640)	(1,338)	(1,338)
Other	3,220	2,769	1,892	1,812
	44,613	**30,037**	**42,959**	**26,948**

Number of employees

	31 Dec 2022 Group	31 Dec 2022 Bank	31 Dec 2021 Group	31 Dec 2021 Bank
The Council	8	6	8	6
The Executive Board	15	5	13	4
Investment services	6	6	6	6
Servicing of SMEs or individuals	78	22	94	34
Asset management	5	5	8	7
Corporate support function	215	196	193	157
Internal control function	100	70	74	45
Other operations	99	79	183	74
Total number of employees	**526**	**389**	**579**	**333**

15 Income tax expense

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

	2022 '000 EUR Group	2022 '000 EUR Bank	2021 '000 EUR Group	2021 '000 EUR Bank
Current tax				
Current tax	922	279	1,016	(270)
Deferred tax	805	-	(41)	-
Total income tax expense in the profit or loss	**1,727**	**279**	**975**	**(270)**

The tax rate applicable in countries in which group entities operate:	**2022**	**2021**
Latvia	20.00%	20.00%
Belarus	18.00%	18.00%
Cyprus	12.50%	12.50%
Russia	20.00%	20.00%

(b) Reconciliation of effective tax rate:

As of 1 January 2018, according to Law on Enterprise Income Tax of the Republic of Latvia, the tax rate 20% is deferred to when the profit is distributed and calculated as 0.2/0.8 from net distributed dividend. Before 2018 corporate income tax in Latvia was payable for financial year taxable profit.

	31 Dec 2022 '000 EUR Group	31 Dec 2022 '000 EUR Bank	31 Dec 2021 '000 EUR Group	31 Dec 2021 '000 EUR Bank
Profit before corporate income tax	19,183	19,390	29,859	21,230
Corporate income tax (at 20%)	3,837	3,878	5,972	4,246
Retained earnings taxable on distribution	(2,417)	(3,878)	(5,100)	(4,246)
Effect of tax rates in foreign jurisdictions	12	-	25	-
Tax paid abroad	279	279	(270)	(270)
Non-deductible expenses	16	-	348	-
Total effective corporate income tax	**1,727**	**279**	**975**	**(270)**

16 Cash and balances due from the Bank of Latvia

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

	31 Dec 2022 '000 EUR Group	31 Dec 2022 '000 EUR Bank	31 Dec 2021 '000 EUR Group	31 Dec 2021 '000 EUR Bank
Balances due from the Bank of Latvia	247,543	247,543	319,151	319,151
Cash	1,075	1,041	1,450	1,411
	248,618	**248,584**	**320,601**	**320,562**

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

In accordance with the Bank of Latvia's regulations, the Bank is required to maintain a compulsory reserve. As at 31 December 2022 the compulsory reserve amounted to EUR 7,289 thousand (31 December 2021: EUR 7,757 thousand). The compulsory reserve is compared to the Bank's average monthly correspondent account balance in EUR. The Bank's average correspondent balance should exceed the compulsory reserve requirement. The Bank was in compliance with the aforementioned compulsory reserve requirement during the reporting year.

17 Deposits and balances due from banks

	31 Dec 2022 '000 EUR Group	31 Dec 2022 '000 EUR Bank	31 Dec 2021 '000 EUR Group	31 Dec 2021 '000 EUR Bank
Demand accounts	14,456	13,807	33,414	32,920
Term deposits	20,004	20,004	-	-
Expected credit losses	(54)	(54)	(14)	(14)
Total accounts	**34,406**	**33,757**	**33,400**	**32,906**

Concentration of placements with banks

As at 31 December 2022 the Bank and the Group had 2 balances (2021: 3), which exceeded 10% of total loans and receivables from banks.

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

	31 Dec 2022	%
Thurgauer Kantonalbank	20,004	59,16
Euroclear Bank SA/NV	7,211	21,33
Total	**27,215**	**80,49**

The largest balances due from credit institutions as of 31 December 2021 in the Bank and the Group were as follows:

	31 Dec 2021	%
Raiffeisenbank Bank International AG	9,818	29,82
Euroclear Bank SA/NV	9,736	29,58
Alfa Bank AO	7,826	23,77
Total	**27,380**	**83,17**

18 Financial assets at fair value through profit or loss

	31 Dec 2022		31 Dec 2021	
	'000 EUR Group	'000 EUR Bank	'000 EUR Group	'000 EUR Bank
Equity instruments	5,296	4,852	8,043	7,644
Derivative financial instruments	670	670	620	620
Financial assets at fair value through profit or loss	**5,966**	**5,522**	**8,663**	**8,264**
Derivative financial instruments	(551)	(551)	(149)	(149)
Financial liabilities at fair value through profit or loss	**(551)**	**(551)**	**(149)**	**(149)**

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

18 Financial assets at fair value through profit or loss, continued

Derivative financial assets and liabilities

The Group and the Bank ’000 EUR	31 Dec 2022 Carrying amount	 Notional amount	31 Dec 2021 Carrying amount	 Notional amount
Assets				
GDP-linked derivative securities	1	630	1	630
Forward contracts	96	27,283	584	38,662
Futures contracts	573	110,551	35	110,106
Total derivative financial assets	**670**		**620**	
Liabilities				
Forward contracts	-	-	9	38,087
Futures contracts	551	110,551	140	110,106
Total derivative financial liabilities	**551**		**149**	

19 Financial assets at amortised cost

19.1 Debt securities

The Group and the Bank

EUR’000	31 December 2022 Gross amount	 Expected credit loss	 Net carrying amount	31 December 2021 Gross amount	 Expected credit loss	 Net carrying amount
Government and municipal bonds	908	-	908	-	-	-
Corporate bonds	67,485	(2,256)	65,229	68,319	(1,132)	67,187
Total	**68,393**	**(2,256)**	**66,137**	**68,319**	**(1,132)**	**67,187**

Analysis of movements in the allowance for expected credit losses:

31 December 2022
The Group and the Bank

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

31 December 2021
The Group and the Bank

EUR’000	Opening balance as at 1 Jan 2022	Origination and acquisition	Derecognition and repayments	Changes in credit risk, net	Other adjustments	Closing balance as at 31 Dec 2021
Stage 1	583	57	(16)	(30)	7	601
Stage 2	524	-	(46)	(6)	(5)	467
Stage 3	-	-	(6)	70	-	64
Total	**1,107**	**57**	**(68)**	**34**	**2**	**1,132**

19.2 Loans and receivables due from customers

The Group EUR'000	31 December 2022 Gross amount	31 December 2022 Expected credit loss	31 December 2022 Net carrying amount	31 December 2021 Gross amount	31 December 2021 Expected credit loss	31 December 2021 Net carrying amount
Companies	**468,936**	**(15,847)**	**453,089**	**493,085**	**(15,355)**	**477,730**
Finance leases	7,352	(182)	7,170	17,127	(128)	16,999
Loans	461,584	(15,665)	445,919	475,958	(15,227)	460,731
Individuals	**99,224**	**(7,162)**	**92,062**	**124,325**	**(6,867)**	**117,458**
Finance leases	4,877	(30)	4,847	9,319	(50)	9,269
Loans	94,347	(7,132)	87,215	115,006	(6,817)	108,189
Total	**568,160**	**(23,009)**	**545,151**	**617,410**	**(22,222)**	**595,188**

The Bank EUR'000	31 December 2022 Gross amount	31 December 2022 Expected credit loss	31 December 2022 Net carrying amount	31 December 2021 Gross amount	31 December 2021 Expected credit loss	31 December 2021 Net carrying amount
Companies	**562,566**	**(20,130)**	**542,436**	**594,832**	**(17,135)**	**577,697**
Loans	562,566	(20,130)	542,436	594,832	(17,135)	577,697
Individuals	**46,500**	**(4,604)**	**41,896**	**65,256**	**(4,471)**	**60,785**
Loans	46,500	(4,604)	41,896	65,256	(4,471)	60,785
Total	**609,066**	**(24,734)**	**584,332**	**660,088**	**(21,606)**	**638,482**

(a) Finance leases

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

	31 Dec 2022 '000 EUR Group	31 Dec 2021 '000 EUR Group
Gross investment in finance leases, receivable		
Less than one year	7,209	14,762
More than one year	7,792	18,060
Total gross investment in finance leases	15,001	32,822
Unearned finance income	(2,772)	(6,376)
Net investment in finance lease before allowance	**12,229**	**26,446**
Expected credit losses	(212)	(178)
Net investment in finance lease	**12,017**	**26,268**
The net investment in finance leases comprises:		
Less than one year	5,605	11,573
Between one and five years	6,412	14,695
Net investment in finance lease	**12,017**	**26,268**

