BluOr Bank

# BluOr Bank AS

## Interim report for the six months period ended 30 June 2023

# CONTENT

# Report of the Council and the Board

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

The Group consists of the Bank, which is a Parent company of the Group and a number of subsidiaries. The business operations of the subsidiaries is to manage repossessed collaterals  and real estate property.

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

The bank ended the reporting period with a profit of EUR 7.6 million (in the first half of 2022: EUR 4.1 million). The bank's operating net income in the first half of 2023 was EUR 16.8 million (in the first half of 2022: EUR 10.5 million). As of 30 June 2023 the Bank's equity amounted to EUR 83 million (as of 31 December 2022: EUR 80 million), total assets amount to EUR 708 million (as of 31 December 2022: EUR 685 million).

As of June 30, 2023, the bank's liquidity (LCR) reached 171% (as of June 30, 2022: 198%) , capital adequacy – 17.2% (as of June 30, 2022: 17.5%). The most important financial performance indicators for six months have also been successful: return on equity (ROE) is 18.3% (as of June 30, 2022: 10.4%)  and return on assets (ROA) is 2.1% (as of June 30, 2022: 1.0%).

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

BluOr Bank continues to actively lend to enterprises, providing financing to entrepreneurs of various industries. Within the first six months of this  year, the bank has signed EUR 61 million of new loan agreements, 83% of new loans by value were issued to small and medium-sized enterprises in order to promote business not only in Riga, but also in several regions of Latvia.

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

As of June 30, 2023, the total amount of outstanding loans and undrawn commitments to lend was EUR 372 million.

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

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

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

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

On behalf of the Bank,

**Aleksandrs Peškovs**
*Chairman of the Council*

**Dmitrijs Latiševs**
*Chairman of the Board*

16 October 2023

# Council and Board of the Bank

## Council as of 30 June 2023

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

## Board as of 30 June 2023

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

On behalf of the Bank,

**Aleksandrs Peškovs**
*Chairman of the Council*

**Dmitrijs Latiševs**
*Chairman of the Board*

16 October 2023

# Statement of the Management's responsibility

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

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

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

The management of the Bank is responsible for the maintenance of a proper accounting system, safeguarding the Group's and the Bank's assets, and the detection and prevention of fraud and other irregularities in the Group and the Bank. Management is also responsible for operating the Group and the Bank in compliance with the Law on Credit Institutions and other legislation of the Republic of Latvia applicable to credit institutions.

On behalf of the Bank,

**Aleksandrs Peškovs**
*Chairman of the Council*

**Dmitrijs Latiševs**
*Chairman of the Board*

16 October 2023

# The Group's consolidated and the Bank's separate interim condensed income statement

| | Note | 6m 2023 | | 6m 2022 | |
|---|---|---|---|---|---|
| | | **Group EUR'000** | **Bank EUR'000** | **Group EUR'000** Unaudited | **Bank EUR'000** Unaudited |
| Interest income | | 15 451 | 15 451 | 10 982 | 10 982 |
| *From those income at effective interest rate* | | *15 291* | *15 291* | *10 878* | *10 878* |
| Interest expenses | | (4 236) | (4 393) | (2 917) | (3 082) |
| **Net interest income** | 6 | **11 215** | **11 058** | **8 065** | **7 900** |
| Fee and commission income | | 6 002 | 6 002 | 3 523 | 3 524 |
| Fee and commission expense | | (869) | (869) | (1 006) | (1 006) |
| **Net fee and commission income** | 7 | **5 133** | **5 133** | **2 517** | **2 518** |
| Net profit from trading and revaluation of financial instruments | 8 | (315) | (315) | (1 204) | (1 204) |
| Net foreign exchange income | 9 | 9 | 9 | 1 040 | 1 040 |
| Other operating income | | 943 | 870 | 316 | 277 |
| **Total operating income** | | **16 985** | **16 755** | **10 734** | **10 531** |
| Administrative expenses | 10 | (7 070) | (6 730) | (6 660) | (6 272) |
| Other operating expenses | 11 | (1 045) | (1 047) | (865) | (865) |
| Credit loss allowances | | (1 098) | (1 065) | 716 | 716 |
| **Total operating expenses** | | **(9 213)** | **(8 842)** | **(6 809)** | **(6 421)** |
| **Profit before taxation** | | **7 772** | **7 913** | **3 925** | **4 110** |
| Corporate income tax | 12 | (278) | (278) | (5) | (5) |
| **Profit for the period** | | **7 494** | **7 635** | **3 920** | **4 105** |

**Aleksandrs Peškovs**
*Chairman of the Council*

**Dmitrijs Latiševs**
*Chairman of the Board*

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# The Group's consolidated and the Bank's separate interim condensed statement of other comprehensive income

