RIETUMU BANKA AS

2018 Annual Report

Contents

Report of Council and Board of Directors

Dear Shareholders, Customers and Business Partners,

2018 was a year of remarkable change for Rietumu Bank. The Bank successfully managed to considerably restructure its business model which resulted in the closure of a significant part of its client base and subsequently a significant fall in assets. The Bank also engaged in a major efficiency drive which resulted in about 25% reduction in employees. Despite these substantial developments the Rietumu Bank Group remained profitable with a net profit after tax of EUR 23.5 million.

In the beginning of year 2018 Latvian banking sector faced local and international reputational crisis which also affected the Bank and the Group. On 13 February 2018, the U.S. Department of the Treasury's Financial Crimes Enforcement Network (‘FinCEN’) issued a finding, pursuant to Section 311 of the USA PATRIOT Act, against one of Latvia’s largest banks. Shortly afterwards, a high government official was detained by Latvia’s anti-corruption authorities (‘KNAB’) in a bribery-linked allegation case. The changes in business model were partly in response to these events and were necessary to protect the Bank’s reputation and future development. During 2018 and 2019, several other Baltic banks have been implicated into scandals in connection with suspected involvement in money laundering activities which further damaged Latvian banking’s reputation and again points to the Latvian banking sector requiring change. With its actions the Bank was the first Latvian Bank that completely renewed its business model and, instead of gradual de-risking, the Bank terminated the relationships of a complete group of customers in one day. This resulted in the number of high-risk customers falling to 3.1% on 31 December 2018 from 30% in 2017. Many years of conservative asset allocation policies and very high levels of liquidity enabled the Bank to make such radical decisions. From February 2018 until the data of this report the liquidity coverage ratio of the Bank was never below 652% and at 31 December 2018 this ratio was 1290%.

The future business model of the Bank will be focussed on customers from the Baltic countries and European Union, in particular Latvian customers. The Bank works with large to medium sized corporate customers and individuals from whom the Bank will attract deposits and lend to. The Bank reopened its new lending pipeline in the beginning of September 2018 and the results since then have been positive.

Profitability

The Group’s after-tax profit attributable to the equity holders of the Bank for the year 2018 was EUR 21 million (2017: 32 million). The Group generated an after-tax return on equity of 4.92% (2017: 6.89%) and an after-tax return on assets of 1.37% (2017: 1.0%).

The Group’s operating income was EUR 104 million (2017: EUR 137 million). Net fee and commission income was EUR 37 million (2017: EUR 34,6 million). The Group’s cost to income ratio was 47% for the year ended 31 December 2018 (2017: 61%). The cumulative result of the above is that the Group reached a pre-tax profit margin of 24%.

Assets

As at 31 December 2018 the Group’s total assets were EUR 1,553 million. This represents a decrease of 48% compared to 2017. The Group follows a conservative approach to asset allocation and about 47% of the Group’s assets invested in liquidity management portfolios. About 9% of the liquidity management portfolio is invested in short term money market placement with large mainly European banks. The tenure of these placements is up to 7 days. The bond portfolio primarily consists of corporate investment grade securities.

Lending

Loans and receivables due from customers represent about 40% of total assets. Since 2010 this ratio has not exceeded 45% and the Bank does not plan that this ratio exceeds 45% in the nearest future.

The Bank follows a very conservative lending policy while offering innovative and individually tailored products that suit the requirements of each individual customer the best. This includes not only lending services but other services such as legal assistance, consulting and corporate support. During 2018 the Group continued to focus on trade finance, leasing and consumer finance businesses.

As a result of the uncertain environment in the region the Bank has scaled down its commercial lending in the CIS countries. In addition, the Group focussed on reducing concentration risks of large lending projects. This resulted in the lending portfolio being diversified over a large group of medium sized loans rather than the portfolio being concentrated in a smaller group of larger loans. Following the policy maintained by the Group, Loans and receivables to customers have fallen to EUR 618 million compared to the balance of 2017 of EUR 832 million. The effective average interest rate for 2018 was 4.2%.

Group Companies

The major non-banking companies of the Group include leasing and consumer finance companies, repossessed real estate and other repossessed collateral maintenance companies and asset management and financial companies. It is the Bank's strategy as much as possible to fully integrate its subsidiaries into the Bank's management and control systems. The activities of Group companies are financed by the Bank via capital investments and loans. In most cases the Bank owns 100% of the shares of its subsidiaries.

The Group fully owns an asset management company called Rietumu Asset Management that provides asset management services to the Bank's customers. The asset management company provides individual portfolios for customers as well as investment into Latvian registered funds.

The Group's Belorussian leasing business focuses on industrial equipment leasing which contributed to the Group's profit before income tax in the amount of EUR 1,6 million for the year ended 31 December 2018. The Bank partly owns and finances a consumer leasing company named InCredit Group SIA which is registered and operates in Latvia. As of 31 December 2018, the net leasing portfolio of InCredit Group SIA was EUR 49 million and it contributed to the net profit after tax of the Group in the amount of EUR 2 million.

RB Investments group, owns most of the significant real estate that the Bank repossessed as well as other assets that the Bank took over on defaulted loans. Most of the repossessed assets are located in Riga and the Riga region. RB Investments Group is renting out a portion of these assets and plans to sell most of its portfolio of assets in the coming years.

Funding, Equity and Expand Capital Base

Current accounts and deposits due to customers in amount of EUR 1,020 million decreased by 56% compared to 2017. The fall in deposits occurred due the new customer policy adopted by the Bank. Current accounts represented EUR 583 million or 57.2% of total current accounts and customer deposits. Term deposits amounted to EUR 437 million as at 31 December 2018 including EUR 78 million of subordinated deposits. The Bank managed to attract deposits from a new funding source, German retail deposits, which will form one of the pillars of the Bank's funding in nearest future. The average remaining tenor of term deposits is 2.4 years with the average effective interest rate in 2018 of 1%. The average effective interest rate for subordinated deposits in 2018 was 5%.

Group total shareholders' equity reached EUR 471 million as of 31 December 2018. Group Tier I and total capital adequacy ratios were 27.46% (2017: 19.02%) and 36.01% (2017: 24.08%) respectively.

2019 and Beyond

The Bank is defendant in a court case (lawsuit) for alleged involvement in tax evasion and aggravated money laundering. On 6 July 2017, Paris Court Section 32 issued first instance decision against the Bank, ordering the Bank to pay EUR 80 million (criminal case), and, jointly with other more than 20 defendants, EUR 10 million (civil case). The Bank appealed the decision on 12 July 2017. The date of the appeal court hearing has been set for the end of September 2019. The Bank will continue to cooperate with all relevant authorities.