19.2 Loans and receivables due from customers, continued

(b) Credit quality of loan portfolio

(i) Ageing structure of loan portfolio

The Group, 31 Dec 2022

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

The Bank, 31 Dec 2022

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

The Group, 31 Dec 2021

EUR'000	Gross amount			Expected credit loss	Net carrying amount	Uncollateralised exposure of net carrying amount
	Stage 1	Stage 2	Stage 3			
Not past due	404,021	51,701	77,459	(13,257)	519,924	113,263
Past due > 0 days <= 30 days	84	8,382	6,382	(909)	13,939	-
Past due > 30 days <= 90 days	-	1,113	13	(137)	989	220
Past due > 90 days	-	-	68,255	(7,919)	60,336	260
Total	**404,105**	**61,196**	**152,109**	**(22,222)**	**595,188**	**113,743**

The Bank, 31 Dec 2021

EUR'000	Gross amount			Expected credit loss	Net carrying amount	Uncollateralised exposure of net carrying amount
	Stage 1	Stage 2	Stage 3			
Not past due	423,161	71,474	83,652	(14,588)	563,699	89,105
Past due > 0 days <= 30 days	84	8,382	6,382	(909)	13,939	-
Past due > 30 days <= 90 days	-	830	-	(62)	768	-
Past due > 90 days	-	-	66,123	(6,047)	60,076	-
Total	**423,245**	**80,686**	**156,157**	**(21,606)**	**638,482**	**89,105**

19.2 Loans and receivables due from customers, continued

(ii) Analysis of loan portfolio by type of collateral

The following table provides the analysis of the loan portfolio, net of impairment, by main types of collateral as at 31 December 2022:

The Group

EUR’000	**31 Dec 2022**	**% of loan portfolio**	**31 Dec 2021**	**% of loan portfolio**
Commercial buildings	192,184	35,26	182,989	30,74
Without collateral	136,017	24,95	119,146	20,02
Commercial assets pledge	80,369	14,74	107,014	17,98
Land mortgage	58,769	10,78	52,707	8,86
Traded securities	10,094	1,85	42,800	7,19
Mortgage on residential properties	30,315	5,56	33,654	5,65
Finance lease	11,928	2,19	26,141	4,39
Deposit	1,528	0,28	254	0,05
Other	23,947	4,39	30,483	5,12
Total	**545,151**	**100,00**	**595,188**	**100,00**

The Bank

EUR’000	**31 Dec 2022**	**% of loan portfolio**	**31 Dec 2021**	**% of loan portfolio**
Commercial buildings	243,007	41,59	219,368	34,36
Commercial assets pledge	121,983	20,87	161,727	25,33
Without collateral	94,690	16,20	94,507	14,80
Land mortgage	58,769	10,06	52,707	8,26
Traded securities	10,094	1,73	42,800	6,70
Mortgage on residential properties	30,315	5,19	33,654	5,27
Deposit	1,528	0,26	254	0,04
Other mortgage	23,946	4,10	33,465	5,24
Total	**584,332**	**100,00**	**638,482**	**100,00**

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

19.2 Loans and receivables due from customers, continued

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

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

The Group

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

The Bank

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

19.2 Loans and receivables due from customers, continued

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

Movements in the loan impairment allowance for the year ended 31 December 2021 are as follows:

The Group

'000 EUR	Expected credit losses					Loans and receivables due from customers (gross amount)				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Opening balance, 31 Dec 2020	**(1,856)**	**(909)**	**(11,931)**	**(23)**	**(14,719)**	**362,470**	**58,140**	**162,956**	**1,116**	**584,682**
To stage 1 from stage 2 or 3	(227)	97	130	-	-	20,616	(20,419)	(197)	-	-
To stage 2 form stage 1 or 3	231	(248)	17	-	-	(41,995)	42,036	(41)	-	-
To stage 3 from stage 1 or 2	16	144	(160)	-	-	(2,451)	(4,698)	7,149	-	-
Origination and acquisition	(1,010)	(54)	(1,051)	(17)	(2,132)	127,338	135	5,190	23	132,686
Disposals and repayments	405	126	2,147	-	2,678	(55,349)	(13,949)	(24,182)	(993)	(94,473)
Changes in credit risk, net	(20)	(1,823)	(6,273)	-	(8,116)	-	-	-	-	-
Decrease due to write-offs	-	-	25	-	25	-	-	(21)	-	(21)
Other adjusments	65	-	(23)	-	42	(6,526)	(50)	1,105	7	(5,464)
Closing balance, 31 Dec 2021	**(2,396)**	**(2,667)**	**(17,119)**	**(40)**	**(22,222)**	**404,103**	**61,195**	**151,959**	**153**	**617,410**

The Bank

'000 EUR	Expected credit losses					Loans and receivables due from customers (gross amount)				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Opening balance, 31 Dec 2020	**(1,475)**	**(1,349)**	**(9,838)**	**(23)**	**(12,685)**	**377,517**	**73,259**	**167,138**	**1,116**	**619,030**
To stage 1 from stage 2 or 3	(76)	76	-	-	-	20,317	(20,317)	-	-	-
To stage 2 form stage 1 or 3	228	(228)	-	-	-	(41,777)	41,793	(16)	-	-
To stage 3 from stage 1 or 2	9	119	(128)	-	-	(805)	(4,615)	5,420	-	-
Origination and acquisition	(704)	-	(742)	(17)	(1,463)	84,947	2,167	5,335	23	92,472
Disposals and repayments	63	81	1,858	-	2,002	(21,308)	(11,619)	(23,144)	(993)	(57,064)
Changes in credit risk, net	(1,143)	(1,995)	(6,289)	-	(9,427)	-	-	-	-	-
Decrease due to write-offs	-	-	-	-	-	-	-	-	-	-
Other adjusments	(9)	-	(24)	-	(33)	4,354	18	1,271	7	5,650
Closing balance, 31 Dec 2021	**(3,107)**	**(3,296)**	**(15,163)**	**(40)**	**(21,606)**	**423,245**	**80,686**	**156,004**	**153**	**660,088**

Loans and receivables due from customers with a contractual amount of 3,052 thousand EUR for the Group and the Bank were written off during 2022 and are still subject to enforcement activity. No write offs were made during 2021.

19.2 Loans and receivables due from customers, continued

(c) Industry analysis of the loan portfolio

The Group

EUR'000	31 December 2022 Gross amount	31 December 2022 Expected credit loss	31 December 2022 Net carrying amount	31 December 2022 Commit-ments, guarantees, Net after ECL	31 December 2021 Gross amount	31 December 2021 Expected credit loss	31 December 2021 Net carrying amount	31 December 2021 Commit-ments, guarantees, Net
Financial services	185,235	(6,356)	178,879	46,669	192,182	(7,960)	184,222	46,872
Real estate management	179,202	(5,810)	173,392	17,074	179,520	(4,345)	175,175	3,930
Individuals	99,434	(7,372)	92,062	4,112	124,325	(6,867)	117,458	6,380
Electricity, gas, water supply	33,599	(433)	33,166	44,328	5,666	(303)	5,363	-
Transport and communicatior	27,611	(1,138)	26,473	16,077	42,335	(942)	41,393	2,078
Wholesale and retailing	9,488	(1,196)	8,292	2,157	40,638	(1,219)	39,419	24,097
Manufacturing	9,603	(132)	9,471	4,639	10,319	(181)	10,138	4,645
Tourism	3,925	(76)	3,849	-	3,047	(53)	2,994	70
Construction	545	(19)	526	12,270	494	(8)	486	-
Other	19,518	(477)	19,041	1	18,884	(344)	18,540	131
	568,160	**(23,009)**	**545,151**	**147,327**	**617,410**	**(22,222)**	**595,188**	**88,203**

The Bank

EUR'000	31 December 2022 Gross amount	31 December 2022 Expected credit loss	31 December 2022 Net carrying amount	31 December 2022 Commit-ments, guarantees, Net after ECL	31 December 2021 Gross amount	31 December 2021 Expected credit loss	31 December 2021 Net carrying amount	31 December 2021 Commit-ments, guarantees, Net
Financial services	232,847	(7,342)	225,505	75,231	256,321	(8,170)	248,151	86,416
Real estate management	232,226	(9,529)	222,697	29,294	232,626	(6,056)	226,570	15,735
Individuals	46,500	(4,604)	41,896	4,016	65,255	(4,471)	60,784	6,241
Electricity, gas, water supply	33,591	(433)	33,158	44,329	5,624	(303)	5,321	-
Transport and communicatior	24,939	(1,047)	23,892	16,350	33,829	(847)	32,982	2,351
Wholesale and retailing	8,410	(1,183)	7,227	2,157	37,597	(1,204)	36,393	24,097
Manufacturing	8,035	(57)	7,978	4,639	8,550	(172)	8,378	4,863
Tourism	3,893	(75)	3,818	-	2,989	(53)	2,936	70
Construction	273	(8)	265	12,270	-	-	-	-
Other	18,352	(456)	17,896	2	17,297	(330)	16,967	132
	609,066	**(24,734)**	**584,332**	**188,288**	**660,088**	**(21,606)**	**638,482**	**139,905**

(d) Significant credit exposures

According to regulatory requirements, the Bank and the Group are not allowed to have a credit exposure to one client or group of related clients more than 25% of its equity. As at 31 December 2022 and 2021 the Bank and the Group were in compliance with this requirement.