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

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*Chairman of the Council*

**Dmitrijs Latiševs**
*Chairman of the Board*

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# The Group's consolidated and the Bank's separate interim condensed statement of financial position

| **Assets** | **Note** | **30/06/2023** | | **31/12/2022** | |
|---|---|---|---|---|---|
| | | **Group EUR'000** | **Bank EUR'000** | **Group EUR'000** | **Bank EUR'000** |
| Cash and demand deposits with central bank | 13 | 136 867 | 136 867 | 120 527 | 120 527 |
| Loans and receivables from banks | 14 | 25 029 | 25 018 | 25 306 | 25 292 |
| *Demand deposits with credit institutions* | | *23 634* | *23 623* | *25 306* | *25 292* |
| *Term deposits with credit institutions* | | *1 395* | *1 395* | - | - |
| Trading financial assets | | 14 | 14 | 3 | 3 |
| *Derivatives* | 21 | *14* | *14* | *3* | *3* |
| Investment securities | 15 | 161 262 | 161 262 | 162 968 | 162 968 |
| *Fixed income securities* | | *160 892* | *160 892* | *162 630* | *162 630* |
| *Non fixed income securities* | | *370* | *370* | *338* | *338* |
| Loans and receivables | 16 | 315 954 | 315 954 | 308 310 | 308 310 |
| Investments in associates | 17 | 827 | - | 827 | - |
| Investments in subsidiary undertakings | 17 | - | 30 266 | - | 30 266 |
| Investment property | | 2 882 | 1 614 | 2 830 | 1 614 |
| Property and equipment | | 24 067 | 3 338 | 24 610 | 3 438 |
| Right-of-use assets | | - | 9 592 | - | 9 924 |
| Intangible assets | | 231 | 228 | 256 | 256 |
| Non-current assets classified as held for sale | | 11 150 | 11 150 | 11 150 | 11 150 |
| Prepayments and accrued income | | 1 313 | 1 309 | 1 661 | 1 657 |
| Other assets | | 11 821 | 11 802 | 10 089 | 10 054 |
| Corporate income tax receivable | | 5 | 5 | 3 | 3 |
| **Total assets** | | **691 422** | **708 419** | **668 540** | **685 462** |

# The Group's consolidated and the Bank's separate interim condensed statement of financial position

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

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*Chairman of the Council*

**Dmitrijs Latiševs**
*Chairman of the Board*

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# The Group's consolidated interim condensed statement of changes in the shareholders' equity

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

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*Chairman of the Board*

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# The Bank's separate interim condensed statement of changes in the shareholders' equity

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

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# The Group's consolidated and the Bank's separate interim condensed statement of cash flows

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

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*Chairman of the Council*

**Dmitrijs Latiševs**
*Chairman of the Board*

16 October 2023

# Notes to the Group's consolidated and the Bank's separate interim condensed financial statements

## 1. GENERAL INFORMATION

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

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

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

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

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

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

### Investments in associated companies (the Group):

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

## 2. BASIS OF PREPARATION OF THE INTERIM CONDENSED FINANCIAL STATEMENTS

### (1) Statement of Compliance

These interim condensed financial statements are prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting as adopted by European Union (EU) on a going concern basis. The interim condensed financial statements do not contain all the information and disclosures required in the annual financial statements and should be read in conjunction with the Bank separate and the Group consolidated financial statements for the year ended 31 December 2022. The financial information in these interim condensed financial statements is presented to a material extent in the same format as in the Bank separate and Group consolidated financial statements for the year ended 31 December 2022.

### (2) Functional and presentation currency

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

## 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of these interim condensed financial statements are consistent with those applied in the preparation of the financial statements for the year ended 31 December 2022, except for the adoption of new standards effective as of 1 January 2023. Several amendments and interpretations are effective for the first time in 2023, but do not have a material impact on these interim condensed financial statements. The Bank and the Group has not early adopted any standard, interpretation, or amendment that has been issued but is not yet effective.

## 4. FINANCIAL INSTRUMENTS FAIR VALUE MEAUSERMENT

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

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

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

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

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

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

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

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

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

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

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

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

The Group and the Bank recognize transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. The Group and the Bank recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

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

**Financial instruments measured at fair value**

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised. There were no transfers between the fair value hierarchy levels during the reporting period.

