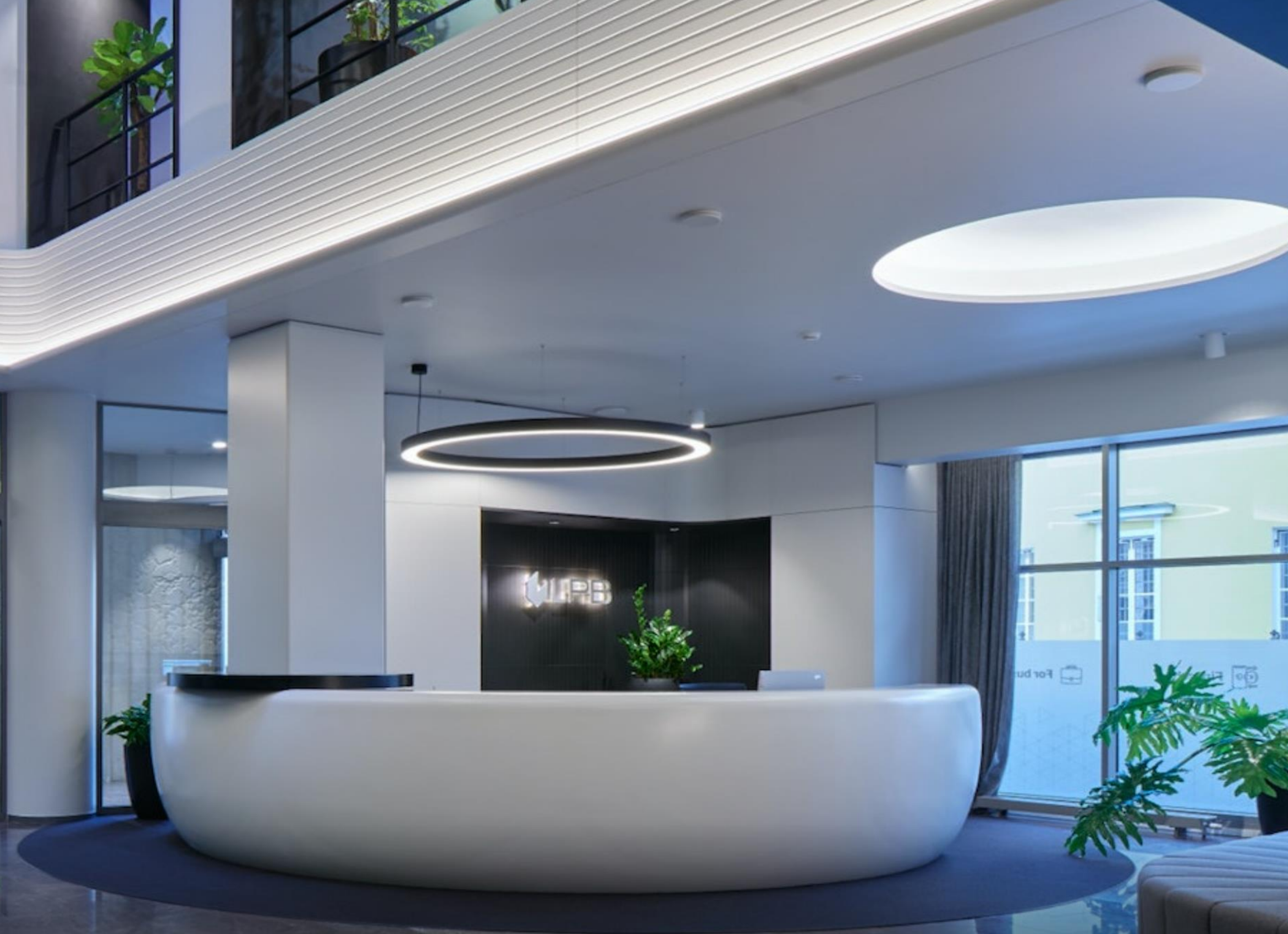

LPB Bank Annual Report

for the year ended 31 December 2023

LPB

CONTENTS

MANAGEMENT REPORT

Dear shareholders, clients and business partners!

Thanks to the precisely defined strategy of LPB Bank (from now on, the Bank), which is focused on servicing FinTech, startups and e-commerce service providers, the Bank is becoming increasingly relevant in the FinTech business community. We are pleased with the growing number of companies deciding to use the Bank's platform for e-commerce services and reorient their business towards online trade. Despite global challenges and uncertainties in business development in various areas, the Bank has adapted its operations to maintain stability and efficiency. In 2023, the Bank made significant investments in technological development to increase online service availability, automate many daily processes, and enhance efficiency. Customer satisfaction is a priority, and the Bank has implemented several initiatives to improve customer experience and attract new clients.

Business Form

The Bank was established as a joint-stock company registered in the Republic of Latvia Enterprise Register on September 12, 2008, with the unified registration No. 50103189561. The Bank's operations are conducted in accordance with the laws of the Republic of Latvia and the license issued by the Bank of Latvia and re-registered on December 20, 2017, No. 06.01.02.01.340/491. The legal address and Central Office of the Bank are located in Riga, Brīvības iela 54, LV-1011. The Bank operates only in Latvia, not conducting operations through a branch or representation abroad.

Financial Performance

At the end of 2023, the Bank's total assets remained stable at 165 million euros compared to the previous year. The year's end saw significant changes in the Bank's asset structure and indicators due to a shareholder change. By the end of 2023, the proportion of the debt securities portfolio in the Bank's assets decreased to 32%, the total volume of loans issued to clients decreased to 21%, while claims against banks, including the Bank of Latvia, increased to 40% of the Bank's total assets.

For the Bank, which is focused on FinTech and e-commerce, the structure of income sources is dominated by commission income, accounting for 55% of overall revenue. Of this, 85% is directly related to e-commerce activities. In contrast, interest income represents 22% of the Bank's revenue, with the largest share, 66%, coming from interest income on client loans. Accordingly, interest income from securities has declined over three years, making up 17% of interest income. Compared to 2021 and 2022, the decrease in these revenues in 2023 was smaller, namely, by 11% or 0.1 million euros.

In 2023, the Bank recorded a profit of 0.423 million euros. The return on assets (ROA) was 0.25[1]%, while the return on equity (ROE) reached 1.29[2]%.

[1] The net profit/losses of the relevant period, dividing this sum up by the average volume of overall assets at the beginning and the end of the period.

[2] The net profit/losses of the relevant period, dividing this sum up by the amount of equity capital at the beginning and the end of the period.

Achievements

In 2023, managing Anti-Money Laundering (AML) and sanctions risks was one of the primary focuses for the Bank. This involved regular collaborations with the Bank's regulatory body and independent external auditors to assess the Bank's compliance and effectiveness in these areas. This assessment included evaluating the efficiency of the Bank's IT systems for managing sanction risks. The Bank significantly improved and enhanced its processes to ensure regulatory compliance.

To enhance its capacity and effectiveness in managing Anti-Money Laundering (AML) and the prevention of terrorism and proliferation financing, the Bank invested in improving its information technology infrastructure, strengthening personnel resources, and enhancing knowledge. To strengthen its team in 2023, the Bank actively recruited leaders specialized in sanction monitoring and quality control. The employees actively engaged in various national and international trainings and seminars.

Additionally, the Bank was actively enhancing its internal regulatory documents and operational compliance to ensure adherence to external regulatory acts and standards governing its activities.

In preparation for the centralized electronic payment information system (CESOP) introduced in Europe in 2024, enabling member states' tax administrations to identify cross-border transactions by foreign sellers more effectively, the Bank began implementing necessary process and technology improvements.

The Bank is actively improving its internal regulatory documents to comply with the European Parliament and Council Regulation 2016/679, which governs the protection of individuals about personal data processing and free movement. The Bank follows best practices in data protection and uses the latest insights and recommendations from the State Data Inspection and the European Data Protection Board.

In 2023, the Bank demonstrated its commitment to sustainability by funding projects that significantly impact the environment and society. We granted a loan for the reconstruction of a tennis club and a loan for constructing a six-story residential building in Ogre, providing modern apartments for 22 families. Furthermore, we took a significant step towards supporting green energy by funding a solar panel park.

The Credit Department actively monitored the impact of *Euribor* on client solvency, reducing loan interest rates for clients based on their applications.

As a new authentication tool, the Bank introduced secure electronic signatures, a significant step in the modernization and technological development of the Bank. Additionally, the Bank expanded the functionality of the *Key2LPB* application, making it available to legal entities.

In 2023, the Bank developed e-commerce technologies and information systems, improving the functionality and design of the *Medoro portal* to enhance the user experience for e-traders.

The Bank's e-commerce professionals participated in the 8-week-long *Visa Payments Management Challenge*, showcasing their skills and innovation capabilities.

In 2023, the Bank representatives attended and participated in several conferences and exhibitions in Europe that brought together professionals from entertainment, digital companies, startups, e-commerce, finance, and other sectors. These included *AW Summit Bucharest, Affiliate Word Conferences Barcelona, Money2020, iFX EXPO Cyprus, TES Affiliate Conferences,* and *SiGMA Europe.*

The Bank doesn't just recognize but is deeply committed to its social responsibility towards the community. It has supported *the European Experimental Science Olympiad* to promote education and student excellence. The Bank also supported the dance collective *Lāčplēsis*, an active participant in *the Song and Dance Festival* and representative of our cultural heritage. The Bank supported the publication of the digital industry report *Fintech Pulse 2023.*

In 2023, the Bank celebrated its 15th anniversary, becoming a trusted partner to its clients, promoting financial stability and success.

The Bank's employees have developed a tradition of participating in sports events, demonstrating team spirit. In 2023, the team successfully participated in two significant events - *Rimi Riga Marathon* and *Toyota Riga Cycling Marathon*.

Furthermore, in 2023, the Bank contributed to public welfare, paying 4.33 million euros in taxes and providing jobs for more than 200 people, indicating the Bank's significant investment in Latvia's economy and society.

In 2023, there were significant changes in the Bank's Board composition. Jurijs Svircenkovs left the Board, and Jefims Gasels joined, responsible for maintaining and developing the Bank's information systems, promoting digitalization progress, and enhancing efficiency. At the end of the year, the Chairman of the Board, Robert Christian Schoepf, left the Board.

In December, following approvals from the Bank of Latvia and the European Central Bank and consent from the Competition Council, the Bank's sole shareholder Mono LLC, completed a transaction selling all its shares to local corporate and investment bank JSC Signet Bank. Following this change of ownership, a new Council was elected at the 11 December 2023. Roberts Idelsons became the Chairman, with Tatjana Drobina as the Deputy Chairman and Nora Pastore and Julia Kozlova as members of the Council.

Priorities for 2024

After becoming part of the JSC Signet Bank group, the Bank will re-focus its strategy on servicing FinTech companies and providing digital solutions to its clients. Key elements of the re-focused strategy are:

- **FinTech as a Priority direction.** Special attention to online payment card acceptance, utilizing *Mastercard Acquiring* and *Visa Acquiring* licenses to provide services to online merchants across Europe through the Bank's processing center.
- **Improving FinTech service quality and introducing new services.** The Bank's strategy includes close collaboration with FinTech industry representatives, including the Bank of Latvia, associations, and individual companies, to understand better changing requirements and challenges and find solutions collaboratively. The Bank is working on various solutions to expand the range of *Banking-as-a-Service (BaaS)* solutions, payment acceptance and remittance methods, developing Open Banking solutions and establishing new partnerships.
- **Providing financing.** The Bank will continue to provide financing solutions to its target customers, focusing on working capital and business development financing.

Additionally, in 2024, the Bank will undergo significant changes, starting a new phase with a new name and brand identity that reflects its vision and commitment to offering modern, innovative, and accessible financial solutions to its clients. The new brand symbolizes the Bank's development and desire to be a leader in financial innovation, promoting a sustainable and customer-oriented approach.

The Board of the Bank recommends leaving the 2023 profit undistributed.

The Bank expresses gratitude to its shareholders, clients, and partners for their ongoing support and trust and to its employees for their enthusiasm, flexibility, and persistent work, which are the foundation of the Bank's success and development.

THE COUNCIL AND THE BOARD

The Council of the Bank as of 31 December 2023

Name, Last name	Position	Date of appointment	Release date
Roberts Idelsons	Chairman of the Council	15/12/2023	
Tatjana Drobina	Deputy Chairman of the Council	15/12/2023	
Jūlija Kozlova	Council Member	14/06/2021	
Nora Pastore	Council Member	15/12/2023	
Biomins Kajems	Chairman of the Council	13/10/2008	15/12/2023
Boriss Ulmans	Deputy Chairman of the Council	14/06/2021	15/12/2023
Jefims Gasels	Council Member	28/04/2022	27/09/2023

The Board of the Bank as of 31 December 2023

Name, Last name	Position	Date of appointment	Release date
Antons Kononovs	Deputy Chairman of the Board, Board Member	03/10/2018	
Baiba Preise	Board Member	29/04/2019	
Alda Odina	Board Member	12/07/2022	
Jefims Gasels	Board Member	27/09/2023	
Robert Christian Schoepf	Chairman of the Board	06/11/2019	18/12/2023
Jurijs Svirčenkovs	Board Member	29/04/2014	31/08/2023

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

Roberts Idelsons
Chairman of the Council

Antons Kononovs
Acting Chairman of the Board

Baiba Preise
Board Member

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STATEMENT OF MANAGEMENT'S RESPONSIBILITY

The management of JSC "LPB Bank" (hereinafter – the Bank) is responsible for the preparation of the Bank's financial statements for each financial year.

In preparing the financial statements set out on pages 9 to 82 for the year ended 31 December 2023, the management has applied appropriate accounting principles that are based on prudent and reasonable judgments and estimates. The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the regulations of the Financial and Capital Markets Commission.

The Bank's management is responsible for maintaining proper accounting records and ensuring compliance with the Regulations of the Financial and Capital Market Commission, law on credit institutions and other legislation. The management is also responsible for taking all reasonable efforts to safeguard the Bank's assets and the prevention and detection of fraud and other irregularities in the Bank. The management's decisions and judgments used in the preparation of these financial statements were prudent and reasonable.

On behalf of the Bank`s management:

Roberts Idelsons	Antons Kononovs	Baiba Preise
Chairman of the Council	Acting Chairman of the Board	Board Member

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STATEMENT OF COMPREHENSIVE INCOME

(All amounts are expressed in thousands of euro (000'EUR))

	Notes	2023	2022
Interest income	3	5 683	3 960
Interest expense	3	(1 020)	(775)
Net interest income	3	**4 663**	**3 185**
Commission and fee income	4	14 531	14 143
Commission and fee expense	4	(8 855)	(9 338)
Net commission and fee income	4	**5 676**	**4 805**
Income from dividends		12	30
Net gain/(loss) on derecognition of financial assets and financial liabilities at fair value through other comprehensive income	6	(1 319)	(252)
Net gain/(loss) on derecognition of financial assets and financial liabilities at fair value through profit or loss	6	276	1 925
Net gain /(loss) on foreign exchange	6	1 981	3 784
Other income	5	410	947
Total operating income		**11 699**	**14 424**
General administrative expenses	7	(12 745)	(12 033)
Recognized impairment allowance for expected credit loss	8	1 750	(1 076)
Result from non-current assets held for sale		(162)	-
Profit before tax		**542**	**1 315**
Corporate income tax	9	(119)	(6)
Net profit for the year		**423**	**1 309**
Profit attributable to to the Bank's shareholders		**423**	**1 309**
Other comprehensive income / (expense)			
Items that may be reclassified subsequently to profit or loss			
Changes in revaluation reserve of debt securities at fair value through other comprehensive income		1 757	(4 253)
Change to income statement as a result of sale of financial assets at fair value through other comprehensive income (debt securities)		1 319	252
Total other comprehensive income / (expense)		**3 076**	**(4 001)**
Total other comprehensive income attributable to the Bank's shareholders		**3 499**	**(2 692)**

The accompanying notes on pages 13 to 82 form an integral part of these financial statements. The Bank's financial statements set out on pages 9 to 82 were approved by the Board on 28 February 2024 and by the Council on 29 February 2024.

Roberts Idelsons	Antons Kononovs	Baiba Preise
Chairman of the Council	Acting Chairman of the Board	Board Member

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STATEMENT OF FINANCIAL POSITION

(All amounts are expressed in thousands of euro (000'EUR))

	Notes	31.12.2023.	31.12.2022.
ASSETS			
Cash and balances with the Bank of Latvia	10	64 576	17 251
Due from credit institutions	11	183	2 557
Financial assets measured at fair value through profit or loss		803	668
Debt securities measured at fair value through other comprehensive income		17 005	47 956
Financial assets measured at amortised cost		73 058	87 664
- *loans and receivables due from customers*	*12*	*36 730*	*46 730*
- *debt securities*	*13*	*35 242*	*40 934*
- *Term deposits with credit institutions*		*1 086*	-
Property, plant and equipment	14	6 216	6 314
Intangible assets	14	663	236
Other assets	15	1 591	2 348
Total assets		**164 095**	**164 994**
LIABILITIES			
Liabilities measured at fair value through profit or loss		-	11
Liabilities measured at amortised cost		127 471	118 415
- *deposits from customers*	*17*	*127 471*	*118 415*
Provisions	18	5	2 439
Other liabilities	19	2 336	13 345
Total liabilities		**129 812**	**134 210**
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK			
Paid-in share capital	20	13 000	13 000
Financial assets measured at fair value through other comprehensive income revaluation reserve	21	(887)	(3 963)
Retained earnings		22 170	21 747
Total equity attributable to equity holders of the Bank		**34 283**	**30 784**
Total equity		**34 283**	**30 784**
Total liabilities and equity		**164 095**	**164 994**
Assets under management and administration	16	**3 038**	**38 970**

The accompanying notes on pages 13 to 82 form an integral part of these financial statements. The Bank's financial statements set out on pages 9 to 82 were approved by the Board on 28 February 2024 and by the Council on 29 February 2024.

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Chairman of the Council	Acting Chairman of the Board	Board Member

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STATEMENT OF CHANGES IN EQUITY

(All amounts are expressed in thousands of euro (000'EUR))

	Paid-in share capital	Financial assets at fair value through other comprehensive income revaluation reserve	Retained earnings	Total
Balance as at 31 December 2021	**13 000**	**38**	**24 904**	**37 942**
Other comprehensive income	-	*(4 001)*	-	*(4 001)*
Net profit for the year	-	-	*1 309*	*1 309*
Total income/(expense for the year	-	(4 001)	1 309	(2 692)
Dividends paid	-	-	(4 466)	(4 466)
Balance as at 31 December 2022	**13 000**	**(3 963)**	**21 747**	**30 784**
Other comprehensive income	-	*3 076*	-	*3 076*
Net profit for the year	-	-	*423*	*423*
Total income/(expense for the year	-	3 076	423	3 499
Balance as at 31 December 2023	**13 000**	**(887)**	**22 170**	**34 283**

The accompanying notes on pages 13 to 82 form an integral part of these financial statements. The Bank's financial statements set out on pages 9 to 82 were approved by the Board on 28 February 2024 and by the Council on 29 February 2024.