20 Financial assets at fair value through other comprehensive income

	2022 '000 EUR Group	2022 '000 EUR Bank	2021 '000 EUR Group	2021 '000 EUR Bank
Debt securities				
- with rating from AAA to A	178,144	178,144	156,801	156,801
- with rating from BBB+ to BBB-	111,737	111,737	142,415	142,415
- non-investment grade	61,142	61,142	81,557	81,557
- without rating	4	4	11	11
Equity investments	**11**	**11**	**16**	**16**
Total fair value	**351,038**	**351,038**	**380,800**	**380,800**
Acquisition cost	385,184	385,184	385,223	385,223
Revaluation	(34,146)	(34,146)	(4,423)	(4,423)
Total fair value	**351,038**	**351,038**	**380,800**	**380,800**
Of which pledged to Bank of Latvia under the TLTRO III programme (note 28)	62,531	62,531	64,028	64,028

Analysis of movements in the allowance for expected credit losses:

31 December 2022
The Group and the Bank

EUR'000	Opening balance, 1 Jan 2022	Origination and acquisition	Derecognition and repayments	Changes in credit risk, net	Other adjustments	Closing balance, 31 Dec 2022
Stage 1	436	29	(67)	(71)	7	334
Stage 2	187	1	(9)	73	4	256
Stage 3	1,483	3	-	3,050	(109)	4,427
Total	**2,106**	**33**	**(76)**	**3,052**	**(98)**	**5,016**

31 December 2021
The Group and the Bank

EUR'000	Opening balance, 1 Jan 2021	Origination and acquisition	Derecognition and repayments	Changes in credit risk, net	Other adjustments	Closing balance, 31 Dec 2021
Stage 1	493	262	(251)	(77)	9	436
Stage 2	409	-	(546)	316	8	187
Stage 3	447	-	(13)	1,049	-	1,483
Total	**1,349**	**262**	**(810)**	**1,288**	**17**	**2,106**

21 Investments in subsidiaries

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

Company	Address	Share Capital	Equity	Bank's share of total share capital, %	Gross carrying amount	Impairment allowance	Net investments in subsidiaries
SIA "RB Investments"	Vesetas str.7, Riga, Latvia	14,229	8,055	100.00%	14,229	(4,051)	10,177
RB Securities Ltd.	Stasinou str.1, Mitsi Building 1, 2nd floor, Flat/office 5, Plateia Eleftherias, P.C.1060, Nicosia, Cyprus	11,602	3,027	99.99%	10,956	(8,036)	2,920
SIA "OVERSEAS Estates"	Dzintaru str.3A, Ventspils, Latvia	9,480	1,600	100.00%	7,346	(5,759)	1,587
Rietumu Lizing OOO	Odoevskogo str.117, 6th floor, office 9, Minsk, Belarus	275	4,483	99.50%	2,362	-	2,362
AS "Rietumu Asset Management" IPS	Vesetas str.7, Riga, Latvia	500	663	100.00%	500	-	500
SIA "InCREDIT GROUP"	Krisjana Barona str.130, Riga, Latvia	500	8,592	51.00%	255	-	255
SIA "RB Drosiba"	Vesetas str.7, Riga, Latvia	71	293	100.00%	71	-	71
SIA "Vesetas 7"	Vesetas str.7, Riga, Latvia	142	6,854	100.00%	3,263	-	3,263
NOD "Nakotnes Atbalsta Fonds"	Vesetas str.7, Riga, Latvia	-	1,177	100.00%	-	-	-
SIA "Euro Textile Group"	Vesetas str.7, Riga, Latvia	887	(1,550)	100.00%	1,000	(1,000)	-
SIA "KI Fund"	Vesetas str. 7, Riga, Latvia	5,719	3,578	100.00%	5,719	(2,145)	3,574
SIA "RB ELG"	Vesetas str. 7, Riga, Latvia	4,550	4,542	100.00%	4,550	-	4,550
SIA "Second Sky Management"	Vesetas str. 7, Riga, Latvia	11,003	11,590	100.00%	11,003	-	11,003
Total Bank's investment in subsidiaries					**61,254**	**(20,991)**	**40,262**

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

21 Investments in subsidiaries, continued

Investment in subsidiaries at 31 December 2021 ('000 EUR):

Company	Address	Share Capital	Equity	Bank's share of total share capital, %	Gross carrying amount	Impair-ment allowance	Net invest-ments in subsi-diaries
SIA "RB Investments"	Vesetas str.7, Riga, Latvia	14,229	8,597	100,00%	14,228	(2,410)	11,818
RB Securities Ltd.	Stasinou str.1, Mitsi Building 1, 2nd floor, Flat/office 5, Plateia Eleftherias, P.C.1060, Nicosia, Cyprus	11,602	2,985	99,99%	10,956	(8,036)	2,920
SIA "OVERSEAS Estates"	Dzintaru str.3A, Ventspils, Latvia	9,480	1,539	100,00%	7,346	(7,346)	-
Rietumu Lizing OOO	Odoevskogo str.117, 6th floor, office 9, Minsk, Belarus	275	4,078	99,50%	2,362	-	2,362
AS "Rietumu Asset Management" IPS	Vesetas str.7, Riga, Latvia	500	872	100,00%	500	-	500
SIA "InCREDIT GROUP"	Krisjana Barona str.130, Riga, Latvia	500	8,623	51,00%	255	-	255
SIA "RB Drosiba"	Vesetas str.7, Riga, Latvia	71	256	100,00%	71	-	71
SIA "Vesetas 7"	Vesetas str.7, Riga, Latvia	142	11,471	100,00%	3,263	-	3,263
NOD "Nakotnes Atbalsta Fonds"	Vesetas str.7, Riga, Latvia	-	1,637	100,00%	-	-	-
SIA "Euro Textile Group"	Vesetas str.7, Riga, Latvia	887	(1,377)	100,00%	1,000	(1,000)	-
SIA "KI Fund"	Vesetas str. 7, Riga, Latvia	5,719	3,550	100,00%	5,719	(2,145)	3,574
SIA "RB ELG"	Vesetas str. 7, Riga, Latvia	4,550	4,548	100,00%	4,550	-	4,550
SIA "Second Sky Management"	Vesetas str. 7, Riga, Latvia	11,003	11,175	100,00%	11,003	-	11,003
Total Bank's investment in subsidiaries					**61,253**	**(20,937)**	**40,316**

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

21 Investments in subsidiaries, continued

Movements in the impairment allowance

Movements in the investment in subsidiaries impairment allowance for the year ended 31 December 2022 and 2021 are as follows:

	2022 '000 EUR Bank	2021 '000 EUR Bank
Allowance for impairment		
Balance at 1 January	**20,937**	**18,382**
Charge for the year	**1,641**	**2,555**
SIA "RB Investments"	*1,641*	*2,410*
RB Securities Ltd	-	*123*
SIA KI FUND	-	*22*
Reversal for the year	**(1,587)**	
SIA "Overseas Estates"	*(1,587)*	
Sales of subsidiary	-	-
Liquidation of subsidiary	-	-
Balance at 31 December	**20,991**	**20,937**

Additional impairment allowance for SIA "RB Investments" was recognised in year 2022 due decrease in the carrying amount of net assets of a subsidiary's group which was caused mainly by disposal of SIA "RB Investments" subsidiary SIA "ESP European Steel Production". Impairment allowance for subsidiary SIA "Overseas Estate" was reversed due to improvements of subsidiary's performance and increase in in the carrying amount of net assets of a subsidiary. Subsidiary owns investment property, whose improved fundamentals allowed the management to revisit the level of impairment recognised for the investment in this subsidiary.