### The Group and the Bank

| 30 June 2023 | Published price quotations (1) | Valuation techniques based on market observable inputs (2) | Valuation techniques based on unobservable inputs (3) | Total |
|---|---|---|---|---|
| **Financial assets** | | | | |
| *Financial assets at fair value through profit or loss:* | | | | |
| Non fixed income securities | - | 351 | - | **351** |
| Derivatives | - | 14 | - | **14** |
| *Financial assets at fair value through other comprehensive income* | | | | |
| Fixed income securities | 34 209 | - | 379 | **34 588** |
| Non fixed income securities and shares | - | 19 | - | **19** |
| | 34 209 | **384** | **379** | **34 972** |
| **Financial liabilities** | | | | |
| Derivatives | - | 2 | - | **2** |
| | - | **2** | - | **2** |

| 31 December 2022 | Published price quotations (1) | Valuation techniques based on market observable inputs (2) | Valuation techniques based on unobservable inputs (3) | Total |
|---|---|---|---|---|
| **Financial assets** | | | | |
| *Financial assets at fair value through profit or loss:* | | | | |
| Non fixed income securities | - | 320 | - | **320** |
| Derivatives | - | 3 | - | **3** |
| *Financial assets at fair value through other comprehensive income* | | | | |
| Fixed income securities | 25 592 | - | 379 | **25 971** |
| Non fixed income securities and shares | - | 18 | - | **18** |
| | **25 592** | **341** | **379** | **26 312** |
| **Financial liabilities** | | | | |
| Derivatives | - | - | - | - |
| | - | - | - | - |

Included in category "Published price quotations" (Level 1) are financial assets and liabilities that are measured by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. The main asset classes included in this category are financial assets for which the fair value is obtained via pricing vendors or binding broker quotes and assets for which the fair value is determined by reference to indices.

Included in category 2 "Valuation methods based on market observable data" are financial assets and liabilities that are measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions in the same instrument or based on available market data.

Not based upon market observable (Level 3) input means that fair values are determined in whole or in part using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data.

The following table shows the valuation techniques used in measuring Level 2 fair values:

| Type | Valuation technique |
|---|---|
| Financial assets and liabilities designated as at fair value through profit or loss. | Market comparison technique: The fair values are based on broker quotes. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments. |
| Financial assets measured at fair value through other comprehensive income. | Valuation is based on financial indicators, including discounted cash flows and value of Bank's position with the price hedge. |

The following table shows the valuation techniques used in measuring Level 3 fair values:

| Type | Valuation method | Significant unobservable inputs | Inter-relation between significant unobservable inputs and fair value measurement |
|---|---|---|---|
| Assets at fair value through profit or loss (illiquid bonds) | Valuation is based on financial indicators, including discounted cash flows. | Net assets | The estimated fair value would increase (decrease), if: Increase/(decrease) in net assets |
| Financial assets measured at fair value through other comprehensive income | Valuation is based discounted dividend model | Future net revenues; CAPEX | The estimated fair value would increase (decrease) if: revenue increases/ (decreases/ CAPEX decreases/ (increases) |

### Changes in financial instruments of the Group/Bank classified as Level 3 in Fair Value Hierarchy:

| **30.06.2023**<br>**Financial assets at fair value** | **31.12.2022** | **(Sold)** | **Fair value adjustment** | **30.06.2023** |
|---|---|---|---|---|
| Fixed income securities | **379** | - | - | **379** |
| Non fixed income securities | - | - | - | - |
| **Total financial assets at fair value** | **379** | - | - | **379** |

The table below analyses the fair values of financial instruments other than measured at fair value by the level in the fair value hierarchy into which each fair value measurement is categorised. There were no transfers between the fair value hierarchy levels.

| 30 june 2023 | Level 1: EUR'000 | Level 2: EUR'000 | Level 3: EUR'000 | Total fair value EUR'000 | Total carrying amount EUR'000 |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash and demand deposits with central bank | 1 091 | 135 776 | - | 136 867 | 136 867 |
| Loans and receivables from banks | - | 25 018 | - | 25 018 | 25 018 |
| Loans to customers | - | - | 314 539 | 314 539 | 315 954 |
| Investment securities at amortised cost | 114 337 | - | 6 151 | 120 488 | 126 305 |
| Other financial assets | - | - | 11 802 | 11 802 | 11 802 |
| **Financial liabilities** | | | | | |
| Balances due to central bank | - | - | - | - | - |
| Deposits and balances due to financial institutions | - | - | 3 487 | 3 487 | 3 487 |
| Financial liabilities carried at amortized cost | - | - | 603 225 | 603 225 | 605 045 |
| Other financial liabilities | - | - | 4 825 | 4 825 | 4 825 |

| 31 December 2022 | Level 1: EUR'000 | Level 2: EUR'000 | Level 3: EUR'000 | Total fair value EUR'000 | Total carrying amount EUR'000 |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash and demand deposits with central bank | 652 | 119 875 | - | 120 527 | 120 527 |
| Loans and receivables from banks | - | 25 292 | - | 25 292 | 25 292 |
| Loans to customers | - | - | 307 022 | 307 022 | 308 310 |
| Investment securities at amortised cost | 122 902 | - | 6 330 | 129 232 | 136 659 |
| Other financial assets | - | - | 10 054 | 10 054 | 10 054 |
| **Financial liabilities** | | | | | |
| Balances due to central bank | - | - | - | - | - |
| Deposits and balances due to financial institutions | - | - | 6 623 | 6 623 | 6 623 |
| Financial liabilities carried at amortized cost | - | - | 582 587 | 582 587 | 583 711 |
| Other financial liabilities | - | - | 2 954 | 2 954 | 2 954 |