Roberts Idelsons
Chairman of the Council

Antons Kononovs
Acting Chairman of the Board

Baiba Preise
Board Member

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STATEMENT OF CASH FLOWS

(All amounts are expressed in thousands of euro (000'EUR))

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	542	1 315
Corporate income tax paid	(119)	(6)
Amortisation and depreciation	510	427
(Decrease) / increase in impairment allowance for financial assets	(1 750)	1 076
Interest income	(4 663)	(3 185)
Increase in cash and cash equivalents from operating activities before changes in assets and liabilities	**(5 480)**	**(373)**
(Increase)/decrease in financial assets at fair value through profit or loss	(135)	567
(Increase) / decrease in loans and receivables	10 359	2 719
(Increase) / decrease in other assets	1 435	1 311
Increase / (decrease) in deposits from customers	9 069	(27 686)
Increase in other liabilities	(13 225)	(3 231)
Change in cash and cash equivalents from operating activities before income tax	**2 023**	**(26 693)**
Interest received	5 887	4 137
Interest paid	(1 033)	(889)
Change in cash and cash equivalents from operating activities	**6 877**	**(23 445)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(839)	(164)
Investments in financial instruments designated at fair value through profit or loss	32 733	1 855
Proceeds in financial instruments designated at fair value through profit or loss	1 267	1 738
Investments in financial assets measured at amortized cost	5 642	(2 005)
Proceeds in financial assets measured at amortized cost	17	158
Dividends paid	-	(4 466)
Change in cash and cash equivalents from investing activities	**38 820**	**(2 884)**
Net cash flows for the year	**45 697**	**(26 329)**
Cash and cash equivalents at the beginning of the year	20 826	46 969
Foreign exchange (loss) / profit	(678)	186
Cash and cash equivalents at the end of the year	**65 845**	**20 826**

The accompanying notes on pages 13 to 82 form an integral part of these financial statements. The Bank's financial statements set out on pages 9 to 82 were approved by the Board on 28 February 2024 and by the Council on 29 February 2024.

Roberts Idelsons	Antons Kononovs	Baiba Preise
Chairman of the Council	Acting Chairman of the Board	Board Member

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NOTE 1 BASIS OF PREPARATION OF FINANCIAL STATEMENTS

(a) Statement of compliance

The Bank’s financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union (“EU”).

Based on Commercial Code of the Republic of Latvia, shareholder meeting has rights and obligations to make decision on approval of financial statements. Shareholder and the Board have rights to amend the financial statements after issue.

(b) Going concern

The accompanying Bank financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (“EU IFRS”), regulations of the Financial and Capital Market Commission and Central Bank of the Republic of Latvia in force as at the reporting date and in accordance with a going bank basis. Having reassessed the main risks, the Management considers it appropriate to adopt going concern basis of accounting in preparing these financial statements, there are no material uncertainties with regard to applying going concern basis of accounting.. The Bank’s management has analysed the Bank’s financial position, availability of financial resources as well as the impact of the financial crisis on the future operations of the Bank. The Bank’s operating strategy is aimed at further development of a bank servicing certain customers and developing customised products and service technologies.

The Bank’s capital adequacy is monitored by the following:

- Analysing the report prepared in accordance with the Bank’s Procedure for Calculating the Minimum Capital Requirements at least on a monthly basis;
- Assessing the capital required to cover all significant risks the Bank is exposed to and the extent of the available capital for a three-year planning period at least once every year and by benchmarking the actual financial performance of the Bank against the target indicators on a monthly basis;
- Analysing the asset quality and estimating the required allowances at least on a quarterly basis.

According to the Bank's Business Recovery Plan, the main recovery measure for capital strengthening is the realization of the Bank's financial instruments measured at fair value through other comprehensive income (FVTOCI).

Having analysed the key risks related to the present and potential economic situation, the development of the banking industry as well as the Bank’s existing and potential human and financial resources, the Bank has selected to pursue the following strategy:

- Priority line of activities is FinTech, in particular the acquiring. The Bank's service is created in accordance with the requirements and standards of MasterCard and Visa. The Bank holds a MasterCard acquiring license for Europe and a Visa acquiring license for Europe, thus the Bank provides and intends to provide services to Internet sellers throughout Europe, in addition to setting up and using own processing center;
- In developing priority actions with FinTech companies, the Bank cooperates and plans to cooperate and offer its services to licensed payment institutions, following the best practices in Customer research;

- Continue expanding provision of its services in Latvia and outside Latvia, developing the communication of the Bank's new Brand and name “LPB Bank” with the core communication message as “Dynamic, innovative and goal-oriented Bank that respects tradition and is a reliable, long-lasting and valuable partner to every Client of the Bank in pursuit of their business objectives”;
- Actively attract potential Clients through classic and digital marketing channels;
- Continue placement of raised funds:
  - in financial instruments;
  - in lending.
- Priority areas of operations – Latvia, EEA countries, NATO member countries, OECD member countries and other countries that do not pose an increased reputational risk to the Bank;
- Financial sustainability, social sustainability and environmental sustainability.

Currently, the Bank continues the ongoing risks management process improvement and automation projects, with adequate staff, technological and financial resources devoted by the management.

At the end of 2023, the Bank concluded an administrative agreement with the Bank of Latvia, which stipulates that the Bank will fulfill several legal obligations related to compliance with the requirements laid down in the laws and regulations governing the prevention of money laundering and terrorism and proliferation financing (ML/TPF) and to the improvement of the internal control system. The administrative agreement with the Bank was concluded on the basis of the findings of the Financial and Capital Market Commission (FCMC) in 2021 and the Bank of Latvia in 2023. Accordingly, the long legal proceedings regarding the results of the 2018 inspection, in which the Bank was fined 2.2 million euro, have ended. As a result of the settlement of two administrative cases, the termination of legal proceedings and the last inspection in 2023, the Bank has paid 2.0 million euro.

The Bank has set a target total capital adequacy ratio for 2023 of at least 16 percent.

(c) Functional and presentation currency

These financial statements are reported in thousands of euro (EUR'000), unless otherwise stated. The functional currency of the Bank is euro (EUR).

(d) Basis of presentation

These financial statements are prepared on a historical cost basis, except for assets and liabilities which are reported at fair value:

- Financial assets at fair value through profit or loss;
- Financial assets at fair value through other comprehensive income.

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

Income and expense are not offset in the financial statements unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Bank.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) New Standards and Interpretations

Changes in accounting policies

Except for the changes below, the Bank has consistently applied the accounting policies to all periods presented in these financial statements.

The following amendments are effective for the period beginning 1 January 2023:

- IFRS 17 Insurance Contracts;
- Disclosure of Accounting Policies (Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements);
- Definition of Accounting Estimates (Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors);
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12 Income Taxes); and
- International Tax Reform – Pillar Two Model Rules (Amendment to IAS 12 Income Taxes) (effective immediately upon the issue of the amendments and retrospectively).

These amendments to various IFRS Accounting Standards are mandatorily effective for reporting periods beginning on or after 1 January 2023. See the applicable notes for further details on how the amendments affected the Bank.

IFRS 17 Insurance Contracts

IFRS 17 was issued by the IASB in 2017 and replaces IFRS 4 for annual reporting period beginning on or after 1 January 2023.
IFRS 17 introduces an internationally consistent approach to the accounting for insurance contracts. Prior to IFRS 17, significant diversity has existed worldwide relating to the accounting for and disclosure of insurance contracts, with IFRS 4 permitting many previous accounting approaches to be followed.
Since IFRS 17 applies to all insurance contracts issued by an entity (with limited scope exclusions), its adoption may have an effect on non-insurers such as A Layout Group. The Bank carried out an assessment of its contracts and operations and concluded that the adoption of IFRS 17 has had no effect on the annual consolidated financial statements of the Bank.

Disclosure of Accounting Policies (Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements)

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2. The amendments aim to make accounting policy disclosures more informative by replacing the requirement to disclose ‘significant accounting policies’ with ‘material accounting policy information’. The amendments also provide guidance under what circumstance, the accounting policy information is likely to be considered material and therefore requiring disclosure.

These amendments have no effect on the measurement or presentation of any items in the Consolidated financial statements of the Bank but affect the disclosure of accounting policies of the Bank.

Definition of Accounting Estimates (Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors)

The amendments to IAS 8, which added the definition of accounting estimates, clarify that the effects of a change in an input or measurement technique are changes in accounting estimates, unless resulting from the correction of prior period errors. These amendments clarify how entities make the distinction between changes in accounting estimate, changes in accounting policy and prior period errors.
These amendments had no effect on the consolidated financial statements of the Bank.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12 Income Taxes)

In May 2021, the IASB issued amendments to IAS 12, which clarify whether the initial recognition exemption applies to certain transactions that result in both an asset and a liability being recognised simultaneously (e.g. a lease in the scope of IFRS 16). The amendments introduce an additional criterion for the initial recognition exemption, whereby the exemption does not apply to the initial recognition of an asset or liability which at the time of the transaction, gives rise to equal taxable and deductible temporary differences.
These amendments had no effect on the annual consolidated financial statements of the Bank.

International Tax Reform – Pillar Two Model Rules (Amendment to IAS 12 Income Taxes)

In December 2021, the Organisation for Economic Co-operation and Development (OECD) released a draft legislative framework for a global minimum tax that is expected to be used by individual jurisdictions. The goal of the framework is to reduce the shifting of profit from one jurisdiction to another in order to reduce global tax obligations in corporate structures. In March 2022, the OECD released detailed technical guidance on Pillar Two of the rules.
Stakeholders raised concerns with the IASB about the potential implications on income tax accounting, especially accounting for deferred taxes, arising from the Pillar Two model rules. The IASB issued the final Amendments (the Amendments) International Tax Reform – Pillar Two Model Rules, in response to stakeholder concerns on 23 May 2023.
The Amendments introduce a mandatory exception to entities from the recognition and disclosure of information about deferred tax assets and liabilities related to Pillar Two model rules. The exception is effective immediately and retrospectively. The Amendments also provide for additional disclosure requirements with respect to an entity’s exposure to Pillar Two income taxes.

Management of A Layout has determined that the Bank is not within the scope of OECD’s Pillar Two Model Rules and the exception to the recognition and disclosure of information about deferred tax assets and liabilities related to Pillar Two income taxes is not applicable to the Bank.

New standards and interpretations not yet adopted

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Bank has decided not to adopt early.

The following amendments are effective for the period beginning 1 January 2024:

- Liability in a Sale and Leaseback (Amendments to IFRS 16 Leases);
- Classification of Liabilities as Current or Non-Current (Amendments to IAS 1 Presentation of Financial Statements);
- Non-current Liabilities with Covenants (Amendments to IAS 1 Presentation of Financial Statements); and
- Supplier Finance Arrangements (Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures)

The following amendments are effective for the period beginning 1 January 2025:

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

The Bank is currently assessing the impact of these new accounting standards and amendments. The Bank does not believe that the amendments to IAS 1 will have a significant impact on the classification of its liabilities, as the conversion feature in its convertible debt instruments is classified as an equity instrument and therefore, does not affect the classification of its convertible debt as a non-current liability. The Bank does not expect any other standards issued by the IASB, but are yet to be effective, to have a material impact on the Bank financial statement.

(b) Significant accounting judgments and estimates

In the process of applying the Bank's accounting policies, management has exercised judgment and estimates in determining the amounts recognised in the financial statements. The most significant judgments and estimates used are as follows:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs.

Impairment losses

The Bank makes accumulations for financial assets, which are debt instruments, as well as for off-balance sheet liabilities with credit risk. The purpose of the developed model is to predict the probability of the expected loan default as accurately as possible in order to make corresponding accumulations in the appropriate amount.

The loan default probability is calculated in two stages. In the first stage, it is considered that for the loans with monthly repayments, the delay or non-delay in repaying the loan in the following month depends only on the delay or non-delay in repaying the loan in the current month. Respectively, the future repayment of the loan depends only on the present repayment of the loan. In the second stage, when the probability of default of the loan is determined, its value is adjusted according to the macroeconomic forecast.
For determination of the probability of default of the financial instruments and financial institutions where the Bank's funds are placed and the part of the financial asset lost there, financial indicator information is used for each financial instrument and its issuer. As well as long-term statistical information on financial instruments with similar indicators, migration of their ratings (deterioration or improvement of indicators) and probability of their default.

(c) Foreign currency translation

Transactions and balances

Transactions in foreign currencies are recorded in euro at the functional currency rate of exchange ruling at the date of the transaction set by the European Central Bank. Monetary assets and liabilities denominated in foreign currencies are translated into euro at the official rate of exchange set by the European Central Bank prevailing at the end of the year.

All realised gains and losses are taken to the statement of comprehensive income in the period when incurred. Unrealised gains and losses resulting from the revaluation of assets and liabilities are included in the statement of comprehensive income applying the exchange rates prevailing at the reporting date.
The principal year-end rates of exchange (amount of foreign currency to one EUR) used in the preparation of these financial statements are as follows:

European Central Bank official exchange rate		
	31 December 2023	31 December 2022
USD	1.10500	1.06660
GBP	0.86905	0.88693
PLN	4.33950	4.68080

(d) Financial assets and liabilities

Recognition and derecognition of financial assets

Financial assets are recognised in the statement of financial position when, and only when, the Bank becomes a party to the contractual provisions of the instrument. All regular way purchases and sales of financial assets are recognized in the statement of financial position on the settlement date representing the date when the financial asset is delivered. In the period between the dates of transaction and settlement, the Bank accounts for the changes in the fair value of the received or transferred asset based on the same principles as used for any other acquired asset of the respective category. A financial asset is derecognised only when the contractual rights to receive cash flows from the asset have expired, or the Bank has transferred the financial asset and substantially all the risks and rewards of the asset to the counterparty.

All purchases and sales of financial assets, except for loans issued to non-bank customers, are recognised and derecognised on the settlement date. Loans to non-bank customers are recognised in the statement of financial position when cash is transferred to the customer's current account. Change in value of assets between the trading date and settlement date are recognised in the statement of comprehensive income.

Classification of financial instruments

All financial instruments upon initial recognition are classified into one of the following categories:

- Financial assets and liabilities measured at fair value through profit or loss;
- Financial assets and liabilities measured at fair value through other comprehensive income;
- Financial assets and liabilities measured at amortised cost.

The basis for classification is both business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. At acquisition the applicable classification is evaluated based on the guidelines established by the Bank. For financial asset classification in particular category, the Bank at inception has to determine whetherthe asset meets the relevant business model and contractual cash flow criteria.

Financial instruments measured at fair value through other comprehensive income

The Bank acquires securities evaluated at fair value through other comprehensive income for the purpose of holding these assets in order to receive principal amounts and interest and to sell them. This portfolio includes fixed income debt securities.

The securities evaluated at fair value through other comprehensive income are initially accounted at their fair value, including direct transaction costs, and are subsequently revalued at fair value. The result of revaluation is recognised in the statement of comprehensive income, except for foreign currency profit and losses.

For the securities evaluated at fair value through other comprehensive income that have been acquired at a discount (premium), the discount (premium) amount is gradually amortised using the effective interest rate. Amortisation amounts are included in the statement of comprehensive income as interest income/(expenses) on debt securities.

Profit or losses arising from the alienation of the securities evaluated at fair value through other comprehensive income and the fair value revaluation reserve accumulated until alienation are included in the item "Net realised profit (losses) on financial instrument trading transaction" of the statement of comprehensive income.

Financial assets evaluated at amortised acquisition cost (excluding loans and receivables)

Investment securities evaluated at amortised acquisition cost include non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Bank has the intention and ability to hold to maturity and which, by definition, are not loans and receivables. Financial assets evaluated at amortised acquisition cost include debt financial instruments. Financial assets evaluated at amortised acquisition cost are accounted at amortised cost using the effective interest rate method, taking into account impairment.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans are carried at amortised cost using the effective interest method. The amortised cost of a loan is the amount at the issue of the loan minus principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between the initial amount and the maturity amount, and minus any reduction for impairment or uncollectability.

Finance leases (Bank as a lessor)

For reporting purposes, finance lease receivables are carried as loans and receivables.

Finance lease receivables are recognised as assets at the commencement of the lease term at an amount equal at the inception of the lease to the net investment in the lease. Finance income is recognised over the lease term to produce a constant periodic return on the net investments outstanding in respect of finance leases.

Financial liabilities

Financial instruments carried as deposits from customers, subordinated debt and other financial liabilities are classified as financial liabilities at amortised cost.
After initial measurement, financial liabilities are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount on issue and fees that are an integral part of the effective interest rate. The amortisation is included in interest expense in the statement of comprehensive income.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in profit or loss.

Impairment of financial assets and expected credit loss

The Bank's impairment requirements are based on an expected credit loss model. Expected credit loss calculations do not represent the losses that the Bank may suffer in a single scenario, but represent a probability weighted loss in a number of reasonably possible scenarios including a normal repayment scenario. Expected credit losses depends on whether the credit risk has increased significantly since initial recognition.

Expected credit losses are measured on either of the following bases:

- 12-month expected credit loss that result from possible default events within the 12 months after the reporting date; and
- Lifetime expected credit loss that result from all possible default events over the expected life of a financial instrument.

The Bank performs an assessment at the end of each reporting period of whether the 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. Financial assets are valued in three stages:

- Stage 1 classifies financial assets whose credit risk has not increased significantly compared to initial recognition;
- Stage 2 classifies financial assets whose credit risk has increased significantly compared to initial recognition but which do not show signs of default;
- Stage 3 classifies financial assets that has identified signs of default.

For additional information on the characteristics of significant credit risk and the characteristics of default, see the section "Credit quality of financial assets" in Annex 24.

The amount of impairment for the expected amount of credit losses is determined as a product of PD, LGD and EAD parameters, where:

- **PD** (probability of default) — expected probability of default;
- **LGD** (loss given default) — the percentage of the loss asset if the borrower is unable to meet the obligations;
- **EAD** (exposure at default) — expected exposure in the event of a default.

The amount of the expected probability of default value depends on the quality stage of the financial asset, where:

- For stage 1 assets, loss allowance equals the 12 month expected credit loss, that is a possible loss if the issuer defaults within the next 12 months;
- For stage 2 assets, loss allowance equals the lifetime expected credit losses;
- For stage 3 assets, the Bank applies 100% probability of expected default.

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. When determining the probability of default of borrowers, the Bank takes into account the relevant macroeconomic forecasts.

Calculation of net present value of projected future cash flows for financial assets secured with collateral takes into account cash flows from repossession of collateral less cost of repossession and sale, for discounting using the finanacial asset`s original effective interest rate. For financial assets for which the Bank does not have sufficient information on the amount of collateral or the Bank does not require collateral (e.g. claims against banks on demand) to determine the amount of expected credit losses, the Bank considers that such financial asset is uncollateralised, that means the LGD or loss asset in percentage is 100%.

The carrying amount of the asset is reduced using an allowance account, and the decrease or increase of allowances is taken to the statement of comprehensive income for the reporting year. When there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank financial assets balance together with the associated allowance are written off, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Fair value of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. To determine the fair value of financial assets and liabilities, the Bank uses quoted market prices, ratings assigned by independent rating agencies, or relevant valuation techniques. Where quoted prices are not readily available, fair values are determined by using alternative pricing models considering that fair value is not the amount that the Bank would receive or pay in a forced transaction, involuntary liquidation or distress sale. These models are based on the discounted cash flow analysis where relevant cash flows from the respective financial assets are measured and discounted at interest rates applicable to a certain category of assets.