Disposal of subsidiaries

Subsidiary SIA "ESP European Steel Production" was disposed in 2022. The disposal of the subsidiary in 2022 had the following effect on the Group`s assets and liabilities at the date of disposal:

`000 EUR	SIA "ESP European Steel Production"
Disposed shares %	**100%**
Assets	
Deposits and balances due from banks	23
Property and equipment	445
Other assets	2,474
Liabilities	
Deposits and balances due to banks	(310)
Other liabilities	(1,301)
Net identifiable assets and liabilities	**1,331**
Attributable to equity holders of the Bank	**1,331**
Consideration received	**154**
Net cash inflow	131

22 Investments in associates

During 2021, the Group became an owner of 30% of SIA European Lingerie Group (70% belongs to European Lingerie Group AB). The core business activities of SIA European Lingerie Group is the operations of the holding company, as well as the management and consulting services. SIA European Lingerie Group owns investments in other companies and forms a group - European Lingerie Group, intimate apparel and lingerie group which produces lace and fabrics for largest lingerie brands under Lauma Fabrics brand name, medical textiles under Lauma Medical brand name, as well as designs, manufactures and distributes branded premium lingerie garments under Conturelle, Felina and Senselle brands.

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

Name	Country of incorporation	Principal activities	Ownership %	Amount of investment	Ownership %	Amount of investment
			31 Dec 2022 '000 EUR		31 Dec 2021 '000 EUR	
SIA “AED Rail Service”	Latvia	Railway information services	43,00%	-	43,00%	-
SIA ‘Dzelzcelu Tranzits”	Latvia	Railway information services	0,00%	-	49,12%	-
SIA ‘European Lingerie Group”	Latvia	Textile articles, wholesale	30,00%	775	30,00%	2,000
Total				**775**		**2,000**

On the date of acquisition of 30% of SIA European Lingerie Group goodwill was included in the carrying amount of the investment and the investment amounted to EUR 2 million. According to the expected cash flow projection no impairment indicators identified regarding recoverability of investment as at 31 December 2022. Expected cash flow projection is based on 2023 budget of European Lingerie Group SIA.

- European Lingerie Group's revenues are forecasted to increase by up to 10% in 2023, compared to 2022;
- EBITDA of the company in 2023 is expected to surpass the 2022 levels.

The following table summarises the consolidated financial information of SIA European Lingerie Group:

`000 EUR	30 Sep 2022	30 Sep 2021
Percentage ownership interest	**30%**	**30%**
Non-current assets	29 979	30 681
Current assets	38 410	38 124
Non-current liabilities	(52 643)	(53 691)
Current liabilities	(19 331)	(14 718)
Net assets (100%)	**(3 585)**	**396**
Group's share of net assets (30%)	(1 076)	119
	30 Sep 2021-30 Sep 2022	**30 Jun 2021-30 Sep 2021**
Net revenue	65 137	17 634
Profit/(loss) for the period	(3 985)	(27)
Other comprehensive income	(9)	(62)
Total comprehensive income	(3 994)	(89)
Total comprehensive income (30%)	**(1 198)**	**(27)**

Consolidated data as at 30 September 2022 used as last available consolidated information at the date of signing these financial statements.

23 Property and equipment

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

23 Property and equipment, continued

The Group, continued
'000 EUR

	Right of use assets	Land and buildings	Construction in progress	Vehicles	Office equipment and machi-nery	Advances	Total
Cost/Revalued amount							
At 1 January 2021	**2,524**	**37,123**	**440**	**2,585**	**16,213**	**8**	**58,893**
Additions	50	-	17	10,284	695	15	**11,061**
Disposals	(1,185)	-	-	(36)	(135)	(3)	**(1,359)**
Transfers	-	-	-	-	16	(16)	**-**
Reclassification to/from investment property	-	852	(449)	-	-	-	**403**
Revaluation	-	(48)	-	-	-	-	**(48)**
FX translation effect	-	36	-	4	6	-	**46**
At 31 December 2021	**1,389**	**37,963**	**8**	**12,837**	**16,795**	**4**	**68,996**
Depreciation							
At 1 January 2021	**578**	**7,827**	8	**1,856**	**11,276**	-	**21,545**
Depreciation charge	336	736	-	348	446	-	**1,866**
Disposals	(410)	(11)	-	(36)	(131)	-	**(588)**
FX translation effect		-	-	1	4	-	**5**
At 31 December 2021	**504**	**8,552**	**8**	**2,169**	**11,595**	**-**	**22,828**
Net carrying amount							
At 31 December 2021	**885**	**29,411**	**-**	**10,668**	**5,200**	**4**	**46,168**
At 31 December 2020	**1,946**	**29,296**	**432**	**729**	**4,937**	**8**	**37,348**

Revalued assets

As at 31 December 2022 and 2021, properties consisting of office buildings and land were revalued based on report by external independent and qualified property appraisers with recent experience in the location and category of the property being valued. The independent appraisers provide the fair value of the property portfolio every year.

The fair value measurement for property (land and buildings) has been categorised as a Level 3 in the fair value hierarchy. If revaluation was not applied the net carrying value of land and buildings would be EUR 14,330 thousand as at 31 December 2022 and EUR 27,606 thousand as at 31 December 2021.

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

Type	Valuation technique	Significant unobser-vable inputs	Inter-relation between significant unobservable inputs and fair value measurement
Office premises in administrative building in the net carrying amount of EUR 455 thousand (2021: EUR 507 thousand) located in Minsk, Belarus	Market comparison technique: the fair value was based on results of comparable sales of similar buildings	Price per m2 – 711 EUR (2021: EUR 792)	The fair value would increase (decreased) if the price per m2 was higher (lower).
Office building (17,071 m2) and land in the amount of EUR 36,600 thousand located in Riga, Latvia	Discounted cash flows technique: the model is based on discounted cash flows from rental income.	Rental income per m2 of EUR 14.36 (2021: EUR 14.97) Discount rate of 7.8 % (2021: 7.4%)	The estimated fair value would increase (decrease) if: - Rental income per m2 was higher (lower) - The discount rate was lower (higher) - Annual capital expense are lower (higher) - The occupancy rate was higher (lower)

23 Property and equipment, continued

The Bank

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

'000 EUR	Right of use assets	Vehicles	Office equipment	Advances	Total
Cost/Revalued amount					
At 1 January 2021	**25,306**	**2,510**	**11,538**	**7**	**39,361**
Additions	476	335	312	3	**1,126**
Disposals	(727)	(28)	(7)	(3)	**(765)**
Transfers	-	-	4	(4)	**-**
At 31 December 2021	**25,055**	**2,817**	**11,847**	**3**	**39,722**
Depreciation and impairment losses					
At 1 January 2021	**3,067**	**1,811**	**7,769**	-	**12,647**
Depreciation charge	1,327	127	114	-	**1,568**
Disposals	(395)	(28)	(5)	-	**(428)**
At 31 December 2021	**3,999**	**1,910**	**7,878**	**-**	**13,787**
Net carrying amount					
At 31 December 2021	**21,056**	**907**	**3,969**	**3**	**25,935**
At 31 December 2020	**22,239**	**699**	**3,769**	**7**	**26,714**

24 Intangible assets

The Group

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

'000 EUR	Goodwill	Software	Other	Advances	Total
Cost amount					
At 1 January 2021	**1,069**	**13,742**	**58**	**19**	**14,888**
Additions	-	46	5	16	**67**
FX translation effect	-	-	2	-	**2**
At 31 December 2021	**1,069**	**13,788**	**65**	**35**	**14,957**
Amortisation and impairment losses					
At 1 January 2021	-	**12,908**	**44**	-	**12,952**
Amortisation charge	-	273	7	-	**280**
FX translation effect	**289**	-	-	-	**289**
At 31 December 2021	**289**	**13,181**	**51**	-	**13,521**
Net carrying amount					
At 31 December 2021	**780**	**607**	**14**	**35**	**1,436**
At 31 December 2020	**1,069**	**834**	**14**	**19**	**1,936**

Goodwill of EUR 780 thousand (2021: EUR 780 thousand) originated on the acquisition of a payment card business unit in 2001. No impairment losses on goodwill were recognized as at 31 December 2022 (2021: 289 EUR thousand). Payment card business value as at 31 December EUR 782 thousand (2021: 780 EUR thousand).