The following table shows the valuation techniques use in measuring Level 2 and Level 3 fair values, as well as the significant unobservable inputs used:

| Type | Valuation method | Significant unobservable inputs |
|---|---|---|
| Loans and advances due from financial institutions | Discounted cash flows | Discount rates |
| Loans | Discounted cash flows | Discount rates |
| Due to financial institutions | Discounted cash flows | Discount rates |
| Deposits | Discounted cash flows | Discount rates |

*Loans*

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

*Shares and other non-fixed income securities*

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

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

*Derivatives*

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

*Liabilities to other credit institutions and customers*

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

## 5. RISK MANAGEMENT

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

1) General guidelines observed by the Group and the Bank in their activities aimed at decreasing risks associated with their activities which might lead to losses;
2) Description of risk transactions and other risks to which the Group and the Bank are exposed;
3) Identification and management of the significant risks, including measurement, evaluation, control, and preparation of risk reports;
4) The procedure for setting limits and restrictions for risk transactions together with regular control and development;
5) Measures for the regular assessment of capital adequacy and maintenance of sufficient capital to cover the inherent risks and risks to which the Bank might be exposed to;
6) Updating of normative documents regarding the risk management process according to market changes.

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

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

### (1) Credit risk

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

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

Compared to the situation on 31.12.2022. The Bank's approach and models applied for the ECL calculations have not been changed. As a result of the validation of the collective provisions model, parameters of the Weibull distribution were adjusted and forward-looking information was updated in the ECL calculations as of 30.06.2023.

### (2) Currency risk

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

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

### (3) Interest rate risk

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

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

### (4) Debt securities price risk

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

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

### (5) Liquidity risk

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

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

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

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

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

### (6) Country risk

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

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

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

### (7) Operational risk

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

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

- Organizational structure, division of powers and the principles of delegation, functional duties, procedure for the exchange of information among the structural units and employees;
- Rules, regulations and procedures for operations and other transactions, the accounting procedure and the organisation of internal processes;
- Control over the compliance with the limits set for bank operations and other transactions;
- Rules, regulations and procedures for the functioning of information systems (technical, informational, etc.);
- Procedure for granting rights of access to information and material assets;
- Procedure for preparing and issuing reports and other information;
- Procedure for motivating employees, and other matters.

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

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

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

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

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

### *(a) General Policy*

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

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

- The key principles of customer due diligence, client transaction monitoring, enhanced due diligence, including the analysis of personal or business activities of clients and their counterparties;
- The key principles of identification and due diligence of beneficial owners of clients;
- The key principles of client risk assessment, identification and management. Based on the information generated during the client's initial due diligence, the client's initial risk is established, which is automatically assigned by the client risk scoring system based on a number of risk factors. Client risk is regularly reviewed in the light of changes in risk factors.

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

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

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

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

- Tier 1 controls — employees of business structural units in charge of acquiring and servicing customers, ensuring compliance with the 'Know Your Customer' (KYC) and 'Know Your Customer's Customer' (KYCC) principles both when entering into a business relationship with the client and during business relationship. Each employee of the Bank's structural units is responsible for knowing and complying with ML/TPF and Sanctions risk requirements in cooperation with clients, as well as for promoting and respecting the professional internal culture in accordance with the Corporate Ethics Standards Code.
- Tier 2 controls — structural units in charge of client acceptance and due diligence prior to establishing business relationship, monitoring of client transactions and support function, that provide independent research and acceptance of clients, supervision of servicing, analysis of client transactions, issue of opinions on planned client transactions, and, through the use of automated

tools, carry out transaction monitoring, reporting (Financial Intelligence Unit, the State Revenue Service, the State Security Service, the Finance and Capital Market Commission, the Register of Enterprises of the Republic of Latvia), as well as risk management and operational compliance directors and heads of departments responsible for supervision. In addition to monitoring the Sanctions risk, the Bank has appointed a responsible employee in charge of considering matters related to International, OFAC and National sanctions at the Bank, consulting other employees of the Bank and issuing opinions on Sanctions-related matters.

— Tier 3 controls are implemented by the Internal Audit Service through independent and regular management of ML/TPF and Sanctions risk and assessment of controls.

