Magnetiq Bank Annual Report

for the year ended
31 December 2024

magnetiqbank.com

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MANAGEMENT REPORT

Dear shareholders, clients, and business partners,

2024 was a year of transformation for Magnetiq Bank (the “Bank”). Following becoming part of Signet Bank group a new strategy focused on serving FinTech companies and e-commerce service providers was developed and the Bank underwent important changes to cater to the needs of the FinTech business community. In the beginning of the year, the Bank underwent a comprehensive rebranding, implemented changes in its board composition, and revised its strategy and product offerings. As part of this transformation, the Bank reaffirmed its focus on serving FinTech businesses - including *Electronic Money Institutions (EMI), Payment Institutions (PI), Peer-to-Peer (P2P) platforms, Crypto-Asset Service Providers (CASP) and e-merchants* - while discontinuing services for private individuals.

Despite global challenges and economic uncertainties affecting various industries, the Bank has successfully adapted its operations to maintain stability and efficiency. In 2024, Magnetiq Bank prioritized technological improvements not only in its product offering, but also within its Anti-Money Laundering (AML) functions by implementing solutions to enhance compliance and risk management. At the same time, significant improvements were made to quality assurance processes, ensuring greater efficiency, accuracy, and regulatory alignment. The Bank made investments in technological solutions to improve online service accessibility, automate daily processes, and enhance overall operational efficiency.

At Magnetiq Bank, customer satisfaction is not merely a goal; it is a commitment. The Bank has introduced several initiatives aimed at improving the client experience and attracting new customers, demonstrating its dedication to meeting clients' needs.

Financial Performance

At the end of 2024, the Bank's total assets stood at 167 million euros, a slight increase over the previous year. At the same time, the balance sheet structure changed significantly compared to the financial year 2023. As a reflection of the changes in the Bank’s priorities in 2024, the loan portfolio decreased by ~9 million euros as the Bank practically stopped issuing new financing to the non-target clients while revising its loan programs for re-launching them in 2025 towards the target customer audience. The approach to investment in fixed-income securities was also revised in 2024, resulting in the decrease of the financial instruments portfolio by ~21 million euros through some securities maturing and not replaced, and the others being sold considering their specific risks and global macroeconomic and geopolitical events. Consequently, claims against the Latvijas Banka increased by ~28 million euros, providing an alternative stable source of interest income.

In 2024, the Bank recorded a net loss of 58 thousand euros and a total other comprehensive income attributable to Bank shareholders of 465 thousand euros. The total operating income of the bank was made up primarily of net commission income

(35.1%) and net interest income (33.6%), while other types of income (such as foreign exchange gains, gains on derecognition of financial assets and liabilities, and others) combined to produce the remaining 31.3% of the total. While the total operating income was slightly above that of the financial year 2023, and total administrative expenses slightly below the 2023 level, comparatively lower amount of reversals of impairment allowances for expected credit losses in 2024 resulted also in the lower profit before tax than in the prior year and consequently lower overall financial result.

In 2024, Magnetiq Bank made significant improvements in its Anti-Money Laundering (AML) framework. The Bank focused on optimizing its resources, improving internal controls, and enhancing risk management. To streamline operations and boost efficiency, it restructured its personnel and reallocated responsibilities based on each employee's expertise. Additionally, specialized teams were established to monitor key clients and their transactions, particularly within the *Banking-as-a-Service (BaaS)* and e-commerce sectors.

Recognizing the growing need for a more robust compliance approach, the Bank introduced stricter supervision requirements for BaaS clients. This included in-person meetings aimed at evaluating the effectiveness of their internal control systems and ensuring a comprehensive understanding of their risk management frameworks. Ongoing efforts to enhance internal controls continued in alignment with the action plan approved by Latvijas Banka.

In collaboration with EY, a comprehensive risk assessment methodology was developed and implemented, allowing the Bank to refine its approach to risk evaluation. Additionally, employees were provided with internal and external training programs to strengthen their expertise in critical areas, such as crypto-assets and blockchain transaction monitoring.

The Bank transitioned the *Siron Embargo* system to an MX format, which significantly improved screening accuracy. Merchant due diligence processes were integrated into a CRM-based documentation system, ensuring a more structured and efficient approach to risk assessment. Enhancements were made to the Bank's numerical risk scoring methodology, incorporating an in-depth analysis of customer structures for Payment Institution clients.

Further, IT upgrades were carried out to improve efficiency and risk monitoring. A new technical solution has optimized the CRM registry's performance, resulting in quicker search and sorting capabilities. Additionally, a graphical transaction relationship analysis system, *Graphdo*, was introduced, enhancing the Bank's ability to detect suspicious patterns. The Siron system was also upgraded to its latest stable version, and a new AI-enhanced version of *Graphdo Adverse Media Search* was adopted for improved media monitoring. Another milestone was the implementation of the *Salv AML Bridge*, an interbank information exchange system aimed at reinforcing collaboration in financial crime prevention.

Quality assurance (QA) processes also underwent significant improvements. The Bank expanded its QA functions by transferring oversight responsibilities from the

MLRO to the designated Board Member. Regular quality QA reviews were conducted according to a Board-approved work plan, achieving a completion rate of 87%. The frequency of QA reviews was increased, and a new methodology was introduced, allowing for more in-depth evaluations of data quality and merchant due diligence processes. At the same time, the Bank began developing a comprehensive Quality Assurance Procedure, reinforcing its commitment to continuous improvement in compliance and risk management.

Through these strategic initiatives, Magnetiq Bank has strengthened its AML framework by leveraging technology, refining internal controls, and fostering a more proactive approach to financial crime prevention.

In 2024, Magnetiq Bank made a strategic shift in its business model by discontinuing standard client lending. This decision was aimed at avoiding overlapping functions with its parent bank, which resulted in a limited number of new credit transactions throughout the year. However, there was one notable exception: a new loan issued in collaboration with the financial institution Altum. This financing was designed for the acquisition of solar panels, allowing a business to generate environmentally friendly electricity. This initiative demonstrates the Bank's commitment to sustainable and green financing solutions.

Magnetiq Bank is looking ahead to the launch of a new lending direction focused on FinTech and e-commerce businesses. Efforts are underway to develop the regulatory framework and conduct risk assessments, ensuring a structured and secure approach. The goal is to introduce financing solutions for these segments by 2025, aligning with the Bank's refined strategy and reinforcing its role as a key financial partner for digital-first companies.

In 2024, Magnetiq Bank successfully completed several key initiatives aimed at enhancing operational efficiency and expanding its service offerings. The Bank implemented *Central Electronic System of Payment Information (CESOP) reports*, which enable effective monitoring of cross-border transactions made by foreign merchants.

In 2024, Magnetiq Bank successfully integrated into the *VISA B2B Connect network*, allowing its clients to make payments to business partners in 120 currencies across multiple countries. This milestone significantly strengthens the Bank's ability to facilitate seamless global transactions.

Further reinforcing its *Banking-as-a-Service (BaaS)* capabilities, the Bank introduced a *Safeguarding Account* service. This service enables clients to hold funds in a segregated account at Latvijas Banka, with the additional option to place funds overnight at European Central Bank (ECB) rates.

In 2024, Magnetiq Bank improved its *online onboarding process for e-commerce clients* by streamlining due diligence procedures before establishing business relationships. This enhancement ensures faster and more secure customer verification, reinforcing compliance while optimizing the user experience.

To better support its merchant clients, the Bank expanded its acquiring services by integrating *Google Pay* as a payment option for the customers. Additionally, the existing Apple Pay solution was upgraded, allowing payments *via MacBooks and Windows-based computers*, further improving accessibility for online shoppers.

Recognizing the growing demand for real-time account monitoring, Magnetiq Bank also introduced *push notifications* within its mobile application.

Magnetiq Bank is enhancing its reputation as an innovative financial institution by implementing strategic advancements that cater to the changing needs of FinTech companies, merchants, and digital businesses. Notably, we are the first bank in Latvia to join the *Fintech Latvia Association, Fintech HUB LT, and the Latvia Blockchain Association*, which underscores our commitment to innovation and collaboration within the industry.

In 2024, the Bank representatives attended and participated in several conferences and exhibitions in Europe, bringing together professionals from entertainment, digital, startups, e-commerce, finance, and other sectors. Notable events included the *AW Summit in Bucharest, the Affiliate Word Conferences in Barcelona, Money2020 in Amsterdam, iFX EXPO in Cyprus, TES Affiliate Conferences in Budapest, and Seamless Middle Esat in Dubai*.

The Bank's employees have established a tradition of participating in sports events, demonstrating their team spirit. In 2024, the team successfully participated in two events – *Rimi Riga Marathon and Toyota Riga Cycling Marathon*.

Additionally, 2024 marked significant changes in Magnetiq Bank Board composition. Following approval from Latvijas Banka, Sandra Rituma, the Chief Compliance Officer (CCO), Edgars Valmers, the Chief Sales Officer (CSO), and Maksims Leščinskis, the Chief Financial Controller (CFC), joined the Board. They bring extensive expertise in compliance, risk management, e-commerce, and financial planning.

By the end of 2024, Magnetiq Bank underwent further leadership changes with Jakub Wieclaw being appointed as the new Chairman of the Management Board and Deniss Filipovs joining Management Board as the Chief Technology Officer (CTO). Additionally, Voldis Zlobins was promoted to the position of Risk Director. These changes reflect the Bank's commitment to strengthening its leadership, enhancing technological capabilities, and reinforcing risk management to support its evolving strategic direction.

Priorities for 2025

Our strategic focus in 2025 is centered on sustainable growth, financial resilience, and digital transformation. This year will be crucial for strengthening our market position, enhancing customer experience, and ensuring regulatory compliance.

Magnetiq Bank will focus on expanding revenue streams by introducing new financial products for e-commerce merchants, an *Open Banking* payment solution and lending products – *Merchant Cash Advance and Purchase of Receivables*. Additionally, the Bank aims to expand its payment options by integrating a crypto-acquiring solution. At the same time, cost optimization remains critical, and we will implement measures to improve operational efficiency, including process automation and renegotiation of vendor agreements. By optimizing our cost structure, we aim to improve our net interest margin and increase non-interest income through transaction fees, and other diversified sources.

To maintain our competitive edge, we will prioritize customer-centric growth. Expanding our services for small and medium-sized enterprises (SMEs) with the focus on merchant business is a key growth area, and we will continue to develop tailored solutions that address the specific needs of SME segment. Enhancing the overall customer experience will be another strategic priority, with improvements in the onboarding process, boosting self-services capabilities, and upgrading our digital support channels.

Regulatory compliance and risk management will remain a top priority. Ensuring adherence to stringent AML (Anit-Money Laundering) and KYC (Know Your Customer) regulations is essentials, and we will continue to enhance our compliance framework in line with evolving Latvia and EU regulatory requirements. Proactive engagement with Latvijas Banka will be key to staying ahead of regulatory developments.

To comply with the *Instant Payments Regulation (Regulation 2024/886),* the Bank will implement new requirements to offer customers a more convenient, faster, and secure way to make payments to third parties or transfer funds between their accounts with different payment service providers.

Furthermore, Magnetiq Bank plans to upgrade its website with accessibility tools to ensure better service availability for individuals with disabilities or long-term physical, mental, intellectual, or sensory impairments that may hinder full and equal participation in society.

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.

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

Roberts Idelsons Chairman of the Council	Jakub Wieclaw Chairman of the Board	Maksims Leščinskis Board Member

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THE COUNCIL AND THE BOARD

The Council of the Bank as of 31 December 2024

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	03/01/2025
Nora Pastore	Council Member	15/12/2023	

The Board of the Bank as of 31 December 2024

Name, Last name	Position	Date of appointment	Release date
Jakub Wieclaw	Chairman of the Board	28/12/2024	
Sandra Rituma	Board Member	02/05/2024	
Edgars Valmers	Board Member	20/05/2024	
Maksims Leščinskis	Board Member	31/05/2024	
Deniss Filipovs	Board Member	28/12/2024	
Antons Kononovs	Deputy Chairman of the Board, Board Member	03/10/2018	28/12/2024
Jefims Gasels	Board Member	27/09/2023	28/12/2024
Baiba Preise	Board Member	29/04/2019	29/04/2024
Alda Odina	Board Member	12/07/2022	27/04/2024

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

Roberts Idelsons
Chairman of the Council

Jakub Wieclaw
Chairman of the Board

Maksims Leščinskis
Board Member

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STATEMENT OF MANAGEMENT’S RESPONSIBILITY

The management of JSC Magnetiq 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 10 to 91 for the year ended 31 December 2024, 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 IFRS Accounting Standards as adopted by the European Union and the regulations of the Financial and Capital Markets Commission and Bank of Latvia.