(e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment charges, if any is recognised. No depreciation is calculated for land. For other fixed assets and intangible assets that have a limited life, the cost is reduced by accumulated depreciation calculated based on the asset useful lives, using the straight-line method.

Depreciation is calculated using the straight-line method applying the following rates:

Property, plant and equipment	
Buildings	2 %
Computers and equipment	33 %
Mobile phone, Tablets	50 %
Vehicles	20 %
Other property, plant and equipment	10-20 %

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset is calculated as the difference between the net disposal proceeds and the carrying amount of the item at the disposal date and is included in the statement of comprehensive income.

(f) Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance (licences, software that is not an integral part of the related hardware, etc.) held for supply of services or otherwise and are recognised as such when it is probable that the expected economic benefits that are attributable to the asset will flow to the Bank.

Intangible assets are stated at cost less accumulated amortisation and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation is included in the statement of comprehensive income on a straight-line basis over the useful life of the asset. The useful life of each asset is estimated on an individual basis, considering the contractual provisions and/or the period in which the asset's future economic benefits are expected to be consumed by the Bank.

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

The amortisation rates by categories of assets are as follows:

Intangible assets	
Licences	10 %
Software	33 %

(g) Impairment of non-financial assets

The Bank assesses at each reporting date whether there is an indication that non-financial assets (except for the deferred tax asset) may be impaired. If any such indication exists, the Bank makes an estimate of the asset’s recoverable amount. The recoverable amount is the higher of an asset`s fair value less costs of disposal and value in use. An impairment loss is recognised when the carrying amount of an asset exceeds its recoverable amount. Impairment losses are taken to the statement of comprehensive income.

(h) Recognition of income and expense

For all interest bearing financial assets and financial liabilities, interest income or expense is recorded in the statement of comprehensive income by using the effective interest rate (EIR), which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument. The calculation takes into account all contractual terms of the financial instrument (for example, prepayments, maturity and other options), but not future credit losses.

Interest income and expense include the amortisation of any difference between the cost of interest-bearing financial assets or liabilities and their maturity amount calculated applying the effective interest rate method (discount, premium, etc.).

Interest income comprises coupons earned from debt securities of the Bank’s portfolio.

Accumulated interest income and income from impaired financial assets are included in the statement of comprehensive income unless the Bank has objective evidence that payments will not be received in the due term. Once the recorded value of a financial asset has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Commission and fee income from customers is usually recognised on an accrual basis as the service is supplied based on each particular situation, or on a certain performance.

Fees earned for the provision of services over a period of time are accrued over that period and taken to income. These fees include account servicing, asset management, commission from payment card transactions, etc. Loan related fees are taken to income on a systematic basis over the period of the loan. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight-line basis. Fees that are due for the provision of certain services are taken to income on completion of the respective service.

Income and expense attributable to the reporting period are taken to the statement of comprehensive income regardless of the receipt or payment date.

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash and amounts due from central banks and other credit institutions, and amount due to other credit institutions on demand and with an original maturity of three months or less. The statement of cash flows reports cash flows during the period classified by operating, investing and financing activities.

Cash flows from operating activities are reported using the indirect method. Cash flows from investing and financing activities are presented based cash payments for the year.

(j) Taxation

The Enterprise Income Tax Law which entered into force on January 1, 2018, provides for that the tax in the amount of 20 per cent should be paid at the time when profit is disbursed, rather than when it is recognised, and it is calculated as 0.2 / 0.8 of the net amount of dividends calculated. Moreover, separate expenditure and loans to related persons for tax purposes are considered as dividends (for example, expenditure not related to economic activity and representation expenditure which do not exceed definite limit, per cent expenditure above the limit, etc.).

Several Transitional Provisions of the Enterprise Income Tax Law provide for that the new EIT provisions do not refer to the dividends disbursed from the retained profit of the previous tax period, and these rights have no time limit.

Changes in the Enterprice Income Tax Law which entered into force on January 1, 2024, stipulate that credit institutions pay an advance of the enterprise income tax in the reporting year, which is calculated from the audited profit of the pre-reporting year.

(k) Off-balance sheet financial commitments and contingent liabilities

In the ordinary course of business, the Bank is involved with off-balance sheet financial commitments and contingent liabilities comprising commitments to extend loans and receivables to customers, commitments for unutilised credit lines or credit card limits, and financial guarantees.

Commitments to extend loans and receivables and commitments for unutilised credit lines or credit card limits represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiration dates or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

Provisions are recognised when the Bank has a present obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement.

(l) Trust activities

Funds managed by the Bank on behalf of individuals, corporate customers, trusts and other institutions are not regarded as assets of the Bank and, therefore, are not separately included in the statement of financial position. Funds under trust management are presented in these financial statements only for disclosure purposes. The Bank does not assume any control, risks and rights with regard to the assets and liabilities under trust management.

(m) Dividends

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank’s shareholders. Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

(n) Employee benefits

The Bank pays State compulsory social security contributions for state pension insurance and to the state funded pension scheme in accordance with Latvian legislation. State funded pension scheme is a defined contribution plan under which the Bank pays fixed contributions determined by the law and it will have no legal or constructive obligations to pay further contributions if the state pension insurance system or state funded pension scheme are not able to settle their liabilities to employees. According to the rulings of the Cabinet of Ministers of the Republic of Latvia 72% (2022: 72%) of the social security contributions are used to finance state funded pension scheme.

Short-term employee benefits, including salaries and state compulsory social security contributions, bonuses and paid vacation benefits, are included in Administrative expenses on an accrual basis.

(o) Reclassification of comparable figures

When preparing the financial statement for the 2023 financial year, the Bank changed the reflection of provisions and other liability transactions in the financial statement for December 31, 2022.

In October 2018, the Council of the Bank of Latvia imposed a fine of 2.2 million euro on the Bank for violations of the requirements of laws and regulations governing the prevention of money laundering and terrorism financing. The Bank did not agree with the decision and until 2023 was active in long legal proceedings regarding the results of the 2018 inspection.

Fine of 2.2 million euro was recognized in the balance sheet as other liabilities, but in accordance with the requirements of International Accounting Standards (“IAS”) 37 (“Provisions, Contingent Liabilities and Contingent Assets”) when there is some uncertainty regarding the timing of potential payments or amount, the liability should be recognized as a provision.

Accordingly, in the 2023 financial statement, the Bank has reclassified the comparable figures. The reclassification has no impact on the Bank's Statement of Comprehensive Income.

Statement of financial position – liabilities.

Statement of financial position - liabilities	Balance 31.12.2022. in the report for 2022	Reclassi-fication	Balance 31.12.2022. after reclassification
Liabilities			
Provisions: Provisions for fines in accordance with the decision of the Bank of Latvia (Note 18)	-	2 205	2 205
Other obligations: Other obligations in accordance with the decision of the Bank of Latvia (Note 19)	2 205	(2 205)	-
Total liabilities, capital and reserves	**164 994**	**-**	**164 994**

NOTE 3 NET INTEREST INCOME

	2023	2022
Interest income calculated using the effective interest method		
Interest income on financial assets at amortized cost:	4 276	3 254
Balances due from financial institutions	*101*	*73*
Loans and advances due from customers	*3 749*	*2 747*
Incl. impaired loans	*1 164*	*817*
Debt securities	*426*	*434*
Interest income on debt securities at fair value through profit or loss in other comprehensive income	*516*	629
Due from Central Bank of Latvia	*891*	77
Total interest income:	**5 683**	**3 960**
Interest expense		
Interest expense recognised on liabilities measured at amortised cost	**(838)**	(442)
Current accounts and deposits due to customers	*(838)*	*(442)*
Payments to the Deposit Guarantee Fund	(179)	(196)
Other interest expense	(3)	(137)
Total interest expense:	**(1 020)**	**(775)**
Net interest income	**4 663**	**3 185**

NOTE 4 NET COMMISSION AND FEE INCOME

	2023	2022
Commission and fee income		
Service fee of electronic commerce and payment card transactions	12 943	12 366
Service fee for account maintenance and cash transactions	1 478	1 481
Asset management	26	132
Brokerage services	19	28
Other bank transactions	65	136
Total commission and fee income:	**14 531**	**14 143**
Commission and fee expense		
Service fee of electronic commerce and payment card transactions	(8 616)	(9 029)
Agents commission	(79)	(126)
Brokerage services	(91)	(113)
Correspondent banking services	(68)	(67)
Other bank transactions	(1)	(3)
Total commission and fee expense:	**(8 855)**	**(9 338)**
Net commission and fee income	**5 676**	**4 805**

NOTE 5 OTHER INCOME AND EXPENSE

	2023	2022
Other income		
Penalties collected	157	679
Incl. past due loan payments	*57*	*111*
Income from the reduction of accrued fines	157	-
Other income	96	268
Total other income	**410**	**947**

NOTE 6 NET INCOME FROM FINANCIAL INSTRUMENTS

	2023	2022
Net gain/(loss) on financial assets at fair value through profit or loss	276	1 925
Incl. net trading gain	*114*	*2 601*
net revaluation result	*162*	*(676)*
Net gain from transactions with other currency	1 981	3 784
Incl. net trading gain	*2 659*	*3 598*
net revaluation result	*(678)*	*186*
Net gain/(loss) on financial assets not at fair value through profit or loss	(1 319)	(252)
Incl. from fair value through other comprehensive income debts	*(1 319)*	*(252)*
Net trading gain	**938**	**5 457**

NOTE 7 ADMINISTRATIVE EXPENSE

	2023	2022
Remuneration expense		
Remuneration to personnel	6 519	6 677
State compulsory social security contributions of personnel	1 530	1 569
Remuneration to the Council and the Board	417	380
State compulsory social security contributions of the Council and the Board	100	81
Total remuneration expense:	**8 566**	**8 707**
Electronic commerce and payment card servicing expenses	1 030	1 058
Depreciation and amortization	510	427
Advertising and representation expense	308	288
Lease and maintenance of premises	393	273
Non-deductible input tax	381	258
Software maintenance	490	248
Professional and legal fees	615	235
Other personnel expense	239	177
Telephone, communications and mail	112	111
Donations	3	7
Penalties paid	8	4
Other administrative expense	90	240
Total other expense:	**4 179**	**3 326**
Administrative expense	**12 745**	**12 033**

As of 31 December 2023, the Bank had 208 employees (2022: 216 employees).

Number of employees of the Bank at the year end:

	31.12.2023.	31.12.2022.
Management	4	5
Heads of divisions and departments	51	49
Other personnel	155	162
Total at the end of the year	**210**	**216**

Payment for the audit and other services to various certified audit firms is included in administrative expenses. Total amounts paid to certified audit firms by the type of services are:

	2023	2022
Services received from the company auditing these financial statements:		
Financial year audit fee	59	55
Other payments for non-audit services	41	9

NOTE 8 IMPAIRMENT FOR EXPECTED CREDIT LOSSES

a) Total net asset impairment allowance included in statement of income:

	2023	2022
Loans and advances due from customers	795	6
Debt securities	148	(16)
Balances due from financial institutions and bank's	807	(1 066)
Total impairment allowance charged to income statement, net	**1 750**	**(1 076)**

b) Changes financial and other asset impairment allowance:

31.12.2023.

	Increases in origination and acquisition	Decreases in derecognition and repayments	Total net impairment charge
Stage 1			
Debt securities	(132)	197	65
Loans and advances due from customers	(76)	58	(18)
Balances due from financial institutions and bank's	(103)	115	12
Total stage 1 impairment	**(311)**	**370**	**59**
Stage 2			
Debt securities	(9)	92	83
Loans and advances due from customers	(27)	27	-
Balances due from financial institutions and bank's	(8)	797	789
Total stage 2 impairment	**(44)**	**916**	**872**
Stage 3			
Loans and advances due from customers	(2 171)	2 984	813
Balances due from financial institutions and bank's	(16)	22	6
Total stage 3 impairment	**(2 187)**	**3 006**	**819**
Total allowances for credit losses recognised in profit or loss, net	**(2 542)**	**4 292**	**1 750**

31.12.2022.

	Increases in origination and acquisition	Decreases in derecognition and repayments	Total net impairment charge
Stage 1			
Debt securities	(367)	338	(29)
Loans and advances due from customers	(107)	78	(29)
Balances due from financial institutions and bank's	(1 114)	48	(1 066)
Total stage 1 impairment	**(1 588)**	**464**	**(1 124)**
Stage 2			
Debt securities	(1 156)	1 169	13
Loans and advances due from customers	(86)	118	32
Total stage 2 impairment	**(1 242)**	**1 287**	**45**
Stage 3			
Loans and advances due from customers	(4 649)	4 652	3
Balances due from financial institutions and bank's	(312)	312	-
Total stage 3 impairment	**(4 961)**	**4 964**	**3**
Total allowances for credit losses recognised in profit or loss, net	**(7 791)**	**6 715**	**(1 076)**

NOTE 9 CORPORATE INCOME TAX

The tax paid in 2023 and 2022 was formed as follows:

	2023	2022
Conditionally distributed profit in the reporting period	**48**	**26**
including non-operating expenses	33	26
including write-off of receivables	15	-
Taxable base	**60**	**32**
Tax on payments for residents of low-tax countries, if no tax was withheld at the time of payment	**1**	**-**
Corporate income tax calculated and paid in the reporting year	**13**	**6**
Accumulated for advance payment of corporate income tax	106	-
Total corporate income tax	**119**	**6**

The corporate income tax is payable only for certain expenses which for tax calculation purposes are considered to be the distribution of profit (for example, non-operating expenses and representation expenses that exceed a specific threshold).

NOTE 10 CASH AND BALANCES WITH THE BANK OF LATVIA

	31.12.2023.	31.12.2022.
Cash	1 096	1 451
Balances with the Bank of Latvia	63 480	15 800
Total	**64 576**	**17 251**

Balances with the Bank of Latvia include cash on the correspondent account and a short-term deposit with the Bank of Latvia. According to the instructions of the Bank of Latvia, the Bank's average monthly balance on its correspondent account may not be less than the compulsory reserve calculated for the balance of liabilities included in the reserve basis on the last day of the month. As at 31 December 2023, the Bank's compulsory reserve requirement was 1 148 thousand EUR (31 December 2022: EUR 1 101 thousand).

NOTE 11 DUE FROM CREDIT INSTITUTIONS

	31.12.2023.	31.12.2022.
Nostro accounts not impaired or past due	**183**	**386**
OECD banks	177	379
Non-OECD banks	6	7
Impaired Nostro accounts	**-**	**2 171**
OECD banks	**-**	2 171
Incl. impairment	**-**	*1 017*
Net due from credit instituions	**183**	**2 557**

The Bank's average interest rates applicable for the balances due from credit institutions in 2023 are as follows: EUR 3.973%, USD 3.578%. (2022: EUR 1.123%).

NOTE 12 LOANS AND ADVANCES DUE FROM NON-BANKS

(a) Loans and advances due from non-banks by customer profile

	31.12.2023.	31.12.2022.
Private non-financial companies	25 484	37 740
Financial institutions	5 116	5 780
Households	6 340	7 383
Total loans	**36 940**	**50 903**
Impairment	*(210)*	*(4 173)*
Net loans	**36 730**	**46 730**

The Loan portfolio decreased in 2023 mainly as a result of the unplanned early repayment of loans and loan cession.

(b) The ratio of Loans and advances due from non-banks fair value against the carrying value of assets

	31.12.2023.				31.12.2022.			
	LTV < 100%		LTV ≥ 100% and unsecured		LTV < 100%		LTV ≥ 100% and unsecured	
	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral
Busines loans	557	3 216	133	107	3 037	11 380	463	202
Consumer loans	246	701	318	-	284	693	371	-
Mortage loans	20 866	53 551	-	-	20 302	58 203	3 219	3 024
Other deposits with financial institutions	-	-	3 540	-	-	-	3 483	-
Other	11 226	31 022	54	-	19 721	50 426	23	-
Loans and advances due from non-banks	32 895	88 490	4 045	107	43 344	120 702	7 559	3 226
Impairment allowance	(135)	x	(75)	x	(1 611)	x	(2 562)	x
Loans and advances due from customers, net	32 760	88 490	3 970	107	41 733	120 702	4 997	3 226

(c) the types of credit collateral and its geography

31.12.2023.

	Loans and advances due from non-banks	Estimated fair value of collateral by type of collateral				Estimated fair value of the collateral
		Real estate	Financial Instru-ments	Money and deposits	Another type of collateral	
Total:	**36 730**	**86 961**	**-**	**51**	**1 585**	**88 597**
Business loans	**601**	**2 664**	**-**	**-**	**659**	**3 323**
Latvia		2 664	-	-	659	**3 323**
Consumer loans	**524**	**691**	**-**	**10**	**-**	**701**
Latvia		691	-	10	-	**701**
Mortgage loans	**20 791**	**52 942**	**-**	**5**	**604**	**53 551**
Latvia		52 942	-	5	604	**53 551**
Other deposits with financial institutions	**3 540**	**-**	**-**	**-**	**-**	**-**
Other	**11 274**	**30 664**	**-**	**36**	**322**	**31 022**
Latvia		30 664	-	36	322	**31 022**

31.12.2022.

	Loans and advances due from non-banks	Estimated fair value of collateral by type of collateral				Estimated fair value of the collateral
		Real estate	Financial Instru-ments	Money and deposits	Another[1] type of collateral	
Total:	**46 730**	**113 491**	**-**	**80**	**10 357**	**123 928**
Business loans	**3 039**	**9 983**	**-**	**-**	**1 599**	**11 582**
Latvia		9 983	-	-	1 599	**11 582**
Consumer loans	**624**	**683**	**-**	**10**	**-**	**693**
Latvia		683	-	10	-	**693**
Mortgage loans	**21 091**	**56 272**	**-**	**39**	**4 916**	**61 227**
Latvia		56 272	-	39	4 916	**61 227**
Other deposits with financial institutions	**3 483**	**-**	**-**	**-**	**-**	**-**
Other	**18 493**	**46 553**	**-**	**31**	**3 842**	**50 426**
Latvia		46 553	-	31	3 842	**50 426**

[1]Another type of collateral consists mainly of the guarantee provided by the Financial Institution ALTUM, fixed assets and inventory.

(d) Loans and advances due from non-banks by geographical profile

	31.12.2023.	**31.12.2022**
Residents of Latvia	31 785	45 377
Residents of OECD countries	4 039	4 007
Residents of other countries	1 116	1 519
Total loans	**36 940**	**50 903**
Impairment	*(210)*	*(4 173)*
Net loans	**36 730**	**46 730**

(e) Loans and advances due from non-banks by type

	31.12.2023.	31.12.2022.
Mortgage loans	20 865	23 521
Commercial loans	690	3 500
Industrial loans	129	2 091
Finance leases	277	1 669
Credit card loans	46	16
Other loans[1] and advances	11 393	16 622
Cash in financial institutions	3 540	3 484
Total loans	**36 940**	**50 903**
Impairment	*(210)*	*(4 173)*
Net loans	**36 730**	**46 730**

[1] The category "Other loans" also includes loans for the purchase of real estate for commercial companies, which are not loans related to the purchase of housing (EUR 7 428 thousand).