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

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

### (9) Management of compliance risk

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

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

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

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

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

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

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

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

## 6. NET INTEREST INCOME

| | 6m 2023 | | 6m 2022 | |
|---|---|---|---|---|
| **Interest income** | **Group EUR'000** | **Bank EUR'000** | **Group EUR'000** Unaudited | **Bank EUR'000** Unaudited |
| Interest income from financial assets at amortized cost | 15 373 | 15 373 | 10 090 | 10 090 |
| *Loans and receivables* | *12 666* | *12 666* | *9 341* | *9 341* |
| *Demand deposits with central bank* | *1 963* | *1 963* | - | - |
| *Debt instruments* | *744* | *744* | *749* | *749* |
| Interest income from financial assets measured at fair value through other comprehensive income | 46 | 46 | 46 | 46 |
| Other interest income | 32 | 32 | 846 | 846 |
| **Total interest income** | **15 451** | **15 451** | **10 982** | **10 982** |
| | | | | |
| **Interest expense** | | | | |
| Interest expense from liabilities measured at amortized cost: | 3 326 | 3 326 | 1 299 | 1 299 |
| Payments to the Deposit Guarantee Fund and other funds | 485 | 485 | 600 | 600 |
| Other interest expense | 425 | 582 | 1 018 | 1 183 |
| **Total interest expense** | **4 236** | **4 393** | **2 917** | **3 082** |
| **Net interest income** | **11 215** | **11 058** | **8 065** | **7 900** |

## 7. NET FEE AND COMMISSION INCOME

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

## 8. NET PROFIT FROM TRADING AND REVALUATION OF FINANCIAL INSTRUMENTS

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

## 9. NET FOREIGN EXCHANGE INCOME

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

## 10. ADMINISTRATIVE EXPENSES

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

## 11. OTHER OPERATING EXPENSES

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

## 12. CORPORATE INCOME TAX

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

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

During 2022 and first half of 2023 the Bank mainly distributed profit that relates to periods before 1 January 2018, which was taxed in the respective periods and for which no further corporate income tax is payable upon distribution.

## 13. CASH AND DEMAND DEPOSITS WITH CENTRAL BANK

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

## 14. LOANS AND RECEIVABLES FROM BANKS

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

## 15. INVESTMENT SECURITIES

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

## 16. LOANS AND RECEIVABLES

### (a) Analysis of loans by type

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

### (b) Geographical segmentation of loans

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

### c) Ageing structure of the loan portfolio

| Bank EUR'000 | Total EUR'000 | Of which not past due on the reporting date | Of which past due by the following terms | | | | Net carrying amount of overdue loans |
|---|---|---|---|---|---|---|---|
| | | | Less than 30 days | 31-90 days | 91-180 days | More than 180 days | |
| **As at 30 June 2023** | | | | | | | |
| Net carrying amount | **315 954** | 311 282 | 2 978 | 14 | 122 | 1 558 | 4 672 |
| Out of which impaired | 4 658 | - | 2 978 | - | 122 | 1 558 | 4 658 |
| **As at 31 December 2022** | | | | | | | |
| Net carrying amount | **308 310** | 303 723 | 2 711 | 146 | - | 1 730 | 4 587 |
| Out of which impaired | **2 381** | 474 | 42 | 135 | - | 1 730 | 1 907 |

### *d) Movements in the impairment allowance*

Movements in the loan impairment allowance for the period ended 30 June 2023 are as follows:

**Group and Bank, EUR' 000**

**Corporates**

| | **Credit loss allowance** | | | | **Gross carrying amount of loans** | | | |
|---|---|---|---|---|---|---|---|---|
| | **Stage 1 (12-months ECL)** | **Stage 2 (lifetime ECL)** | **Stage 3 (lifetime ECL for credit-impaired)** | **Total** | **Stage 1 (12-months ECL)** | **Stage 2 (lifetime ECL)** | **Stage 3 (lifetime ECL for credit-impaired)** | **Total** |
| **Opening balance at 1 January 2023** | **418** | **321** | **2 424** | **3 163** | **247 762** | **45 270** | **4 763** | **297 795** |
| Transfers due to change in credit risk: | | | | | | | | |
| -to lifetime (from Stage 1 and Stage 3 to Stage 2) | (21) | 21 | - | - | (9 024) | 9 024 | - | - |
| -to credit-impaired (from Stage 1 and Stage 2 to Stage 3) | (65) | (4) | 69 | - | (3 160) | (493) | 3 653 | - |
| to Stage 1 from Stage 2 | 151 | (151) | - | - | 18 193 | (18 193) | - | - |
| -remaining credit risk changes | - | - | 1 002 | 1 002 | - | - | - | - |
| New originated or purchased | 154 | - | - | **154** | 56 649 | - | - | **56 649** |
| Derecognised | (373) | (40) | (30) | (443) | (35 607) | (14 663) | (334) | (50 604) |
| **Change for the period** | **(154)** | **(174)** | **1 041** | **713** | **27 051** | **(24 325)** | **3 319** | **6 045** |
| Write-offs | | | | | | | | |
| FX and other movements | - | - | - | - | - | 125 | - | 125 |
| **Closing balance at 30 June 2023** | **264** | **147** | **3 465** | **3 876** | **274 813** | **21 070** | **8 082** | **303 965** |

The amount of new originated or purchased loans represents loans in the portfolio as at 30 June 2023 while the amount of derecognised loans represent loans in the portfolio as at 1 January 2023 and derecognised during 2023.