24 Intangible assets, continued

The Bank

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

'000 EUR	Goodwill	Software	Other	Advances	Total
Cost amount					
At 1 January 2021	**1,069**	**13,734**	**36**	**19**	**14,858**
Additions	-	46	-	16	**62**
At 31 December 2021	**1,069**	**13,780**	**36**	**35**	**14,920**
Amortisation and impairment losses					
At 1 January 2021	**-**	**12,901**	**34**	**-**	**12,935**
Amortisation charge	**-**	273	1	**-**	**274**
Impairment losses	**289**	-	-	**-**	**289**
At 31 December 2021	**289**	**13,174**	**35**	**-**	**13,498**
Net carrying amount					
At 31 December 2021	**780**	**606**	**1**	**35**	**1,422**
At 31 December 2020	**1,069**	**833**	**2**	**19**	**1,923**

Goodwill of EUR 780 thousand (2021: EUR 780 thousand) originated on the acquisition of a payment card business unit in 2001. No impairment losses on goodwill were recognized as at 31 December 2022 (2021: 289 EUR thousand). Payment card business value as at 31 December EUR 782 thousand (2021: 780 EUR thousand).

25 Right-of-use assets and Lease liabilities

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

	31 Dec 2022 '000 EUR Group	31 Dec 2022 '000 EUR Bank	31 Dec 2021 '000 EUR Group	31 Dec 2021 '000 EUR Bank
Property and equipment owned	36,507	-	45,283	4,881
Right-of-use assets	1,014	17,623	885	21,054
Total	**37,521**	**17,623**	**46,168**	**25,935**

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

Right-of-use assets

	31 Dec 2022 '000 EUR Group	31 Dec 2022 '000 EUR Bank	31 Dec 2021 '000 EUR Group	31 Dec 2021 '000 EUR Bank
Balance at 1 January	**885**	**21,056**	**1,946**	**22,239**
ROU change	85	(2,310)	(1,135)	142
Depreciation charge for the period	44	(1,123)	74	(1,327)
Balance at 31 December	**1,014**	**17,623**	**885**	**21,054**

Lease liabilities

	31 Dec 2022 '000 EUR Group	31 Dec 2022 '000 EUR Bank	31 Dec 2021 '000 EUR Group	31 Dec 2021 '000 EUR Bank
Opening balance	**915**	**22,083**	**1,908**	**22,910**
Lease payments	(234)	(1,053)	(218)	(1,013)
Interest calculated	46	704	109	812
Interest payed	(46)	(704)	(108)	(792)
Changes due to terms of the lease agreement	333	(2,261)	(786)	166
FX movements alltogether	-	-	11	-
Closing balance	**1,014**	**18,769**	**916**	**22,083**

Amounts recognized in profit or loss

	31 Dec 2022 '000 EUR Group	31 Dec 2022 '000 EUR Bank	31 Dec 2021 '000 EUR Group	31 Dec 2021 '000 EUR Bank
Depreciation charge	(44)	1,123	333	1,327
Interest expense on lease liabilities	46	704	109	812
Total	**2**	**1,827**	**442**	**2,139**

26 Investment property

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

	2022 '000 EUR Group	2022 '000 EUR Bank	2021 '000 EUR Group	2021 '000 EUR Bank
Balance at 1 January	**77,877**	**34,726**	**81,879**	**40,891**
Transferred to property and equipment	-	-	(802)	-
Transferred from property and equipment	12,923	-	449	-
Transferred from Non-current assets held for sale	474	364	-	-
Transferred to Non-current assets held for sale	(1,366)	(1,343)	(4,579)	(3,404)
Additions	3,127	2,850	5,112	1,258
Disposals/Sales	(2,427)	(1,525)	(10,733)	(8,612)
Revaluations	1,498	1,186	5,751	4,593
Currency revaluation	1,490	-	800	-
Balance at 31 December	**93,596**	**36,258**	**77,877**	**34,726**

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

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

Rental income and operating expense for the year ended 31 December 2021, the Group:

	Carrying amount '000 EUR	Rental and other income '000 EUR	Operating expenses '000 EUR
Investment property rented out	39,210	1,442	1,049
Investment property held for value appreciation	38,667	-	1,166
Total	**77,877**	**1,442**	**2,215**

Rental income and operating expenses are presented under Other income (Other expenses) in the statements of profit or loss.

All investment properties represent Level 3 fair value hierarchy.

26 Investment property, continued

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

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

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

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

26 Investment property, continued

The following table shows the valuation technique used in measuring fair value of investment property of the Group and significant unobservable inputs used as at 31 December 2021:

Type	Valuation technique	Significant unobservable inputs	Carrying amount `000 EUR
Residential property	Market comparison technique: The fair value was based on results of comparable sales of similar properties	Average price per m2 *	
- Riga		EUR 86 – 2,520	10,266
- Jurmala		EUR 433 – 2,350	6,750
- Other areas in Latvia		EUR 452 – 1,512	1,691
Land	Market comparison technique: The fair value was based on results of comparable sales of similar land plots	Average price per m2 *	
- Riga		EUR 3 – 70	4,610
- Jurmala		EUR 7 – 45	1,267
- Other areas in Latvia		EUR 0.3 – 30	6,176
Commercial property	Market comparison technique: The fair value was based on results of comparable sales of similar properties	Average price per m2 *	
- Riga		EUR 503 – 1,365	12,564
- Other areas in Latvia		EUR 2325 - 3100	3,157
- Belarus		EUR 327	358
- Moscow, Russia		EUR 1,060 - 3,103	15,532
- Riga region	Discounted cash flows technique: The model is based on discounted cash flows from rental income	Rental income per m2 EUR 3.8 - 8.55 Annual discount rate of 6 - 8% Occupancy rate 70 - 95%	1,483
Commercial property - Hotels (Latvia)	Discounted cash flows technique: The model is based on discounted cash flows	Annual discount rate of 7.7-12% Average hotel occupancy 30-85%	5,435
- Port terminal (Ventspils)	Discounted cash flows technique: The model is based on discounted cash flows from transhipment, storage and blending of palm oil products	Rental income from operator for food oils products transhipment and storage. Annual discount rate of EBITDA 10.65%. Capitalization rate 9%.	4,400
Construction site for commercial premises (Riga)	Market comparison technique: The fair value was based on results of comparable sales of similar properties	Average price per m2 EUR 123	4,188
Total			**77,877**

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

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

27 Other assets

	31 Dec 2022 '000 EUR Group	31 Dec '000 EUR Bank	31 Dec '000 EUR Group	31 Dec '000 EUR Bank
Other financial assets				
Cash in transit	746	746	4,616	4,616
Other debtors	2,027	1,003	4,251	2,042
Dividends receivable	-	6,332	-	-
Other	278	10	384	25
Impairment allowance - other debtors	(662)	(370)	(924)	(288)
Other non-financial assets				
Prepayments	1,886	247	1,263	306
Recoverable VAT	50	9	107	-
Deferred expenses	2,768	2,377	3,556	3,286
Accrued income	1,156	580	1,021	813
Other	647	201	1,668	373
	8,896	**11,135**	**15,942**	**11,173**

Analysis of movements in the impairment allowance

	2022 '000 EUR Group	2022 '000 EUR Bank	2021 '000 EUR Group	2021 '000 EUR Bank
Balance at 1 January	**924**	**288**	**974**	**200**
Charge for the year	78	79	310	282
Currency revaluation	27	27	6	5
Disposal of subsidiary	(10)	-	-	-
Recovery	(74)	(19)	(172)	(5)
Written off	(283)	(5)	(194)	(194)
Balance at 31 December	**662**	**370**	**924**	**288**

28 Deposits and balances due to banks

	31 Dec 2022 '000 EUR Group	31 Dec 2022 '000 EUR Bank	31 Dec 2021 '000 EUR Group	31 Dec 2021 '000 EUR Bank
ECB's targeted longer-term refinancing operations	49,811	49,811	49,993	49,993
Vostro demand accounts	1,679	1,679	5,291	5,291
	51,490	**51,490**	**55,284**	**55,284**

TLTRO-III

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

Interest rate by the end of 2021 was -0.5%, and by the end of 2022 was +1.80%. The Bank has met its lending criteria under TLTRO-III conditions, resulting in lower borrowing costs.

Concentration of deposits and balances due to banks

As at 31 December 2022 the Bank and the Group had balances with two clients (two as at 31 December 2021), which exceeded 10 % of total deposits and balances from banks. The gross value of these balances as of 31 December 2022 was EUR 1,032 thousand, EUR 251 thousand accordingly (2021: EUR 3,543 thousand, EUR 1,163 thousand).