We will continue to adapt to the changes in the market and banking sector and we believe that we will be able to strengthen our relations with our customers and our position in the market.

We achieved our results while maintaining a conservative asset allocation which we believe is the basis to continue our stable development. We owe our success to our customers and business partners and the trust that they have placed in us. We are looking forward to continue developing the Bank in 2019 successfully.

Sustainability Report prepared by the management is set out in a separate statement and is available on Bank's website http://www.rietumu.lv/.

We would like to thank our customers and business partners for their continued support during a difficult year and we are confident in continued success in 2019 and beyond.

Financial results of the Group

	2018	2017	2016	2015
At year end (EUR'000)				
Total assets	1,552,981	3,009,558	3,473,590	3,794,153
Loans and receivables due from customers	617,899	832,340	1,044,920	1,101,772
Current accounts and deposits due to customers	1,019,696	2,340,512	2,742,726	3,203,992
Total shareholder's equity	471,461	478,755	493,874	456,869
For the year (EUR'000)				
Net profit before tax	24,848	40,678	88,748	81,176
Net profit after tax	23,461	33,494	82,337	70,043
Operating income	104,458	136,611	180,981	158,736
Ratios				
Earnings per share (EUR) – basic and diluted				
After tax	0.17	0.28	0.68	0.65
Return on equity				
Before tax	5.21%	8.36%	18.67%	20.33%
After tax	4.92%	6.89%	17.32%	17.54%
Return on assets				
Before tax	1.45%	1.25%	2.44%	2.23%
After tax	1.37%	1.03%	2.27%	1.93%
Capital adequacy ratio	36.01%	24.08%	22.36%	19.20%
Profit margin	23.79%	29.78%	49.04%	51.14%
Loan portfolio to total assets ratio	39.79%	27.66%	30.08%	29.04%
Number of employees	856	1,070	1,078	1,037

Financial results of the Bank

	2018	2017	2016	2015
At year end (EUR'000)				
Total assets	1,542,405	2,998,620	3,465,604	3,785,767
Loans and receivables due from customers	695,343	916,987	1,116,873	1,151,789
Current accounts and deposits due to customers	1,033,539	2,359,214	2,767,739	3,231,558
Total shareholder's equity	457,510	459,614	471,546	432,841
For the year (EUR'000)				
Net profit before tax	22,480	41,008	86,509	81,940
Net profit after tax	21,483	33,034	80,300	72,179
Operating income	88,027	122,444	170,212	151,164
Ratios				
Earnings per share (EUR) - basic and diluted				
After tax	0.18	0.26	0.73	0.65
Before tax	0.19	0.33	0.79	0.75
Return on equity				
Before tax	4.83%	8.81%	19.13%	21.67%
After tax	4.62%	7.02%	17.76%	19.09%
Return on assets				
Before tax	1.19%	1.27%	2.39%	2.26%
After tax	1.14%	1.03%	2.21%	1.99%
Capital adequacy ratio	36.62%	24.36%	22.61%	19.43%
Profit margin	25.54%	33.49%	50.82%	54.21%
Loan portfolio to total assets ratio	45.08%	30.58%	32.23%	30.42%
Number of employees	567	765	782	769

STATEMENTS OF MANAGEMENT RESPONSIBILITY

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

The separate and consolidated financial statements on pages 19 to 124 are prepared in accordance with source documents and present fairly the financial position of the Bank and the Group as of 31 December 2018 and the results of their operations and cash flows for the year ended 31 December 2018.

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

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

On behalf of the Management of Rietumu Banka AS:

Chairman of the Executive Board
Rolf Paul Fuls

Deputy Chairman of the Executive Board
Ruslans Stecjuks

4 April 2019

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

The Council of Rietumu Banka

1 January 2018 – 14 May 2018

Name	*Position*	*Date of appointment and current term*
Leonids Esterkins	Chairman of the Council	25/09/97 (04/04/18-04/04/21)
Arkadijs Suharenko	Deputy Chairman of the Council	25/09/97 (04/04/18-04/04/21)
Brendan Thomas Murphy	Deputy Chairman of the Council	07/09/05 (04/04/18-04/04/21)
Dermot Fachtna Desmond	Member of the Council	07/09/05 (04/04/18-04/04/21)
Alexander Gafin	Member of the Council	25/03/10 (04/04/18-14/05/18)
Valentins Blugers	Member of the Council	25/03/11 (04/04/18-04/04/21)

14 May 2018 – 31 December 2018

Name	*Position*	*Date of appointment and current term*
Leonids Esterkins	Chairman of the Council	25/09/97 (14/05/18-14/05/21)
Arkadijs Suharenko	Deputy Chairman of the Council	25/09/97 (14/05/18-14/05/21)
Brendan Thomas Murphy	Deputy Chairman of the Council	07/09/05 (14/05/18-14/05/21)
Dermot Fachtna Desmond	Member of the Council	07/09/05 (14/05/18-14/05/21)
Valentins Blugers	Member of the Council	25/03/11 (14/05/18-14/05/21)

The Executive Board

1 January 2018 – 24 April 2018

Name	*Position*	*Date of appointment and current term*
Alexander Pankov	Chairman of the Executive Board, President	04/07/06 (05/10/16-24/04/18)
Ruslans Stecjuks	Member of the Executive Board, First Vice President	18/10/10 (05/10/16-04/10/19)
Rolf Paul Fuls	Member of the Executive Board, First Vice President	26/11/10 (05/10/16-04/10/19)
Jevgenijs Djugajevs	Member of the Executive Board, Senior Vice President	18/10/10 (05/10/16-13/04/18)
Ilja Suharenko	Member of the Executive Board, First Vice President	18/10/10 (05/10/16-04/10/19)
Natalja Perhova	Member of the Executive Board, Senior Vice President	05/10/16-24/04/18
Jelena Buraja	Member of the Executive Board, Senior Vice President	05/10/16-04/10/19
Alexander Voloshin	Member of the Executive Board, Senior Vice President	05/10/16-24/04/18
Natalija Ignatjeva	Member of the Executive Board, Senior Vice President	17/05/17-22/05/18

24 April 2018 – 31 December 2018

Name	*Position*	*Date of appointment and current term*
Rolf Paul Fuls	Chairman of the Executive Board	24/04/18-04/10/19
Ruslans Stecjuks	Member of the Executive Board, Deputy Chairman	24/04/18-04/10/19
Ilja Suharenko	Member of the Executive Board, Deputy Chairman	24/04/18-04/10/19
Jelena Buraja	Member of the Executive Board	24/04/18-04/10/19

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of AS "Rietumu Banka"

Report on the Audit of the Bank's Separate and the Group's Consolidated Financial Statements