The Bank’s management is responsible for maintaining proper accounting records and ensuring compliance with the with the Law on Credit Institutions of the Republic of Latvia, Regulations of the Bank of Latvia, and other laws of the Republic of Latvia as well as European Union Regulations applicable to credit institutions. 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 Council and the Management Board of the Bank:

Roberts Idelsons Chairman of the Council	Jakub Wieclaw Chairman of the Board	Maksims Leščinskis Board Member

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STATEMENT OF COMPREHENSIVE INCOME

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

	Notes	2024	2023
Interest income	3	5 826	5 683
Interest expense	3	(1 779)	(1 020)
Net interest income	3	**4 047**	**4 663**
Commission and fee income	4	13 157	14 531
Commission and fee expense	4	(8 933)	(8 855)
Net commission and fee income	4	**4 224**	**5 676**
Income from dividends		8	12
Net loss on derecognition of financial assets and financial liabilities at fair value through other comprehensive income	6	(116)	(1 319)
Net gain on derecognition of financial assets and financial liabilities at fair value through profit or loss	6	804	276
Net gain on foreign exchange	6	2 458	1 981
Other income	5	618	410
Total operating income		**12 043**	**11 699**
General administrative expenses	7	(12 190)	(12 745)
Reversal impairment allowance for expected credit loss	8	103	1 750
Result from non-current assets held for sale		-	(162)
Profit / (loss) before tax		**(44)**	**542**
Corporate income tax	9	(14)	(119)
Net profit / (loss) for the year		**(58)**	**423**
Profit / (loss) attributable to to the Bank's shareholders		**(58)**	**423**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Changes in revaluation reserve of debt securities at fair value through other comprehensive income		407	1 757
Change to income statement as a result of sale of financial assets at fair value through other comprehensive income (debt securities)		116	1 319
Total comprehensive income		**523**	**3 076**
Total income attributable to the Bank's shareholders		**465**	**3 499**

The accompanying notes on pages 14 to 91 form an integral part of these financial statements. The Bank's financial statements set out on pages 10 to 91 were approved by the Board on 27 February 2025 and by the Council on 27 February 2025.

Roberts Idelsons Chairman of the Council	Jakub Wieclaw Chairman of the Board	Maksims Leščinskis Board Member

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STATEMENT OF FINANCIAL POSITION

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

	Notes	31.12.2024	31.12.2023
ASSETS			
Cash and balances with the Bank of Latvia	10	93 036	64 576
Due from credit institutions	11	4 418	183
Financial assets measured at fair value through profit or loss		514	803
Debt securities measured at fair value through other comprehensive income	13	9 284	17 005
Financial assets measured at amortised cost		51 657	73 058
- *loans and receivables due from non-banks*	*12*	*27 957*	*36 730*
- *debt securities*	*13*	*22 544*	*35 242*
- *Term deposits with credit institutions*		*1 156*	*1 086*
Property, plant and equipment	14	6 331	6 216
Intangible assets	14	606	663
Other assets	15	1 224	1 591
Total assets		**167 070**	**164 095**
LIABILITIES			
Finansial liabilities measured at amortised cost		131 032	127 471
- *deposits from customers*	*17*	*131 032*	*127 471*
Provisions		-	5
Other liabilities	18	1 290	2 336
Total liabilities		**132 322**	**129 812**
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK			
Paid-in share capital	19	13 000	13 000
Revaluation reserve for financial assets measured at fair value through other comprehensive income	20	(364)	(887)
Retained earnings		22 112	22 170
Total equity attributable to equity holders of the Bank		**34 748**	**34 283**
Total equity		**34 748**	**34 283**
Total liabilities and equity		**167 070**	**164 095**
Assets under management and administration	16	**2 916**	**3 038**

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Roberts Idelsons	Jakub Wieclaw	Maksims Leščinskis
Chairman of the Council	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	Revaluation reserve for financial assets measured at fair value through other comprehensive income	Retained earnings	Total
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 for the year	-	3 076	423	3 499
Balance as at 31 December 2023	**13 000**	**(887)**	**22 170**	**34 283**
Other comprehensive income	-	*523*	-	*523*
Net loss for the year	-	-	*(58)*	*(58)*
Total income/(expense) for the year	-	523	(58)	465
Balance as at 31 December 2024	**13 000**	**(364)**	**22 112**	**34 748**

The accompanying notes on pages 14 to 91 form an integral part of these financial statements. The Bank's financial statements set out on pages 10 to 91 were approved by the Board on 27 February 2025 and by the Council on 27 February 2025.

Roberts Idelsons
Chairman of the Council

Jakub Wieclaw
Chairman of the Board

Maksims Leščinskis
Board Member

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STATEMENT OF CASH FLOWS

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

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit /(loss) before tax	(44)	542
Corporate income tax paid	(14)	(119)
Amortisation and depreciation	518	510
Decrease in impairment allowance for financial assets	(103)	(1 750)
Interest income	(4 047)	(4 663)
Increase in cash and cash equivalents from operating activities before changes in assets and liabilities	**(3 690)**	**(5 480)**
(Increase)/decrease in financial assets at fair value through profit or loss	289	(135)
Decrease in loans and receivables	8 792	10 359
Decrease in other assets	502	1 435
Increase in deposits from customers	3 503	9 069
Increase in other liabilities	(1 046)	(13 225)
Change in cash and cash equivalents from operating activities before income tax	**8 350**	**2 023**
Interest received	6 022	5 887
Interest paid	(1 721)	(1 033)
Change in cash and cash equivalents from operating activities	**12 651**	**6 877**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(576)	(839)
Decrease in financial instruments designated at fair value through other comprehensive income	8 340	32 733
Proceeds in financial instruments designated at fair value through other comprehensive income	(136)	1 267
Decreas in financial assets measured at amortized cost	12 500	5 642
Proceeds in financial assets measured at amortized cost	122	17
Change in cash and cash equivalents from investing activities	**20 250**	**38 820**
Net cash flows for the year	**32 901**	**45 697**
Cash and cash equivalents at the beginning of the year	65 845	20 826
Foreign exchange loss	(136)	(678)
Cash and cash equivalents at the end of the year	**98 610**	**65 845**

The accompanying notes on pages 14 to 91 form an integral part of these financial statements. The Bank's financial statements set out on pages 10 to 91 were approved by the Board on 27 February 2025 and by the Council on 27 February 2025.

Roberts Idelsons	Jakub Wieclaw	Maksims Leščinskis
Chairman of the Council	Chairman of the Board	Board Member

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NOTE 1 BASIS OF PREPARATION OF FINANCIAL STATEMENTS

(a) General information

Magnetiq Bank is a Latvian-based financial institution specializing in providing comprehensive banking infrastructure and payment solutions tailored for FinTech companies, startups, and e-commerce service providers. Services include Banking as a Service (BaaS), safeguarding accounts, and a variety of payment solutions designed to support business growth and innovation.

Magnetiq Bank was registered as a joint stock company on 5 September 2008 and commenced operations on the same date. On 11 December 2023, following regulatory approvals, Signet Bank AS became the sole shareholder and parent company of Magnetiq Bank.

The legal address of Magnetiq Bank is Brīvības iela 54, Riga, LV-1011, Latvia. The bank is incorporated and domiciled in Latvia, operating as a joint stock company (in Latvian, "akciju sabiedrība").

(b) Authorisation of the financial statements

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.
These financial statements have been authorised for issuance by the Management of the Bank on 27 February 2025.

(c) Basis of presentation

The Bank's financial statements are prepared in accordance with IFRS Accounting Standards as adopted by the European Union ("EU") on a going concern basis.

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.

(d) Going concern

The accompanying Bank financial statements have been prepared in accordance with

IFRS Accounting 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 Group's Business Recovery Plan, the main recovery measure for Bank's 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 by 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;
- 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.

The Bank had set a target total capital adequacy ratio for 2024 of at least 17 percent.

(e) 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).

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a)New Standards interpretations and amendments adopted from 1 January 2024

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 2024:

- Supplier Finance Arrangements (Amendments to IAS 7 & IFRS 7);
- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16);
- Classification of Liabilities as Current or Non-Current (Amendments to IAS 1);
- Non-current Liabilities with Covenants (Amendments to IAS 1).

These amendments to various IFRS Accounting Standards are mandatorily effective for reporting periods beginning on or after 1 January 2024.

Supplier Finance Arrangements (Amendments to IAS 7 & IFRS 7)

On 25 May 2023, the IASB issued Supplier Finance Arrangements, which amended IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures.
The amendments require entities to provide certain specific disclosures (qualitative and quantitative) related to supplier finance arrangements. The amendments also provide guidance on the characteristics of supplier finance arrangements.

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

On 22 September 2022, the IASB issued amendments to IFRS 16 – Lease Liability in a Sale and Leaseback (the Amendments).
Prior to the Amendments, IFRS 16 did not contain specific measurement requirements for lease liabilities that may contain variable lease payments arising in a sale and leaseback transaction. In applying the subsequent measurement requirements of lease liabilities to a sale and leaseback transaction, the Amendments require a seller-lessee to determine 'lease payments' or 'revised lease payments' in a way that the seller-lessee would not recognize any amount of the gain or loss that relates to the right of use retained by the seller-lessee.

These amendments had no effect on the financial statements of the Bank.

Classification of Liabilities as Current or Non-Current and Non-current Liabilities with Covenants (Amendments to IAS 1)

The IASB issued amendments to IAS 1 in January 2020: Classification of Liabilities as Current or Non-current, and subsequently, in October 2022: Non-current Liabilities with Covenants.
The amendments clarify the following:

- An entity's right to defer settlement of a liability for at least twelve months after the reporting period must have substance and must exist at the end of the reporting period.
- If an entity’s right to defer settlement of a liability is subject to covenants, such covenants affect whether that right exists at the end of the reporting period only if the entity is required to comply with the covenant on or before the end of the reporting period.
- The classification of a liability as current or non-current is unaffected by the likelihood that the entity will exercise its right to defer settlement.
- In the case of a liability that can be settled, at the option of the counterparty, by the transfer of the entity’s own equity instruments, such settlement terms do not affect the classification of the liability as current or non-current only if the option is classified as an equity instrument.

These amendments have no effect on the measurement of any items in the financial statements of the Bank. However, the classification of certain borrowings has changed from non-current to current as a result of the application of the amendments for the current financial year as well as the comparative period.

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 annual reporting period beginning 1 January 2025:

- Lack of Exchangeability (Amendment to IAS 21 The Effects of Changes in Foreign Exchange Rates).

The following amendments are effective for the annual reporting period beginning 1 January 2026:

- Amendments to the Classification and Measurement of Financial Instruments (Amendments to IFRS 9 Financial Instruments and IFRS 7).
- Contracts Referencing Nature-dependent Electricity (Amendments to IFRS 9 and IFRS 7).

The following standards and amendments are effective for the annual reporting period beginning 1 January 2027:

- IFRS 18 Presentation and Disclosure in Financial Statements
- IFRS 19 Subsidiaries without Public Accountability: Disclosures

The Bank is currently assessing the effect of these new accounting standards and amendments.
IFRS 18 Presentation and Disclosure in Financial Statements
This standard, issued by the IASB in April 2024, supersedes IAS 1 and results in major consequential amendments to IFRS Accounting Standards, including IAS 8 Basis of Preparation of Financial Statements (renamed from Accounting Policies, Changes in Accounting Estimates, and Errors). Even though IFRS 18 will not have any effect on the recognition and measurement of items in the financial statements of the Bank, it is expected to have a significant effect on the presentation and disclosure of certain items. These changes include categorization and sub-totals in the statement of profit or loss, aggregation/disaggregation and labeling of information, and disclosure of management-defined performance measures.
The Bank does not expect to be eligible to apply IFRS 19.