(f) Significant credit risk concentration

As at 31 December 2023 the Bank had 3 borrowers or groups of borrowers, whose aggregate liabilities were equal to or exceeded 10% of the Bank’s Tier 1 capital (as at 31 December 2022, the Bank had 5 borrowers or groups of borrowers, whose aggregate liabilities were equal to or exceeded 10% of the Bank`s Tier 1 capital).

The Bank determines credit risk concentration to one customer or a group of related customers may not exceed 23% of the Bank’s Tier 1 capital, while if a customer is a credit institution or an investment brokerage firm, or a group of related customers including one or several credit institutions or investment brokerage firms, and the host country of such customer is the European Union or other comparable country (country mentioned Commission Implementing Decision (EU) 2021/1753 of 1 October 2021 on the equivalence of the supervisory and regulatory requirements of certain third countries and territories for the purposes of the treatment of exposures in accordance with Regulation (EU) No. 575/2013 of the European Parliament and of the Council), total risk exposure to the customer shall not exceed 95 percent of the Bank's Tier 1 capital. On 31 December 2023 and 31 December 2022, the Bank was in compliance with these requirements.

NOTE 13 INVESTMENTS INTO SECURITIES

a) Securities by portfolios

	31.12.2023.	31.12.2022.
Financial assets at fair value through other comprehensive income		
Debt securities issued by EU and EEA central government	3 473	7 005
Debt securities issued by other central government	5 413	3 843
Debt securities issued by EU and EEA credit institutions	1 440	1 392
Debt securities issued by EU and EEA financial institutions	4 844	6 338
Debt securities issued by other countries financial institutions	-	2 468
Debt securities issued by Latvia non-financial companies	-	574
Debt securities issued by EU and EEA non-financial companies	922	18 618
Debt securities issued by other countries non-financial companies	964	7 902
Financial assets at fair value through other comprehensive income, total	**17 056**	**48 140**
Impairment	*(51)*	*(184)*
Financial assets at fair value through other comprehensive income, net	**17 005**	**47 956**
Financial assets at amortised cost		
Debt securities issued by the Latvian government	9 899	9 889
Debt securities issued by EU and EEA central governments	6 078	6 126
Debt securities issued by EU and EEA credit institutions	2 042	3 077
Debt securities issued by credit institutions of other countries	10 158	10 208
Debt securities issued by EU and EEA non-financial companies	5 085	9 656
Debt securities issued by other countries non-financial companies	2 016	2 029
Financial assets at amortised cost, total	**35 278**	**40 985**
Impairment	*(36)*	*(51)*
Financial assets at amortised cost, net	**35 242**	**40 934**

Geographical allocation is based on countries of principal entities**.**

The portfolio of financial assets decreased in 2023 mainly as a result of the sale of securities, that was carried out to even out the consolidated credit risk.

b) Securities by countries

	31.12.2023.		31.12.2022.	
	Carrying amount	% of the Bank's own funds	Carrying amount	% of the Bank's own funds
Central governments debt securities	**24 863**	**x**	**26 864**	**x**
Latvia	9 899	*29.85*	9 889	*35.35*
Lithuania	4 039	*12.18*	4 070	*14.55*
Saudi Arabia	3 968	*11.96*	3 843	*13.74*
Other countries	6 957	*20.98*	9 062	*32.40*
Credit institutions debt securities	**13 640**	**x**	**14 677**	**x**
USA	8 121	*24.49*	8 160	*29.17*
Other countries	5 519	*16.64*	6 517	*23.30*
Other financial institution debt securities	**4 844**	**x**	**8 806**	**x**
Luxembourg	4 746	*14.31*	4 563	*16.31*
Other countries	98	*0.30*	4 243	*15.17*
Non-financial institutions debt securities	**8 987**	**x**	**38 778**	**x**
Other countries[1]	8 987	*27.10*	38 778	*138.63*
Financial investments, total	**52 334**	**x**	**89 125**	**x**
Impairment	*(87)*	*x*	*(235)*	*x*
Financial investments, net	**52 247**	**x**	**88 890**	**x**

[1] The balance of debt securities of non-financial companies for each individual country does not exceed 10% of the Bank's capital adequacy..

c) Financial investment qualitative rating

	31.12.2023.	31.12.2022.
Financial assets at fair value through other comprehensive income by risk classes		
AAA to AA-	8 574	10 586
A+ to A-	3 968	6 022
BBB+ to BBB-	2 628	24 865
BB+ to BB-	1 886	6 666
Financial assets at fair value through other comprehensive income, total	**17 056**	**48 140**
Impairment	*(51)*	*(184)*
Financial assets at fair value through other comprehensive income, net	**17 005**	**47 956**
Financial assets at amortised cost by risk classes		
AAA to AA-	2 042	2 053
A+ to A-	25 228	23 271
BBB+ to BBB-	6 971	14 611
BB+ to BB-	1 037	1 050
Financial assets at amortised cost, total	**35 278**	**40 985**
Impairment	*(36)*	*(51)*
Financial assets at amortised cost, net	**35 242**	**40 934**

Investments are made in securities according to the "Investment strategy for portfolio of financial instruments evaluated at fair value through other comprehensive income (FVTOCI)" and "Investment Strategy for portfolio of financial instruments to be accounted at amortised value" approved by the Bank. To avoid high risk exposure, the Bank has determined that investments should be made in financial instruments with an average credit rating of BB- or higher.

Investments in financial instruments is made diversified by region, sector, industry and risk level. The Bank’s priority is investment in financial instruments of issuers of OECD countries with an investment grade credit rating (with emphasis on the purchase of green, social or sustainability bonds), creating a balanced structure between corporate and other debt securities.

To identify, in a timely manner, any changes that could produce an adverse effect on the ability and/ or willingness of a particular country’s government and/ or residents to meet their financial liabilities towards the Bank, the Bank keeps pace with the latest news and information about events occurring in the respective countries. For monitoring purposes, credit ratings assigned by three international rating agencies Moody’s Investors Service, Standard & Poor’s, Fitch Ratings are used. Average rating used by the Bank is calculated as follows: if risk rating is available only from one risk rating agency – this rating is applied; if two risk rating agencies have published risk ratings and risk ratings are different, the rating with higher degree of risk is applied; if all three risk rating agencies have published different risk ratings, the Bank first selects two risk ratings with the lowest degree of risk and then from those choses the one with highest degree of risk. Additional sources of information used in analysis are mass media, economic analysis reports by international organisations and data from rating agencies.

Whenever any events that are likely to produce a material impact on the solvency of any country's government and/ or residents are identified, the Bank's Risk Control Department:

- Informs the Bank's Asset and liability committee accordingly;
- Performs closer monitoring of the country and, if necessary, makes suggestions to the Bank's Resource Department that no additional investments should be made or country exposure limits for transactions with residents of the respective country should be reduced.

If the Bank's exposure to residents of the respective country cannot be reduced within the nearest three months, the Bank considers and initiates risk mitigation measures, such as requests for financial collateral or additional capital.

NOTE 14 PROPERTY, PLANT AND EQUIPMENT (PPE) AND INTANGIBLE ASSETS

	Intangible assets	Land and buildings	Computers and equipment	Vehicles	Other PPE	Total PPE
Acquisition value						
31.12.2021.	**1 452**	7 214	750	414	**8 378**	**7 987**
Acquired	***7***	-	*92*	*65*	***157***	***431***
Excluded	**-**	-	*(16)*	*(32)*	***(48)***	***(40)***
31.12.2022.	**1 459**	7 214	826	447	**8 487**	**8 378**
Acquired	***532***	-	*278*	*29*	***307***	***157***
Excluded	***(81)***	-	*(179)*	*(65)*	***(244)***	***(48)***
31.12.2023.	**1 910**	7 214	925	411	**8 550**	**8 487**
Accumulated amortisation/ depreciation						
31.12.20221.	**1 119**	1 201	511	186	**1 898**	**1 694**
Amortization/ depreciation for the reporting year	***104***	*140*	*125*	*58*	***323***	***244***
Depreciation of excluded PPE and intangible assets	**-**	-	*(16)*	*(32)*	***(48)***	***(40)***
31.12.2022.	**1 223**	1 341	620	212	**2 173**	**1 898**
Amortization / depreciation for the reporting year	***105***	*140*	*180*	*85*	***405***	***323***
Depreciation of excluded PPE and intangible assets	***(81)***	-	*(179)*	*(65)*	***(244)***	***(48)***
31.12.2023.	**1 247**	1 481	621	232	**2 334**	**2 173**
Carrying amount, net						
31.12.2021.	**333**	**6 013**	**239**	**228**	**6 480**	**6 293**
31.12.2022.	**236**	**5 873**	**206**	**235**	**6 314**	**6 480**
31.12.2023.	**663**	**5 733**	**304**	**179**	**6 216**	**6 314**

In 2023, changes were made in the Bank's Accounting policy, setting the recognition threshold for fixed assets and intangible assets from EUR 300, as a result, the residual value of fixed assets and intangible assets whose purchase value was lower than EUR 300 was written off, excluding them from fixed assets and intangible assets. Residual value write-off expenses 51 thousand EUR included in the item Depreciation and amortization for the reporting year.

NOTE 15 OTHER ASSETS

	31.12.2023.	31.12.2022.
Other financial assets	**804**	**1 171**
Settlements for e-commerce and payment card operations	804	840
Other financial assets	-	331
Other non-financial assets	**787**	**1 177**
Advance payments for intangible and fixed assets	362	681
Future period expenses and accrued income	312	209
Inventory (digipass and card blanks)	37	21
Other receivables	76	266
Total other assets	**1 591**	**2 348**

NOTE 16 FUNDS UNDER TRUST MANAGEMENT

Funds under trust management are not the Bank's funds and therefore are not presented in the Bank's financial statement. On December 31, 2023, the amount of client funds under the Bank's management was 3.03 million EUR.

NOTE 17 DEPOSITS FROM CUSTOMERS

(a) By customer profile:

	31.12.2023.	31.12.2022.
Demand deposits	**103 284**	**90 013**
Financial institutions	42 973	16 877
Private companies	44 847	52 047
Households and non-profit organisations servicing them	15 464	21 089
Term deposits	**24 187**	**28 402**
Financial institutions (2nd pillar pension funds)	-	1 520
Private companies	787	315
Households and non-profit organisations servicing them	23 400	26 567
Total	**127 471**	**118 415**

(b) By geographical profile

	31.12.2023.	31.12.2022.
Demand deposits	**103 284**	**90 013**
Residents of Latvia	35 885	50 110
Residents of OECD Member States	51 721	25 863
Russia	2 150	3 267
Residents of other countries	13 528	10 773
Term deposits	**24 187**	**28 402**
Residents of Latvia	20 525	26 014
Residents of OECD Member States	1 000	162
Russia	1 881	1 391
Residents of other countries	781	835
Total	**127 471**	**118 415**

The Bank's average interest rates applicable for the deposits from customers in 2023 are as follows: 2.961% (EUR) (2022: 1.113% (EUR)).

c) Concentrations of current accounts and customer deposits

As of 31 December 2023 and 31 December 2022, the Bank had no customers, whose balance exceeded 10% of total customer accounts.

NOTE 18 PROVISIONS

	31.12.2023.	31.12.2022.
Provisions for fines in accordance with the FCMC decision[1]	-	2 205
Provision for guarantees	-	220
Provision for commitments and contingencies	5	14
TOTAL	**5**	**2 439**

[1] See Note 2, Clause (o)

NOTE 19 OTHER LIABILITIES

	31.12.2023.	31.12.2022.
Other financial liabilities	**1 669**	**12 777**
Payment for e-com and payment cards transactions[1]	864	11 060
Provisions for variable remuneration[2]	-	1 050
Third-party funds held as collateral	-	245
Accrued expenses related to financial transaction servicing	223	188
Other financial liabilities and accrued expenses	582	234
Other non-financial liabilities	**667**	**568**
Vacation pay reserve	535	471
Other non-financial liabilities	107	59
Deferred income	25	38
Total other liabilities	**2 336**	**13 345**

[1] The decrease is related to the transfer of funds from e-commerce customer transit accounts to deposit accounts in 2022 after an in-depth customer due diligence process.
[2] In 2023, 986.3 thousand EUR were paid in variable remuneration; remuneration to personnel was reduced by the unpaid portion 63.7 thousand EUR.

NOTE 20 PAID-IN SHARE CAPITAL

As at 31 December 2023, the Bank's registered and paid-in share capital was EUR 13 million (2022: EUR 13 million). In 2023 there were no changes in share capital.

The Bank's share capital consists of only ordinary voting shares. The par value of each share is EUR 1 as at 31 December 2023, all shares were fully paid and the Bank did not hold any of its own shares.

As at 31 December 2022 the Bank's sole shareholder was Mono LLC, registration No. 40003004625, legal address Riga, Katlakalna Street 1, which is also the ultimate parent company of the Bank. The sole shareholder has two ultimate beneficiaries, who individually do not control the Bank.

On March 31, 2023, a share sale agreement was concluded between Mono LLC and JSC Signet Bank, which was completed on December 11, 2023. As a result of this agreement from December 31, 2023, the Bank's sole shareholder is JSC Signet Bank, registration No.40003043232, legal address: Riga, Antonijas street 3.

NOTE 21 FAIR VALUE RESERVE

Fair value reserve comprises the cumulative net change in the fair value of equity instruments measured at FVOCI and the cumulative net change in the fair value of debt instruments measured at FVOCI (31.12.2023. reserve was -887 thousand. EUR, 31.12.2022.: -3 963 thousand EUR) until the assets are derecognized or reclassified. The amount is increased by the amount of loss allowance of debt instruments measured at FVOCI.

NOTE 22 EARNINGS PER SHARE

Earnings per share are calculated by dividing net profit for the year by the number of shares issued.

	2023	2022
Net profit (‘000)	423	1 309
Number of ordinary shares at reporting date (‘000)	13 000	13 000
Earnings per share (EUR)	**0.033**	**0.101**

NOTE 23 CASH AND CASH EQUIVALENTS

	31.12.2023.	31.12.2022.
Cash and demand deposits with the Bank of Latvia	64 576	17 251
Balances due from other credit institutions with original maturities of less than three months	1 269	3 575
Total	**65 845**	**20 826**

NOTE 24 OFF-BALANCE SHEET ITEMS

	31.12.2023.	31.12.2022.
Guarantees	304	420
Unutilised credit lines	27	18
Loan commitments	107	3 666
Credit card commitments	374	486
Total off-balance sheet items, gross	**812**	**4 590**
Provisions	*(5)*	*(234)*
Total off-balance sheet items, net	**807**	**4 356**

In the ordinary course of business, the Bank issues loans and guarantees. The main purpose of these financial instruments is to ensure that adequate funds are available to customers.

Guarantees that comprise irrevocable commitments are assigned the same risk as loans because those commit the Bank to paying in the event of a customer’s default. Liabilities arising from credit lines represent the undrawn balances of credit lines. As regards credit risk, the Bank is potentially exposed to loss arising also from loan commitments.

NOTE 25 RELATED PARTY DISCLOSURES

Related parties are defined as shareholders that have the ability to control or exercise significant influence over the Bank's management policy, Council and Board members, close members of their families, and entities in which these persons have a controlling interest and a qualifying holding.

In the ordinary course of business, the Bank enters into transactions with related parties. All loans are issued to and financial transactions are made with related parties on an arm's length basis. As at 31 December 2023, there were no loans issued to related parties that would have been past due.

The Bank's financial statements include the following balances of assets, liabilities and memorandum items associated with the Bank's transactions with related parties:

	31.12.2023.			31.12.2022.		
	Carrying amount	Off-balance sheet items	Total	Carrying amount	Off-balance sheet items	Total
Assets	**8**	**5**	**13**	**10**	**21**	**31**
Loans and receivables, net	**8**	**5**	**13**	**10**	**21**	**31**
Council and Board	8	5	13	10	21	31
Assets under management	**-**	**-**	**-**	**-**	**1 875**	**1 875**
Related companies and individuals	-	-	-	-	1 875	1 875
Liabilities	**21**	**-**	**21**	**9 784**	**-**	**9 784**
Deposits	**21**	**-**	**21**	**9 784**	**-**	**9 784**
Parent company	-	-	-	95	-	95
Council and Board	21	-	21	3 905	-	3 905
Related companies and individuals	-	-	-	5 784	-	5 784
Profit / (loss)	**(16)**	**-**	**(16)**	**58**	**-**	**58**
Commission and fee income / (expense)	11	-	11	89	-	89
Interest income / (expense)	(27)	-	(27)	(31)	-	(31)

As of 31.12.2022. the related transactions with the parent company and other related companies and persons are transactions with Mono LLC and related companies. As of 31.12.2023. there are no related transactions with the parent company JSC Signet Bank.

NOTE 26 RISK MANAGEMENT

The Bank organises risk management according to the requirements of the Law of the Republic of Latvia on Credit Institutions, European Parliament and Council and FCMC regulations as well as following the Bank's strategy and other documents governing the Bank's operations. The Bank's risk management policy details the Bank's risk management objectives, goals and principles as well as related instruments. The Bank's risk management policy is based on the principle of continuing profitability or acceptable loss and is aimed at achieving an appropriate balance between risks assumed by the Bank and returns.

The policy prescribes that various risk mitigation instruments should be used, their selection depending on the risk type.

The Bank's risk management objective is as follows:

- To establish and maintain such a system of risk identification and management which would allow minimisation of the negative effect the risks may produce on the Bank's operations and performance;
- To identify and determine the level of risk tolerance which would facilitate achievement of the Bank's strategic goals;
- To define the levels of responsibility of the Bank's risk management system and their respective functions;
- To define the risk management structure and methods;
- To ensure the Bank's statutory compliance.

As a result of the regular internal capital adequacy assessment, the Bank has established that risks inherent in its current and planned business for the capital planning purposes are as follows: credit risk, counterparty credit risk, settlement risk, residual risk, concentration risk, country risk, business model risk, systemic risk, leverage risk, foreign exchange risk, position risk, interest rate risk, liquidity risk, operational risk, reputational risk, compliance risk, money laundering and terrorism and proliferation financing risk, sanctions risk, model risk, sustainability risk and information technology risk. As part of the capital adequacy assessment process, credit value adjustment (CVA) risk was also assessed as a risk that the capital requirement should be calculated under certain circumstances.

RISK MANAGEMENT STRUCTURE

The Council of the Bank is responsible for establishing and effective functioning of the risk management system and approving the relevant risk management policies and strategies.

The Board of the Bank has the responsibility for implementing risk management strategies and policies approved by the Council.

Bank`s Chief Risk Officer:

- Leads a comprehensive risk control function;
- Ensures monitoring and improvement of the Bank's risk management system;
- Ensures regular evaluation of compliance of the Bank's business strategy and Bank's essential services, development of new services or changes to the services offered by the Bank, Bank's structure, the overall risk profile, as well as the restrictions and limits with the Bank's risk strategy. In case of non-compliance reporting to the Council and the Board and other officers in accordance with internal

policies is ensured;
- Provides a comprehensive and clear information on the Bank's overall risk profile, all relevant risks and risks compliance with the risk management strategy through regular communication to the Council and the Board and other officers according to the internal policies;
- Advises and provides support to the Council and the Board of the Bank in designing operational strategy and in making other decision related to the risks faced by the Bank.