Our Opinion on the Separate and Consolidated Financial Statements

We have audited the accompanying separate financial statements of AS "Rietumu Banka" ("the Bank") and accompanying consolidated financial statements of the Bank and its subsidiaries ("the Group") set out on pages 19 to 124 of the accompanying separate and consolidated Annual Report, which comprise:

- the separate and consolidated statement of financial position as at 31 December 2018;
- the separate and consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the separate and consolidated statement of changes in equity for the year then ended;
- the separate and consolidated statement of cash flows for the year then ended;
- notes to the separate and consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate and consolidated financial statements give a true and fair view of the separate and consolidated financial position of the Bank and the Group as at 31 December 2018, and of its separate and consolidated financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

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

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

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

Emphasis of Matter

On 6 July 2017 a French Court ruled in its first-instance judgment that the Bank was guilty of aggravated money laundering and was ordered to pay a criminal fine of EUR 80,000 thousand, and damages, jointly and severally with other defendants, of EUR 10,113 thousand to the Republic of France. The court ruling was appealed both by the Bank and by the French prosecutors. A procedural hearing is scheduled for 7 May 2019, and the merits hearings are expected to take place on 23, 24, 25 and 26 September 2019. The Bank and the Group believe that the amount of the provision (EUR 34,000 thousands) recognized in these separate and consolidated financial statements represent their best estimate of the expenditure to be ultimately required to settle the obligation, however, the Bank and the Group also recognize that, due to the inherent uncertainty associated with the proceedings of such nature, the actual expenditure required to settle the claim could be lower or substantially higher than the amount of provisions made.

We also draw attention to note 48 to the accompanying separate and consolidated financial statements which highlight recent events in the financial sector which, in our view, may trigger further adverse changes in the current regulatory and business environment in the near future as well as the Bank's and the Group's response to address these risks.

Our opinion is not modified in respect of these matters.

Key Audit Matters

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

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

Provision for liability from litigation in France (the Bank)

Key audit matter	As described in the *Emphasis of Matter* section of our report, the Bank is facing a present obligation related to legal proceedings against the Republic of France. The first-instance court has ordered the Bank to pay a criminal fine of EUR 80,000 thousand, and damages, jointly and severally with the other defendants, of EUR 10,113 thousand to the Republic of France. The management has recognised a provision of EUR 34,000 thousand for the liability that may ultimately result, including fines, damages and legal costs. We considered this as a key audit matter due to high level of uncertainty involved in assessing the Bank's estimate for the ultimate outcome of the litigation and the related provision and potential impact of the ultimate payment on the financial position of the Bank and the Group.

Our audit response	Our audit work involved the following main procedures: • Review of the Bank's line of defence and its merits based on inquiries from the Management Board as well as legal advisers representing the Bank including their assessment of the probability of unfavourable ultimate outcome of the case and its likely financial result; • Requesting an independent assessment of the case by external civil law counselors engaged by us in France; • Together with our internal legal experts and considering the information received from the above procedures we developed our own assessment of the likely ultimate payment the Bank will be ordered to make by the end of the legal process and, accordingly, the adequacy of the related provision recognised by the Bank as at 31 December 2018. • Assessment of the accuracy and completeness of the case-related disclosures in the separate and consolidated financial statements including the disclosure of the management assumptions underlying the amount of the provision and the disclosure of uncertainties related to the ultimate outcome of this litigation.

Impairment of the loans to customers (the Bank)

Key audit matter	35% of loans and receivables due from customers by the gross amount as at 31 December 2018 are classified as credit-impaired (more details are provided in the note 19.2 (b) of the separate and consolidated financial statements) and 64% of loans to customers by the net carrying value as at 31 December 2018 are due from customers based and operating outside Latvia (more details on geographical analysis of the loan portfolio are provided in the note 19.2 (d) of the separate and consolidated financial statements). We believe that these factors indicate presence of an increased audit risk related to the assessment of potential impairment in the value of loans and therefore considered this as a key audit matter.
Our audit response	We assessed whether the Bank's and the Group's accounting policies in relation to the impairment of loans to customers are in compliance with IFRS requirements especially the IFRS 9 which become effective on 1 January 2018. We made detailed review of loan files covering 82% of outstanding loans to customers by the net carrying value as at 31 December 2018 (90% of loans classified as credit-impaired). As part of the review we assessed the customer financial situation and capacity to support sustainable debt service payments or, if this was not the case, management's exit plans and activities, as well as available sources of loan repayment.

As in most cases the key source of loan recovery was realisation of collateral associated with specific loans, in most cases - real estate - we involved our internal valuation specialists who did detailed review of assumptions and information sources used in valuation reports provided by independent valuation specialists engaged by the Bank or its debtors, including independent checks on market prices for comparable properties.

In cases where our assessment of the likely outcome of loan recovery process was different from that of the management, we discussed work-out scenarios and associated changes in the cash flow forecast models with the management representatives. In some cases, we could not obtain sufficient comfort that the existing level of loan loss allowances adequately represents the impairment in the value of particular loan and for these loans we agreed on necessary changes in loan loss allowances as at 31 December 2018.

Valuation of investment properties (the Group)

Key audit matter	The balance sheet value of the Group's investment property portfolio as at 31 December 2018 is EUR 84,373 thousand (more details on investment properties are provided in the note 25 while information on the measurement principles are provided in the note 3 (d)(ii) of the separate and consolidated financial statements). Significant part of these represent properties acquired through the foreclosure or restructuring of loans issued by the Bank. These properties have limited liquidity and represent significant challenges to determine their fair value at the reporting date. Considering the size of investment property portfolio and its potential impact on the financial results of the Group we defined this area as a key audit matter.
Our audit response	We involved our internal valuation experts to assess, on a sample basis, independent valuation reports commissioned by the Bank or the Group's entities including matters such as selection of the valuation methods and key assumptions underlying value calculations - comparable market transactions, cash flow projections, discount rates, capitalisation rates. For a number of cases we did sensitivity analysis for certain assumptions within the valuation to assess the effect of their potential changes on the investment property fair values. We assessed the adequacy of the Group's disclosures related to the assumptions and significant judgments used at estimating fair values of investment properties.

Sustainability of non-resident business model (the Bank and the Group)

Key audit matter	Given the uncertainty created by the current political environment around non-resident banking services in Latvia (more information provided in the note 48 of the separate and consolidated financial statements) and high proportion of non-resident related business among the Bank's revenue sources and customer deposits we considered this as a key audit matter.

Our audit response	For a sample of the Bank's customers we reviewed customer files to assess their risk profile and its potential impact on the separate and consolidated financial statements. We reviewed correspondence with the banking supervisory institution, status with the administrative agreement signed with the Finance and Capital Market Commission (more details provided in the note 4(e)) as well as independent audit reports related to the anti-money laundering control systems commissioned by the Bank during 2018.