29 Current accounts and deposits due to customers

	31 Dec 2022 '000 EUR Group	31 Dec 2022 '000 EUR Bank	31 Dec 2021 '000 EUR Group	31 Dec 2021 '000 EUR Bank
Private companies				
- current accounts	356,018	370,030	434,061	447,724
- term deposits	45,734	45,712	34,328	34,306
Total private companies	**401,752**	**415,742**	**468,389**	**482,030**
Government				
- current accounts	91	91	87	87
- term deposits	1,365	1,365	-	-
Total government	**1,456**	**1,456**	**87**	**87**
Private individuals				
- current accounts	245,229	245,229	241,160	241,160
- term deposits	292,496	289,397	380,640	377,541
Total private individuals	**537,725**	**534,626**	**621,800**	**618,701**
Total current accounts and deposits due to customers	**940,933**	**951,824**	**1,090,276**	**1,100,818**

(a) Concentrations of current accounts and customer deposits

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

(b) Subordinated deposits

As at 31 December 2022 the Bank and the Group had subordinated deposits of EUR 26,127 thousand (2021: EUR 31,040 thousand).

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

Analysis of movements in the subordinated deposits

	'000 EUR Group	'000 EUR Bank
Balance at 31 December 2020	**55,947**	**55,947**
Receipts	1,207	1,207
Repayments	(27,136)	(27,136)
Changes in accrued interest	(284)	(284)
Currency adjustment	1,306	1,306
Balance at 31 December 2021	**31,040**	**31,040**
Receipts	519	519
Repayments	(6,294)	(6,294)
Changes in accrued interest	(53)	(53)
Currency adjustment	916	916
Balance at 31 December 2022	**26,128**	**26,128**

30 Other liabilities and accruals

	31 Dec 2022 '000 EUR Group	31 Dec 2022 '000 EUR Bank	31 Dec 2021 '000 EUR Group	31 Dec 2021 '000 EUR Bank
Other financial liabilities				
Management bonus accrual	6,607	6,607	5,436	5,422
Accounts payable to suppliers	2,520	1,149	2,988	518
Lease liability	1,014	18,769	916	22,083
Accrued liability for quarterly deposit guarantee fund fee	290	290	328	328
Accrued liabilities for Bank of Latvia regulatory levy	115	115	127	127
Dividends payable	6	6	6	6
Cash in transit	6	-	-	-
Other	1,474	171	1,613	102
Other non-financial liabilities				
Accrued liabilities	2,760	2,225	3,077	2,736
Annual leave accrual	2,306	1,268	1,853	1,310
Prepayments	213	95	1,211	218
Deferred income	419	289	490	296
VAT payable	136	-	310	114
Other	1,066	200	1,694	1,104
Other liabilities Total	**18,932**	**31,184**	**20,049**	**34,364**

31 Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities as of 31 December 2022 and 2021.

These taxable and tax-deductible temporary differences, which have no expiry dates, are listed below at their tax affected accumulated values. Deferred tax liability from distributable profit represents potential income tax that would result from the payment of dividends by subsidiary SIA InCREDIT GROUP to shareholders in the future:

The Group

	Assets		Liabilities		Net	
EUR '000	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**
Loans and advances to customers	84	-	-	(26)	84	(26)
Property and equipment	-	85	(41)	(60)	(41)	25
Investment property	441	210	(311)	(492)	130	(282)
Other assets	853	791	(7)	(7)	846	784
Other liabilities	38	38	(526)	(8)	(488)	30
Distributable profit	-	-	(750)	-	(750)	-
Total recognised deferred tax assets/(liabilities)	**1,416**	**1,124**	**(1,635)**	**(593)**	**(219)**	**531**
Recognised deferred tax					**(219)**	**531**

Deferred tax asset and liability arises in subsidiaries of the Group - KI Invest OOO and Rietumu Lizing OOO. The rate of tax applicable for deferred taxes equals tax rates applicable in countries in which subsidiaries operate, as disclosed in Note 15. Deferred tax asset of KI Invest OOO is formed from tax losses, its recovery will depend on the company's ability to make profit in the future.

31 Deferred tax asset and liability, continued

Movement in temporary differences during the year ended 31 December 2022

The Group

	2022 ’000 EUR	2021 ’000 EUR
Balance at 1 January – deferred tax liability	(20)	(126)
Balance at 1 January – deferred tax asset	551	583
Charge to profit for the year	(805)	41
Currency revaluation	55	33
Balance at 31 December	**(219)**	**531**
Deferred tax asset	**531**	**551**
Deferred tax liability	**(750)**	**(20)**

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

32 Share capital and reserves

(a) Issued capital and share premium

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

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

	2022 Number of shares	2022 ’000 EUR	%
A category registered shares			
Companies non-residents			
Boswell (International) Consulting Limited	33,650,918	47,111	33,11%
Companies residents			
SIA “Esterkin Family Investments”	33,660,627	47,125	33,12%
SIA “Suharenko Family Investments”	17,618,202	24,666	17,34%
Other	16,703,953	1,579	1,11%
Private persons		21,807	15,33%
A category registered shares, total	**101,633,700**	**142,288**	**100%**
B category registered shares			
Companies	10,223,780	14,313	
Private persons	8,796,528	12,315	
B category registered shares, total	19,020,308	**26,628**	
Issued capital	**120,654,008**	**168,916**	
Share premium		**52,543**	

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

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

32 Share capital and reserves, continued

The largest shareholders of the Bank as of 31 December 2021:

	2021 Number of shares	2021 '000 EUR	%
A category registered shares			
Companies non-residents			
Boswell (International) Consulting Limited	33,650,918	47,111	33,11%
Companies residents			
SIA "Esterkin Family Investments"	33,660,627	47,125	33,12%
SIA "Suharenko Family Investments"	17,618,202	24,666	17,34%
Other	16,703,953	1,579	1,11%
Private persons		21,807	15,33%
A category registered shares, total	**101,633,700**	**142,288**	**100%**
B category registered shares			
Companies	10,223,780	14,313	
Private persons	8,796,528	12,315	
B category registered shares, total	**19,020,308**	**26,628**	
Issued capital	**120,654,008**	**168,916**	
Share premium		**52,543**	

(b) Dividends

	2022 '000 EUR Group	2022 '000 EUR Bank	2021 '000 EUR Group	2021 '000 EUR Bank
Change from financing cash flows				
Dividends paid to non-controlling interest shareholders	1,470	-	1,470	-
Total changes from financing cash flows	**1,470**	**-**	**1,470**	**-**

(c) Other reserves

Out of all Other reserves those amounting to EUR 23 thousand at the Bank (2021: EUR 23 thousand) and the Group EUR 40 thousand (2021: EUR 40 thousand) mainly represent contributions made by shareholders in previous years. Other reserves cannot be distributed.

(d) Fair value reserve

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

Movements in fair value reserve

Movements in the fair value reserve net of tax for the year ended 31 December 2022 and 2021 are as follows:

	2022 '000 EUR Group	2022 '000 EUR Bank	2021 '000 EUR Group	2021 '000 EUR Bank
Balance at 1 January	**(2,317)**	**(2,317)**	**1,697**	**1,697**
Revaluation during the period	(26,646)	(26,646)	(2,573)	(2,573)
Reclassified to profit or loss	(167)	(167)	(1,441)	(1,441)
Balance at 31 December	**(29,130)**	**(29,130)**	**(2,317)**	**(2,317)**

32 Share capital and reserves, continued

(e) Revaluation reserve

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

	2022 '000 EUR Group	2022 '000 EUR Bank	2021 '000 EUR Group	2021 '000 EUR Bank
Revaluation reserve as at 1 January	**1,840**	**-**	**1,869**	**-**
Transfer to retained earnings	(27)	-	(28)	-
Revaluation of property and equipment	4,922	-	(1)	-
Revaluation reserve as at 31 December	**6,735**	**-**	**1,840**	**-**

33 Cash and cash equivalents

Cash and cash equivalents consist of the following:

	31 Dec 2022 '000 EUR Group	31 Dec 2022 '000 EUR Bank	31 Dec 2021 '000 EUR Group	31 Dec 2021 '000 EUR Bank
Balances due from the Bank of Latvia	247,543	247,543	319,151	319,151
Cash	1,075	1,041	1,450	1,411
	248,618	**248,584**	**320,601**	**320,562**
Demand loans and receivables from banks	34,406	33,757	33,400	32,906
Demand deposits and balances due to banks	(1,679)	(1,679)	(5,291)	(5,291)
Total	**281,345**	**280,662**	**348,710**	**348,177**