### *d) Movements in the impairment allowance*

Movements in the loan impairment allowance for the year ended 31 December 2022 are as follows:

**Group and Bank, EUR' 000**

**Corporates**

| | **Credit loss allowance** | | | | **Gross carrying amount of loans** | | | |
|---|---|---|---|---|---|---|---|---|
| | **Stage 1 (12-months ECL)** | **Stage 2 (lifetime ECL)** | **Stage 3 (lifetime ECL for credit-impaired)** | **Total** | **Stage 1 (12-months ECL)** | **Stage 2 (lifetime ECL)** | **Stage 3 (lifetime ECL for credit-impaired)** | **Total** |
| **Opening balance at 1 January 2022** | **240** | **420** | **3 197** | **3 857** | **235 564** | **68 384** | **29 559** | **333 507** |
| Transfers due to change in credit risk: | | | | | | | | |
| -to lifetime (from Stage 1 and Stage 3 to Stage 2) | (3) | 255 | (252) | - | (2 419) | 15 651 | (13 232) | - |
| -to credit-impaired (from Stage 1 and Stage 2 to Stage 3) | (34) | - | 34 | - | (675) | (4) | 679 | - |
| to Stage 1 from Stage 2 | 120 | (120) | - | - | 14 414 | (14 414) | - | - |
| -remaining credit risk changes | 150 | (190) | 509 | 469 | (26 308) | (12 333) | (774) | (39 415) |
| New originated or purchased | 79 | - | - | 79 | 68 730 | - | - | 68 730 |
| Derecognised | (134) | (44) | (1 064) | (1 242) | (41 536) | (12 448) | (11 469) | (65 453) |
| **Change for the period** | **178** | **(99)** | **(773)** | **(694)** | **12 206** | **(23 548)** | **(24 796)** | **(36 138)** |
| Write-offs | | | | | | | | |
| FX and other movements | - | - | - | - | (8) | 434 | - | 426 |
| **Closing balance at 31 December 2022** | **418** | **321** | **2 424** | **3 163** | **247 762** | **45 270** | **4 763** | **297 795** |

The amount of new originated or purchased loans represents loans in the portfolio as at 31 December 2022 while the amount of derecognised loans represent loans in the portfolio as at 1 January 2022 and derecognised during 2022.

## Group and Bank, EUR' 000

## Individuals

| | Credit loss allowance | | | | Gross carrying amount of loans | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 (12-months ECL) | Stage 2 (lifetime ECL) | Stage 3 (lifetime ECL for credit-impaired) | Total | Stage 1 (12-months ECL) | Stage 2 (lifetime ECL ) | Stage 3 (lifetime ECL for credit-impaired) | Total |
| **Opening balance at 1 January 2023** | **61** | **24** | **147** | **232** | **10 925** | **2 795** | **190** | **13 910** |
| Transfers due to change in credit risk: | | | | | | | | |
| -to lifetime (from Stage 1 and Stage 3 to Stage 2) | (14) | 14 | - | - | (110) | 110 | - | - |
| -to credit-impaired (from Stage 1 and Stage 2 to Stage 3) | (1) | (13) | 14 | - | (4) | (17) | 21 | - |
| -remaining credit risk changes | - | - | - | - | - | - | - | - |
| New originated or purchased | 10 | - | - | 10 | 4 098 | - | - | 4 098 |
| Derecognised | (9) | (15) | (11) | (35) | (1 816) | (100) | (20) | (1 936) |
| **Change for the period** | **(14)** | **(14)** | **3** | **25** | **2 168** | **(7)** | **1** | **2 162** |
| Write-offs | | | | | | | | |
| FX and other movements | - | - | - | - | - | - | - | - |
| **Closing balance at 30 June 2023** | **47** | **10** | **150** | **207** | **13 093** | **2 788** | **191** | **16 072** |

The amount of new originated or purchased loans represents loans in the portfolio as at 30 June 2023 while the amount of derecognised loans represent loans in the portfolio as at 1 January 2023 and derecognised during 2023.