Other matter
AS "Rietumu Banka" separate and consolidated financial statements for the year ended 31 December 2017 were audited by another auditor who issued an unmodified opinion on 30 April 2018 on these financial statements.

Reporting on Other Information
The Bank's and the Group's management is responsible for the other information. The other information comprises:

- the Report of the Council and the Board of Director, as set out on pages 3 to 7 of the accompanying Annual Report,
- the Statement on Management Responsibility, as set out on page 8 of the accompanying Annual Report,
- the composition of the Supervisory Council and the Management Board, as set out on pages 9 to 10 of the accompanying Annual Report.

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

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

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

Other reporting responsibilities in accordance with the legislation of the Republic of Latvia related to other information
In addition, in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Management Report, our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of the Financial and Capital Market Commission of the Republic of Latvia - regulation No 46 Regulations on the Preparation of the Annual Reports and Annual Consolidated Accounts for Banks, Investment Brokerage Firms and Investment Management Companies ("Regulation No 46").

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

- the information given in the Management Report for the financial year for which the separate and consolidated financial statements are prepared is consistent with the separate and consolidated financial statements; and
- the Management Report has been prepared in accordance with the requirements of the Regulation 46.

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

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

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

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

Auditor's Responsibilities for the Audit of the Separate and Consolidated Financial Statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's and/or the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank and/or the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.

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

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

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

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

We were appointed by the shareholders' meeting on 14 May 2018 to audit the separate and consolidated financial statements of AS Rietumu Banka for the year ended 31 December 2018. Our total uninterrupted period of engagement is one year, covering the period ending 31 December 2018.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Bank and the Group;
- as referred to in the paragraph 37.6 of the Law on Audit Services of the Republic of Latvia we have not provided to the Bank and the Group the prohibited non-audit services (NASs) referred to of EU Regulation (EU) No 537/2014. We also remained independent of the audited Bank and the Group in conducting the audit.

For the period to which our statutory audit relates, we have not provided any other services apart from the audit, to the Bank and the Group.

Mārtiņš Zutis is the responsible engagement partner and Modrīte Johansone is the responsible sworn auditor on the audit resulting in this independent auditor's report.

"BDO ASSURANCE" SIA
Licence No 182

Mārtiņš Zutis
Director
on behalf of SIA "BDO ASSURANCE"

Modrīte Johansone
Member of the Board
Sworn auditor
Licence No 135

Riga, Latvia
4 April 2019

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

For the year ended 31 December 2018

	Note	2018 '000 EUR Group	2018 '000 EUR Bank	2017 '000 EUR Group	2017 '000 EUR Bank
Interest income	6	59,739	47,335	89,051	78,300
Interest expense	6	(15,255)	(13,651)	(20,765)	(19,121)
Net interest income		**44,484**	**33,684**	**68,286**	**59,179**
Fee and commission income	7	67,777	67,101	72,792	71,762
Fee and commission expense	8	(30,827)	(30,315)	(38,163)	(37,823)
Net fee and commission income		**36,950**	**36,786**	**34,629**	**33,939**
Net gain/(loss) on financial assets at fair value through profit or loss	9	940	803	874	(17)
Net foreign exchange gain	10	12,636	13,562	23,002	23,347
Net realised gain/(loss) on financial assets at fair value through other comprehensive income	11	(585)	(585)	449	482
Net realised gain on debt instruments at amortised cost		(1,090)	(1,090)	-	-
Share of income/(losses) of equity accounted investees (net of income tax)		20	-	5	-
Other income	12	11,103	4,867	9,366	5,514
Operating income		**104,458**	**88,027**	**136,611**	**122,444**
Impairment losses	13	(16,492)	(17,486)	(12,415)	(13,399)
Provisions charges	35	(13,912)	(13,931)	(20,000)	(20,000)
General and administrative expenses	14	(49,206)	(34,130)	(63,518)	(48,037)
Profit before income tax		**24,848**	**22,480**	**40,678**	**41,008**
Income tax expense	15	(1,387)	(997)	(7,184)	(7,974)
Profit for the period		**23,461**	**21,483**	**33,494**	**33,034**
Attributable to:					
Equity holders of the Bank		**21,293**		**31,937**	
Non-controlling interest		**2,168**		**1,557**	

The separate and consolidated statements of profit or loss and other comprehensive income are to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 28 to 124.

Chairman of the Executive Board
Rolf Paul Fuls

Deputy Chairman of the Executive Board
Ruslans Stecjuks

4 April 2019

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

For the year ended 31 December 2018	Note	2018 '000 EUR Group	2018 '000 EUR Bank	2017 '000 EUR Group	2017 '000 EUR Bank
Profit for the period		**23,461**	**21,483**	**33,494**	**33,034**
Other comprehensive income					
Items that are or may be reclassified to profit or loss					
Foreign currency translation differences for foreign operations		(405)	-	(87)	-
Other reserves - net change		1	-	(2)	-
Financial assets at fair value through other comprehensive income – net change in fair value		(3,714)	(3,714)	1,105	(1,736)
Related tax		-	-	499	978
		(4,118)	**(3,714)**	**1,515**	**(758)**
Other comprehensive income for the period		**(4,118)**	**(3,714)**	**1,515**	**(758)**
Total comprehensive income for the period		**19,343**	**17,769**	**35,009**	**32,276**
Attributable to:					
Equity holders of the Group		**17,175**		**33,452**	
Non-controlling interest		**2,168**		**1,557**	

The separate and consolidated statements of profit or loss and other comprehensive income are to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 28 to 124.

Chairman of the Executive Board
Rolf Paul Fuls

Deputy Chairman of the Executive Board
Ruslans Stecjuks

4 April 2019

SEPARATE AND CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at 31 December 2018	**Note**	**31 Dec 2018 ’000 EUR Group**	**31 Dec 2018 ’000 EUR Bank**	**31 Dec 2017 ’000 EUR Group**	**31 Dec 2017 ’000 EUR Bank**
Assets					
Cash and balances due from the Bank of Latvia	16	466,490	466,444	875,883	875,856
Loans and receivables due from banks	17	92,443	91,828	462,796	462,086
Financial assets at fair value through profit or loss	18	11,815	11,671	15,557	445
Financial assets at amortised cost	19				
Debt securities	19.1	35,537	35,537	-	-
Loans and receivables due from customers	19.2	617,899	695,343	832,340	916,987
Reverse repo	37	-	-	40,825	40,825
Held-to-maturity investments	19.1	-	-	277,514	276,673
Financial assets at fair value through other comprehensive income	20	159,405	159,405	-	-
Available for sale assets	20	-	-	329,766	342,861
Non-current assets held for sale		1,792	-	220	-
Investments in subsidiaries	21	-	32,809	-	34,002
Equity accounted investees	22	32	-	12	-
Property and equipment	23	42,872	8,386	42,960	7,904
Intangible assets	24	2,839	2,498	3,042	2,632
Investment property	25	84,373	9,343	90,178	10,470
Current tax asset		3,264	2,836	298	-
Deferred tax asset	31	173	-	37	-
Other assets	26	34,047	26,305	38,130	27,879
Total Assets		**1,552,981**	**1,542,405**	**3,009,558**	**2,998,620**

The separate and consolidated statements of financial position are to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 28 to 124.