34 Commitments and guarantees

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

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

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

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

	31 Dec 2022 '000 EUR Group	31 Dec 2022 '000 EUR Bank	31 Dec 2021 '000 EUR Group	31 Dec 2021 '000 EUR Bank
Contracted amount				
Loan commitments	136,470	177,441	82,159	133,888
Financial guarantees	11,499	11,499	6,057	6,057
Other commitments	150	150	100	100
Total commitments and guarantees	**148,119**	**189,090**	**88,316**	**140,045**
Provisions	(792)	(802)	(113)	(140)
Net exposure	**147,327**	**188,288**	**88,203**	**139,905**

35 Commitments and guarantees, continued

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

The Group, EUR'000

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

The Bank, EUR'000

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

Movements in the provisions for commitments and guarantees, 31 Dec 2021:

The Group, EUR'000

EUR'000	Opening balance, 1 Jan 2021	Origination and acquisition	Repayments and disposals	Changes in credit risk, net	Other adjustments	Closing balance, 31 Dec 2021
Stage 1	191	64	(51)	(108)	3	99
Stage 2	-	16	(17)	15	-	14
Total	**191**	**80**	**(68)**	**(93)**	**3**	**113**

The Bank, EUR'000

EUR'000	Opening balance, 1 Jan 2021	Origination and acquisition	Repayments and disposals	Changes in credit risk, net	Other adjustments	Closing balance, 31 Dec 2021
Stage 1	226	96	(54)	(141)	-	127
Stage 2	-	16	(17)	15	-	14
Stage 3	(1)	-	-	-	-	(1)
Total	**225**	**112**	**(71)**	**(126)**	**-**	**140**

35 Provisions

	31 Dec '000 EUR Group	31 Dec '000 EUR Bank	31 Dec '000 EUR Group	31 Dec '000 EUR Bank
Litigation provisions (Note 36 (b))	30,000	30,000	30,000	30,000
Litigation provisions (Note 4 (f))	2,927	2,927	2,927	2,927
Provisions for commitments and guarantees (Note 34)	792	802	113	140
Total	**33,719**	**33,729**	**33,040**	**33,067**

Movements in the provisions:

EUR'000	2022 '000 EUR Group	2022 '000 EUR Bank	2021 '000 EUR Group	2021 '000 EUR Bank
Balance at 1 January	**34,191**	**33,067**	**34,191**	**34,225**
Increase/(decrease) in litigation provisions (Note 36 (b))	-	-	(4,000)	(4,000)
(Increase)/decrease in litigation provisions (Note 4 (f))	-	-	2,927	2,927
Increase/(decrease) of provisions for commitments and guarantees (Note 34)	(472)	662	(78)	(85)
Balance at 31 December	**33,719**	**33,729**	**33,040**	**33,067**

36 Litigations

(a) Ordinary legal proceedings

In the ordinary course of business, JSC "Rietumu Banka", hereinafter referred as - the Bank is involved in judicial proceedings brought against the Bank by its clients (or former clients) or third persons, in respect of matters such as cancellation or challenge of the transactions or contracts and monetary claims. As of December 31, 2022, there were 6 pending legal proceedings against the Bank, and 8 pending legal proceedings initiated by the Bank (where the Bank is the claimant). The Bank`s subsidiary companies are involved in 4 legal proceedings (in 3 cases the bank`s subsidiary company is the claimant and 1 case is the defendant).

The total amount under all disputes where the Bank is a defendant is EUR 3,000 (as of December 31 2021, the total amount was EUR 297,000).

In two court cases against the Bank as a defendant, in which a final court decision was made in May and July 2022, the Bank has already executed the decisions and made the payments determined by the court in the amount of EUR 35,491. 26 and EUR 21,181.07. Legal procedure in these two cases is finished and cases are closed.

(b) Litigation in France

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

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

On July 6, 2017, the 32nd section of the Paris Criminal Court (first instance court) decided that the Bank was guilty of aggravated money laundering by providing assistance, as a Bank, to placement, concealment or conversion operations of the proceed of an offence.

36 Litigations, continued

The first instance court ordered the Bank to pay a criminal fine of EUR 80 million and damages, jointly and severally with the other defendants in the amount of EUR 10 million to the French State and EUR 100,000 court expenses. In addition, the Bank was ordered to stop any banking activities in France for 5 years. The Bank lodged its appeal against the first instance court judgement on July 12, 2017.

On April 6, 2021 the Paris Court of Appeal has agreed with the Bank's arguments and changed the decision of the first instance court in favour of the Bank. Thereby, a potential fine imposed on the Bank has been reduced by 75% to EUR 20 million. International mass media considered it as the success of the Bank (*Latvian lender Rietumu Banka won a 75% reduction in what was once France's highest criminal fine for a company* – Bloomberg).

The Bank filed a cassation appeal against the decision of the Court of Appeal regarding compensation of EUR 10 million to the French State. Despite motivated and justified cassation complaints on January 5, 2023 the Supreme Court issued the ruling on the dismissal of the cassation appeal of the Bank.

Therefore, the decision of the Paris Court of Appeal to reduce the fine imposed on the Bank by 75% to EUR 20 million remains in force.

Execution of judgment passed in EU member state in Latvia.

Chapter 73 of the Criminal Procedure Law regulates the execution of the ruling made in a European Union member state on the recovery of a financial nature in Latvia. Namely, in order for the judgment passed in an EU member state to be enforceable in Latvia:

1) The French competent authority should address to the Ministry of Justice;

2) The Ministry of Justice, having received a decision on recovery of a financial nature, examines it and, if the documents are sufficient, sends the materials to the court;

3) The court, having received a ruling on recovery of a financial nature and the attached evaluated materials, determines whether the judgment would be enforceable, and decides on recovery of a financial nature to be enforced in Latvia or on the refusal to enforce the relevant ruling.

The exact calculation of the fine will be carried out by the Latvian court, within the framework of the recognition process of the French court judgment in accordance with the applicable legal norms.

Therefore, the fine and compensation must be paid after the adoption of the relevant decision of the Latvian court.

In respect of the joint recovery of EUR 10 million.

The amount of compensation EUR 10 million to be recovered jointly from several convicts.

According to the Latvian regulatory framework, if the Bank pays the entire amount, then later the Bank can demand appropriate compensation from the other jointly liable parties.

Taking into account that the Bank had previously created sufficient savings for the payment of a possible penalty, the outcome of the mentioned criminal case will not affect the future operation and stability of the Bank.

After the adoption of the relevant Latvian court decision in accordance with the procedure specified in Chapter 73 of the Criminal Procedure Law of the Republic of Latvia and entry into force of this decision, the Bank shall pay the sums determined in the decision of Latvian court.

As of December 31, 2022, the total amount of provisions amounted to EUR 30 million (31 December 2021: EUR 30 million) which Bank believes to be the best estimate of the expenditure to be ultimately required to settle the obligation, including fines, damages, procedural expenditure and expected legal expenses.

37 Trust and custody activities

(a) Trust activities

Funds under trust management represent securities and other assets managed and held by the Bank and the Group on behalf of customers accounted for off-balance sheet. The Bank and the Group earn commission income for holding such assets. The Bank and the Group are not subject to interest, credit, liquidity, price and currency risk with respect of these securities in accordance with the agreements concluded with the customers. As at 31 December 2021 the total assets held by the Group and the Bank on behalf of customers and assets under management were EUR 180,312 thousand (2021: EUR 246,587 thousand).

38 Involvement with unconsolidated structured entities

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

	Nature and purpose	Interest held by the Group and the Bank	Carrying amount of interest held 2022	Carrying amount of interest held 2021	Total assets 2022	Total assets 2021
			'000 EUR	'000 EUR	'000 EUR	'000 EUR
Investment funds	To generate fees from managing assets on behalf of third party investors	Investments in units issued by the funds	1,380	1,420	3,601	3,881
Investments in the capital of the entities that relate to loans issued by the Bank and other investments	To minimize the risk of non-repayment of the loan obligations and to controll the repayment of the loans where borrowers fail to fullfil their credit obligations, other investments with the aim of recovering the investment in the future	Investments in the capital of borrowers	388	298	4,793	6,656

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

39 Related party transactions

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

Subsidiary SIA "Vesetas 7" declared a dividend of EUR 6,332 thousand to the Bank in 2022, but the cash payment had not been made in full as at the 31 December 2022.