### Group and Bank, EUR' 000

### Individuals

| | Credit loss allowance | | | | Gross carrying amount of loans | | | |
|---|---|---|---|---|---|---|---|---|
| | **Stage 1 (12-months ECL)** | **Stage 2 (lifetime ECL)** | **Stage 3 (lifetime ECL for credit-impaired)** | **Total** | **Stage 1 (12-months ECL)** | **Stage 2 (lifetime ECL)** | **Stage 3 (lifetime ECL for credit-impaired)** | **Total** |
| **Opening balance at 1 January 2022** | **123** | **48** | **86** | **257** | **12 179** | **2 466** | **141** | **14 786** |
| Transfers due to change in credit risk: | | | | | | | | |
| -to lifetime (from Stage 1 ans Stage 3 to Stage 2) | (20) | 20 | - | - | (67) | 67 | - | - |
| -to credit-impaired (from Stage 1 and Stage 2 to Stage 3) | (2) | (20) | 22 | - | (30) | (50) | 80 | - |
| -remaining credit risk changes | (21) | 20 | 50 | 49 | (1 326) | 844 | (10) | (492) |
| New originated or purchased | 16 | - | - | 16 | 1 275 | - | - | 1 275 |
| Derecognised | (35) | (44) | (11) | (90) | (1 106) | (532) | (21) | (1 659) |
| **Change for the period** | **(62)** | **(24)** | **61** | **(25)** | **1 254** | **329** | **49** | **(876)** |
| Write-offs | | | | | | | | |
| FX and other movements | - | - | - | - | - | - | - | - |
| **Closing balance at 31 December 2022** | **61** | **24** | **147** | **232** | **10 925** | **2 788** | **190** | **13 910** |

The amount of new originated or purchased loans represents loans in the portfolio as at 31 December 2022 while the amount of derecognised loans represent loans in the portfolio as at 1 January 2022 and derecognised during 2022.

### e) Loans and expected credit losses by ECL stages

| Group and Bank, EUR' 000<br>30 June 2023 | Stage 1 (12-months ECL) | Stage 2 (lifetime ECL) | Stage 3 (lifetime ECL for credit-impaired) | Total |
|---|---|---|---|---|
| **Gross loans** | **287 906** | **23 858** | **8 273** | **320 037** |
| (Less) expected credit loss | (311) | (157) | (3 615) | (4 083) |
| **Net loans** | **287 595** | **23 701** | **4 658** | **315 954** |

| Group and Bank, EUR' 000<br>31 December 2022 | Stage 1 (12-months ECL) | Stage 2 (lifetime ECL) | Stage 3 (lifetime ECL for credit-impaired) | Total |
|---|---|---|---|---|
| **Gross loans** | **258 686** | **48 067** | **4 952** | **311 705** |
| (Less) excpected credit loss | (479) | (345) | (2 571) | (3 395) |
| **Net loans** | **258 207** | **47 722** | **2 381** | **308 310** |

### f) Analysis of loans by type of collateral (Group and Bank)

| EUR' 000 | 30/06/2023 | | 31/12/2022 | |
|---|---|---|---|---|
| | Carrying value of the assets | Value of collateral | Carrying value of the assets | Value of collateral |
| Stage 1 | 287 595 | 751 817 | 258 207 | 619 652 |
| Stage 2 | 23 701 | 46 413 | 47 722 | 138 767 |
| Stage 3 | 4 658 | 8 576 | 2 381 | 6 999 |
| **Total** | **315 954** | **806 806** | **308 310** | **765 418** |

### g) Industry analysis of the loan portfolio (Group and the Bank)

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

## 17. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

### *(a) Investments in subsidiaries (Bank)*

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

### *Investments in subsidiaries (Bank)*

| | 30/06/2023 EUR'000 | 31/12/2022 EUR'000 |
|---|---|---|
| Investments in subsidiaries | 36 533 | 36 533 |
| Non-reciprocal capital contribution by a parent into subsidiary according to IFRS 10 (AS „Pils pakalpojumi") | (2 400) | (2 400) |
| **Total** | **34 133** | **34 133** |
| Impairment allowance | (3 867) | (3 867) |
| **Investments in subsidiaries net** | **30 266** | **30 266** |

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

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

## 18. DUE TO CREDIT INSTITUTIONS ON DEMAND

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

## 19. FINANCIAL LIABILITIES CARRIED AT AMORTIZED COST: DEPOSITS

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

### Geographical segmentation of the deposits

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

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

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

## 21. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

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

## 22. SHARE CAPITAL AND RESERVES

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

### *Dividends*

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

## 23. CASH AND CASH EQUIVALENTS

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

## 24. CONTINGENT LIABILITIES AND COMMITMENTS

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

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

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

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

## 25. LITIGATION

In the Klaipėda District Court, Lithuania, legal proceeding is underway, as a result of which it will be decided whether UAB Dognus has a right of action at all and whether it will be able to exist at all (the first court hearing is scheduled for 17.11.2023). In the worst case scenario (if the claim of UAB Dognus will be heared by the court), the Bank could not suffer losses in any case, because the type of claim submitted by UAB Dognus (actio pauliana) provides for restitution, i.e. restoration of the previous status of all involved persons. In this case, this would mean not only the Bank's obligation to repay the loan repayment payments received, but also the Bank's return to the status of a secured creditor. Considering that the original collateral (goods) no longer exists, the Bank's claims would be secured by the court's decision with the Bank's own refunded funds. In general, the claim of UAB Dognus is still assessed as insufficiently substantiated from the legal point of view, and the worst case scenario (i.e. a court decision on restitution) is also assessed as unlikely.