(b) Significant accounting judgments and estimates

The preparation of financial statements in conformity with IFRSs as adopted by the European Union requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. Although these estimates are based on management’s best knowledge of current events and actions, actual results ultimately may differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively. 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. More detailed information in Note 25.

Expected Credit losses

For investments in financial instruments classified as amortized cost or measured at fair value through other comprehensive income, the Bank regularly assesses whether there has been a significant increase in credit risk since the acquisition and when a significant increase in credit risk has occurred, for these financial instruments the Bank calculates the expected loss that it may incur during the remaining term of these financial instruments until maturity as opposed to expected losses in the 12-month period for financial instruments for which no significant credit risk increase has been identified.

For calculation of provisions for expected credit losses the Bank uses significant assumptions and judgements. When calculating provisions for expected credit losses for its investments in debt securities and amounts due from other banks and counterparties, the Bank uses average default rates for debt issuers with corresponding credit rating during the period of previous 10 years based on the data by credit rating agencies as well as historic data on average losses in case of default according to the data by the same credit rating agencies. However, the number of defaults and losses experienced by the Bank in future periods may differ from the estimated indicators. Also, when calculating provisions for expected credit losses for issued loans, the Bank bases its expectations on its own experienced defaults over the period of past 5 years. However, also taking into account that the number of defaulted loans has been small, there is a possibility that the number of defaults in the next periods may not correspond to the forecasted numbers. In addition, when calculating provisions for expected credit losses for issued loans, the Bank makes assumptions about sale value of collateral assets, and, even though the Bank applies discount to calculate possible values of collateral assets, it is possible that in some cases sale values of collateral assets may be lower than the assumed values. The procedure for determining the significant increase in credit risk and the procedure for calculating the expected loss is described in section, which describes the accounting policy.

Estimate of provision amounts

Provisions are recognised in amount that is the best estimate as of the reporting date. Management of the Bank estimates provisions required to cover obligations. In preparation of the estimate management uses available information, evidence and experience, as well as engages independent experts if necessary.

(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 2024	31 December 2023
USD	1.03890	1.10500
GBP	0.82918	0.86905
PLN	4.27500	4.33950

(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 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. The Bank also derecognises certain assets when it writes off balances pertaining to the assets deemed to be uncollectible.

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

Financial assets measured at amortised cost (excluding loans and receivables)

Investment securities measured at amortised acquisition cost include non-derivative financial assets with fixed or determinable payments and fixed maturities, which meet the business model test of holding assets to collect contractual cash flows and the cash flow characteristics test of solely payments of principal and interest.. Financial assets measured at amortised acquisition cost include debt financial instruments. Financial assets measured at amortised acquisition cost are accounted at amortised cost using the effective interest rate method, taking into account impairment.

A gain or loss on a financial asset that is measured at amortised cost is recognised in profit or loss when the financial asset is derecognised, reclassified, through the amortisation process or in order to recognise impairment gains or losses.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and meet the criteria for amortised acquisition cost measurement.

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.

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

A financial asset is measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income. For equity instruments that would otherwise be measured at fair value through profit or loss an irrevocable election at initial recognition on instrument-by-instrument basis is made to present subsequent changes in fair value in other comprehensive income. Also a financial asset or liability, at initial recognition, may be irrevocably designated as measured at fair value through profit or loss if doing so eliminates or significantly reduces "accounting mismatch" that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases or a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the management.

Financial assets and liabilities which are held for trading are measured at fair value through profit or loss. Financial assets and liabilities are held for trading if they are either acquired in a business model which is characterised by generation of a profit from short-term fluctuations in price or dealer's margin, or a pattern of short-term profit taking exists.

Financial liabilities

Financial instruments carried as deposits from customers 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.

A gain or loss on a financial liability that is measured at amortised cost is recognised in profit or loss when the financial liability is derecognised and through the amortisation process.

Impairment of financial assets and expected credit loss

The Bank's impairment requirements are based on an expected loss model. Expected loss calculations do not represent the losses that the Bank may suffer in a single scenario such as a stress scenario, but represent a probability weighted loss in a number of reasonably possible scenarios including a normal repayment scenario.

To calculate impairment, the assets are divided into three categories (stages):

- stage 1 includes assets where no significant increase in credit risk since acquisition/initial recognition is identified;
- stage 2 includes assets for which a significant increase in credit risk is identified since acquisition/initial recognition but for which no default of the issuer has been identified;
- stage 3 includes defaulted assets.

The Bank calculates provisions for expected credit losses according to the requirements of IFRS 9:

- for stage 1 assets, loan 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 and 3 assets loan loss allowance equals the lifetime expected credit losses.

The 'default' is defined in line with the prudential definition of the default: exposure delayed 90 and more days, significant restructuring and other unlikeliness to pay indicators. The 'default' is the criteria for transfer to stage 3.

To determine if the credit risk associated with a financial instrument has increased significantly since initial recognition (or a financial instrument is in default), the Bank monitoring a number of indicators, such as:

- whether the payments related to an asset (or other obligations of an obligor) have been past due or there has been a breach of covenants;
- whether there has been information about significant deterioration of the obligor's financial situation;
- whether an obligor has informed the Bank about his willingness to alter the debt contract terms that can be deemed to be a forbearance (granting to the obligor a concession(s) due to the obligor's financial difficulty that would not otherwise be granted) or an event of forbearance itself;
- whether substantial decline of the market price of the obligor's debt instruments has occurred, in case an obligor has issued financial instruments and those are actively traded;
- whether actual or expected changes in business conditions have been observed / forecasted that may have a significant impact on the obligor's creditworthiness assessment;
- whether there has been a decrease of an obligor's external or internal credit rating.

Based on the above mentioned criteria, the Bank's management make a decision regarding classification of the assets by stages. If payments related to an asset are past due more than 30 days, the asset is classified as stage 2 asset, and, if payments related to an asset are past due more than 90 days, the asset is classified as stage 3 asset.

The Bank calculates expected loss (EL) on an individual basis for all assets in scope of the standard.

For stage 1 and 2 assets, the amount of EL is calculated by multiplying the exposure at default on the reporting date (including accrued interest and undisbursed loan or credit line) by loss given default (LGD) rate and by the probability of default: 12 month PD rate for stage 1 assets and lifetime PD rate for stage 2 assets.

For debt securities, amounts due from other banks and counterparties and other instruments that have a credit rating, the Bank uses PD's that are based on the rating.

For amounts due from other banks and counterparties and other instruments, except loans to customers, that do not have credit rating, the Bank uses internal ratings based on the financial indicators of these counterparties.

For debt securities held, amounts due from counterparties and other assets the Bank bases its LGD estimate on LGDs calculated by rating agencies orinternal analysis of recoveries from defaulted exposures.

For stage 1 and stage 2 loans to customers, the Bank estimates PD rates that are based on the number of defaults that the Bank has experienced in its loans portfolio during the past 5 years taking into account each borrower's specific creditworthiness assessment.

For loans to customers, loss given default rates are based on the estimated proceeds from the sale of collateral in case of the default. For that purpose, the Bank makes assumptions regarding possible sales term, discount and selling costs based on the collateral type, liquidity, location, etc.

Impairment allowance for loans to customers is calculated as a difference between the net present value of projected future cash flows that are discounted using the loan's original effective interest rate and the net carrying amount. Calculation of net present value of projected future cash flows for loans secured with collateral takes into account cash flows from repossession of collateral less cost of repossession and sale. Losses are recognised in profit or loss.

Calculation of impairment allowance for expected credit losses from off-balance sheet liabilities and contingent liabilities is in line with the principles and methodology applied for balance sheet positions.

Loss allowance for expected credit losses on loan commitments and financial guarantee contracts is recognised as provisions.

The Bank regularly compares actually experienced losses to previously expected losses.

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 %
Vehicles	14 %
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	14-33 %

(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 to the net carrying amount of the financial asset or a financial liability. 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 the amount payable at maturity 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) Commission Income and Expense from e-commerce transaction servicing

Magnetiq Bank earns commission income and incurs commission expenses through its role as a payment facilitator for e-commerce transactions. The Bank entersinto agreements with e-commerce merchants, allowing customers to select Magnetiq Bank as a payment option when making purchases online.

Commission income is recognized at the point in time when a transaction is processed, as this represents the completion of the Bank's performance obligation under IFRS 15 "Revenue from Contracts with Customers." The commission income earned is deducted directly from the transaction amount before transferring funds to the e-commerce merchant. The commission fee is contractually agreed upon with each merchant and represents the consideration for facilitating the payment.

In the settlement process, when a customer completes a purchase, the transaction amount is initially processed by global payment networks such as Visa and MasterCard. While funds remain with Visa and MasterCard during the settlement period (typically one business day), the Bank advances its own funds to the e-commerce merchant, net of commission income. Once Visa and MasterCard settle the transaction, the Bank offsets the amounts, effectively reimbursing itself.

The Bank incurs commission expenses related to payment processing fees charged by Visa and MasterCard. These costs are recognized as commission expenseswhen the associated transactions are processed. Since these fees are directly attributable to revenue-generating activities, they are recorded in the same period as the corresponding commission income to ensure proper matching.

(j) 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 on cash payments for the year.

(k) 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 exceed definite limit, interest expenses 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 Enterprise 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.

(l) 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.

(m) 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.

(n) 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.

(o) 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.

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.

(p) Provisions

A provision is recognised in the statement of financial position when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

NOTE 3 NET INTEREST INCOME

	2024	2023
Interest income calculated using the effective interest method		
Interest income on financial assets at amortized cost:	3 191	4 276
Balances due from financial institutions	*33*	*101*
Loans and advances due from customers	*2 884*	*3 749*
Incl. impaired loans[1]	*400*	*1 164*
Debt securities	*274*	*426*
Interest income on liabilities from the Bank of Latvia	*2 425*	*891*
Interest income on debt securities at fair value through profit or loss in other comprehensive income	*210*	*516*
Total interest income:	**5 826**	**5 683**
Interest expense		
Interest expense recognised on liabilities measured at amortised cost	(1 601)	(838)
Current accounts and deposits due to customers	*(1 601)*	*(838)*
Payments to the Deposit Guarantee Fund	(175)	(179)
Other interest expense	(3)	(3)
Total interest expense:	**(1 779)**	**(1 020)**
Net interest income	**4 047**	**4 663**

[1]Credit impaired financial assets are defined as all stage 3 classified assets and POCI classified assets with existing default triggers. These besides overdue or specifically impaired assets also include non-overdue, non-restructured assets under monitoring period where previously default indications were observed.