SEPARATE AND CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at 31 December 2018	**Note**	**31 Dec 2018 '000 EUR Group**	**31 Dec 2018 '000 EUR Bank**	**31 Dec 2017 '000 EUR Group**	**31 Dec 2017 '000 EUR Bank**
Liabilities and Shareholders' Equity					
Financial instruments at fair value through profit or loss	18	-	-	30	30
Due to Bank of Latvia		-	-	120,000	120,000
Deposits and balances due to banks	27	2,403	2,348	27,187	27,028
Current accounts and deposits due to customers	28	1,019,696	1,033,539	2,340,512	2,359,214
Issued debt securities	29	62	-	-	-
Provisions	35	34,076	34,138	20,000	20,000
Current tax liability		243	-	498	316
Deferred tax liability	31	46	-	426	-
Other liabilities and accruals	30	24,994	14,870	22,150	12,418
Total Liabilities		**1,081,520**	**1,084,895**	**2,530,803**	**2,539,006**
Share capital	32	168,916	168,916	168,916	168,916
Share premium	32	52,543	52,543	52,543	52,543
Revaluation reserve	32	1,914	-	1,381	-
Fair value reserve	32	(2,246)	(2,246)	3,409	3,976
Currency translation reserve		(3,563)	-	(3,158)	-
Other reserves	32	105	23	104	23
Retained earnings		249,647	238,274	245,294	234,156
Total Equity Attributable to Equity Holders of the Bank		**467,316**	**457,510**	**468,489**	**459,614**
Non-controlling Interest		**4,145**	**-**	**10,266**	**-**
Total Shareholders' Equity		**471,461**	**457,510**	**478,755**	**459,614**
Total Liabilities and Shareholders' Equity		**1,552,981**	**1,542,405**	**3,009,558**	**2,998,620**

The separate and consolidated statements of financial position are to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 28 to 124.

Chairman of the Executive Board
Rolf Paul Fuls

Deputy Chairman of the Executive Board
Ruslans Stecjuks

4 April 2019

SEPARATE AND CONSOLIDATED STATEMENTS OF CASH FLOWS **For the year ended 31 December 2018**	**Note**	**2018 '000 EUR Group**	**2018 '000 EUR Bank**	**2017 '000 EUR Group**	**2017 '000 EUR Bank**
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before income tax		24,848	22,480	40,678	41,008
Amortisation and depreciation	23,24	2,889	1,327	3,778	2,008
(Gain)/loss from sale of investment property		(1,774)	(325)	(13)	-
Revaluation of investment property		3,359	314	803	(507)
Share of (income)/loss of equity accounted investees		(20)	-	(5)	-
Increase of provisions		13,912	13,931	20,000	20,000
Recovery of assets written off		(313)	(313)	-	-
(Gain)/loss on disposal of property and equipment		(310)	-	(328)	-
(Gain)/loss on sale of subsidiaries		(504)	(96)	1,343	760
Impairment losses	13	16,492	17,486	12,415	13,399
Increase in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations		**58,579**	**54,804**	**78,671**	**76,668**
(Increase)/decrease in financial assets at fair value through profit or loss		3,742	(11,226)	1,495	888
(Increase)/decrease in loans and receivables due from banks – term deposits		644	642	18,797	18,802
(Increase)/decrease in loans and receivables from customers		197,713	198,426	201,702	189,154
(Increase)/decrease in receivable under reverse repurchase agreements		40,825	40,825	52,610	52,610
(Increase)/decrease in financial assets at fair value through other comprehensive income (2017: available-for-sale assets)		166,125	183,216	138,923	169,150
(Increase)/decrease in other assets		4,569	1,375	(16,081)	(15,647)
Increase/(decrease) in derivative liabilities		(30)	(30)	(412)	(412)
Increase/(decrease) in term deposits due to banks		994	(569)	(257)	(277)
Increase/(decrease) in current accounts and deposits due to customers		(1,320,816)	(1,325,675)	(402,214)	(408,525)
Increase in amounts payable under repurchase agreements		(120,000)	(120,000)	-	-
(Increase)/decrease in non-current assets held for sale		(1,572)	-	(96)	-
Increase/(decrease) in other liabilities and accruals		2,942	2,452	1,003	(584)
Increase/(decrease) in cash and cash equivalents from operating activities before corporate income tax		**(966,285)**	**(975,760)**	**74,141**	**81,827**
Corporate income tax paid		(4,661)	(4,149)	(2,895)	(3,497)
Net cash and cash equivalents from operating activities		**(970,946)**	**(979,909)**	**71,246**	**78,330**
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property and equipment and intangible assets	23,24	(2,395)	(1,857)	(2,558)	(1,802)
Proceeds from sale of property, plant and equipment and other assets		268	142	456	23
Increase in equity investments in other entities and acquisition of subsidiaries		(3)	(1,918)	-	(9,808)
(Increase)/decrease in investment property	25	(2,343)	813	1,051	724
Proceeds from sale of subsidiary		49	-	521	306
(Increase)/decrease in debt securities at amortized cost (2017: held-to-maturity financial assets)		241,387	240,543	42,060	39,175
(Acquisition)/sale of non-controlling interest		(7,117)	-	(4,833)	-
Cash and cash equivalents used in / from investing activities		**229,846**	**237,723**	**36,697**	**28,618**

The separate and consolidated statements of cash flows are to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 28 to 124.

SEPARATE AND CONSOLIDATED STATEMENTS OF CASH FLOWS
For the year ended 31 December 2018

	Note	2018 '000 EUR Group	2018 '000 EUR Bank	2017 '000 EUR Group	2017 '000 EUR Bank
CASH FLOWS FROM FINANCING ACTIVITIES					
Increase/(decrease) in other reserves		1	-	(2)	-
Issued debt securities	29	62	-	(57,809)	(57,985)
Dividends paid	32	(13,954)	(12,729)	(45,384)	(44,208)
Cash and cash equivalents used in/from financing activities		**(13,891)**	**(12,729)**	**(103,195)**	**(102,193)**
Net cash flow for the period		**(754,991)**	**(754,915)**	**4,748**	**4,755**
Cash and cash equivalents at the beginning of the year		**1,311,576**	**1,310,839**	**1,306,828**	**1,306,084**
Cash and cash equivalents at the end of the year	33	**556,585**	**555,924**	**1,311,576**	**1,310,839**

The separate and consolidated statements of cash flows are to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 28 to 124.