Bank's Business Continuity Assurance Committee regularly identifies and examines risks of business continuity.

Bank`s Credit Committee reviews lending issues and makes decisions on matters relating to the credit risk bearing activities of the Bank.

Asset and Liability Committee:
- Monitors, plans and manages the Bank's liquidity;
- Monitors, plans and manages the Bank's interest rate risk;
- Monitors, plans and manages the Bank's exposure to market risks;
- Monitors, plans and manages the Bank's credit risk (including counterparty credit risk);
- Monitors, plans and manages the structure of the Bank's balance sheet and off-balance sheet commitments;
- Monitors and manages the Bank's growth;
- Monitors and manages debt collection and cessation processes;
- Approves opening and closing of the Bank's correspondent accounts;
- Determines limits for investments in Bank's portfolios of financial instruments;
- Determines country risk limits;
- Determines Bank's tariffs;
- Reviews and evaluates the quality of financial assets of the exposures issued.

The Bank's Money Laundering and Terrorism and Proliferation Financing (MLTPF) Risk Management Committee is an independent body authorized by the Bank's Council, the key task of the Committee is to make decisions to ensure the prevention of MLTPF and the observance and enforcement of Sanctions in the Bank's operations:
- monitor possible compliance risks for the Bank in the field of prevention of MLTPF and Sanctions and initiate measures/activities to minimize risks and to improve the Bank's internal control system;
- accept or reject the establishment of business relations or the continuation of cooperation with the Customers, with the increased MLTPF or reputational risks.

The Risk Control Department identifies significant risks the Bank is exposed to, including for the capital planning purposes, and formulates the relevant risk management policies and procedures, ensures monitoring of compliance with the risk management policies and procedures, including the limits and restrictions set, as well as reports information about the risks inherent in the Bank`s business to the Bank`s Risk director, Business Continuity Assurance Committee, the Asset and Liability Committee, Council and the Board on a regular basis, thereby allowing permanent assessment of risk affecting the Bank`s ability to achieve its goals and, if necessary, making decisions on the relevant corrective actions.

The Resource Department is responsible for managing the Bank's assets and liabilities and the overall financial structure as well as ensuring the daily management of liquidity risk, managing of interest rate risk, currency and market risk as well as the Bank's financial statement structure and growth, and analysing of financial and lending resources and the related planning in line with the Bank's strategic goals.

The key goal of the Compliance Control Department is identification, measurement, and management of compliance risk.

The Internal Audit Department carries out regular reviews and assessment of the Bank's compliance with its risk management strategies, policies and procedures and communicates the review results together with assessment of the Bank's risk management system efficiency to the Council.

Heads of the Bank's structural units and other employees of the Bank are aware of their duties and responsibilities related to routine risk management and, within the boundaries of their competences, report the compliance with the limits and restrictions set to the Risk Control Department as well as participate in the risk identification, effect assessment, and materiality determination process.

RISK MEASUREMENT AND REPORTING SYSTEMS

The Bank performs quantitative risk assessment on the basis of the standardised and basic indicator approaches referred to in Regulations No. 575/2013 (26 June 2013) on prudential requirements for credit institutions and amending Regulation (EU) No. 648/2012, the Standardised and Basic Indicator Approach, as well as the Financial and Capital Market Commission 03.11.2020. Regulatory rules No. 209 "Capital Adequacy Assessment Process Regulations" described simplified methods. The Bank also performs stress testing.

The level of the Bank's exposure is chiefly controlled by using the risk monitoring system designed by the Bank, which encompasses the limits approved by the Bank and defines the parameters of each risk relevant for the moderate risk exposure defined in the Bank's operational strategy. The aggregate risk exposure is determined as the average of all risk levels. The Risk Control Department regularly summarizes, analyses and presents to the Bank`s Risk director, the Asset and Liability Committee, the Board and the Council accompanied with explanatory information on each specific risk and the aggregate risk exposure. In case of exceeding any internal limits, Risk Control Department shall immediately notify the Asset and Liability Committee and propose to investigate non-compliance in the next Assets and Liabilities Committee meeting. In the event of exceeding any external limits, Risk Control Department shall immediately notify the Asset and Liability Committee and initiate extra-ordinary Asset and Liability Committee meeting to investigate the incompliance. Any instances when the individual or aggregate risk exposure reaches the significant level should be reported by the Risk Control Department immediately to the Bank's Asset and Liability Committee, however, if the overall risk level approaches the high risk level, the Risk Control Department is obliged to immediately convene the Bank's Board.

RISK MITIGATION

For the purposes of risk mitigation, the Bank uses the following methods:

- Risk acceptance. The Bank admits that it is exposed to such risks but does not take any actions to minimise their effect because those are insignificant and the elimination costs would exceed the respective benefits;
- Risk avoidance. The Bank conducts an analysis before engaging in any new transactions and chooses to avoid excessively risky transactions or actions;
- Changing risk probability. The Bank applies this method together with the relevant risk strategies, Bank's procedures, and the risk monitoring system in respect of the following risks:
  - credit risk (including counterparty credit risk, settlement risk, residual risk, concentration risk, country risk, sustainability risk and partly model risk),
  - operational risk (including reputational risk, compliance risk, business model risk (systemic risk as well), sustainability risk and IT risk),
  - market price risk (including currency risk, interest rate risk, position risk, partly model risk and sustainability risk),
  - liquidity risk (including sustainability risk),
  - money laundering and terrorism and proliferation financing risk and sanction risk (partly including model risk).
- Changing potential risk consequences. The Bank uses credit enhancements and currency risk hedging instruments as well as establishes a business continuity system;
- Risk sharing. The Bank uses insurance and syndicated transactions. In selecting this method of risk mitigation, the Bank is aware that it does not change the overall exposure to transaction and operational risks, affecting only the portion attributable to the Bank.

CONCENTRATION RISK

Concentration risk arises from large exposures to individual customers or groups of related customers or exposures to customers whose creditworthiness is determined by one common risk factor (industry, geographical location, currency, credit enhancement (homogenous collateral or one collateral provider)).

The concentration risk management policy covers the Bank's credit portfolio and other assets, off-balance sheet items, as well as the deposits attracted by the Bank and balances due to credit institutions.

The core elements of concentration risk management include risk assessment, setting limits for individual counterparties as well as industry, geographical and market concentrations and monitoring exposures in relation to such limits.

For the purposes of additional concentration risk assessment, stress tests are performed on a regular basis.

CREDIT RISK

Credit risk is the risk that the Bank will incur a loss because its borrowers (debtors) or counterparties fail or refuse to settle their contractual obligations to the Bank. Credit risk is inherent in the Bank's transactions which give rise to the Bank's claims against another person and which are reported by the Bank in the statement of financial position or as off-balance sheet items. Credit risk arises as soon as the Bank's funds are issued, invested or transferred to other parties for use based on the contractual provisions.

The objective of managing credit risk is to determine the maximum acceptable exposure to credit risk (including counterparty credit risk) and ensure the compliance with the set limits in the normal course of business.

The Bank is involved in following transactions giving rise to credit risk:
- Cash placements with other banks;
- Loans and credit lines to customers;
- Guarantees issued to third parties and other contingent liabilities for the benefit of customers if they may demand settlement of obligations;
- Securities transactions;
- Dealing.

The credit risk management system is composed of the following elements: approval of methods used to measure credit risk related to counterparties, borrowers and issuers; setting restrictions for loan types; fixing limits for investments in the securities included in the Bank's portfolio and lending by amount and maturity; regular assessment of assets and off-balance sheet items as well as regular stress testing.

Following authority levels are set in respect of decision-making on the loans, namely – issuance and amendments made (from lowest):

- Individual;
- Credit committee;
- Bank's Board.

Maximum limits for each decision-making authority level within the Bank are approved by the Bank's Council.

The Bank believes that its exposure to credit risk arises mainly from loans, balances due from credit institutions and the portfolio of securities at amortised cost. The maximum exposure of the Bank's assets and off-balance sheet items is shown in the credit risk concentration analysis.

MAXIMUM EXPOSURE TO CREDIT RISK

The following table presents the Bank's maximum credit risk exposure without taking into account collateral or other credit enhancements.

	31.12.2023.	**31.12.2022.**
Assets exposed to credit risk	**155 333**	**155 816**
Balances with the Bank of Latvia	**63 480**	**15 800**
Demand deposits with credit institutions	183	2 557
Financial assets measured at fair value through profit or loss	803	668
Debt securities measured at fair value through other comprehensive income	17 005	47 956
Financial assets measured at amortized cost:	73 058	87 664
Debt securities	*35 242*	*40 934*
Loans and advances due from non-banks	*36 730*	*46 730*
Term deposits with credit institutions	*1 086*	-
Financial assets	**804**	**1 171**
Off-balance sheet items exposed to credit risk	**807**	**4 356**
Maximum credit risk exposure	**156 140**	**160 172**

MAXIMUM CREDIT RISK CONCENTRATION

The Bank places limits on the amount of risk for individual counterparties (groups of related counterparties) as well as for industry, geographical, exposure and market concentrations. The exposure to any single counterparty is further restricted by sub-limits. The credit risk concentration is analysed by estimating the large exposure ratio to the Bank's Tier 1 capital. According to the Regulations No. 575/2013 (26 June 2013) on prudential requirements for credit institutions and amending Regulation (EU) No. 648/2012, the Bank shall be considered a large exposure where the value of the exposure is equal to or exceeds 10% of the Bank's Tier 1 capital. The Bank has determined any credit exposure to a single customer or a group of connected customers may not exceed 23% of the Bank's Tier 1 capital (external limit – 25%). If a customer is a credit institution or investment firm or group of connected customers, which is composed of one or more credit institutions or investment firms, and the host country of such customer is the European Union or other comparable country (country mentioned Commission Implementing Decision (EU) 2021/1753 of 1 October 2021 on the equivalence of the supervisory and regulatory requirements of certain third countries and territories for the purposes of the treatment of exposures in accordance with Regulation (EU) No 575/2013 of the European Parliament and of the Council), the total risk exposure to such customer shall not exceed 95% (external limit – 100%) of the Bank's Tier 1 capital. During the financial reporting period, the Bank was in compliance with these requirements.

GEOGRAPHICAL ANALYSIS

The following table provides an analysis of the Bank's assets and off-balance sheet items by geographical profile without taking into account collateral and other credit enhancements. The grouping is done based on information about the residence of the respective counterparties.

31.12.2023.

	Latvia	OECD countries	Russia	Other countries	Total
Exposure to credit risk of balance sheet assets	**104 969**	**39 114**	**844**	**10 406**	**155 333**
Balances with the Bank of Latvia	63 480	-	-	-	**63 480**
Demand deposits with credit institutions	19	150	-	14	**183**
Financial assets measured at fair value through profit or loss	-	803	-	-	**803**
Debt securities measured at fair value through other comprehensive income	-	8 893	-	8 112	**17 005**
Financial assets measured at amortized cost:	41 466	28 468	844	2 280	**73 058**
Debt securities	*9 880*	*23 346*	-	*2 016*	***35 242***
Loans and advances due from non-banks	*31 586*	*4 036*	*844*	*264*	***36 730***
Term deposits with credit institutions	-	*1 086*	-	-	***1 086***
Financial assets	4	800	-	-	**804**
Exposure to credit risk of off-balance sheet items	**735**	**-**	**-**	**72**	**807**
Total	**105 704**	**39 114**	**844**	**10 478**	**156 140**

31.12.2022.

	Latvia	OECD countries	Russia	Other countries	Total
Exposure to credit risk of balance sheet assets	**70 015**	**76 006**	**1 275**	**8 520**	**155 816**
Balances with the Bank of Latvia	15 800	-	-	-	**15 800**
Demand deposits with credit institutions	2 196	347	-	14	**2 557**
Financial assets measured at fair value through profit or loss	-	668	-	-	**668**
Debt securities measured at fair value through other comprehensive income	573	41 150	-	6 233	**47 956**
Financial assets measured at amortized cost:	51 100	33 016	1 275	2 273	**87 664**
Debt securities	*9 874*	*29 031*	-	*2 029*	***40 934***
Loans and advances due from non-banks	*41 226*	*3 985*	*1 275*	*244*	***46 730***
Term deposits with credit institutions	-	-	-	-	**-**
Financial assets	346	825	-	-	**1 171**
Exposure to credit risk of off-balance sheet items	**4 242**	**-**	**-**	**114**	**4 356**
Total	**74 257**	**76 006**	**1 275**	**8 634**	**160 172**

The following table shows geographic split of borrowers' credit risk is based on the country of origin of their projected cash flows used for loan repayment.

Loans and advances due from non-banks	**31.12.2023**	**31.12.2022**
Latvia	31 785	45 377
OECD countries	3 535	3 464
Russia	852	1 275
Other countries	768	787
Loans and advances due from non-banks	**36 940**	**50 903**
Total impairment allowance	**(210)**	**(4 173)**
Loans and advances due from non-banks customers, net	**36 730**	**46 730**

INDUSTRY ANALYSIS

The following table provides an analysis of the Bank’s assets and off-balance sheet items by industry without taking into account collateral and other credit enhancements. The grouping is done based on information about the business of the respective counterparties.

	31.12.2023.	**31.12.2022.**
Exposure to credit risk of balance sheet assets	**155 335**	**155 816**
Central Bank	63 480	15 801
Central governments	24 679	26 762
Government non-financial corporations	3 050	2 015
Credit institutions	14 907	17 225
Multilateral Development Banks	4 745	4 562
Private individuals	4 234	7 348
Operations with real estate	26 065	30 923
Trade	585	2 786
Manufacturing	2 756	19 191
Accommodation and catering services	762	202
Construction	1 018	399
Information and communication services	477	2 288
Transport	594	1 515
Health and social care	108	1 687
Electricity	258	10 666
Financial services	6 817	11 451
Other	800	995
Exposure to credit risk of off-balance sheet items	**807**	**4 356**
Total	**156 142**	**160 172**

CREDIT QUALITY OF FINANCIAL ASSETS

Credit quality of financial assets is performed by the Bank via debtors’ (borrowers’) financial analysis techniques, analysis of the counterparty’s reputation and historical cooperation with the counterparty as well as by monitoring international ratings granted to counterparties.
The Bank determines the quality of financial assets exposed to credit risk by performing an analysis of debtors (borrowers) financial position indicators, counterparty reputation and cooperation experience with counterparties, as well as monitoring of international ratings assigned to counterparties. the sustainability of the counterparty, the borrower, the issuer and the transaction itself, namely environmental, social responsibility and governance (ESG) factors, including the international ESG ratings assigned to counterparties.
According to IFRS 9 the Bank's financial assets are classified in three stages, where such financial assets, credit risk of which has not significantly increased compared to the initial recognition, are classified in the 1st stage, and such financial assets, credit risk of which has significantly increased compared to the initial recognition, but which have no default observed, are classified in the 2nd stage, and such financial assets, for which signs of default are detected, are classified in the 3rd stage.

Signs of a significant increase in credit risk, for which default is not observable

The Bank considers the following as significant credit risk increase for risk transactions:

- A delay of more than 30 days in the performance of the counterparty's obligations (such as payment of principal amount or interest);
- Non-use of the allocated funds for the purposes specified in the agreement;
- Default of a person related to the Bank's counterparty that affects the counterparty's ability to meet their credit obligations to the Bank;
- Failure to meet project implementation preconditions;
- Impairment of collateral in the cases when performance of obligations is directly dependent on value of collateral;
- Non-compliance with the terms of the transaction agreement;
- And other event signs that may indicate a significant increase in credit risk of the counterparty.

Signs of default

- A delay of more than 90 days in the performance of the counterparty's obligations (such as payment of principal amount or interest);
- Significant financial difficulties of the counterparty;
- The Bank grants such advantages to the counterparty for economic or legal reasons related to the borrower's significant financial difficulties, which the Bank would not otherwise have considered;
- The counterparty has been declared insolvent or has been informed of its legal protection process, or similar restructuring or protection of other types of financial liabilities;
- The counterparty is dead, missing or has ceased operations;
- A financial asset is an asset in the recovery process;
- Financial asset has been acquired or issued at a deep discount that reflects an

existing impairment;

- A combination of several other events or other event signs that may characterise a counterparty default.

The table below represents financial assets - at gross value i.e. without impairment broken down by financial asset quality stages without taking into account collateral or other credit quality improvements.

31.12.2023.

	Mortgage loans	Other loans	Finance leases	Credit card loans	Other claims against non-banks	Total
Loans and claims against non-banks neither past due nor impaired	**17 677**	**12 145**	**277**	**46**	**3 547**	**33 692**
Private non-financial companies	13 878	8 189	277	2	8	22 354
Financial institutions	-	1 576	-	-	3 539	5 115
Households	3 799	2 380	-	44	-	6 223
Loans and claims against non-banks past due but not impaired	**3 189**	**59**	**-**	**-**	**-**	**3 248**
Past due up to 30 days	2 351	-	-	-	-	2 351
Past due 30-60 days	838	-	-	-	-	838
Past due over 90 days	-	59	-	-	-	59
Total loans and advances due from non-banks	**20 866**	**12 204**	**277**	**46**	**3 547**	**36 940**
Impairment	*(75)*	*(126)*	-	*(6)*	*(1)*	*(210)*
Net value of loans and claims against non-banks	**20 791**	**12 076**	**277**	**40**	**3 546**	**36 730**

31.12.2022.

	Mortgage loans	Other loans	Finance leases	Credit card loans	Other claims against non-banks	Total
Loans and claims against non-banks neither past due nor impaired	**22 761**	**18 497**	**1 669**	**16**	**3 477**	**46 420**
Private non-financial companies	18 004	13 830	1 669	6	7	33 516
Financial institutions	-	2 310	-	-	3 470	5 780
Households	4 757	2 357	-	10	-	7 124
Loans and claims against non-banks past due but not impaired	**760**	**3 723**	**-**	**-**	**-**	**4 483**
Past due up to 30 days	712	2 960	-	-	-	3 672
Past due 30-60 days	48	-	-	-	-	48
Past due over 90 days	-	763	-	-	-	763
Total loans and advances due from non-banks	**23 521**	**22 220**	**1 669**	**16**	**3 477**	**50 903**
Impairment	*(2 430)*	*(1 726)*	-	*(4)*	*(13)*	*(4 173)*
Net value of loans and claims against non-banks	**21 091**	**20 502**	**1 669**	**12**	**3 456**	**46 730**

SETTLEMENT RISK

Settlement risk is the risk to which the Bank is exposed to outstanding transactions in foreign currencies, securities or commodities, with the exception of repurchase transactions, securities or commodities lending or borrowing. Settlement risk comprise of settlement / delivery risk and free deliveries risk.

The Bank settlement / delivery risk and free deliveries of risk capital requirement calculates only for the period if the risk registered in the Bank's IT system meets the definition of the risk characteristics of the relevant event or events. At the end of reporting period, the respective events are not recorded, as a result of which it would be necessary to maintain the capital requirement for settlement/ delivery risk.