NOTE 4 NET COMMISSION AND FEE INCOME

	2024	2023
Commission and fee income		
Commission income from e-commerce transaction servicing	11 143	12 726
Service fee for account maintenance and cash transactions	1 596	1 478
Service fee of payment card transactions	206	217
Brokerage services	85	19
Asset management	-	26
Other bank transactions	127	65
Total commission and fee income:	**13 157**	**14 531**
Commission and fee expense		
Commission expense from e-commerce transaction servicing	(8 492)	(8 520)
Service fee of payment card transactions	(166)	(96)
Brokerage services	(108)	(91)
Correspondent banking services	(84)	(68)
Agents commission	(82)	(79)
Other bank transactions	(1)	(1)
Total commission and fee expense:	**(8 933)**	**(8 855)**
Net commission and fee income	**4 224**	**5 676**

NOTE 5 OTHER INCOME

	2024	2023
Other income		
Income from unclaimed liabilities from creditors	268	6
Penalties collected	74	157
Incl. past due loan payments	*67*	*57*
Income from the reduction of accrued fines	-	157
Other income	276	90
Total other income	**618**	**410**

NOTE 6 NET INCOME FROM FINANCIAL INSTRUMENTS

	2024	2023
Net gainon financial assets at fair value through profit or loss	804	276
Incl. net trading gain	*1 120*	*114*
net revaluation result	*(316)*	*162*
Net gain from transactions with other currency	2 458	1 981
Incl. net trading gain	*2 594*	*2 659*
net revaluation result	*(136)*	*(678)*
Net loss on financial assets not at fair value through profit or loss	(116)	(1 319)
Incl. from fair value through other comprehensive income debt securities	*(116)*	*(1 319)*
Net income from financial instruments	**3 146**	**938**

NOTE 7 ADMINISTRATIVE EXPENSE

	2024	2023
Remuneration expense		
Remuneration to personnel	6 162	6 519
State compulsory social security contributions of personnel	1 447	1 530
Remuneration to the Council and the Board	579	417
State compulsory social security contributions of the Council and the Board	119	100
Total remuneration expense:	**8 307**	**8 566**
E-commerce and payment card servicing expenses	1 134	1 030
Depreciation and amortization	518	510
Software maintenance	450	490
Professional and legal fees	386	615
Lease and maintenance of premises	336	393
Non-deductible input tax	336	381
Advertising and representation expense	237	308
Other personnel expense	221	239
Telephone, communications and mail	109	112
Mortgage loan levy	85	-
Penalties paid	9	8
Donations	-	3
Other administrative expense	62	90
Total other expense:	**3 883**	**4 179**
Administrative expense	**12 190**	**12 745**

As of 31 December 2024, the Bank had 163 employees (2023: 214 employees).
Number of employees of the Bank at the year end:

	31.12.2024	31.12.2023
Council	4	4
Board	5	4
Heads of divisions and departments	35	51
Other personnel	119	155
Total at the end of the year	**163**	**214**

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:

	2024	2023
Services received from the auditors these financial statements:		
Financial year audit fee	51	59
Other payments for non-audit services	5	41

NOTE 8 IMPAIRMENT ALLOWANCE

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

	2024	2023
Loans and advances due from customers	64	795
Debt securities	38	148
Balances due from financial institutions and bank's	1	807
Total impairment allowance charged to income statement, net	**103**	**1 750**

(b) Changes in financial and other asset impairment allowance:

31.12.2024

	Increases in origination and acquisition	Decreases in derecognition and repayments	Total net impairment charge
Stage 1			
Debt securities	(99)	134	35
Loans and advances due from customers	(37)	59	22
Balances due from financial institutions and bank's	(22)	23	1
Total stage 1 impairment	**(158)**	**216**	**58**
Stage 2			
Debt securities	(1)	1	-
Loans and advances due from customers	(110)	84	(26)
Total stage 2 impairment	**(111)**	**85**	**(26)**
Stage 3			
Loans and advances due from customers	(9)	80	71
Total stage 3 impairment	**(9)**	**80**	**71**
Total allowances for credit losses recognised in profit or loss, net	**(278)**	**381**	**103**

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**

NOTE 9 CORPORATE INCOME TAX

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).

The tax paid in 2024 and 2023 was formed as follows:

	2024	2023
Conditionally distributed profit in the reporting period	**40**	**48**
including non-operating expenses	33	33
including write-off of receivables	7	15
Taxable base	**50**	**60**
Tax on payments for residents of low-tax countries, if no tax was withheld at the time of payment	4	1
Corporate income tax calculated and paid in the reporting year	**14**	**13**
Accumulated for advance payment of corporate income tax	-	106
Total corporate income tax	**14**	**119**

NOTE 10 CASH AND BALANCES WITH THE CENTRAL BANKS

	31.12.2024	31.12.2023
Cash	-	1 096
Balances with the Bank of Latvia	93 036	63 480
Total	**93 036**	**64 576**

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 2024, the Bank's compulsory reserve requirement was 868 thousand EUR (31 December 2023: EUR 1 148 thousand).

In 2024, the Bank's management made a decision to discontinue cash operations at the Bank starting in June 2024.

NOTE 11 BALANCES WITH CREDIT INSTITUTIONS

	31.12.2024	31.12.2023
Nostro accounts not impaired or past due	**4 418**	**183**
OECD banks	4 404	177
Non-OECD banks	14	6
Balances with credit instituions	**4 418**	**183**

The Bank's average interest rates applicable for the balances due from credit institutions in 2024 are as follows: EUR 3.860%, USD 3.699%. (2023: EUR 3.973%, USD 3.578%).

NOTE 12 LOANS AND ADVANCES DUE FROM CUSTOMERS

(a) Loans and advances due from customers by customer profile

	31.12.2024	31.12.2023
Private non-financial companies	17 419	25 484
Financial institutions	5 154	5 116
Households	5 527	6 340
Total loans and advances due from non-banks	**28 100**	**36 940**
Impairment	*(143)*	*(210)*
Net loans and advances due from non-banks	**27 957**	**36 730**

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

	31.12.2024				31.12.2023			
	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	318	1 538	111	89	557	3 216	133	107
Consumer loans	218	691	217	-	246	701	318	-
Mortage loans	17 656	49 017	-	-	20 866	53 551	-	-
Other deposits with financial institutions	-	-	3 637	-	-	-	3 540	-
Other	5 922	19 405	21	-	11 226	31 022	54	-
Loans and advances due from non-banks	24 114	70 651	3 986	89	32 895	88 490	4 045	107
Impairment allowance	*(107)*	*x*	*(36)*	*x*	*(135)*	*x*	*(75)*	*x*
Loans and advances due from customers, net	24 007	70 651	3 950	89	32 760	88 490	3 970	107

(c) the types of credit collateral and its geography

31.12.2024

	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[1]	
Total:	**27 957**	**68 979**	**-**	**5**	**1 756**	**70 740**
Business loans	**343**	**1 005**	**-**	**-**	**622**	**1 627**
	Latvia	1 005	-	-	622	**1 627**
Consumer loans	**424**	**691**	**-**	**-**	**-**	**691**
	Latvia	691	-	-	-	**691**
Mortgage loans	**17 622**	**48 205**	**-**	**5**	**807**	**49 017**
	Latvia	48 205	-	5	807	**49 017**
Other deposits with financial institutions	**3 637**	**-**	**-**	**-**	**-**	**-**
Other	**5 931**	**19 078**	**-**	**-**	**327**	**19 405**
	Latvia	19 078	-	-	327	**19 405**

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[1]	
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**

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

	31.12.2024	31.12.2023
Residents of Latvia	23 194	31 785
Residents of OECD countries	4 078	4 039
Residents of other countries	828	1 116
Total loans and advances due from non-banks	**28 100**	**36 940**
Impairment	*(143)*	*(210)*
Net loans and advances due from non-banks	**27 957**	**36 730**

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

	31.12.2024	31.12.2023
Mortgage loans	17 656	20 865
Commercial loans	429	690
Finance leases	202	277
Industrial loans	-	129
Other loans[1] and advances	6 168	11 439
Total loans and advances due from customers	**24 455**	**33 400**
Cash in financial institutions	3 645	3 540
Total loans and advances due from non-banks	**28 100**	**36 940**
Impairment	*(143)*	*(210)*
Net loans and advances due from non-banks	**27 957**	**36 730**

[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 3 902 thousand).

(f) Significant credit risk concentration

As at 31 December 2024 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 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).

According to regulatory requirements, the Bank is not allowed to have a credit exposure to one client or group of related clients more than 25% of its equity. As at 31 December 2024 and 2023 the Bank was in compliance with this requirement.

NOTE 13 INVESTMENTS IN SECURITIES

(a) Securities by portfolios

	31.12.2024	31.12.2023
Financial assets at fair value through other comprehensive income		
Debt securities issued by EU and EEA central government	2 857	3 473
Debt securities issued by other central government	-	5 413
Debt securities issued by EU and EEA credit institutions	1 492	1 440
Debt securities issued by EU and EEA financial institutions	4 869	4 844
Debt securities issued by EU and EEA non-financial companies	100	922
Debt securities issued by other countries non-financial companies	-	964
Financial assets at fair value through other comprehensive income, total	**9 318**	**17 056**
Impairment	*(34)*	*(51)*
Financial assets at fair value through other comprehensive income, net	**9 284**	**17 005**
Financial assets at amortised cost		
Debt securities issued by the Latvian government	7 375	9 899
Debt securities issued by EU and EEA central governments	2 021	6 078
Debt securities issued by EU and EEA credit institutions	2 032	2 042
Debt securities issued by credit institutions of other countries	6 075	10 158
Debt securities issued by EU and EEA financial institutions	3 048	3 072
Debt securities issued by EU and EEA non-financial companies	2 010	2 013
Debt securities issued by other countries non-financial companies	-	2 016
Financial assets at amortised cost, total	**22 561**	**35 278**
Impairment	*(17)*	*(36)*
Financial assets at amortised cost, net	**22 544**	**35 242**

Geographical allocation is based on countries of principal entities.

(b) Securities by countries

	31.12.2024		31.12.2023	
	Carrying amount	% of the Bank's own funds	Carrying amount	% of the Bank's own funds
Central governments debt securities	**12 254**	**x**	**24 863**	**x**
Latvia	7 375	*21.61*	9 899	*29.85*
Lithuania	-	-	4 039	*12.18*
Saudi Arabia	-	-	3 968	*11.96*
Other countries	4 879	*14.29*	6 957	*20.98*
Credit institutions debt securities	**9 599**	**x**	**13 640**	**x**
USA	4 051	*11.87*	8 121	*24.49*
Other countries	5 548	*16.26*	5 519	*16.64*
Other financial institution debt securities	**8 016**	**x**	**4 844**	**x**
Luxembourg	4 868	*14.26*	4 746	*14.31*
Other countries	3 148	*9.22*	98	*0.30*
Non-financial institutions debt securities	**2 010**	**x**	**8 987**	**x**
Other countries[1]	2 010	*5.89*	8 987	*27.10*
Financial investments, total	**31 879**	**x**	**52 334**	**x**
Impairment	*(51)*	*x*	*(87)*	*x*
Financial investments, net	**31 828**	**x**	**52 247**	**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

	31.12.2024	31.12.2023
Financial assets at fair value through other comprehensive income by risk classes		
AAA to AA-	7 499	8 574
A+ to A-	-	3 968
BBB+ to BBB-	1 819	2 628
BB+ to BB-	-	1 886
Financial assets at fair value through other comprehensive income, total	**9 318**	**17 056**
Impairment	*(34)*	*(51)*
Financial assets at fair value through other comprehensive income, net	**9 284**	**17 005**
Financial assets at amortised cost by risk classes		
AAA to AA-	2 032	2 042
A+ to A-	15 066	25 228
BBB+ to BBB-	4 438	6 971
BB+ to BB-	1 025	1 037
Financial assets at amortised cost, total	**22 561**	**35 278**
Impairment	*(17)*	*(36)*
Financial assets at amortised cost, net	**22 544**	**35 242**

The Bank's investments in financial assets are made in according to the Bank's Development Strategy. Further investments in financial assets are made in accordance with the requirements of the liquidity portfolio, the limits of which provide for investments only in level 1 highly liquid assets with a 0% risk weight. 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. Additional sources of information used in analysis are mass media and data from rating agencies.

Whenever 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 Financial Risk Management 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 exposure limits for transactions with residents of the respective country should be reduced.

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

	Intangible assets	Land and buildings	Computers and equipment	Other PPE	PPE
Acquisition value					
31.12.2022	**1 459**	7 214	826	447	**8 487**
Acquired	***532***	-	*278*	*29*	***307***
Excluded	***(81)***	-	*(179)*	*(65)*	***(244)***
31.12.2023	**1 910**	7 214	925	411	**8 550**
Acquired	**73**	379	51	73	**503**
Excluded	**(21)**	-	(16)	(53)	**(69)**
31.12.2024	**1 962**	7 593	960	431	**8 984**
Accumulated amortisation/ depreciation					
31.12.2022	**1 223**	1 341	620	212	**2 173**
Amortization / depreciation for the reporting year	***105***	*140*	*180*	*85*	***405***
Depreciation of excluded PPE and intangible assets	***(81)***	-	*(179)*	*(65)*	***(244)***
31.12.2023	**1 247**	1 481	621	232	**2 334**
Amortization / depreciation for the reporting year	**130**	147	178	63	**388**
Depreciation of excluded PPE and intangible assets	**(21)**	-	(16)	(53)	**(69)**
31.12.2024	**1 356**	1 628	783	242	**2 653**
Carrying amount, net					
31.12.2022	**236**	**5 873**	**206**	**235**	**6 314**
31.12.2023	**663**	**5 733**	**304**	**179**	**6 216**
31.12.2024	**606**	**5 965**	**177**	**189**	**6 331**

NOTE 15 OTHER ASSETS

	31.12.2024	31.12.2023
Other financial assets	**730**	**804**
Settlements for e-commerce and payment card operations[1]	730	804
Other non-financial assets	**494**	**787**
Advance payments for intangible and fixed assets	29	362
Future period expenses and accrued income	389	312
Inventory (digipass and card blanks)	34	37
Other receivables	42	76
Total other assets	**1 224**	**1 591**

[1] The item reflects the amounts in transit accounts due to unfinished settlements

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, 2024, the amount of client funds under the Bank's management was 2.92 million EUR (31.12.2023 : 3.04 million EUR).