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

## 26. ASSETS UNDER MANAGEMENT

| | 30/06/2023 | | 31/12/2022 | |
|---|---|---|---|---|
| **Assets under management** | **Group EUR'000** | **Bank EUR'000** | **Group EUR'000** | **Bank EUR'000** |
| Due from credit institutions registered in Latvia | 601 | 601 | 1 191 | 1 191 |
| Loans to customers | 165 | 165 | 165 | 165 |
| Non fixed income securities | 16 072 | 16 072 | 16 228 | 16 228 |
| Fixed income securities | 3 045 | 3 045 | 1 382 | 1 382 |
| Other assets | - | - | 1 | 1 |
| **Total assets under management** | **19 883** | **19 883** | **18 967** | **18 967** |

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

## 27. CAPITAL ADEQUACY CALCULATION (BANK)

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

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

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

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

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

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

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

## 28. OPERATING SEGMENTS

The Bank's Management Board, its chief operating decision maker, monitors separately the operating results of the Corporate banking operating segment. The Bank's main business activity is servicing corporate customers and high net worth individuals, there is no separate retail banking segment and insignificant part of retail banking products are managed and monitored together with corporate banking products. Treasury function includes treasury services provided to corporate customers and high net worth individuals and therefore included in the Corporate segment. The results of all other operations are included in the "Other" segment.

| | 6m 2023 | | | 6m 2022 | | |
|---|---|---|---|---|---|---|
| | Corporate EUR'000 | Other EUR'000 | Total EUR'000 | Corporate EUR'000 | Other EUR'000 | Total EUR'000 |
| Net interest and similar income | 11 215 | - | 11 215 | 8 065 | - | 8 065 |
| Net fee and commission income | 5 133 | - | 5 133 | 2 517 | - | 2 517 |
| Net other finance income | (306) | - | (306) | (164) | - | (164) |
| Other operating income | 907 | 36 | 943 | 280 | 36 | 316 |
| **Total operating income** | **16 949** | **36** | **16 985** | **10 698** | **36** | **10 734** |
| Total operating expense | (8 064) | (51) | (8 115) | (7 493) | (32) | (7 525) |
| Credit loss allowance | (1 098) | - | (1 098) | 716 | - | 716 |
| **Profit before tax** | **7 787** | **(15)** | **7 772** | **3 921** | **4** | **3 925** |

| | 6m 2023 | | | 6m 2022 | | |
|---|---|---|---|---|---|---|
| **Fee and commission income** | **Corporate EUR'000** | **Other EUR'000** | **Total EUR'000** | **Corporate EUR'000** | **Other EUR'000** | **Total EUR'000** |
| Money transfers | 538 | - | 538 | 537 | - | 537 |
| Commissions on loans monitoring and service | 452 | - | 452 | 252 | - | 252 |
| Securities transactions | 470 | - | 470 | 569 | - | 569 |
| Assets management | 109 | - | 109 | 174 | - | 174 |
| Client service | 3 759 | - | 3 759 | 1 304 | - | 1 304 |
| Payment card service | 674 | - | 674 | 687 | - | 687 |
| **Total net fee and commission income** | **6 002** | **-** | **6 002** | **3 523** | | **3 523** |
| | | | **30/06/2023** | | | **31/12/2022** |
| **Total assets** | 690 595 | 827 | **691 422** | 667 713 | 827 | **668 540** |
| **Total liabilities** | (612 872) | **-** | **(612 872)** | (592 679) | **-** | **(592 679)** |

## 29. EVENTS AFTER THE REPORTING PERIOD

The Ministry of Finance of the Republic of Latvia is working on an amendments to the Corporate Income Tax Law, which, among other things, provides for amendments to the procedure for calculating and paying corporate income tax applicable to credit institutions. The changes have not entered into force as of the date of this financial statements, nor it is currently possible to assess the possible impact of these amendments on the financial results of the Bank and the Group in 2023.

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

# Independent Auditor's Report on Review of Condensed Separate and Consolidated Interim Financial Statements

To the Shareholder of AS BluOr Bank:

## Introduction

We have reviewed the accompanying condensed separate and consolidated interim statement of financial position of AS BluOr Bank (the "Bank") and its subsidiaries (together – the "Group") as at 30 June 2023 and the related condensed separate and consolidated interim income statement, statement of other comprehensive income, statement of changes in shareholders' equity and statement of cash flows for the six-month period then ended, and the related explanatory notes. Management is responsible for the preparation and presentation of these condensed separate and consolidated interim financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" as adopted by the European Union. Our responsibility is to express a conclusion on these condensed separate and consolidated interim financial statements based on our review.

## Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of condensed separate and consolidated interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed separate and consolidated interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, "Interim Financial Reporting" as adopted by the European Union.

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

Ilandra Lejiņa
Member of the Board
Certified auditor in charge
Certificate No. 168

Riga, Latvia
16 October 2023

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