Chairman of the Executive Board
Rolf Paul Fuls

4 April 2019

Deputy Chairman of the Executive Board
Ruslans Stecjuks

GROUP CONSOLIDATED STATEMENTS OF CHANGES IN THE SHAREHOLDERS' EQUITY

For the year ended 31 December 2017

	Attributable to Equity Holders of the Bank									
	Share capital ’000 EUR	**Share premium ’000 EUR**	**Revaluation reserve ’000 EUR**	**Fair value reserve ’000 EUR**	**Foreign currency translation reserve ’000 EUR**	**Other reserves ’000 EUR**	**Retained earnings ’000 EUR**	**Total ’000 EUR**	**Non-controlling interest ’000 EUR**	**Total Equity ’000 EUR**
Balance at 1 January 2017	**168,916**	**52,543**	**1,340**	**1,805**	**(3,071)**	**106**	**257,517**	**479,156**	**14,718**	**493,874**
Transactions with shareholders recorded directly in equity										
Dividends paid (Note 32)	-	-	-	-	-	-	(44,208)	(44,208)	-	**(44,208)**
Transactions with non-controlling interest										
Acquisition of non-controlling interest without change in control	-	-	-	-	-	-	21	21	-	**21**
Dividends paid to non-controlling interest shareholders	-	-	-	-	-	-	-	-	(1,176)	**(1,176)**
Transactions with third parties related to units of funds controlled by Group	-	-	-	-	-	-	-	-	(4,833)	**(4,833)**
Comprehensive income										
Profit for the current year	-	-	-	-	-	-	31,937	31,937	1,557	**33,494**
Other comprehensive income	-	-	-	1,604	(87)	(2)	-	1,515	-	**1,515**
Other										
Depreciation of revalued property	-	-	(27)	-	-	-	27	-	-	-
Revaluation of property and equipment	-	-	(91)	-	-	-	-	(91)	-	**(91)**
Transfer from Deferred tax liability	-	-	159	-	-	-	-	159	-	**159**
Balance at 31 December 2017	**168,916**	**52,543**	**1,381**	**3,409**	**(3,158)**	**104**	**245,294**	**468,489**	**10,266**	**478,755**

The Group consolidated statements of changes in the shareholders' equity are to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 28 to 124.

GROUP CONSOLIDATED STATEMENTS OF CHANGES IN THE SHAREHOLDERS' EQUITY

For the year ended 31 December 2018

Attributable to Equity Holders of the Bank

	Share capital '000 EUR	Share premium '000 EUR	Revaluation reserve '000 EUR	Fair value reserve '000 EUR	Foreign currency translation reserve '000 EUR	Other reserves '000 EUR	Retained earnings '000 EUR	Total '000 EUR	Non-controlling interest '000 EUR	Total Equity '000 EUR
Balance at 31 December 2017	**168,916**	**52,543**	**1,381**	**3,409**	**(3,158)**	**104**	**245,294**	**468,489**	**10,266**	**478,755**
Effect from changed accounting policy – IFRS 9 (Note 3 (u))	-	-	-	(1,941)	-	-	(4,238)	**(6,179)**	53	**(6,126)**
Restarted balance at 1 Jan 2018January 2018	**168,916**	**52,543**	**1,381**	**1,468**	**(3,158)**	**104**	**241,056**	**462,310**	**10,319**	**472,629**
Transactions with shareholders recorded directly in equity										
Dividends paid (Note 32)	-	-	-	-	-	-	(12,729)	**(12,729)**	-	**(12,729)**
Transactions with non-controlling interest										
Dividends paid to non-controlling interest shareholders	-	-	-	-	-	-	-	-	(1,225)	**(1,225)**
Transactions with third parties related to units of funds controlled by Group	-	-	-	-	-	-	-	-	32	**32**
Loss of control	-	-	-	-	-	-	-	-	(7,149)	**(7,149)**
Comprehensive income										
Profit for the current year	-	-	-	-	-	-	21,293	**21,293**	2,168	**23,461**
Other comprehensive income	-	-	-	(3,714)	(405)	1		**(4,118)**	-	**(4,118)**
Other										
Depreciation of revalued property	-	-	(27)	-	-	-	27	-	-	-
Revaluation of property and equipment	-	-	86	-	-	-	-	**86**	-	**86**
Transfer from Deferred tax	-	-	474	-	-	-	-	**474**	-	**474**
Balance at 31 December 2018	**168,916**	**52,543**	**1,914**	**(2,246)**	**(3,563)**	**105**	**249,647**	**467,316**	**4,145**	**471,461**

The Group consolidated statements of changes in the shareholders' equity are to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 28 to 124.

Chairman of the Executive Board
Rolf Paul Fuls

Deputy Chairman of the Executive Board
Ruslans Stecjuks

4 April 2019

BANK'S SEPARATE STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended 31 December 2018

	Share capital '000 EUR	Share premium '000 EUR	Fair value reserve '000 EUR	Other reserves '000 EUR	Retained earnings '000 EUR	Total equity '000 EUR
Balance at 1 January 2017	**168,916**	**52,543**	**4,734**	**23**	**245,330**	**471,546**
Transactions with shareholders recorded directly in equity						
Dividends paid	**-**	**-**	**-**	-	(44,208)	**(44,208)**
Comprehensive income						
Profit for the period	**-**	**-**	**-**	-	33,034	**33,034**
Other comprehensive income	**-**	**-**	(758)	-	-	**(758)**
Balance at 31 December 2017	**168,916**	**52,543**	**3,976**	**23**	**234,156**	**459,614**
Effect from changed accounting policy – IFRS 9 (Note 3 (u))	**-**	**-**	(2,508)	-	(4,636)	**(7,144)**
Restated balance at 1 January 2018	**168,916**	**52,543**	**1,468**	**23**	**229,520**	**452,470**
Transactions with shareholders recorded directly in equity						
Dividends paid	-	-	-	-	(12,729)	**(12,729)**
Comprehensive income						
Profit for the period	-	-	-	-	21,483	**21,483**
Other comprehensive income	**-**	**-**	(3,714)	-	-	**(3,714)**
Balance at 31 December 2018	**168,916**	**52,543**	**(2,246)**	**23**	**238,274**	**457,510**

The Bank's separate statements of changes in shareholders' equity are to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 28 to 124.