LIQUIDITY RISK

Liquidity risk represents the Bank's exposure to significant loss in the event that the Bank does not have a sufficient amount of liquid assets to meet legally justified claims or overcome unplanned changes in the Bank's assets and/or market conditions on a timely basis.

A liquidity crisis may be caused by unexpected events, such as prolonged outflow of cash from the accounts opened with the Bank without a corresponding cash inflow. This process may be a consequence of the loss of trust, or a national crisis like a currency crisis. The Bank is exposed to liquidity risk when its cash flows are not balanced in terms of their maturity (maturity bands) due to the Bank's activities involving borrowings, loans, capital and other items of assets and liabilities.

Liquidity problems may be caused also by the lack of liquidity of the financial market.

The objective of liquidity management is to achieve placement of Bank's assets enabling the Bank to meet legally justified claims of its creditors at any time.

The liquidity risk management methods (core elements) are as follows:

- Compliance with Liquidity coverage ratio regulatory requirements;
- Compliance with Net stable funding ratio regulatory requirements;
- Compliance with Specific liquidity regulatory requirements;
- Setting limits for deposits from customers;
- Monitoring of adherence to the limits fixed in the Bank's liquidity strategy;
- Liquidity risk risk monitoring system;
- Liquidity stress testing and analysis of results;
- Bank's liquidity crisis plan.

To maintain its liquidity position, the Bank:

- Assesses and plans the maturity structure of its assets and liabilities on a regular basis;
- Maintains sufficient liquid assets to ensure that financial liabilities can be met;
- Ensures that the liquidity ratio (namely, the ratio of liquid assets to current liabilities) is at least 60%;
- Ensures the negative ratio of liquid assets to current liabilities of no more than 100% of the Bank's own funds;
- Ensures Liquidity coverage ratio at least 110%;
- Ensures the Net stable funding ratio not less than 110%;
- Performs regular stress testing and assesses whether the liquidity reserve is adequate and sufficient.

According to Commission Delegated Regulation (EU) No. 2015/61 of 10 October 2014 to supplement Regulation (EU) No. 575/2013 of the European Parliament and the Council with regard to liquidity coverage requirement for Credit Institutions, minimum determined liquidity coverage ratio is 100%. The Bank`s liquidity coverage ratio for the years 2023 and 2022 were:

	31.12.2023	**31.12.2022**
Liquidity reserves	95 121	53 391
Total net cash outflows	53 069	37 459
Liquidity coverage ratio	**179%**	**143%**

According in Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and amending Regulation (EU) No 648/2012, minimum determined net stable funding ratio is 100%. The Bank`s net stable funding ratio for the years 2023 and 2022 were:

	31.12.2023	31.12.2022
Required stable funding	55 141	88 447
Available stable funding	105 741	117 244
Net stable funding ratio	**192%**	**133%**

Considering the Bank's liquidity reserve, the Bank does not expect a significant impact on its future operations.

The Bank has informed the shareholder about the necessity to take actions in respect to the seizure of M.Uļmans capital shares. Currently, several scenarios are being worked on, all of them are aimed to exclude M. Uļmans indirect property rights or UBO status in LPB Bank.

ANALYSIS OF ASSETS AND LIABILITIES BY LIQUIDITY STRUCTURE

The table below allocates the Bank's assets, liabilities and off-balance liabilities liquidity groupings on the time remaining from the balance sheet date to the contractual maturity dates (i.e. based on contractual discounted cash flows). Pledged financial assets measured at amortised cost financial investments are disclosed as *Other.*

31.12.2023.

	Less than 1 month inclusive	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Other	Total
Assets							
Cash and balances with the Bank of Latvia	64 576	-	-	-	-	-	**64 576**
Demand deposits with credit institutions	183	-	-	-	-	-	**183**
Financial assets measured at fair value through profit or loss	-	-	-	-	803	-	**803**
Debt securities measured at fair value through other comprehensive income	17 005	-	-	-	-	-	**17 005**
Financial assets measured at amortized cost:	1 324	2 772	6 839	6 448	51 826	3 849	**73 058**
Debt securities	-	*2 029*	*6 072*	*4 535*	*22 606*	-	***35 242***
Loans and advances due from non-banks	*238*	*743*	*767*	*1 913*	*29 220*	*3 849*	***36 730***
Term deposits with credit institutions	*1 086*	-	-	-	-	-	***1 086***
Property and equipment	-	-	-	-	6 216	-	**6 216**
Intangible assets	-	-	-	-	663	-	**663**
Other assets	3	-	-	-	1 588	-	**1 591**
Financial assets	-	-	-	-	*804*	-	***804***
Non-financial assets	*3*	-	-	-	*784*	-	***787***
Total assets	**83 091**	**2 772**	**6 839**	**6 448**	**61 096**	**3 849**	**164 095**
Liabilities							
Financial liabilities measured at fair value through profit or loss	-	-	-	-	-	-	**-**
Financial liabilities measured at amortized cost	104 279	3 621	5 251	8 518	5 802	-	**127 471**
Deposits	*104 279*	*3 621*	*5 251*	*8 518*	*5 802*	-	***127 471***
Other liabilities	2 335	-	-	-	1	-	**2 336**
Financial liabilities	*1 669*	-	-	-	-	-	***1 699***
Non-financial liabilities	*666*	-	-	-	*1*	-	***667***
Total liabilities	**106 614**	**3 621**	**5 251**	**8 518**	**5 803**	**-**	**129 807**
Contingent liabilities for guarantees	-	-	-	-	-	-	**-**
Unrecognised loan commitments	503	-	-	-	-	-	**503**
Net liquidity position	**(24 026)**	**(849)**	**1 588**	**(2 070)**	**55 293**	**3 849**	**33 785**

31.12.2022.

	Less than 1 month inclusive	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Other	Total
Assets							
Cash and balances with the Bank of Latvia	17 251	-	-	-	-	-	**17 251**
Demand deposits with credit institutions	385	-	-	-	-	2 172	**2 557**
Financial assets measured at fair value through profit or loss	-	-	-	-	668	-	**668**
Debt securities measured at fair value through other comprehensive income	47 956	-	-	-	-	-	**47 956**
Financial assets measured at amortized cost:	26 769	701	1 398	2 139	53 037	3 620	**87 664**
Debt securities	*26 396*	*73*	-	*328*	*14 137*	-	***40 934***
Loans and advances due from non-banks	*373*	*628*	*1 398*	*1 811*	*38 900*	*3 620*	***46 730***
Term deposits with credit institutions	-	-	-	-	-	-	**-**
Property and equipment	-	-	-	-	6 314	-	**6 314**
Intangible assets	-	-	-	-	236	-	**236**
Other assets	6	-	-	1	2 341	-	**2 348**
Financial assets	-	-	-	-	*1 171*	-	***1 171***
Non-financial assets	*6*	-	-	*1*	*1 170*	-	***1 177***
Total assets	**92 367**	**701**	**1 398**	**2 140**	**62 596**	**5 792**	**164 994**
Liabilities							
Financial liabilities measured at fair value through profit or loss	11	-	-	-	-	-	**11**
Financial liabilities measured at amortized cost	92 288	3 026	4 568	9 677	8 856	-	**118 415**
Deposits	*92 288*	*3 026*	*4 568*	*9 677*	*8 856*	-	***118 415***
Other liabilities	11 354	702	1 276	-	13	-	**13 345**
Financial liabilities	*10 799*	*702*	*1 276*	-	-	-	***12 777***
Non-financial liabilities	*555*	-	-	-	*13*	-	***568***
Total liabilities	**103 653**	**3 728**	**5 844**	**9 677**	**8 869**	**-**	**131 771**
Contingent liabilities for guarantees	81	-	-	-	-	-	**81**
Unrecognised loan commitments	4 156	-	-	-	-	-	**4 156**
Net liquidity position	**(15 523)**	**(3 027)**	**(4 446)**	**(7 537)**	**53 727**	**5 792**	**28 986**

The table below analyses the Bank's financial liabilities (excluding demand deposits) undiscounted cash flows into relevant maturity bands based on the remaining period, as at the reporting date, to the contractual maturity date (i.e. based on contractual undiscounted cash flows):

31.12.2023.

	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities								
Financial liabilities measured at amortized cost	104 358	3 678	5 344	8 881	6 053	-	128 314	127 471
Deposits	*104 358*	*3 678*	*5 344*	*8 881*	*6 053*	-	*128 314*	*127 471*
Financial liabilities	1 699	-	-	-	-	-	1 699	1 699
Contingent liabilities for guarantees	-	-	265	-	38	-	303	304
Unrecognised loan commitments	374	27	-	-	66	40	507	508
TOTAL NON-DERIVATIVE AND CONTINGENT LIABILITIES	**106 401**	**3 705**	**5 609**	**8 881**	**6 157**	**40**	**130 793**	**129 952**
Derivative liabilities								
Inflow	-	-	-	-	-	-	-	-
Outflow	-	-	-	-	-	-	-	-
TOTAL DERIVATIVE LIABILITIES	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL NON-DERIVATIVE AND DERIVATIVE LIABILITES AND CONTINGENT LIABILITIES	**106 401**	**3 705**	**5 609**	**8 881**	**6 157**	**40**	**130 793**	**129 952**

31.12.2022.

	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities								
Financial liabilities measured at amortized cost	92 341	3 082	4 651	9 934	8 950	232	**119 190**	**118 415**
Deposits	92 341	3 082	4 651	9 934	8 950	232	**119 190**	**118 415**
Financial liabilities	10 800	702	1 276	-	-	-	**12 778**	**12 778**
Contingent liabilities for guarantees	-	100	300	-	20	-	**420**	**420**
Unrecognised loan commitments	486	18	15	11	3 521	120	**4 171**	**4 170**
TOTAL NON-DERIVATIVE AND CONTINGENT LIABILITIES	**103 627**	**3 902**	**6 242**	**9 945**	**12 491**	**352**	**136 559**	**135 783**
Derivative liabilities								
Inflow	*(2 142)*	-	-	-	-	-	***(2 142)***	**-**
Outflow	*2 150*	-	-	-	-	-	***2 150***	***11***
TOTAL DERIVATIVE LIABILITIES	8	-	-	-	-	-	**8**	**11**
TOTAL NON-DERIVATIVE AND DERIVATIVE LIABILITES AND CONTINGENT LIABILITIES	**103 635**	**3 902**	**6 242**	**9 945**	**12 491**	**352**	**136 567**	**135 794**

REPORT ON THE LIQUIDITY ADEQUACY ASSESSMENT PROCESS (ILAAP)

Reporting on the liquidity adequacy assessment process is one of the components of liquidity risk management.

At least once a year, the Bank prepares a report on the liquidity adequacy assessment process in accordance with the Financial and Capital Market Commission 03.11.2020. Regulatory rules No. 209 "Capital Adequacy Assessment Process Regulations".

The purpose of the report on the liquidity adequacy assessment process is to provide as complete information as possible to the Bank's Board and Council, as well as to the Bank of Latvia on the liquidity adequacy assessment process in the Bank. The report aims to identify gaps in liquidity adequacy assessment process and to evaluate compliance with the liquidity reserve.

Based on the results of the liquidity adequacy assessment process, the Bank's management may, if necessary, decide to take corrective measures in the liquidity management process and / or to improve the liquidity reserve adequacy.

The latest report of the Bank on the liquidity adequacy assessment process concluded that the management of the Bank's liquidity management process is adequately ensured and according to the results of the Bank's stress tests, the Bank's liquidity reserves are sufficient even in stress situations.

ENCUMBERED AND UNENCUMBERED ASSETS

Information on the Bank's encumbered and unencumbered assets represented in Tables A, B and C is determined based on calculations of the risk transaction value for 2022 and 2021. Accordingly, the risk transaction value for 2022 and 2021 is determined as the median of sums of end values of the four quarters for the last 12-month period in each relevant year.

Table A. Encumbered and unencumbered assets

	Accounting value of encumbered assets		Fair value of encumbered assets		Book value of unencumbered assets		Fair value of unencumbered assets	
	2023	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**
Assets	**5 193**	**4 546**	**x**	**x**	**155 506**	**182 316**	**x**	**x**
Equity securities	-	-	x	x	740	1 204	x	x
Debt securities	-	-	-	-	75 663	87 570	72 995	85 156
Incl.: covered bonds	-	-	-	-	*1 407*	*1 411*	*1 407*	*1 411*
Incl.: securitization	-	-	-	-	-	-	-	-
Incl.: issued by general governments	-	-	-	-	*24 388*	*26 776*	*23 686*	*26 205*
Incl.: issued by financial companies	-	-	-	-	*19 644*	*22 002*	*18 449*	*21 220*
Incl.: issued by non-financial companies	-	-	-	-	*30 224*	*37 381*	*29 453*	*36 320*
Other assets	5 193	4 546	x	x	79 103	93 542	x	x

Table B. Collateral received

	Fair value of encumbered collateral received or own debt securities issued		Unencumbered The fair value of collateral received or of own debt securities issued is available for encumbrance	
	2023	2022	2023	2022
Collateral received	-	-	114 875	131 127
Loans on request	-	-	-	-
Equity securities	-	-	-	-
Debt securities	-	-	-	-
Incl.: covered bonds	-	-	-	-
Incl.: securitization	-	-	-	-
Incl.: issued by general governments	-	-	-	-
Incl.: issued by financial companies	-	-	-	-
Incl.: issued by non-financial companies	-	-	-	-
Loans and advances other than loans on request	-	-	-	-
Other collateral received	-	-	114 875	131 127
Own debt securities issued other than own covered bonds or asset backed securities	-	-	-	-
Own covered bonds and asset-backed securities issued but not yet pledged	x	x	-	-
Total assets, collateral received and own debt securities issued	5 242	4 546	x	x

Table C. Sources of encumbrances

	Matching liabilities, contingent liabilities or securities lent		Assets, collateral received and own debt securities issued other than covered bonds and encumbered asset backed securities	
	2023	2022	2023	2022
Accounting value of selected financial liabilities	-	-	5 242	4 546

The Bank mainly uses two main sources of encumbrance, that is, funds in correspondent accounts that serve as collateral for operations with payment cards and financial instruments of the Bank's portfolio of financial instruments in order to ensure a sufficient amount of liquid assets in individual cases.

Amount of encumbered assets refers to security deposits with the Bank’s partners VISA and MasterCard and is related to operations with payment cards and e-commerce clients.

The Bank has assessed that in table A the "Encumbered asset book value" and "Accounting value of encumbered assets" is insignificant in proportion to total assets, as at 31 December 2023, it was 3% (31 December 2022 – 2%).

MONEY LAUNDERING AND TERRORISM AND PROLIFERATION FINANCING RISK AND SANCTION RISK

The risk of money laundering and financing of terrorism and proliferation is an impact and possibility that the Bank may be involved in money laundering or terrorism or proliferation financing related to financial services provided by the Bank, the clients, products and services, their delivery channels, and location of operations. The risk of sanctions is an impact and possibility that the Bank may be involved in violation or circumvent of imposed sanctions.

The Bank’s Department of Prevention of Money Laundering and Terrorism Financing in collaboration with other departments of the Bank ensure implementation and enforcement of the Bank's Development Strategy, Policy of the Prevention of Money Laundering and Terrorism and Proliferation Financing and Management of the Risk of Sanctions and related requirements. The Department of Prevention of Money Laundering and Terrorist Financing monitors changes in the laws and regulations of Republic of Latvia and the leading practices in the field of this policy and, if necessary, propose and develop changes in the Bank's policy and other internal documents and processes.

The management of money laundering and terrorism and proliferation financing and sanctions risk at the Bank is ensured at three levels of defense, thus, ensuring that all the Bank departments and employees to whom such an obligation, directly or indirectly arising from the Bank's internal regulation requirements, are involved accordingly.

In its operations, the Bank strictly adheres to the requirements of the Republic of Latvia, the United Nations, the European Union and the Office of U.S. Treasury Department Foreign Assets Control (OFAC) sanctions and preclude execution of the transactions contravening those prohibitions. The Bank ensures that its internal control system is sufficient and appropriate to comply with sanction regulations.

The Bank's money laundering and terrorism and proliferation financing and sanctions risk management strategic objectives are to maintain a good reputation of the Bank and stable relationships with customers, counterparties and the general public, cooperate with and provide services to reliable customers and counterparties whose activities are clear to the Bank, ensure an appropriate balance between the risks acceptable for the Bank and the level of profits in order to minimize the risk of potential adverse effect on the Bank’s financial position and operations.

MARKET RISK

Market risk is the risk that the Bank will incur a loss as a result of the mark-to-market revaluation of assets, liabilities and off-balance sheet items caused by changes in market values of financial instruments, commodities and commodity derivatives due to changes in foreign exchange rates, interest rates and other factors. Market risks include currency risk, position risk and commodity risk.

The Bank does not form a trading portfolio and its exposure to commodity risk, market risks is limited to currency risk and interest rate risk in the banking book.

Considering that the Bank has the financial assets measured at fair value through other comprehensive income portfolio at 31 December 2022 increased to 29% of the total assets (31 December 2021 - 27%), the Bank believes that its exposure to position risk, or market price risk, is significant.

CURRENCY RISK

Currency risk represents the Bank’s exposure in the event that changes in foreign exchange rates have an adverse effect on the Bank’s income/ expense (and, consequently, also the Bank's own funds) and economic value. Currency risk is the risk of loss due to the opposite fluctuations of foreign exchange rates. The transactions include items reported as both assets and off-balance sheet items.

The risk of incurring foreign exchange loss arises from the revaluation of foreign currency positions into the national currency. When the Bank has an open foreign currency position, the revaluation process results in a profit or loss, which is the difference arising from the revaluation into the national currency of assets, liabilities and capital denominated in foreign currencies.

The objective of managing currency risk is to reduce the adverse effect of changes in foreign exchange rates by minimising the open currency position.

The Bank has approved the following internal limits of open foreign currency positions:

- Each currency – 5 percent of the Bank’s Tier 1 capital.
- All currencies – 10 percent of the Bank’s Tier 1 capital.

Considering the current level of the Bank’s business, the Bank is not striving to maintain the open foreign currency position to earn profits from speculative transactions.

To assess the compliance of the existing limits with the Bank’s actual positions and situation on the currency market, stress tests are performed regularly.

The Bank’s total open foreign currency position as at 31 December 2022 was 9.25% (long position) (31 December 2021 – 4.00% (long position)) of amount the Bank's Tier 1 capital.

31.12.2023.