NOTE 17 DEPOSITS FROM CUSTOMERS

(a) By customer profile:

	31.12.2024	31.12.2023
Demand deposits	**110 592**	**103 284**
Financial institutions	73 882	42 973
Private companies	26 043	44 847
Households and non-profit organisations servicing them	10 667	15 464
Term deposits	**20 440**	**24 187**
Financial institutions	431	-
Private companies	1 222	787
Households and non-profit organisations servicing them	18 789	23 400
Total	**131 032**	**127 471**

(b) By geographical profile

	31.12.2024	31.12.2023
Demand deposits	**110 592**	**103 284**
Residents of Latvia	19 249	35 885
Residents of OECD Member States	79 001	51 721
Russia	1 680	2 150
Residents of other countries	10 662	13 528
Term deposits	**20 440**	**24 187**
Residents of Latvia	16 994	20 525
Residents of OECD Member States	1 450	1 000
Russia	1 114	1 881
Residents of other countries	882	781
Total	**131 032**	**127 471**

The Bank's average interest rates applicable for the deposits from customers in 2024 are as follows: 3.149 % (EUR) (2023: 2.961% (EUR)).

(c) Concentrations of current accounts and customer deposits

At 31 December 2024, the Bank had 3 customers (at 31 December 2023 had 2 customers or groups of connected customers) with account balances exceeding 10% of the total value of customer accounts. The total amount of these 3 customer account balances amounted to EUR 56.98 million or 43% of the total deposits (31 December 2023: EUR 28.13 million or 22%).

The Bank's business strategy includes maintaining relationships with a select number of key depositors, which has led to a natural concentration of deposits. This concentration aligns with the Bank's risk appetite and reflects its targeted approach to client engagement and liquidity management.
While this strategic approach results in a higher proportion of funds being held by a limited number of customers, the Bank actively manages the associated liquidity risks. Measures in place include regular monitoring of deposit stability, stress testing scenarios to assess potential large withdrawals, and maintaining sufficient liquid assets to meet obligations.

Additionally, the Bank ensures compliance with regulatory liquidity requirements and maintains an appropriate liquidity buffer to safeguard against market fluctuations. Management continues to assess the impact of deposit concentration within the overall risk framework and remains prepared to adjust strategies as needed to uphold financial stability.

NOTE 18 OTHER LIABILITIES

	31.12.2024	31.12.2023
Other financial liabilities	**799**	**1 669**
Provisions for variable remuneration	162	-
Payment for e-commerce and payment cards transactions	115	864
Accrued expenses related to financial transaction servicing	114	223
Other accrued expenses	285	321
Other financial liabilities	123	261
Other non-financial liabilities	**491**	**667**
Vacation pay reserve	403	535
Other non-financial liabilities	88	107
Deferred income	-	25
Total other liabilities	**1 290**	**2 336**

NOTE 19 PAID-IN SHARE CAPITAL

As at 31 December 2024, the Bank's registered and paid-in share capital was EUR 13 million (2023: EUR 13 million). In 2024 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 2024, all shares were fully paid and the Bank did not hold any of its own shares.

As at 31 December 2024 and at 31 December 2023 the Bank's sole shareholder was JSC Signet Bank, registration No.40003043232, legal address: Riga, Antonijas street 3.

NOTE 20 FAIR VALUE RESERVE

Fair value reserve comprises the cumulative net change in the fair value of equity instruments measured at FVTOCI and the cumulative net change in the fair value of debt instruments measured at FVTOCI (31.12.2024 reserve was -364 thousand. EUR, 31.12.2023: -887 thousand EUR) until the assets are derecognized or reclassified. The amount is increased by the amount of loss allowance of debt instruments measured at FVTOCI.

NOTE 21 CASH AND CASH EQUIVALENTS

	31.12.2024	31.12.2023
Cash and demand deposits with the Bank of Latvia	93 036	64 576
Balances due from other credit institutions with original maturities of less than three months	5 574	1 269
Total	**98 610**	**65 845**

NOTE 22 OFF-BALANCE SHEET ITEMS

	31.12.2024	31.12.2023
Guarantees	4	304
Unutilised credit lines	-	27
Loan commitments	140	107
Credit card commitments	13	374
Total off-balance sheet items, gross	**157**	**812**
Provisions	-	*(5)*
Total off-balance sheet items, net	**157**	**807**

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 23 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 2024, 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:

	31.12.2024			31.12.2023		
	Carrying amount	Off-balance sheet items	Total	Carrying amount	Off-balance sheet items	Total
Assets	**1 741**	**2**	**1 743**	**8**	**5**	**13**
Due from credit institutions	**1 485**	**-**	**1 485**	**-**	**-**	**-**
Parent company	1 485	-	1 485	-	-	-
Loans and receivables, net	**256**	**2**	**258**	**8**	**5**	**13**
Council and Board	214	-	214	8	5	13
Related companies and individuals	42	2	44	-	-	-
Liabilities	**37**	**-**	**37**	**21**	**-**	**21**
Deposits	**37**	**-**	**37**	**21**	**-**	**21**
Council and Board	36	-	36	21	-	21
Related companies and individuals	1	-	1	-	-	-
Profit / (loss)	-	-	-	**(16)**	**-**	**(16)**
Commission and fee income / (expense)	(11)	-	(11)	11	-	11
Interest income / (expense)	11	-	11	(27)	-	(27)

NOTE 24 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 the regulatory acts of the Bank of Latvia, as well as following the Bank's strategy and other documents governing the Bank's operations and the documents binding on the Bank of the parent company Signet Bank AS.

The Bank's risk management objectives are 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.

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 Development 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 development strategy as it relates to risk management issues and in making other decision related to the risks faced by the Bank.

Bank's Business Continuity Assurance Committee regularly identifies risks to business continuity and risk drivers and assesses the materiality of those risks.

Bank`s Credit Committee reviews lending issues and makes decisions on matters relating to the credit risk bearing activities of the Bank except for the adoption of a decision where a credit file has been transferred to the Bank's Loan Recovery and Restructuring Department for recovery action or decisions on cessation processes.

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 currency and 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 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;
- monitors the Bank's risk levels and limits as part of the Bank's Risk Monitoring and decide on risk reduction measures;
- determines other limits on the Bank's financial risks as necessary;
- 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 a collegial independent institution, which was established with the purpose of managing the Bank's strategic and organizational issues and proposals for the prevention of money laundering and terrorist financing and the management of Sanctions risks, as well as to perform other tasks, the coordination of consideration and approval or rejection of which is the competence of the Committee in accordance with the Committee's regulations and the Bank's internal regulatory documents. The decision on the establishment, reorganization or liquidation of the Committee is taken by the Bank's Board.

The key task of the Committee is:

- analyse possible compliance risks for the Bank in the field of prevention of MLTPF and Sanctions risks and recommend measures for their prevention, and initiate measures to 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, which may create for the Bank increased of MLTPF or reputational risks.

The Bank's Operational Risk Manager in cooperation with the Bank's Financial Risk Management Department and the Bank`s Chief Risk Officer, organizes the identification of significant risks for the Bank. The Bank`s Chief Risk Officer is responsible for updating the bank's risk catalog in accordance with the results of the assessment of significant risks. The Bank’s Financial Risk Management Department formulates the relevant risk management procedures, ensures the specified limits and restrictions compliance control as well as reports information to the Bank`s Chief Risk Officer, the Asset and Liability Committee, Council and the Board on a regular basis.

The Treasury Department is responsible for the daily management and planning of the Bank's finances, which includes management of liquidity risk, interest rate risk, currency and market risk as well as of the Bank’s overall financial position and changes in it, 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 main task of the Internal Audit Department is to carry out independent supervision of the Bank's internal control system, as well as to assess its adequacy and effectiveness, in order to help the Bank's Council, Board and heads of structural units perform their functions more effectively and create added value for the Bank.

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 Bank’s Financial Risk Management 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 simplified methods described in the rules No. 321 of the Bank of Latvia of 30.09.2024. "Capital Adequacy assessment process for credit institutions". The Bank’s Financial Risk Management Department 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. The Bank’s Financial Risk Management Department regularly summarizes, analyses and presents a report to the Bank`s Chief Risk Officer, the Asset and Liability Committee, the Board and the Council accompanied with explanatory information about the level of each individual financial risk. In case of the liquidity coverage ratio or the net stable funding ratio reaches a significant risk level or any other indicator of the risk monitoring system exceeding any internal limits, Bank’s Financial Risk Management Department shall immediately notify the Bank`s Asset and Liability Committee and propose to investigate non-compliance in the next Bank`s Assets and Liabilities Committee meeting. In the event that the liquidity coverage indicator or the net stable funding indicator reaches a high risk level or any other indicator of the risk monitoring system has been exceeded or there is a high probability that one of the external limits will be exceeded, the Bank's Financial Risk Management Department is obliged to immediately report this to the members of the Bank's Assets and Liabilities Committee and propose the convening of an extraordinary meeting of the Bank's Assets and Liabilities Committee to consider measures to improve the situation.

The Bank's Operational Risk Manager regularly collects, analyses and presents to the Bank's Board information on changes in operational risk and the indicators affecting it.

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 potential risk consequences – the Bank uses collateral to mitigate credit riskand currency risk hedging instruments as well as establishes a business continuity system;
- risk sharing – the Bank uses insurance. 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 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.

The Bank's Development Strategy sets limits on the concentration of the loan portfolio by geography, sector, duration, loan type and collateral. The Bank's Board approves limits on exposures to persons related to the Bank. The Bank's Asset and Liability Committee approves country risk limits, counterparty limits, limits on the size, maximum maturity and average maturity of individual investments in the liquidity portfolio, as well as limits on the average maturity of the liquidity portfolio as a whole.

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 credit risk management guidelines are defined by the Group's credit risk management policy, the purpose of which is to create an effective credit risk management system by choosing credit risk management methods that reduce the losses that may occur as a result of credit risk to an acceptable level within the framework of the risk management system, taking into account the Group's business strategy, the Group's credit institutions and the Group's customer base, the types, complexity and extent of transactions that have credit risk, the types, complexity and extent, credit risk management capacity, the interaction of credit risk with other risks , by selecting credit risk management methods that reduce losses that may arise as a result of credit risk to an acceptable level in accordance with the Group's business strategy.

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. The Bank performs credit risk management on an individual level, and also ensures that the credit risk taken by the Group corresponds to the Group's credit risk appetite and tolerance at the Group level.

In addition to the Credit risk associated with individual transactions and exposures, for management, the Bank manages the total level of credit risk assumed at the individual and Group level, using the following methods and measures:

- assessment of the total accepted credit risk;

- balance sheet/asset structure and credit risk planning;
- determination of limits for different types of risk transactions and concentration of claims;
- control over compliance with various limits.

The decision on the Bank's limits for interbank transactions and investments in securities within the Group's exposure is taken by the Asset and Liability Committee of the parent company Signet Bank AS, which acts as the Group's Asset and Liability Committee, with the participation of representatives of the Bank. The Bank's Asset and Liability Committee approves these limits or sets lower limits according to its risk profile.

The Bank has two levels of decision-making on the loans, namely – issuance and amendments made (from lowest):

- credit committee;
- Bank's Board.

Maximum limits for each decision-making authority level within the Bank are determined by the Bank's credit policy. The parent company Signet Bank AS accepts the Bank's credit risk limits, evaluating them from the point of view of the Group's credit risk limits and credit risk tolerance and credit risk appetite.