The Bank '000 EUR	31 Dec 2022 Subsidiaries	31 Dec 2022 Associates	31 Dec 2022 Key management	31 Dec 2022 Shareholders with significant influence over the Bank	31 Dec 2022 Other related parties	31 Dec 2021 Subsidiaries	31 Dec 2021 Associates	31 Dec 2021 Key management	31 Dec 2021 Shareholders with significant influence over the Bank	31 Dec 2021 Other related parties
Loans and receivables due from customers	105,114	23,149	156	-	36,336	120,251	24,271	220	-	27,637
Expected credit losses	(5,359)	(93)	(3)	-	(729)	(2,181)	(49)	(5)	-	(233)
Current accounts and deposits due to customers	14,012	1	15,239	4,763	18,907	14,119	287	14,136	20,362	73,047
Dividends receivable	6,332	-	-	-	-	-	-	-	-	-
Loan commitments	41,066	-	552	-	2,816	51,869	-	440	-	5,060
Provisions	(10)	-	(10)	-	(3)	(27)	-	(8)	-	(3)
Interest income	5,431	1,781	7	-	1,159	6,023	1,261	4	-	967
Interest expense	-	-	(46)	-	(146)	-	-	(353)	-	(474)
Fee and commission income	5	1	22	-	88	18	11	31	-	125
Fee and commission expense	-	-	-	-	229	-	-	-	-	52
Impairment investments in subsidiaries	(55)	-	-	-	-	(2,534)	-	-	-	-
Impairment losses (ECL)	(3,236)	(44)	1	-	(496)	(653)	(49)	(3)	-	(144)
Lease payments	1,737	-	-	-	-	1,740		-	-	-

39 Related party transactions, continued

The Group '000 EUR	**31 Dec 2022** Associates	Key management	Shareholders with significant influence over the Bank	Other related parties	**31 Dec 2021** Associates	Key management	Shareholders with significant influence over the Bank	Other related parties
Loans and receivables due from customers	23,149	156	-	36,336	24,271	220	-	27,637
Expected credit losses	(93)	(3)	-	(729)	(49)	(5)	-	(233)
Current accounts and deposits due to customers	1	18,339	4,763	18,907	287	17,236	20,362	73,047
Loan commitments	-	552	-	2,816	-	440	-	5,060
Provisions	-	(10)	-	(3)	-	(8)	-	(3)
Interest income	1,781	7	-	1,159	1,261	4	-	967
Interest expense	-	(201)	-	(146)	-	(483)	-	(474)
Fee and commission income	1	22	-	88	11	31	-	125
Fee and commission expense	-	-	-	229	-	-	-	52
Impairment losses	(44)	1	-	(496)	(49)	(3)	-	(144)

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

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

	31 Dec 2022 '000 EUR Group	31 Dec 2022 '000 EUR Bank	31 Dec 2021 '000 EUR Group	31 Dec 2021 '000 EUR Bank
Short-term employee benefits				
Members of the Council	878	848	564	537
Members of the Executive Board	1,107	768	1,722	1,046
Payroll related taxes	459	372	546	383
Total	**2,444**	**1,988**	**2,832**	**1,966**

During the year 2022, the Bank received dividends from its subsidiary SIA "InCREDIT GROUP" in the amount of EUR 1,530 thousand (2021: EUR 1,530 thousand) and from AS "Rietumu Asset Management" IPS in the amount of EUR 300 thousand (2021: EUR 176 thousand). From Rietumu Lizing OOO in 2021 in the amount of EUR 919 thousand.

40 Fair value of financial assets

(a) Financial assets measured at fair value

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

The Group

The Group

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

31 Dec 2021	**Level (1)**	**Level (2)**	**Level (3)**	**Total**
Financial assets				
Financial assets at fair value through other comprehensive income	320,012	60,760	28	**380,800**
Financial assets at fair value through profit or loss	1,425	638	6,600	**8,663**
Financial liabilities				
Financial liabilities at fair value through	-	149	-	**149**

The Bank

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

31 Dec 2021	**Level (1)**	**Level (2)**	**Level (3)**	**Total**
Financial assets				
Financial assets at fair value through other comprehensive income	320,012	60,760	28	**380,800**
Financial assets at fair value through profit or loss	1,425	638	6,201	**8,264**
Financial liabilities				
Financial liabilities at fair value through profit or loss	-	149	-	**149**

There were no significant movements between Level 1 and Level 2 financial assets during year 2022 and 2021.

40 Fair value of financial assets, continued

Changes in Fair Value of financial instruments classified as Level 3

	The Group		The Bank	
	FVOCI	FVTPL	FVOCI	FVTPL
	'000 EUR	'000 EUR	'000 EUR	'000 EUR
Balance at 31 December 2020	**160**	**4,946**	**160**	**4,837**
Total gains or losses:				
in profit or loss	-	1,485	-	1,485
in OCI	(138)	-	(138)	-
(Settlements)/Additions	-	168	-	(122)
Currency revaluation result	6	1	6	1
Balance at 31 December 2021	**28**	**6,600**	**28**	**6,201**
Total gains or losses:				
in profit or loss	-	8	-	8
in OCI	-	-	-	-
Change in Fair Value Level	166	-	166	-
(Settlements)/Additions	-	(2,692)	-	(2,737)
Balance at 31 December 2022	**194**	**3,916**	**194**	**3,472**

(b) Financial assets not measured at fair value

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

The Group

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

31 December 2021	**Level 1**	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
	'000 EUR	**'000 EUR**	**'000 EUR**	**'000 EUR**	**'000 EUR**
Financial assets					
Cash and balances due from the Bank of Latvia	-	-	320,601	320,601	320,601
Deposits and balances due from	-	-	33,400	33,400	33,400
Loans and receivables due from customers	-	-	594,655	594,655	595,188
Debt securities at amortised cost	7,367	43,613	14,832	65,812	67,187
Other financial assets	-	-	8,327	8,327	8,327
Financial liabilities					
Due to Bank of Latvia	-	-	49,993	49,993	49,993
Deposits and balances due to banks	-	-	5,291	5,291	5,291
Current accounts and deposits due to customers	-	-	1,086,411	1,086,411	1,090,276
Other financial liabilities	-	-	11,414	11,414	11,414

40 Fair value of financial assets, continued

The Bank

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

31 December 2021	Level 1 '000 EUR	Level 2 '000 EUR	Level 3 '000 EUR	Total fair values '000 EUR	Total carrying amount '000 EUR
Financial assets					
Cash and balances with central bank	-	-	320,562	320,562	320,562
Deposits and balances due from	-	-	32,906	32,906	32,906
Loans and receivables due from customers	-	-	638,413	638,413	638,482
Debt securities at amortised cost	7,367	43,613	14,832	65,812	67,187
Other financial assets	-	-	6,395	6,395	6,395
Financial liabilities				-	
Due to Bank of Latvia	-	-	49,993	49,993	49,993
Deposits and balances due to banks	-	-	5,291	5,291	5,291
Current accounts and deposits due to customers	-	-	1,096,953	1,096,953	1,100,818
Other financial liabilities	-	-	28,586	28,586	28,586

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

41 Non-controlling interest

Non-controlling interest in subsidiaries

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

`000 EUR	SIA "InCREDIT GROUP" 31 Dec 2022	SIA "InCREDIT GROUP" 31 Dec 2021
Percentage of Non-controlling interest	**49%**	**49%**
Loans and advances due from customers	46,385	48,399
Deposits and balances due from	232	178
Other assets	958	542
Deposits and balances due to financial banks	(34,078)	(35,871)
Current accounts and deposits due to customers	(3,100)	(3,100)
Other liabilities	(2,554)	(1,524)
Net assets	**7,843**	**8,624**
Carrying amount of Non-controlling interest	**3,843**	**4,226**
Revenue	11,256	11,206
Profit after tax	2,219	4,013
Total comprehensive income	**2,219**	**4,013**
Profit/(loss) allocated to Non-controlling interest	**1,087**	**1,967**

42 Events after the reporting date

At the beginning of 2023, the international financial sector is witnessing increased volatility due to the continued increase in interest rates by the world's major central banks. These market trends have already led to the insolvency of Silicon Valley Bank (USA) and the takeover of Credit Suisse (Switzerland) by UBS. The Bank's management believes that the structure of its assets and liabilities is sufficiently balanced to ensure a stable flow of income in these market conditions and fully protect the interests of depositors. The Bank continues to be proactive in market operations in order to fully adapt to the new policy of central banks.

On January 5, 2023, the judgment of the Paris Court of Appeal of April 6, 2021 regarding the fine of EUR 20 million and recovery of other expenses entered into legal force. The amount of compensation in the amount of EUR 10 million should be recovered jointly and severally from several persons, including the Bank. The Bank will comply with the judgment of the Paris Court of Appeal of April 6, 2021, after the adoption of the relevant decision by the Latvian court in accordance with the procedures set forth in Chapter 73 of the Criminal Procedure Law of the Republic of Latvia and the entry into force of this decision. Please see Note 36 (b) for more details.

There are no other reportable events after the reporting date.