	EUR	USD	Other currencies	Total
Assets				
Cash and balances with the Bank of Latvia	64 575	1	-	**64 576**
Demand deposits with credit institutions	31	12	140	**183**
Financial assets measured at fair value through profit or loss	-	803	-	**803**
Debt securities measured at fair value through other comprehensive income	14 838	2 167	-	**17 005**
Financial assets measured at amortized cost	71 943	1 115	-	**73 058**
Debt securities	*35 242*	-	-	***35 242***
Loans and advances due from non-banks	*36 701*	*29*	-	***36 730***
Term deposits with credit institutions	-	*1 086*	-	***1 086***
Property and equipment	6 216	-	-	**6 216**
Intangible assets	663	-	-	**663**
Other assets	1 175	374	42	**1 591**
Financial assets	*388*	*374*	*42*	***804***
Non-financial assets	*787*	-	-	***787***
Total assets	**159 441**	**4 472**	**182**	**164 095**
Liabilities and shareholders' equity				
Financial liabilities measured at fair value through profit or loss	-	-	-	**-**
Financial liabilities measured at amortized cost	122 804	4 499	168	**127 471**
Deposits	*122 804*	*4 499*	*168*	***127 471***
Provisions	3	2	-	**5**
Other liabilities	1 945	389	2	**2 336**
Financial liabilities	*1 278*	*389*	*2*	***1 669***
Non-financial liabilities	667	-	-	***667***
Total liabilities	**124 752**	**4 890**	**170**	**129 812**
Shareholders' Equity	34 339	(56)	-	**34 283**
Total liabilities and shareholders' equity	**159 091**	**4 834**	**170**	**164 095**
Long/(short) position of net balance sheet items	**350**	**(362)**	**12**	**-**
Net long/(short) position of OTC foreign currency swaps	**-**	**-**	**-**	**-**
Net foreign currency open long/(short) position	**350**	**(362)**	**12**	**-**
Open position % of the Bank's Tier 1 capital	**x**	**(1.08)**	**0.04**	**x**

31.12.2022.

	EUR	USD	Other currencies	Total
Assets				
Cash and balances with the Bank of Latvia	17 237	13	1	17 251
Demand deposits with credit institutions	39	189	2 329	2 557
Financial assets measured at fair value through profit or loss	-	668	-	668
Debt securities measured at fair value through other comprehensive income	44 878	3 078	-	47 956
Financial assets measured at amortized cost	87 663	1	-	87 664
Debt securities	*40 934*	-	-	*40 934*
Loans and advances due from non-banks	*46 729*	*1*	-	*46 730*
Term deposits with credit institutions	-	-	-	-
Property and equipment	6 314	-	-	6 314
Intangible assets	236	-	-	236
Other assets	2 034	264	50	2 348
Financial assets	*857*	*264*	*50*	*1 171*
Non-financial assets	*1 177*	-	-	*1 177*
Total assets	**158 401**	**4 213**	**2 380**	**164 994**
Liabilities and shareholders' equity				
Financial liabilities measured at fair value through profit or loss	11	-	-	11
Financial liabilities measured at amortized cost	112 649	5 325	441	118 415
Deposits	*112 649*	*5 325*	*441*	*118 415*
Provisions	2 436	3	-	2 439
Other liabilities	14 835	676	39	15 550
Financial liabilities	*12 062*	*676*	*39*	*12 777*
Non-financial liabilities	*568*	-	-	*568*
Total liabilities	**127 726**	**6 004**	**480**	**134 210**
Shareholders' Equity	30 995	(211)	-	30 784
Total liabilities and shareholders' equity	**158 721**	**5 793**	**480**	**164 994**
Long/(short) position of net balance sheet items	**(320)**	**(1 580)**	**1 900**	**-**
Net long/(short) position of OTC foreign currency swaps	**(2 150)**	**2 142**	**-**	**(8)**
Net foreign currency open long/(short) position	**(2 470)**	**562**	**1 900**	**(8)**
Open position % of the Bank's Tier 1 capital	**x**	**2.01**	**6.79**	**x**

	31.12.2023	31.12.2022
	Profit or loss	
5% appreciation of USD against EUR	(18)	28
5% deppreciation of USD against EUR	18	(28)
20% appreciation of RUB against EUR	(10)	378
20% deppreciation of RUB against EUR	10	(378)

POSITION RISK

Position risk is a possibility of sustaining a loss due to revaluation of a position in a debt or equity security when the price of the respective security changes. Position risk may be either specific or general risk.

Specific risk is a possibility of sustaining a loss if the price of a debt or equity security changes because of the factors related to the securities issuer or – in case of derivative financial instruments – to the person issuing the security that is the underlying asset of the derivative.

General risk is a possibility of sustaining a loss if the price of a security changes because of the factors related to the fluctuations in interest rates (for debt securities) or extensive changes in the capital market (for equity securities) that are not related to a particular securities issuer.

Position risk associated with the Bank's financial assets measured at fair value through other comprehensive income portfolio is managed by setting a stop loss limit for each individual financial instrument and evaluation of necessity of sale of the instrument if the potential loss on its disposal reaches 25% of the acquisition value.

By determining the stop loss limits, the Bank restricts the excessive loss that may be incurred on impairment of financial instruments.

	31.12.2023	31.12.2022
Impact on profit: increase of securities prices by 5%	44	36
Impact on profit: decrease of securities prices by 5%	(44)	(36)
Impact on other comprehensive income: increase of securities prices by 5%	860	2 405
Impact on other comprehensive income: decrease of securities prices by 5%	(860)	(2 405)

INTEREST RATE RISK

Interest rate risk represents the Bank's exposure in the event that changes in interest rates have an adverse effect on the Bank's income/ expense (and, consequently, also the Bank's own funds) and economic value. Sources of interest rate risk are as follows:

- Reprising risk, which is a risk of incurring a loss due to changes in interest rates and timing differences in the remaining or repricing maturities of assets, liabilities and memorandum items;
- Yield curve risk, which is a probability of a loss due to unexpected changes in the slope and shape of the yield curve;
- Basis risk, which is a probability of a loss from changes in interest rates of financial

instruments having similar repricing schedules but different base rates;

- Optionality risk, which is a risk of incurring a loss if a financial instrument directly (options) or indirectly (loans with a prepayment facility, demand deposits, etc.) provides for a possibility of choice for the Bank’s customers.

The objective of managing interest rate risk is to minimise the effect of interest rate risk on the Bank’s assets and liabilities and income.

To assess interest rate risk, the Bank analyses and plans the repricing maturity structure on a regular basis, calculates the reduction in the Bank’s economic value due to adverse changes in interest rates and defines the capital requirement for interest rate risk.

The assessment of the Bank’s exposure to interest rate risk is based on the following key principles:

- The effect produced by changes in interest rates on the Bank’s financial performance and economic value is analysed as follows:
  - Assessment of interest rate risk from the income perspective – analysis of the effect of changes in interest rates on net interest income and other income and expense items related to interest rates in the short term;
  - Assessment of interest rate risk from the economic value perspective – analysis of the effect of changes in interest rates on the Bank’s economic value in the long term. The term *economic value* denotes the present value of net future cash flows, which is determined by discounting future cash flows by the current market interest rate.
- The Bank establishes the current interest rate risk level as well as identifies situations when the Bank’s exposure to interest rate risk is or may be excessively large;
- All significant interest rate risks associated with assets, liabilities and memorandum items - repricing risk, yield curve risk, basis risk, and optionality risk – are assessed. Interest rate risk is assessed and managed by gap analysis and the duration analysis and using simulation models.

Simulation approaches demonstrate potential changes in the Bank’s economic value. According to the regulations of the Financial and Capital Market Commission No. 190 "Regulatory regulations for interest rate risk management, calculation of economic depreciation and preparation of interest rate risk term structure report" the changes in economic value are assessed by interest rate changes at +/- 200 basis points, as well as sudden and unexpected changes in interest rates in any of the six stress scenarios, set out in European Banking Authority Guideline EBA/GL/2018/02 of 19 July 2018 "Guidelines on the management of interest rate risk arising from non-trading book activities".

The table below shows the reduction in economic value of the Bank, i.e. the result of applying the simulation model (the scenario defined by the Financial and Capital Market Commission):

The below tables present the calculation of the weighted interest rate risk currency positions:

	31.12.2023	31.12.2022
Impact on equity: parallel increase by 100 basis points	(241)	(840)
Impact on equity: parallel decrease by 100 basis points	241	840

	31.12.2023	31.12.2022
100 bp parallel increase	92	(140)
100 bp parallel decrease	(92)	140

The Bank's exposure to interest rate risk is characterised by the maturity of interest sensitive assets, liabilities and off-balance sheet items based on the shorter of the remaining maturities of interest sensitive financial instruments and interest rate repricing periods.

The Bank also determines the effect of interest rate risk on the Bank's profit or loss and the Bank's own funds based on the parallel increase in interest rates by 1 per cent (or 100 basis points) and assuming that interest rates change in the mid-year. The effect on the Bank's own funds is calculated considering potential changes in the Bank's available-for-sale portfolio.

The tables below present the repricing maturity analysis of assets, liabilities and off-balance sheet items based on interest rate changes and the effect of interest rate risk on the Bank's profit or loss and the Bank's own funds:

31.12.2023.

	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Non-interest bearing	Total	Less than 1 month
Assets								
Cash and balances with the Bank of Latvia	63 745	-	-	-	-	-	831	**64 576**
Demand deposits with credit institutions	183	-	-	-	-	-	-	**183**
Financial assets measured at fair value through profit or loss	-	-	-	-	-	-	803	**803**
Debt securities measured at fair value through other comprehensive income	*4*	*3 991*	*56*	*1*	*11 223*	*1 730*	-	***17 005***
Financial assets measured at amortized cost :	*12 031*	*9 539*	*20 418*	*4 616*	*22 826*	*81*	*3 547*	***73 058***
Debt securities	*24*	*2 056*	*6 090*	*4 567*	*22 505*	-	-	***35 242***
Loans and advances due from non-banks	*10 921*	*7 483*	*14 328*	*49*	*321*	*81*	*3 547*	***36 730***
Term deposits with credit institutions	*1 086*	-	-	-	-	-	-	***1 086***
Property and equipment	-	-	-	-	-	-	6 216	**6 216**
Intangible assets	-	-	-	-	-	-	663	**663**
Other assets	-	-	-	-	-	-	1 591	**1 591**
Financial assets	-	-	-	-	-	-	*804*	***804***
Non-financial assets	-	-	-	-	-	-	*787*	***787***
Total assets	**75 963**	**13 530**	**20 474**	**4 617**	**34 049**	**1 811**	**13 651**	**164 095**
Long off-balance items that are sensitive to interest rate	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Liabilities and equity								
Financial liabilities measured at fair value through profit or loss	-	-	-	-	-	-	-	-
Financial liabilities measured at amortized cost	67 777	13 571	12 158	16 342	17 623	-	-	**127 471**
Deposits	*67 777*	*13 571*	*12 158*	*16 342*	*17 623*	-	-	***127 471***
Other liabilities	*236*	-	-	-	-	-	*2 100*	***2 336***
Financial liabilities	*236*	-	-	-	-	-	*1 433*	***1 669***
Non-financial liabilities	-	-	-	-	-	-	*667*	***667***
Equity	**-**	**-**	**-**	**-**	**-**	**-**	**34 283**	**34 283**
Total liabilities and equity	**68 013**	**13 571**	**12 158**	**16 342**	**17 623**	**-**	**36 383**	**164 090**
Short off-balance sheet items that are sensitive to changes in interest rates	**673**	**94**	**40**	**-**	**-**	**-**	**x**	**807**
Net interest rate risk position (gap)	**7 277**	**(135)**	**8 276**	**(11 725)**	**16 426**	**1 811**	**x**	**21 930**

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31.12.2022.

	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Non-interest bearing	Total	Less than 1 month
Assets								
Cash and balances with the Bank of Latvia	15 800	-	-	-	-	-	1 451	**17 251**
Demand deposits with credit institutions	2 557	-	-	-	-	-	-	**2 557**
Financial assets measured at fair value through profit or loss	-	-	-	-	-	-	668	**668**
Debt securities measured at fair value through other comprehensive income	2 448	2 503	71	5 451	33 454	4 029	-	**47 956**
Financial assets measured at amortized cost :	11 959	9 380	22 412	3 647	36 615	26	3 625	**87 664**
Debt securities	*24*	*1 055*	*69*	*3 600*	*36 186*	-	-	***40 934***
Loans and advances due from non-banks	*11 935*	*8 325*	*22 343*	*47*	*429*	*26*	*3 625*	***46 730***
Term deposits with credit institutions	-	-	-	-	-	-	-	-
Property and equipment	-	-	-	-	-	-	6 314	**6 314**
Intangible assets	-	-	-	-	-	-	236	**236**
Other assets	-	-	-	-	-	-	2 348	**2 348**
Financial assets	-	-	-	-	-	-	*1 171*	***1 171***
Non-financial assets	-	-	-	-	-	-	*1 177*	***1 177***
Total assets	**32 764**	**11 883**	**22 483**	**9 098**	**70 069**	**4 055**	**14 642**	**164 994**
Long off-balance items that are sensitive to interest rate	2 142	-	-	-	-	-	-	**2 142**
Liabilities and equity								
Financial liabilities measured at fair value through profit or loss	11	-	-	-	-	-	-	**11**
Financial liabilities measured at amortized cost	42 103	15 806	14 567	19 734	26 205	-	-	**118 415**
Deposits	*42 103*	*15 806*	*14 567*	*19 734*	*26 205*	-	-	***118 415***
Other liabilities	202	-	-	-	-	-	13 143	**13 345**
Financial liabilities	*202*	-	-	-	-	-	*12 575*	***12 777***
Non-financial liabilities	-	-	-	-	-	-	*568*	***568***
Equity	**-**	**-**	**-**	**-**	**-**	**-**	**30 784**	**30 784**
Total liabilities and equity	**42 316**	**15 806**	**14 567**	**19 734**	**26 205**	**-**	**43 927**	**162 555**
Short off-balance sheet items that are sensitive to changes in interest rates	**4 922**	**742**	**828**	**11**	**3**	**-**	**x**	**6 506**
Net interest rate risk position (gap)	**(12 332)**	**(4 665)**	**7 088**	**(10 647)**	**43 861**	**4 055**	**x**	**27 360**

Before engaging in any transactions with financial instruments (except for derivatives), the Risk Control Department analyses the potential effect of the exposure on the interest rate repricing maturity and economic value of the Bank.

In preparing the transaction, the Credit Division determines interest rates according to the Bank's Interest Rate Setting Guidelines. The loan interest rate should cover all expenses associated with the loan and compensate the risk assumed by the Bank, namely:

- Interest on borrowed funds or consideration for other exposures;
- Loan servicing expenses;
- Compensation of potential loss (risk premium);
- Guaranteed profit.

The loan interest rate (compensation) for a particular exposure depends on the risk associated with each individual loan.

In order to assess the impact of adverse changes in interest rates on the Bank's profitability and economic value during the strained market situation, the Bank conducts regular interest rate risk stress testing.

OPERATIONAL RISK

Operational risk is the risk of a loss resulting from incomplete or non-compliant internal processes, people and systems or from external events. Operational risk is defined as the risk of a reduction in the Bank's income (or incurring of additional costs) and reduction of own funds) due to different people mistakes, the system error, including, IT systems, errors or interruptions of operations, lack of legal documentation of transactions, non-observance of clients' interests, internal and external fraud, damage to tangible assets. Information technology risks and legal risks are evaluated within the framework of operational risk.

The objective of managing operational risk is to identify the sources of risk, determine risk management methods in order to minimise the potential loss that could be caused by an operational risk event.

Routine identification of operational risk is the responsibility of all employees of the Bank, and the core elements of the operational risk management framework are as follows:

- Identification of operational risk;
- Internal operational risk assessment;
- Monitoring of operational risk;
- Control and mitigation of operational risk;
- Operational risk stress testing.

If the risk event losses exceed 5 000.00 EUR or frequency of one type of incidents is greater than 5 cases per week, the Bank's Risk director and Board member responsible of Risk Control Department is immediately informed about such cases.

If the total amount of operational risk events with actual losses and planned (expected) losses during the last 52 weeks, which is recorded in the operational risk events and losses database, exceeds the level of operational risk equity requirements calculated according to the basic indicator approach, the Risk Control Department evaluates the need for additional capital for covering unexpected operational risk losses for maintenance, which is reflected in the Bank's current Report on the capital adequacy assessment process.

NOTE 27 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm’s length transaction. The fair value of liquid financial assets has been determined using bid prices, while offer prices have been used to determine the fair value of financial liabilities.

For illiquid financial assets and liabilities, including loans, there are, by definition, no active markets. Accordingly, fair value has been estimated using appropriate valuation techniques. The methods used to determine the fair value of assets and liabilities not carried at fair value are as follows:

Cash and balances with central banks

The fair value of cash and balances with central banks is their carrying amount as these balances may be withdrawn without notice.

Balances due from credit institutions

The fair value of balances on demand with credit institutions is their carrying amount as these balances may be withdrawn without notice. The fair value of overnight placements is their carrying amount. The fair value of other amounts due from banks is calculated by discounting expected cash flows using current market rates. In many cases, the carrying value is a close representation of fair value due to the short-term maturity profile.

Loans

The fair value of loans is calculated by discounting expected future cash flows. The discount rates consist of money market rates as at the end of year and credit spread margins, which are adjusted for current market conditions.

Securities at amortised cost

Securities at amortised cost are valued using unadjusted quoted prices in active markets, where available. In other instances, either quotes of market participants are used or the value of securities is determined using valuation models employing observable or non-observable market inputs.

Financial assets measured at fair value through other comprehensive income

Financial assets measured at fair value through other comprehensive income assets are revalued on a daily basis applying Bloomberg quotations, so that the fair value does not differ from book value.

Financial assets and liabilities measured at fair value through profit or loss

Derivative financial instruments are revalued on a daily basis according to the interbank rates and, therefore, the fair value of these instruments equals their carrying amount.

Exception is VISA Europe Limited shares included into available for sale financial assets. According to VISA Inc. information, as a result of sale of VISA Europe Limited, ratio of Visa Inc. preference shares to Visa Inc. ordinary shares is 1: 3.629 (2022: 1: 3.645). Given the fact that the preference shares are not traded in free trade, and the exchange of preference shares to ordinary shares will take place over a long period of the time, the Bank determines the value of preference shares using Bloomberg price for ordinary share, applying a 50% discount.

Deposits from customers

It is assumed that the fair value of customer deposits repayable on demand and short-term deposits is their carrying amount. The fair value of other deposits is calculated by discounting expected cash flows using average market interest rates or rates offered at year-end. The fair value as at 31 December 2023 and 2022 is calculated by discounting expected cash flows and using average interest rates.

The table below shows a comparison, by class, of the carrying amounts and fair values of the Bank's financial instruments reported in the financial statements.

	31.12.2023.			31.12.2022.		
	Carrying amount	Fair value	Diffe-rence	Carrying amount	Fair value	Diffe-rence
Financial assets						
Financial assets at amortised cost						
Cash and balances with the Bank of Latvia	64 576	64 576	-	17 251	17 251	-
Due from credit institutions	1 269	1 269	-	2 557	2 557	-
Debt securities	35 242	33 783	1 459	40 934	38 117	2 817
Loans and receivables	36 730	36 612	118	46 730	47 409	(679)
Other financial assets	1 591	1 591	-	2 348	2 348	-
Financial assets measured at fair value through other comprehensive income						
Debt securities	17 005	17 005	-	47 956	47 956	-
Financial assets measured at fair value through profit or loss						
Shares	803	803	-	668	668	-
Financial liabilities						
Financial liabilities at amortised cost						
Deposits from customers	127 471	126 189	1 282	118 415	118 030	385
Other financial liabilities	2 336	2 336	-	12 777	12 777	-
Financial assets measured at fair value through profit or loss						
Derivatives	-	-	-	11	11	-

31.12.2023.