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.

	31.12.2024	31.12.2023
Assets exposed to credit risk	**159 639**	**155 333**
Balances with the Bank of Latvia	93 036	**63 480**
Demand deposits with credit institutions	4 418	183
Financial assets measured at fair value through profit or loss	514	803
Debt securities measured at fair value through other comprehensive income	9 284	17 005
Financial assets measured at amortized cost:	51 657	73 058
Debt securities	*22 544*	*35 242*
Loans and advances due from non-banks	*27 957*	*36 730*
Term deposits with credit institutions	*1 156*	*1 086*
Financial assets	730	**804**
Off-balance sheet items exposed to credit risk	**157**	**807**
Maximum credit risk exposure	**159 796**	**156 140**

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 consider an exposure as large where the value of the exposure is equal to or exceeds 10% of the Bank's Tier 1 capital. The Bank has determined that any credit exposure to a single customer or a group of connected customers may not exceed 20% 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 in 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 90% (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.

31.12.2024

	Latvia	OECD countries	Russia	Other countries	Total
Exposure to credit risk of balance sheet assets	**124 982**	**31 924**	**579**	**2 154**	**159 639**
Balances with the Bank of Latvia	93 036	-	-	-	**93 036**
Demand deposits with credit institutions	1 504	2 900	-	14	**4 418**
Financial assets measured at fair value through profit or loss	-	*514*	-	-	**514**
Debt securities measured at fair value through other comprehensive income	-	*7 390*	-	*1 894*	**9 284**
Financial assets measured at amortized cost:	30 431	20 401	579	246	**51 657**
Debt securities	*7 368*	*15 176*	-	-	***22 544***
Loans and advances due from non-banks	*23 063*	*4 069*	*579*	*246*	***27 957***
Term deposits with credit institutions	-	*1 156*	-	-	***1 156***
Financial assets	*11*	*719*	-	-	**730**
Exposure to credit risk of off-balance sheet items	157	-	**-**	-	**157**
Total	**125 139**	**31 924**	**579**	**2 154**	**159 796**

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**

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	31.12.2024	31.12.2023
Latvia	23 202	31 785
OECD countries	3 632	3 535
Russia	581	852
Other countries	685	768
Loans and advances due from non-banks	**28 100**	**36 940**
Total impairment allowance	**(143)**	**(210)**
Loans and advances due from non-banks customers, net	**27 957**	**36 730**

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.

	31.12.2024	31.12.2023
Exposure to credit risk of balance sheet assets	**159 639**	**155 335**
Central Bank	93 040	63 480
Central governments	12 111	24 679
Government non-financial corporations	2 008	3 050
Credit institutions	15 171	14 907
Multilateral Development Banks	4 864	4 745
Private individuals	3 881	4 234
Operations with real estate	16 360	26 065
Trade	93	585
Manufacturing	2 690	2 756
Construction	425	1 018
Information and communication services	390	477
Transport	134	594
Health and social care	102	108
Electricity	1 276	258
Financial services	6 484	6 817
Other	610	1 562
Exposure to credit risk of off-balance sheet items	**157**	**807**
Total	**159 796**	**156 142**

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 exceeds 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 exceeds 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 has a reduced credit value on the balance sheet;
- a combination of several other events or other event signs that may characterise a counterparty default.

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

31.12.2024

	Mort-gage 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	**17 459**	**6 485**	**202**	**1**	**3 657**	**27 804**
Private non-financial companies	14 102	3 044	202	-	12	17 360
Financial institutions	-	1 509	-	-	3 645	5 154
Households	3 357	1 932	-	1	-	5 290
Loans and claims against non-banks past due but not impaired	**197**	**99**	**-**	**-**	**-**	**296**
Past due up to 30 days	40	40	-	-	-	80
Past due 30-60 days	-	-	-	-	-	-
Past due over 90 days	157	59	-	-	-	216
Total loans and advances due from non-banks	**17 656**	**6 584**	**202**	**1**	**3 657**	**28 100**
Impairment	*(34)*	*(109)*	-	-	-	*(143)*
Net value of loans and claims against non-banks	**17 622**	**6 475**	**202**	**1**	**3 657**	**27 957**

31.12.2023

	Mort-gage 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)*	*(208)*
Net value of loans and claims against non-banks	**20 791**	**12 078**	**277**	**40**	**3 546**	**36 730**

Financial assets in measurement categories (3 stages):

31.12.2024

	Stage 1	Stage 2	Stage 3	Total
Financial assets				
Balances with the Bank of Latvia	93 036	-	-	93 036
Due from credit institutions	4 418	-	-	4 418
Financial assets measured at fair value through profit or loss	514	-	-	514
Debt securities measured at fair value through other comprehensive income	9 318	-	-	9 318
Financial assets measured at amortised cost	33 420	15 188	3 209	51 817
Other financial assets	730	-	-	730
Total gross financial assets	**141 436**	**15 188**	**3 209**	**159 833**
Total impairment allowance	*(74)*	*(29)*	*(91)*	*(194)*
Total net financial assets	**141 362**	**15 159**	**3 118**	**159 639**

31.12.2023

	Stage 1	Stage 2	Stage 3	Total
Financial assets				
Cash and balances with the Bank of Latvia	64 576	-	-	64 576
Due from 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	17 056	-	-	17 056
Financial assets measured at amortised cost	49 362	18 592	5 350	73 304
Other financial assets	804	-	-	804
Total gross financial assets	**132 784**	**18 592**	**5 350**	**156 726**
Total impairment allowance	*(132)*	*(3)*	*(162)*	*(297)*
Total net financial assets	**132 652**	**18 589**	**5 188**	**156 429**

Changes in financial assets measured at amortized cost of the Group's financial assets by stages for the year ended 31 December 2023 and 31 December 2024:

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount 31 December 2022	**62 183**	**15 674**	**14 031**	**91 888**
New assets originated or increased on the existing contracts	2 979	8	115	3 102
Assets repaid (redeemed)	(8 213)	(618)	(12 855)	(21 686)
Effect on Gross carrying value at the end of the period due to changes in accruals				
Transfers to Stage 1	411	(411)	-	-
Transfers to Stage 2	(6 895)	6 895	-	-
Transfers to Stage 3	(1 103)	(2 956)	4 059	-
Gross carrying amount 31 December 2023	**49 362**	**18 592**	**5 350**	**73 304**
New assets originated or increased on the existing contracts	709	243	-	952
Assets repaid (redeemed)	(17 495)	(2 820)	(2 124)	(22 439)
Effect on Gross carrying value at the end of the period due to changes in accruals				
Transfers to Stage 1	1 037	(1 037)	-	-
Transfers to Stage 2	(82)	226	(144)	-
Transfers to Stage 3	(111)	(16)	127	-
Gross carrying amount 31 December 2024	**33 420**	**15 188**	**3 209**	**51 817**

Changes in loan loss allowance of the Bank's financial assets by stages for the year ended 31 December 2023 and 31 December 2024:

	Stage 1	Stage 2	Stage 3	Total
ECLs as at 31 December 2022	**103**	**21**	**4 100**	**4 224**
New assets originated or increased on the existing contracts	19	-	67	86
Assets repaid (redeemed)	(33)	(18)	(4 012)	(4 063)
Impact on period end ECL due to transfers between stages or changes in models	(7)	-	7	-
ECLs as at 31 December 2023	**82**	**3**	**162**	**247**
New assets originated or increased on the existing contracts	18	29	5	52
Assets repaid (redeemed)	(60)	(3)	(76)	(139)
Impact on period end ECL due to transfers between stages or changes in models	-	-	-	-
ECLs as at 31 December 2024	**40**	**29**	**91**	**160**

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 is comprised of settlement / delivery risk and free deliveries risk.

The Bank calculates the settlement / delivery risk and free deliveries risk capital requirement 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;
- setting limits for deposits from customers;
- control of compliance with the limits set in the Group's Liquidity risk management policy;
- liquidity risk indicators within the risk monitoring system;
- conducting liquidity risk stress tests and analyzing the obtained results;
- Bank’s liquidity crisis management 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 Liquidity coverage ratio not less than 115%;
- ensures the Net stable funding ratio not less than 115%;
- ensures a survival horizon of no less than six months (the period of time, how

long the Bank is able to meet the contractually determined net outflows of cash, without attracting additional resources);

- ensures that the loan portfolio as a percentage of total assets does not exceed 60%; ensures the ratio of the loan portfolio to customer deposits does not exceed 70%;
- 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 2024 and 2023 were:

	31.12.2024	**31.12.2023**
Liquidity reserves	111 829	95 121
Total net cash outflows	72 761	53 069
Liquidity coverage ratio	**154 %**	**179%**

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 2024 and 2023 were:

	31.12.2024	**31.12.2023**
Required stable funding	41 386	55 141
Available stable funding	83 744	105 741
Net stable funding ratio	**202%**	**192%**

ANALYSIS OF ASSETS AND LIABILITIES BY LIQUIDITY STRUCTURE

The table below allocates the Bank's assets, liabilities and off-balance sheet liabilities to liquidity groupings based 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*.

31.12.2024

	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	93 036	-	-	-	-	-	**93 036**
Demand deposits with credit institutions	4 418	-	-	-	-	-	**4 418**
Financial assets measured at fair value through profit or loss	-	-	-	-	514	-	**514**
Debt securities measured at fair value through other comprehensive income	9 284	-	-	-	-	-	**9 284**
Financial assets measured at amortized cost:	3 353	1 811	453	2 885	39 517	3 638	**51 657**
Debt securities	*2 024*	*1 429*	-	*2 018*	*17 073*	-	***22 544***
Loans and advances due from non-banks	*173*	*382*	*453*	*867*	*22 444*	*3 638*	***27 957***
Term deposits with credit institutions	*1 1565*	-	-	-	-	-	***1 156***
Property and equipment	-	-	-	-	6 331	-	**6 331**
Intangible assets	-	-	-	-	606	-	**606**
Other assets	5	-	-	-	1 219	-	**1 224**
Financial assets	-	-	-	-	*730*	-	***730***
Non-financial assets	*5*	-	-	-	*489*	-	***494***
Total assets	**110 096**	**1 811**	**453**	**2 885**	**48 187**	**3 638**	**167 070**
Liabilities							
Financial liabilities measured at amortized cost	*111 577*	*4 750*	*6 579*	*6 662*	*1 464*	-	***131 032***
Deposits	111 577	4 750	6 579	6 662	1 464	-	**131 032**
Other liabilities	**1 290**	**-**	**-**	**-**	**-**	**-**	**1 290**
Financial liabilities	799	-	-	-	-	-	**799**
Non-financial liabilities	491	**-**	**-**	**-**	**-**	**-**	**491**
Total liabilities	**112 867**	**4 750**	**6 579**	**6 662**	**1 464**	**-**	**132 322**
Unrecognised loan commitments	153	-	-	-	-	-	**153**
Net liquidity position	**(2 924)**	**(2 939)**	**(6 126)**	**(3 777)**	**46 723**	**3 638**	**34 595**

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 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*	-	-	-	-	-	***1 669***
Non-financial liabilities	*666*	-	-	-	*1*	-	***667***
Total liabilities	**106 614**	**3 621**	**5 251**	**8 518**	**5 803**	**-**	**129 807**
Unrecognised loan commitments	503	-	-	-	-	-	**503**
Net liquidity position	**(24 026)**	**(849)**	**1 588**	**(2 070)**	**55 293**	**3 849**	**33 785**

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):

31.12.2024

	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	111 678	4 869	6 787	6 897	1 565	-	**131 796**	**131 033**
Deposits	*111 678*	*4 869*	*6 787*	*6 897*	*1 565*	-	***131 796***	***131 033***
Financial liabilities	799	-	-	-	-	-	**799**	**799**
Contingent liabilities for guarantees	-	-	-	4	-	-	**4**	**4**
Unrecognised loan commitments	13	-	-	-	-	140	**153**	**153**
Total non-derivative and contingent liabilities	**112 490**	**4 869**	**6 787**	**6 901**	**1 565**	**140**	**132 752**	**131 988**
Derivative liabilities								
Inflow	*(100)*	-	-	-	-	-	*(100)*	-
Outflow	*100*	-	-	-	-	-	*100*	-
Total derivative liabilities	-	-	-	-	-	-	-	-
Total non-derivative and derivative liabilities and contingent liabilities	**112 490**	**4 869**	**6 787**	**6 901**	**1 565**	**140**	**132 752**	**131 988**

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	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	1 669	-	-	-	-	-	1 669	1 669
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 liabilities and contingent liabilities	**106 401**	**3 705**	**5 609**	**8 881**	**6 157**	**40**	**130 793**	**129 952**

REPORT ON THE LIQUIDITY ADEQUACY ASSESSMENT PROCESS (ILAAP)

Information about the Bank's ILAAP is contained in the Group's ILAAP report, which is prepared with the participation of the Bank's representatives.