Chairman of the Executive Board
Rolf Paul Fuls

Deputy Chairman of the Executive Board
Ruslans Stecjuks

4 April 2019

1 Background

Principal activities

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

JSC "Rietumu Banka" was established in the Republic of Latvia as a Joint Stock Company and was granted it's general banking license in 1992. The principal activities of the Bank are deposit taking and customer accounts maintenance, lending, issuing guarantees, cash and settlement operations and operations with securities and foreign exchange. The activities of the Bank are regulated by the Bank of Latvia and the Financial and Capital Market Commission ("FCMC") of the Republic of Latvia. The registered address of the Bank's head office is Vesetas street 7, Riga, Latvia. The average number of people employed by the Group during the year was 856 (2017: 1,070) and by the Bank 567 (2017: 765).

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

Name	Country of incorporation	Principal activities	Ownership %	
			31 Dec 2018	**31 Dec 2017**
RB Investments SIA	Vesetas Str.7, Riga, Latvia	Investments	100%	100%
Rietumu Leasing Ltd	Odoevskogo Str.117, 6th floor, office 9, Minsk Belarus	Leasing company	100%	100%
Vesetas 7 SIA	Vesetas Str.7, Riga, Latvia	Real estate operating	100%	100%
Overseas Estates SIA	Vesetas Str.7, Riga, Latvia	Terminal	100%	100%
InCREDIT GROUP SIA	Krisjana Barona Str.130, Riga, Latvia	Customer lending	51%	51%
KI Nekustamie ipasumi SIA	Vesetas Str.7, Riga, Latvia	Real estate operating	100%	100%
KI Zeme SIA	Vesetas Str.7, Riga, Latvia	Real estate operating	100%	100%
Ekoagro SIA	Vesetas Str.7, Riga, Latvia	Real estate operating	100%	100%
KI Invest OOO	Nauchnij Str.19, Moscow, Russia	Real estate operating	100%	100%
U-10 SIA	Garozes Str. 25-1, Riga, Latvia	Real estate operating	67%	67%
Euro Textile Group SIA	Ganibu dambis 30, Riga, Latvia	Real estate operating	100%	100%

2 Basis of preparation

(a) Statements of compliance

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

The Board of Directors approved these separate and consolidated financial statements for issue on 4 April 2019.

(b) Basis of measurement

The separate and consolidated financial statements are prepared on the historical cost basis except for the following:

- financial assets at fair value through profit or loss are stated at fair value;
- financial assets at fair value through other comprehensive income (2017: available-for-sale assets) are stated at fair value;
- non-current assets held for sale which are stated at lower their carrying amount and fair value less cost to sell;
- owner occupied buildings which are stated at revalued amounts being the fair value at the date of valuation less subsequent accumulated depreciation and any accumulated impairment losses;
- investment property and collateral assumed on non-performing loans is stated at fair value.

(c) Functional and Presentation Currency

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

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

Rietumu Asset Management funds	USD (US dollar)
Rietumu Leasing Ltd	BYN (Belarus rouble)
KI Invest OOO	RUB (Russian rouble)

3 Significant accounting policies

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

(a) Foreign currency

(i) Foreign currency transactions

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

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into the functional currency at the spot exchange rate at the date that the fair value was determined. Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated into the functional currency at the spot exchange rate at the date of transaction. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the translation of available-for-sale equity instruments, which are recognised in equity through other comprehensive income.

(ii) Foreign operations

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

(iii) Foreign exchange rates

	31 Dec 2018	**Average 2018**	**31 Dec 2017**	**Average 2017**
USD	1.145	1.1810	1.1993	1.1297
BYN	2.4734	2.4055	2.3553	2.1842
RUB	79.7153	74.0416	69.3920	65.9190

3 Significant accounting policies, continued

(b) Basis of consolidation

(i) Subsidiaries

Subsidiaries are those enterprises controlled by the Group. The Group controls an entity when it is exposed to, or has right to, variable returns from its involvement with the entity and has ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

(ii) Equity accounted investees

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

(iii) Transactions eliminated on consolidation

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

(iv) Non – controlling interest

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

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

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

(vi) Asset management

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

(c) Goodwill

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

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

3 Significant accounting policies, continued

Goodwill is allocated to cash-generating units and is stated at cost less impairment losses, if any. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that goodwill might be impaired and is measured at cost less any accumulated impairment losses. Cash generating units for goodwill impairment testing are: payment card business and investment properties management on subsidiary level. Gains and losses on the disposal of a business include the carrying amount of goodwill relating to the assets sold.

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

(d) Fair value measurement principles

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

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

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

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

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

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

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

(i) Financial assets and liabilities

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

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

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

3 Significant accounting policies, continued

(ii) Investment property and owner occupied buildings

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

In the absence of current prices in an active market, the valuations are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property. A yield that reflects the specific risks inherent in the net cash flows then is applied to the net annual cash flows to arrive at the property valuation.

Valuations reflect, when appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation, the allocation of maintenance and insurance responsibilities between the Group and the lessee, and remaining economic life of the property. When rent reviews or lease renewals are pending with anticipated reversionary increases, it is assumed that all notices, and when appropriate counter-notices, have been served validly and within the appropriate time.

(iii) Intangible assets

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

(e) Cash and cash equivalents

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

(f) Financial instruments

(i) Classification

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

All financial assets, except equity instruments and derivatives, are classified based on a combination of the business model for managing the assets and the instruments' contractual cash flow characteristics. Equity instruments and derivatives are classified as measured at fair value at profit or loss.

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

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

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

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

3 Significant accounting policies, continued

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

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

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

All other financial assets are mandatorily measured at FVPL.

Business model assessment

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

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

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

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

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

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

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

(ii) Measurement

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

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions with the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at

3 Significant accounting policies, continued

initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in the profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

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

All debt securities measured at amortised cost (2017: held to maturity investments), loans and receivables and financial liabilities at amortised cost are measured at amortised cost. Amortised cost is calculated using the effective interest method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

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

(iii) Gains and losses on subsequent measurement

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

- a gain or loss on a financial asset classified as at fair value through profit or loss is recognised in profit or loss;
- a gain or loss on debt securities classified as at fair value through other comprehensive income (2017: available-for-sale financial asset) is recognised in fair value reserve through other comprehensive income (except for impairment losses and foreign exchange gains or losses on monetary assets) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss. Interest in relation to debt securities classified as at fair value through other comprehensive income (2017: available-for-sale financial asset) is recognised as earned in profit or loss calculated using the effective interest method.

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

(iv) Derecognition

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

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

(v) Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase (“repo”) agreements are accounted for as secured financing transactions, with the securities retained in the statements of financial position and the counterparty liability included in amounts payable under “repo” transactions.