	Carrying amount	Fair value			
		Level 1 input	Level 2 input	Level 3 input	Total
Financial assets					
Financial assets at amortised cost					
Due from credit institutions	1 269	-	-	1 269	1 269
Debt securities	35 242	33 783	-	-	33 783
Loans and receivables	36 730	-	-	36 612	36 612
Other financial assets	1 591	-	-	1 591	1 591
Financial assets measured at fair value through other comprehensive income					
Debt securities	17 005	17 005	-	-	17 005
Financial assets measured at fair value through profit or loss					
Shares	803	-	-	803	803
Financial liabilities					
Financial liabilities at amortised cost					
Deposits from customers	127 471	-	-	126 189	126 189
Other financial liabilities	2 336	-	-	2 336	2 366

31.12.2022.

	Carrying amount	Fair value			
		Level 1 input	Level 2 input	Level 3 input	Total
Financial assets					
Financial assets at amortised cost					
Due from credit institutions	2 557	-	-	2 557	2 557
Debt securities	40 934	38 117	-	-	38 117
Loans and receivables	46 730	-	-	47 409	47 409
Other financial assets	2 348	-	-	2 348	2 348
Financial assets measured at fair value through other comprehensive income					
Debt securities	47 956	47 956	-	-	47 946
Financial assets measured at fair value through profit or loss					
Shares	668	-	-	668	668
Financial liabilities					
Financial liabilities at amortised cost					
Deposits from customers	118 415	-	-	118 030	118 030
Other financial liabilities	13 345	-	-	13 345	13 345
Financial liabilities measured at fair value through profit or loss					
Derivatives	11	11	-	-	11

The following table shows the movements in financial assets measured at fair value through profit or loss valued using level 3 input data:

	Financial assets measured at fair value through profit or loss
Balance as at 31.12.2021.	**1 235**
Net revaluation result	517
Net trading gain	(1 084)
Balance as at 31.12.2022.	**668**
Net revaluation result	135
Balance as at 31.12.2023.	**803**

Considering the short-term nature of cash and cash equivalents, as well as other financial assets and liabilities, their fair value approximately equals their carrying amount.

The Bank uses the following hierarchy of three levels of input data for determining and disclosing the fair value of financial assets and liabilities:

- **Level 1**: Quoted prices in active markets;
- **Level 2:** Other techniques for which all inputs which have a significant effect on the recorded fair value are observable;
- **Level 3:** Other techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The methods employed in classifying the assets by the levels of the fair value hierarchy as at 31 December 2023 are consistent with those of the prior year.

NOTE 28 CAPITAL MANAGEMENT

The primary objective of the Bank’s capital management is to ensure that the Bank complies with externally imposed capital requirements (i.e. European Parliament and Council, Bank of Latvia regulations and IFRS) and that the Bank maintains healthy capital ratios and the Bank's own funds, both in terms of elements and composition, to an extent sufficient for covering significant risks inherent in the Bank’s current and planned operations.

Capital adequacy standards refers to the sufficiency of the Bank’s capital resources to cover credit risk, operational risk, settlement risk, credit value adjustments risk (*CVA*) and market risks.

To calculate minimum Capital Requirements according to Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and amending Regulation (EU) No. 648/2012, the Bank applies:

- A standardized approach for credit risk, counterparty credit risk (except in the case of derivatives), market risk, credit value adjustment (*CVA*) risk and settlement/delivery risk;
- Initial risk exposure method – to determine the amount of counterparty credit risk (in the case of derivatives);
- The basic indicator approach for operational risk;
- A simple method for credit risk mitigation (in the case of financial collateral).

External Credit Assessment Institutions (ECAI) credit rating assigned to the use of capital requirement calculation: The Bank uses ECAI credit ratings to determine the exposure weight from three international rating agencies - Moody's Investors Service, Standard & Poor's, Fitch Ratings, which are calculated using the following approach: if only one rated rating agency rating is available for the exposure, this rating is also applied, but if the rated exposure has two nominated ECAI ratings and each of those ratings has a different level of risk, the rating of the higher rated entity shall apply, but if the rated exposure has more than two nominated ECAI ratings, the select the two ratings of the credit rating agency that correspond to the lowest risk weights and, if the two selected ratings of the credit rating agency have different risk weights, the rating of the credit rating agency with the highest of those two risk weights shall apply. According to the European Parliament and Council Regulation (EU) No. 575/2013 (26 June 2013) on prudential requirements for credit institutions and amending Regulation (EU) No. 648/2012 The Bank uses ECAIs for all exposure classes for which ECAIs have been assigned.

The Bank shall apply Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions No. 648/2012, the definition of equity and the procedure for calculating the amount of equity, which in accordance with the instruments at the disposal of the Bank is included in the procedure for calculation of the Bank's equity and equity requirements. The capital used in the calculation consists of the Tier 1 level elements of equity, which include paid-in share capital, reserve capital, retained earnings, including profit for the year, which is not intended to pay dividends, excluding the revaluation reserve, intangible asses, current year losses, value adjustments due to prudential requirements and the amount of under coverage for non-performing exposures.

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SUMMARY OF THE CALCULATION OF OWN FUNDS AND CAPITAL ADEQUACY RATIOS

		31.12.2023.	31.12.2022.
1.	**Own funds** *(1.1.+1.2.)*	**33 585**	**27 973**
1.1.	TIER 1 capital *(1.1.1.+1.1.2.)*	33 585	27 973
1.1.1.	*Common equity TIER 1 capital (1.1.1.1. +1.1.1.2. +1.1.1.3. +1.1.1.4. +1.1.1.5. +1.1.1.6. +1.1.1.7. +1.1.1.8.)*	*33 585*	*27 973*
1.1.1.1.	*Capital instruments eligible as CET1 Capital*	*13 000*	*13 000*
1.1.1.2.	*Retained earnings*	*22 170*	*21 747*
1.1.1.3.	*Accumulated other comprehensive income*	*(888)*	*(3 963)*
1.1.1.4.	*Adjustments to CET1 due to prudential filters*	*(18)*	*(49)*
1.1.1.5.	*(-) Other intangible assets*	*(663)*	*(236)*
1.1.1.6.	*(-) Free deliveries which can alternatively be subject to a 1250% risk weight*	-	*(2 171)*
1.1.1.8.	*(-) Additional deductions of CET1 Capital due to Article 3 CRR*	*(16)*	*(355)*
2.	**Total risk exposure amount** *(2.1.+2.2.+2.3.+2.4.+2.5.+2.6.+2.7.)*	**87 531**	**133 455**
2.1.	Risk weighted exposure amounts for credit, counterparty credit and dilution risks and free deliveries *(2.1.1.+2.1.2.+2.1.3.+2.1.4.+2.1.5.)*	59 907	103 441
2.1.1.	*Central governments and central banks*	*1 161*	*798*
2.1.2.	*Institutions*	*4 133*	*5 079*
2.1.3.	*Corporates*	*12 946*	*46 661*
2.1.4.	*Secured by mortgages on immovable property*	*12 655*	*17 757*
2.1.5.	*Other risk exposure*	*29 012*	*33 146*
2.2.	Total risk exposure amount for settlement/delivery	-	-
2.3.	Total risk exposure amount for position, foreign exchange and commodities risks	442	2 585
2.4.	Total risk exposure amount for operational risk	27 182	27 426
2.5.	Total risk exposure amount for credit valuation adjustment	-	3
3.	**Capital ratios and capital levels**		
3.1.	CET 1 capital ratio *(1.1.1./2.*100)*	38.37%	20.96%
3.2.	Surplus (+)/deficit (-) of CET 1 capital *(1.1.1.-2.*4.5%)*	29 646	21 968
3.3.	TIER 1 capital ratio *(1.1./2.*100)*	38.37%	20.96%
3.4.	Surplus (+)/deficit (-) of TIER 1 capital *(1.1.-2.*6%)*	28 333	19 966
3.5.	**Total capital ratio** *(1./2.*100)*	**38.37%**	**20.96%**
3.6.	Surplus (+)/deficit (-) of total capital *(1.-2.*8%)*	26 583	17 297
4.	**Total Combined buffer requirement** *(4.1.+4.2.+4.3.+4.4.+4.5.)*	**2 402**	**3 469**
4.1.	Capital conservation buffer	2 188	3 336

4.2.	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State	-	-
4.3.	Institution specific countercyclical capital buffer	214	133
4.4.	Systemic risk buffer	-	-
4.5.	Other Systemically Important Institution buffer	-	-
5.	**Capital ratios taking into account adjustments**		
5.1.	Asset value adjustment amount in the application of the prudential purposes	-	-
5.2.	Common equity TIER 1 capital ratio, taking into account 5.1. row of the correction amount	38.37%	20.96%
5.3.	TIER 1 capital ratio, taking into account 5.1. row of the correction amount	38.37%	20.96%
5.4.	**The total capital ratio, taking into account 5.1. row of the correction amount**	**38.37%**	**20.96%**

** position reduced by the planned amount of dividend payment*.

The Bank does not apply the transitional period for the implementation of the IFRS 9 set out in Article 473a of EU Regulation No. 575/2013.

In the process of internal capital adequacy assessment, the Bank calculates the amount of capital required to cover the following risks:

- **Credit risk** – the Bank has estimated that to cover credit risk in 2022 – 2024 the amount of capital should be maintained in accordance with the scenario that gives the highest result;
- **Market risks**:
  - Foreign exchange risk; the Bank has estimated that to cover foreign exchange risk in 2022 – 2024, the amount of capital should be maintained in accordance with the scenario that gives the highest result (0.8% of the Bank's own funds);
  - Settlement risk; the capital needed to cover the settlement risk assessed according to the approach described by the Regulation (EU) No. 575/2013 of the European Parliament and of the Council as of 31.12.2021 was 0 euro, and the Bank assesses that there is no need to maintain capital to cover this risk;
  - Position risk; the Bank on a monthly basis evaluates how the market risk exposure is affected by liquidity of the market for financial instruments. All instruments included into the Bank’s financial assets measured at fair value through other comprehensive income portfolio were traded on liquid markets. Considering that the Bank does not plan to significantly increase the portfolio of financial instruments at fair value through other comprehensive income in the next three years, without major changes to the term structure and quality of portfolio and assuming that new investments (replacing those that were sold or matured) will be made into financial instruments with similar maturity and making prudent assumptions about the quality of these investments, the Bank has modelled the amount of capital requirements.
- **Operational risk**. In determining the required capital level, the Bank considers the capital requirement calculated according to European Parliament and of the Council Regulation (EU) No. 575/2013 (26 June 2013) on prudential requirements for credit

institutions and amending Regulation (EU) No. 648/2012, described fundamentals approach to calculate their capital requirements, as well as the results of the internal operational risk assessment and stress testing;

- **Interest rate risk** in the banking – the Bank has estimated that in order to cover interest rate risk in the banking book in 2022 – 2024, the amount of capital should be maintained in accordance with the scenario that gives the highest result (11.04% of the Bank's own funds);
- **Concentration risk**. The Bank applies the simplified approach according to Regulations No. 209 on the Internal Capital Adequacy Assessment Process issued by the Financial and Capital Market Commission on 03 November 2020 to determine the relevant adequate capital.

The analysis of concentration risk for the loan portfolio includes:

- ✓ Individual concentration risk analysis,
- ✓ Sector concentration risk analysis,
- ✓ Collateral concentration risk analysis,
- ✓ Currency mismatch risk analysis.

The total capital needed to cover concentration risk is determined by summing all the individual results of the calculations. During the individual analysis, the Bank evaluates the entire loan portfolio exposure concentration, as well as financial instruments hold at amortized cost portfolio, financial instruments at fair value through other comprehensive income portfolio and exposures of monetary financial institutions.

- **For anti-money laundering and terrorism and proliferation financing prevention (AML) risk (including sanction risk)** – as part of capital adequacy process, the Bank evaluates AML risk and evaluated capital requirement for coverage of this risk using two methods, namely in accordance with Regulations No. 209 on the Internal Capital Adequacy Assessment Process issued by the Financial and Capital Market Commission on 03 November 2020 the Bank applies the simplified method for determining the amount of capital required and the internal model, selecting the largest of the results of the calculation;
- **Liquidity risk;** – the amount of capital required to cover liquidity risk is based on the liquidity risk stress testing results. In cases where the results of liquidity stress testing scenarios show a hypothetical non-compliance with any of external requirements of a liquidity, the amount of additional expenses that the Bank estimated to comply to external liquidity requirements is the amount of additional capital needed to cover the liquidity risk;
- **Other risks**:
  - For reputation risk; – with the aid of reputation risk assessment model, it is determined to keep capital requirement as 0.8% of the Bank's own funds;
  - For business model risk; – based on the results of business model risk assessment model, it was determined that required capital level is 1.5% of the Bank's own funds;
  - The rest risks; – the Bank determine the amount of capital required to cover the rest risks in accordance with the simplified method described in Regulations No. 209 on the Internal Capital and Liquidity Adequacy Assessment Process issued by the Financial and Capital Market Commission on 03 November 2020, namely the capital to cover the rest risks is determined as 5% of the total minimum capital

requirements. The rest risks that would require an additional amount of capital, the Bank in accordance with the relevant risk assessment determined:

- ✓ residual risk;
- ✓ country risk;
- ✓ compliance risk;
- ✓ leverage risk;
- ✓ model risk;
- ✓ systemic risk;
- ✓ IT risk;
- ✓ sustainability risk.

Total capital requirement for the Bank is determined by summarising all individual capital requirements for risks that are determined during internal capital adequacy evaluation process. Additional capital requirements are determined for potential risks ensuring that capital of the Bank is sufficient in case of adverse economic developments; to ensure that capital of the Bank is sufficient throughout the economic cycle, i.e. during economic upturn the Bank creates capital reserve for coverage of losses that may arise during period of economic downturn. Amount of additional capital reserve is determined based on stress testing results performed by the Bank.

The Bank’s eligible capital also exceeds the adequate capital to cover all significant risks defined during the capital adequacy assessment process, as well as the Bank capital adequacy ratio target set in 2022 as of 16%.

Capital adequacy assessment is governed by a Bank’s internal document named the Capital Adequacy Assessment Procedure.

NOTE 29 EVENTS AFTER REPORTING DATE

During the period between the last day of the reporting period and the date of signing these financial statements there have been no events that would require adjustment to or should be reflected in these financial statements.

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Independent Auditors' Report

To the shareholder of AS "LPB Bank"

Report on the Audit of the Financial Statements

Our Opinion on the Financial Statements

We have audited the financial statements of AS "LPB Bank" ("the Bank") set out on pages 9 to 89 of the accompanying Annual Report, which comprise:

- the statement of comprehensive income for the year then ended 31 December 2023;
- the statement of financial position as at 31 December 2023;
- the statement of changes in equity and reserves for the year then ended 31 December 2023;
- the statement of cash flows for the year then ended 31 December 2023;
- notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union (IFRS).

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 *Auditor's Responsibilities for the Audit of the Financial Statements section of our report*.

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) and independence requirements included in the Law on Audit Services of the Republic of Latvia that are relevant to our audit of the financial statements in the Republic of Latvia. We have also fulfilled our other professional ethics responsibilities and objectivity requirements in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) and 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 financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our report:

Impairment of loans and receivables due from customers

Key audit matter	In the financial statements, gross value of loans and receivables due from customers comprised EUR 36 940 thousand as at 31 December 2023 (31 December 2022: EUR 50 903 thousand) and impairment allowances comprised EUR 210 thousand as at 31 December 2023 (31 December 2022: EUR 4 173 thousand). More details are provided in the note 12 of the financial statements and information about the measurement policies is provided in the note 2 (d). Individual impairment allowances recognized by the Bank relate to individually monitored corporate and individual exposures. The assessment is therefore based on the analysis of financial performance of each individual borrower and estimation of the fair value of the related collateral. The management applies significant judgements to define impairment allowance for loans and receivables due from customers. Identification of a significant increase in credit risk and credit impairment loans, assessment of probability of default and loss given default ratios requires the management to exercise subjective judgments and develop complex financial models and therefore, we considered this as a key audit matter.
Our audit response	We assessed whether the accounting policies in relation to the impairment of loans and receivables due from customers are in compliance with IFRS requirements. We assessed Bank's expected credit loss assessment methodology for compliance with the IFRS. We tested internal controls applied within processes related to the loan approval and issuance as well as controls over delayed payments and debt collection. We made a sample and audited the Bank's loans and receivables due from customers portfolio covering 80% of outstanding loans to customers as at 31 December 2023. As part of the audit procedures, we assessed customers' financial position, historic debt service, current creditworthiness and the management's exit plans and activities, as well as available sources for loan repayment. Majority of the loans issued by the Bank are loans secured by collateral, therefore in most cases the key source of recovery for non-performing loans is sale of collateral. We performed detailed assessment of assumptions and information sources used in valuation reports provided by independent valuation specialists and the Bank's analysts, including independent checks on market prices for comparable properties and benchmarking assumptions used within the cash flow forecasts against market practice. We analysed repayment scenarios for loans issued to borrowers that are directly or indirectly affected by imposed sanctions against Russia and Belarus, we checked reasonability of assumptions used and assessed whether impairment for such loans have been estimated appropriately by the Bank.

We tested whether the management correctly identified and treated factors evidencing a significant increase in credit risk and impairment for loans to customers. We audited management assumptions and inputs used in assessment of probability of default and loss given default ratios. We tested completeness and accuracy of data used for the calculation of impairment allowance.

We audited completeness and accuracy of disclosures related to loans to customers, impairment allowance and impairment losses.

Other matter

The financial statements of the Bank for the year ended 31 December 2022 were audited by another auditor who expressed an unmodified opinion on those statements on March 23, 2023.

Reporting on Other Information

The Bank's management is responsible for the other information. The other information comprises:

- the Management Report, as set out on pages 3 to 6 of the accompanying Annual Report,
- the composition of the Supervisory Council and the Management Board, as set out on page 7 of the accompanying Annual Report.
- the Statement on Management Responsibility, as set out on page 8 of the accompanying Annual Report,

Our opinion on the financial statements does not cover the other information included in the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

Other reporting responsibilities in accordance with the legislation of the Republic of Latvia 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 – regulation No 113 Regulations on the Preparation of the Annual Reports and Annual Consolidated Accounts for Banks, Investment Brokerage Firms, and Investment Management Companies.

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

- the information given in the Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Management Report has been prepared in accordance with the requirements of the Financial and Capital Market Commission of the Republic of Latvia Regulation 113 Regulations on the Preparation of the 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 Financial Statements

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

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

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

Auditor's Responsibility for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

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

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

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

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

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

We were appointed by the shareholder's meeting on 29 August 2023 to audit the financial statements of LPB Bank AS for the year ended 31 December 2023. This is our first year of appointment.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Bank;
- 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 the prohibited non-audit services (NASs) referred to in paragraph 1 of article 5 of EU Regulation (EU) No 537/2014. We also remained independent of the audited entity (the Bank) in conducting the audit.

SIA “BDO ASSURANCE”
Licence No 182

Raivis Jānis Jaunkalns
Responsible sworn auditor
Certificate No 237
Member of the Board

Riga, Latvia
1 March 2024

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