The purpose of the report on ILAAP is to provide as complete information as possible about the liquidity adequacy assessment process

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, if necessary, it may be decided to take corrective measures in the liquidity management process and/or to improve the adequacy of the liquidity reserve.

The latest ILAAP report concluded that the management of 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 2024 and 2023. Accordingly, the risk transaction value for 2024 and 2023 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

	Book value of encumbered assets		Fair value of encumbered assets		Book value of unencumbered assets		Fair value of unencumbered assets	
	2024	2023	2024	2023	2024	2023	2024	2023
Assets	**3 596**	**5 193**	**x**	**x**	**154 202**	**155 506**	**x**	**x**
Equity securities	-	-	x	x	839	740	x	x
Debt securities	-	-	-	-	42 156	75 663	41 353	72 995
Incl.: covered bonds	-	-	-	-	*1 472*	*1 407*	*1 471*	*1 407*
Incl.: securitization	-	-	-	-	-	-	-	-
Incl.: issued by general governments	-	-	-	-	*18 084*	*24 388*	*17 707*	*23 686*
Incl.: issued by financial companies	-	-	-	-	*18 549*	*19 644*	*18 266*	*18 449*
Incl.: issued by non-financial companies	-	-	-	-	*4 051*	*30 224*	*3 909*	*29 453*
Other assets	3 596	5 193	x	x	111 207	79 103	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	
	2024	**2023**	**2024**	**2023**
Collateral received	-	-	80 958	114 875
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	-	-	80 958	114 875
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	3 596	5 242	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	
	2024	**2023**	**2024**	**2023**
Accounting value of selected financial liabilities	-	-	3 596	5 242

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 2024, it was 3% (31 December 2023 – 3%).

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 circumvention 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 interest rate risk, currency risk, position risk, commodity risk and credit spread risk.

The Bank does not form a trading portfolio, and it has no exposure to commodity risk.

Considering that the Bank has the financial assets measured at fair value through other comprehensive income portfolio which at 31 December 2024 was 6% of the total assets (31 December 2023 - 10%), the Bank assesses that, thus, the position risk for the Bank's operation is moderate with a decreasing trend.

The credit spread risk risk is assessed as limited with a downward trend, taking into account that the Bank's existing investments in financial instruments basically mature in 2026, while new investments are planned only in high-quality liquid assets with a 0% risk level.

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 determines the following internal limits:

- the ratio of individual (larger) foreign currency open positions to the Bank's Tier 1 capital - 5% (internal limit) and 10% (external limit);
- the ratio of total foreign currency open positions to the Bank's tier 1 capital - 10% (internal limit) and 20% (external limit).

The Bank is bound by limits set at Group level - in accordance with the Group's Market Risk Management Policy.

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 2024 was 1.24% (long position) (31 December 2023 – 1.33% (short position)) of amount the Bank's Tier 1 capital.

31.12.2024

	EUR	USD	Other curren-cies	Total
Assets				
Cash and balances with the Bank of Latvia	93 036	-	-	**93 036**
Demand deposits with credit institutions	806	3 255	357	**4 418**
Financial assets measured at fair value through profit or loss	-	514	-	**514**
Debt securities measured at fair value through other comprehensive income	8 350	934	-	**9 284**
Financial assets measured at amortized cost	50 501	1 156	-	**51 657**
Debt securities	*22 544*	-	-	***22 544***
Loans and advances due from non-banks	*27 957*	-	-	***27 957***
Term deposits with credit institutions	-	*1 156*	-	***1 156***
Property and equipment	6 331	-	-	**6 331**
Intangible assets	606	-	-	**606**
Other assets	789	222	213	**1 224**
Financial assets	*295*	*222*	*213*	***730***
Non-financial assets	*494*	-	-	***494***
Total assets	**160 419**	**6 081**	**570**	**167 070**
Liabilities and shareholders' equity				
Financial liabilities measured at amortized cost	124 910	5 915	207	**131 032**
Deposits	*124 910*	*5 915*	*207*	***131 032***
Provisions	-	-	-	**-**
Other liabilities	1 229	47	14	**1 290**
Financial liabilities	*738*	*47*	*14*	***799***
Non-financial liabilities	*491*	-	-	***491***
Total liabilities	**126 139**	**5 962**	**221**	**132 322**
Shareholders' Equity	34 775	(27)	-	**34 748**
Total liabilities and shareholders' equity	**160 914**	**5 935**	**221**	**167 070**
Long/(short) position of net balance sheet items	**(495)**	**146**	**349**	**-**
Net long/(short) position of OTC foreign currency swaps	**100**	**-**	**(100)**	**-**
Net foreign currency open long/(short) position	**(395)**	**146**	**249**	**-**
Open position % of the Bank's Tier 1 capital	**x**	**0.42**	**0.73**	**x**

31.12.2023

	EUR	USD	Other curren-cies	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 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**

The following table presents the impact that changes in the exchange rate would have on the Bank's profit:

	31.12.2024	31.12.2023
	Profit or loss	
5% appreciation of USD against EUR	7	(18)
5% deppreciation of USD against EUR	(7)	18
20% appreciation of RUB against EUR	(5)	(10)
20% deppreciation of RUB against EUR	5	10

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.

The following table shows the effect on the Bank's profit and other comprehensive income of changes in the prices of securities held by the Bank:

	31.12.2024	31.12.2023
Impact on profit: increase of securities prices by 5%	27	44
Impact on profit: decrease of securities prices by 5%	(27)	(44)
Impact on other comprehensive income: increase of securities prices by 5%	466	860
Impact on other comprehensive income: decrease of securities prices by 5%	(466)	(860)

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:

- gap risk, or the risk of loss due to an unbalanced term structure of interest rate sensitive instruments, covering changes in the term structure of interest rates that occur consistently across the yield curve (parallel risk) or at different intervals (non-parallel risk);
- basis risk or the possibility of suffering a loss from changes in interest rates on

interest rate sensitive instruments with the same repricing or maturity dates but different basis rates;

- optionality risk is the possibility of suffering a loss if interest rate sensitive instruments directly (e.g. options) or indirectly (e.g. loans with early repayment option, demand deposits, term deposits with early withdrawal option, fixed rate loan commitments, etc.) provide the Bank or a customer of the Bank with the option to change the amount and timing of cash flows.

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.

Within the management perimeter of Interest rate risk in the bank's non-trading portfolio (IRRBB) the Bank includes all its assets and claims (including off-balance sheet liabilities) for which the Bank receives interest income or pays interest expenses, or whose current value depends on changes in interest rates, as well as non-performing loans.

Estimating the IRRBB, the Bank calculates the indicators of net interest income and economic value (EVE) and their possible changes in stress scenarios - with the assumptions of the EBA guidelines, in the EBA scenarios.

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 assessed;
- the Bank determines the current interest rate risk level within the framework of the Bank's Risk Monitoring System 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 ooff-balance sheet items - gap 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.

In order to identify, assess, manage, and mitigate risks resulting from possible changes in interest rates, which affect both the economic value of own capital and the net interest income of non-trading portfolio activities, the Bank calculates changes in accordance with six stress scenarios regarding economic value and two stress scenarios regarding net interest income as defined in Commission Delegated Regulation (EU) 2024/856 of 1 December 2023 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards specifying the supervisory shock scenarios, the common modelling and parametric assumptions and what constitutes a large decline.

As part of the IRRBB assessment, a report is prepared in which the Bank's assets and liabilities (including off-balance sheet liabilities) are included in maturity intervals after the interest rate revision date (or for assets and liabilities with a fixed interest rate - after the repayment date), incl. making assumptions about customer behavior and, accordingly, about the cash flows of assets and liabilities.

The Bank's Assets and Liabilities Committee and the Bank's Council are informed about the impact of changes in interest rates on the Bank's financial results and economic value as part of the Bank's Risk Monitoring System.

The following table reflects the potential impact on the Bank's equity of a 1 percent (or 100 basis points) change in interest rates on fixed income debt securities classified in the FVOCI financial instruments portfolio:

	31.12.2024	**31.12.2023**
Impact on equity: parallel increase by 100 basis points	112	(241)
Impact on equity: parallel decrease by 100 basis points	(112)	241

The impact of interest rate risk on the Bank's profit and loss is also determined, assuming that interest rates change by 1 percent (or 100 basis points) in parallel, and interest rate changes occur in the middle of the period:

	31.12.2024	**31.12.2023**
100 bp parallel increase	193	92
100 bp parallel decrease	(193)	(92)

The table below present the interest rate risk term structure of assets, liabilities and off-balance sheet items:

31.12.2024

	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	93 036	-	-	-	-	-	-	**93 036**
Demand deposits with credit institutions	4 418	-	-	-	-	-	-	**4 418**
Financial assets measured at fair value through profit or loss	-	-	-	-	-	-	514	**514**
Debt securities measured at fair value through other comprehensive income	*104*	*1 516*	-	*1 034*	*6 630*	-	-	***9 284***
Financial assets measured at amortized cost :	*10 211*	*6 617*	*11 581*	*2 099*	*17 485*	*7*	*3 657*	***51 657***
Debt securities	*2 024*	*1 429*	*18*	*2 041*	*17 032*	-	-	***22 544***
Loans and advances due from non-banks	*7 031*	*5 188*	*11 563*	*58*	*453*	*7*	*3 657*	***27 957***
Term deposits with credit institutions	*1 156*	-	-	-	-	-	-	***1 156***
Property and equipment	-	-	-	-	-	-	6 331	**6 331**
Intangible assets	-	-	-	-	-	-	606	**606**
Other assets	-	-	-	-	-	-	1 224	**1 224**
Financial assets	-	-	-	-	-	-	*730*	***730***
Non-financial assets	-	-	-	-	-	-	*494*	***494***
Total assets	**107 769**	**8 133**	**11 581**	**3 133**	**24 115**	**7**	**12 332**	**167 070**
Long off-balance items that are sensitive to interest rate	**100**	**-**	**-**	**-**	**-**	**-**	**-**	**100**
Liabilities and equity								
Financial liabilities measured at amortized cost	88 102	6 714	9 213	10 989	16 014	-	-	**131 032**
Deposits	*88 102*	*6 714*	*9 213*	*10 989*	*16 014*	-	-	***131 032***
Other liabilities	*127*	-	-	-	-	-	*1 163*	***1 290***
Financial liabilities	*127*	-	-	-	-	-	*672*	***799***
Non-financial liabilities	-	-	-	-	-	-	*491*	***491***
Equity	**-**	**-**	**-**	**-**	**-**	**-**	**34 748**	**34 748**
Total liabilities and equity	**88 229**	**6 714**	**9 213**	**10 989**	**16 014**	**-**	**35 911**	**167 070**
Short off-balance sheet items that are sensitive to changes in interest rates	**117**	**-**	**140**	**-**	**-**	**-**	X	**257**
Net interest rate risk position (gap)	**19 523**	**1 419**	**2 228**	**(7 856)**	**8 101**	**7**	**X**	**23 422**

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 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**

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.

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, 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 Chief Risk Officer and Board member responsible of Bank's Financial Risk Management 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 capital requirements calculated according to the basic indicator approach, the Bank's Financial Risk Management Department evaluates the need for additional capital for covering unexpected operational risk losses for maintenance.

SUSTAINABILITY RISK

Sustainability risk or ESG (environmental, social and governance– events or conditions that occur in the environmental, social or governance field and the occurrence of which may cause an actual or potentially negative impact on the counterparty or issuer or affect the value of the asset. Sustainability risk can manifest itself through other financial or non-financial risks (including, but not limited to, market risk, liquidity risk, concentration risk, credit risk, operational risk).

The Bank is aware that regardless of the fact that some ESG risks may materialize in the distant future, they require risk management today. The Bank has identified that it is mainly exposed to ESG factors indirectly, i.e. through customers and business partners, as well as directly through the Bank's operations. Thus, being aware of the indirect exposure to ESG risk, the Bank determines in its risk management both the identification and assessment of ESG risk factors and the desired amount of assets that corresponds to a long-term investment or loan, while the direct exposure to ESG risk is measured by the Bank as part of the annual risk materiality assessment process. ESG risk is currently managed within the framework of other risks.

NOTE 25 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: 1.786 (2023: 1: 3.629). 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 2024 and 2023 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.

	31.12.2024			31.12.2023		
	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	93 036	93 036	-	64 576	64 576	-
Due from credit institutions	5 574	5 574	-	1 269	1 269	-
Debt securities	22 544	21 924	620	35 242	33 783	1 459
Loans and receivables	27 957	28 977	(1 020)	36 730	36 612	118
Other financial assets	1 224	1 224	-	1 591	1 591	-
Financial assets measured at fair value through other comprehensive income						
Debt securities	9 284	9 284	-	17 005	17 005	-
Financial assets measured at fair value through profit or loss						
Shares	514	514	-	803	803	-
Financial liabilities						
Financial liabilities at amortised cost						
Deposits from customers	131 032	131 021	11	127 471	126 189	1 282
Other financial liabilities	1 290	1 290	-	2 336	2 336	-

31.12.2024

	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	5 574	-	-	1 269	1 269
Debt securities	22 544	21 924	-	-	21 924
Loans and receivables	27 957	-	-	28 977	28 977
Other financial assets	1 224	-	-	1 224	1 224
Financial assets measured at fair value through other comprehensive income					
Debt securities	9 284	9 284	-	-	9 284
Financial assets measured at fair value through profit or loss					
Shares	514	-	-	514	514
Financial liabilities					
Financial liabilities at amortised cost					
Deposits from customers	131 032	-	-	131 021	131 021
Other financial liabilities	1 290	-	-	1 290	1 290

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	2 336

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 31.12.2022	**668**
Net revaluation result	135
Balance as at 31.12.2023	**803**
Net revaluation result	**(1 275)**
Net trading gain	986
Balance as at 31.12.2024	**514**

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 2024 are consistent with those of the prior year.

NOTE 26 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, in 2023 and 2024 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 RatingsAccording 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, 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.

SUMMARY OF THE CALCULATION OF OWN FUNDS AND CAPITAL ADEQUACY RATIOS

		31.12.2024	31.12.2023
1.	**Own funds** *(1.1.+1.2.)*	**34 132**	**33 585**
1.1.	TIER 1 capital *(1.1.1.+1.1.2.)*	34 132	33 585
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.)*	34 132	*33 585*
1.1.1.1.	*Capital instruments eligible as CET1 Capital*	13 000	*13 000*
1.1.1.2.	*Retained earnings*	22 112	*22 170*
1.1.1.3.	*Accumulated other comprehensive income*	(364)	*(888)*
1.1.1.4.	*Adjustments to CET1 due to prudential filters*	(10)	*(18)*
1.1.1.5.	*(-) Other intangible assets*	(606)	*(663)*
1.1.1.6.	*(-) Free deliveries which can alternatively be subject to a 1250% risk weight*	-	-
1.1.1.8.	*(-) Additional deductions of CET1 Capital due to Article 3 CRR*	-	*(16)*
2.	**Total risk exposure amount** *(2.1.+2.2.+2.3.+2.4.+2.5.+2.6.+2.7.)*	**68 487**	**87 531**
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.)*	44 452	59 907
2.1.1.	*Central governments and central banks*	28	*1 161*
2.1.2.	*Institutions*	3 160	*4 133*
2.1.3.	*Corporates*	10 259	*12 946*
2.1.4.	*Secured by mortgages on immovable property*	10 754	*12 655*
2.1.5.	*Other risk exposure*	*20 251*	*29 012*
2.2.	Total risk exposure amount for settlement/delivery	-	-
2.3.	Total risk exposure amount for position, foreign exchange and commodities risks	424	442
2.4.	Total risk exposure amount for operational risk	23 611	27 182
2.5.	Total risk exposure amount for credit valuation adjustment	-	-
3.	**Capital ratios and capital levels**		
3.1.	CET 1 capital ratio *(1.1.1./2.*100)*	49.84%	38.37%
3.2.	Surplus (+)/deficit (-) of CET 1 capital *(1.1.1.-2.*4.5%)*	31 050	29 646
3.3.	TIER 1 capital ratio *(1.1./2.*100)*	49.84%	38.37%
3.4.	Surplus (+)/deficit (-) of TIER 1 capital *(1.1.-2.*6%)*	30 023	28 333
3.5.	**Total capital ratio** *(1./2.*100)*	**49.84%**	**38.37%**
3.6.	Surplus (+)/deficit (-) of total capital *(1.-2.*8%)*	28 653	26 583

4.	**Total Combined buffer requirement** *(4.1.+4.2.+4.3.+4.4.+4.5.)*	**2 202**	**2 402**
4.1.	Capital conservation buffer	1 712	2 188
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	490	214
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	49.84%	38.37%
5.3.	TIER 1 capital ratio, taking into account 5.1. row of the correction amount	49.84%	38.37%
5.4.	**The total capital ratio, taking into account 5.1. row of the correction amount**	**49.84%**	**38.37%**

The Bank does not apply the transitional period (valid until 31.12.2025) for the implementation of the IFRS 9 set out in Article 473a of EU Regulation No. 575/2013

The bank does not apply the temporary regime (valid until 31.12.2025) regarding unrealized profits or losses from financial assets valued at fair value with reflection in other comprehensive income set out in Article 468 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 2024 – 2026 the amount of capital should be maintained in accordance with the scenario that gives the highest result;
- **Market risks**:
  - currency risk, the Bank has estimated that to cover foreign exchange risk in 2024 – 2026, the amount of capital should be maintained in accordance with the scenario that gives the highest result;
  - settlement risk; the capital needed to cover the settlement risk assessed according to the approach described by 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 as of 31.12.2024 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. The Bank modelled the amount of required capital taking into account that over the next three years it plans to reduce the size of its FVOCI portfolio.

- **Operational risk**. In determining the required capital level, the Bank considers the capital requirement calculated according to 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, described basic indicators 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 non-trading portfolio**. The Bank has assessed that in order to cover the interest rate risk in the non-trading portfolio in 2024 to 2026, the amount of capital should be maintained in accordance with the worst result out of six monitoring scenarios regarding changes in economic value and the worst result out of two monitoring scenarios regarding changes in net interest income;
- **Concentration risk**. The Bank applies the simplified approach according of the Bank of Latvia 30.09.2024. rules No. 321 "Capital Adequacy assessment process for credit institutions" to determine the amount of capital required.

  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 in accordance with Bank of Latvia 30.09.2024. rules No. 321 "Capital Adequacy assessment process for credit institutions" the Bank applies the simplified method for determining the amount of capital required;
- **Liquidity risk** – the amount of capital required to cover liquidity risk is based on the liquidity risk 024. rules No. 321 "Capital Adequacy assessment process for credit institutions 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 with external liquidity requirements is the amount of additional capital needed to cover the liquidity risk;

- **Other risks**:
  - for reputation risk, the amount of capital required to cover reputational risk is determined using an internal model;
  - for business model risk; the amount of capital required to cover business model risk is determined using an internal model;
  - the other risks; the Bank determines the amount of capital required to cover the other risks in accordance with the Bank of Latvia rules No. 321 of 30.09.2024. "Capital Adequacy assessment process for credit institutions". The other 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;
    - ✓ ICT 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. In addition to determining the amount of capital required to cover risks, the Bank determines the additional capital reserve and the excess leverage risk capital reserve in accordance with Bank of Latvia 30.09.2024. rules No. 321 "Capital Adequacy assessment process for credit institutions", to ensure that the Bank's capital is sufficient in the event of the occurrence of possible adverse scenarios relevant to the Bank's operations and 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.

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 2024 as of 17%.

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

NOTE 27 EVENTS AFTER REPORTING DATE

After the end of the reporting period, changes in the Bank's Council were registered in the Register of Enterprises on January 2, 2025. Council member Jūlija Kozlova left her position and Andy Krishna Hariman began to serve as a Council member.

During the period between the last day of the reporting period and the date of signing these financial statements there have been no other 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 Magnetiq Bank

Report on the Audit of the Financial Statements

Our Opinion on the Financial Statements

We have audited the financial statements of AS Magnetiq Bank ("the Bank") set out on pages 10 to 91 of the accompanying Annual Report, which comprise:

- the statement of comprehensive income for the year ended 31 December 2024
- the statement of financial position as at 31 December 2024
- the statement of changes in equity and reserves for the year ended 31 December 2024
- the statement of cash flows for the year ended 31 December 2024
- 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 2024, and of its financial performance and its cash flows for the year ended 31 December 2024 in accordance with the IFRS Accounting standards as adopted by the European Union.

Basis for Opinion

In accordance with the Law on Audit Services of the Republic of Latvia we conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *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 24 455 thousand as at 31 December 2024 (31 December 2023: EUR 33 400 thousand) and impairment allowances comprised EUR 143 thousand as at 31 December 2024 (31 December 2023: EUR 210 thousand). More details are provided in the note 12(e) 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 Accounting standards requirements. We assessed Bank's expected credit loss assessment methodology for compliance with the IFRS Accounting standards. 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 82% of outstanding loans to customers as at 31 December 2024. 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.

Commission income from e-commerce transaction servicing

Key audit matter	As disclosed in the note 4 in the financial statements, commission income from e-commerce transaction servicing comprised EUR 11 143 thousand for the year ended 31 December 2024 (31 December 2023: EUR 12 726 thousand). Details about the measurement policies are provided in the note 2 (i). The management heavily relies on IT software for commission income calculations and recognition, which is based on the transaction amount by the merchant and relevant commission applied for a specific transaction, as agreed between the Bank and each individual merchant. Commission income is recognized at the point in time when a transaction is processed, as this represents the completion of the Bank's performance obligation under IFRS 15 "Revenue from Contracts with Customers." The commission income earned is deducted directly from the transaction amount before transferring funds to the e-commerce merchant. The commission fee is contractually agreed upon with each merchant and represents the consideration for facilitating the payment. We assess this as a key audit matter due to the share of the commission income from e-commerce transaction servicing in the Bank`s total income and the fact that e-commerce transaction servicing is the main business line of the Bank.
Our audit response	We assessed whether the accounting policies in relation to the commission income from e-commerce transaction servicing are in compliance with IFRS Accounting standards requirements. We analysed and tested internal controls environment with respect to the recognition of commission income from e-commerce transaction servicing and new clients on-boarding process. We assessed design and implementation of automatic controls in the Bank`s IT systems.

We conducted analytical procedures over the e-commerce commission income, assessing trends, ratios, and expected revenue patterns to identify any anomalies or inconsistencies.

We evaluated the existence and accuracy of commission income from e-commerce transaction recognized, based on selected transactions

We audited completeness and accuracy of disclosures related to commission income from e-commerce transaction servicing.

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 7 of the accompanying Annual Report,
- the composition of the Supervisory Council and the Management Board, as set out on page 8 of the accompanying Annual Report.
- the Statement on Management Responsibility, as set out on page 9 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 Bank of Latvia – Regulation 326 Regulations for annual accounts and consolidated annual accounts of credit institutions, investment firms, investment management companies and private pension funds

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 Bank of Latvia Regulation 326 Regulations for annual accounts and consolidated annual accounts

of credit institutions, investment firms, investment management companies and private pension funds.

- *Responsibilities of Management and Those Charged with Governance for the Financial Statements*

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

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

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

Auditor's 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 23 July 2024 to audit the financial statements of AS Magnetiq Bank for the year ended 31 December 2024. This is our second 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
27 February 2025