The difference between the sale and repurchase price represents the interest expense and is recognised in profit or loss over the term of the “repo” agreement using the effective interest method.

3 Significant accounting policies, continued

Securities purchased under agreements to resell (“reverse repo”) are recorded as amounts receivable under “reverse repo” transactions. The differences between the purchase and resale prices are treated as interest income and accrued over the term of the “reverse repo” agreement using the effective interest method.

If assets purchased under agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

(vi) Derivative financial instruments

Derivative financial instruments include swaps, forwards, futures, and options in interest rate, foreign exchange, precious metals and stock markets, and any combinations of these instruments. The Bank and the Group classify all derivative financial instruments as financial instruments at fair value through profit and loss.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Derivatives may be embedded in another contractual arrangement (a “host contract”). The Bank and the Group account for an embedded derivative separately from the host contract when the host contract is not itself carried at fair value through profit or loss, the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract, and the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

(vii) Offsetting

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

(g) Leases

The lease of property and equipment is classified as a finance lease if it transfers substantially all risks and rewards of ownership to the lessee. Title does not have to be transferred. All other leases are classified as operating leases.

The bank and the Group as lessor

Assets leased out under operating lease are carried in the statements of financial position analogously to property, plant and equipment or investment property. Income is recognised on a straight-line basis over each lease term. Other payments associated with the lease are recognised in profit or loss as a component other income.

When assets are held subject to finance lease, the present value of the minimum lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable before impairment allowance is recognised as unearned finance income.

The Bank and the Group as lessee

Operating lease payments are recognised in profit or loss on a straight-line basis over the lease term.

Assets acquired under finance leases include equipment. Asset acquired by way of finance lease is initially measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease plus initial direct costs of the lessee. Subsequent to initial recognition, these are measured at cost less accumulated depreciation and impairment losses.

3 Significant accounting policies, continued

(h) Property and equipment

(i) Owned assets

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

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

(ii) Revaluation

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

A reduction in the value on an item of land or buildings is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised in other comprehensive income, in which case it is recognised in other comprehensive income.

(iii) Depreciation

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

Buildings	50 years
Equipment	2.5 to 4 years
Furniture	8 years
Vehicles	2.5 to 5 years

(i) Investment property

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

(j) Repossessed collateral

If the borrower fails to fulfil the contractual obligations, the Bank may decide that the loan agreement will be terminated and that the right to collateral pledged as security, will be exercised. According to Latvian law, the Bank and the Group cannot assume formal title of the asset pledge, but can initiate the sale, proceeds of which will be used to repay or partly repay the outstanding loan receivable. As the Bank and the Group are assuming the de facto title to the asset, and retain no contractual obligation to the original borrower, the Bank and the Group classify the asset as other assets. As well, when the Group and Bank acquires (i.e. gains a full title to) an asset in this way, the asset’s classification follows the nature of its intended use by the Group and the Bank. When the Group or the Bank is uncertain of its intentions with respect to land and buildings that it has repossessed, those properties are classified as other assets. The repossessed collaterals are initially recognised at take-over value which set to be a

3 Significant accounting policies, continued

notional cost. Subsequently, management determines a recoverable amount which usually is fair value less cost to sell as at period end using market data.

(k) Intangible assets

Intangible assets, which are acquired by the Bank and the Group, are stated at cost less accumulated amortisation and impairment losses. Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Amortisation is charged to the statements of profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are 5 to 7 years.

(l) Measurement of expected credit losses on financial assets

At 1 January 2018, the Group and the Bank implemented the three-stage expected credit loss impairment model according IFRS 9 for loans and receivables due from customers and due from banks, financial guarantees and loan commitments, and bonds measured at amortised cost or fair value through other comprehensive income. The impairment charge for expected credit losses depends on whether the credit risk has increased significantly since initial recognition.

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

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

The Group and the Bank has established a policy to perform an assessment at the end of each reporting period of the whether credit risk has increased significantly since initial recognition by considering the change in the risk of default occurring over the remaining life of the financial instrument.
Starting with 1 January 2018, the Bank and the Group group loans, financial guarantees and commitments, bonds measured at amortised cost or fair value through other comprehensive income into Stage 1, Stage 2 and Stage 3, based on the applied impairment methodology, as described below:

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

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

Significant increase in credit risk

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

3 Significant accounting policies, continued

- Stage 1 includes loans with below 31 overdue days and loans not defined by Stage 2 or Stage 3;
- Stage 2 includes loans with above 30 overdue days till below 91 overdue days and loans with rating that has been lowered from A or B to C, and loans with credit rating of E and D;
- Stage 3 includes loans with above 90 overdue days and additionally loans according to other qualitative indicators.

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

Credit risk grades

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

Exposures of loans due from customers are allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures is subject to ongoing monitoring, which result in an exposure being moved to a different credit risk grade. A, B, C, D and E are bank assigned rating classes based on internal rating approach. Rating classes are assigned according to the following rating scores: $A \in (8;10]$, $B \in (6;8]$, $C \in (3;6]$, $D \in (1;3]$, $E \in [0;1]$.

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

Measurement of ECLs

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

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

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.
These parameters are derived from historical data and internally approved statistical models. They are adjusted to reflect forward-looking information.
PD estimates are estimates at a certain date, which is calculated based on statistical rating models and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Credit risk grades and overdue periods are primary inputs into the determination of the term structure of PD for exposures. The Group and the Bank employ statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures.
The definition of default used in the measurement of expected credit losses and the assessment to determine movements between stages is consistent with the definition of default used for internal credit risk management purposes and is aligned with CRR. Hence, exposures which are considered to be in default for regulatory purposes will always be considered stage 3 under IFRS 9.
LGD is the magnitude of the likely loss if there is a default. The Group and the Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery

3 Significant accounting policies, continued

costs of any collateral that is integral to the financial asset. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

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

The Group and the Bank incorporates forward-looking information into the measurement of ECL. For most exposures, key macro- economic indicators include GDP growth and unemployment.

Modification

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

Presentation of allowance for ECL in the statement of financial position

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

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

Impairment under IAS 39 – before 1 January 2018

Under IAS 39, impairment charges were recognised for incurred losses based on objective evidence of impairment. Objective evidence that financial assets (including equity securities) are impaired included default or delinquency by a borrower, restructuring of a loan or advance by the Bank and the Group on terms that the Bank and the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost was objective evidence of impairment.

Significant loans and receivables due from customers, except for lease contracts, and held-to-maturity investment securities were assessed individually for impairment indication and specific impairment allowance established if necessary.

Impairment losses and recoveries were recognised monthly based on regular loan reviews and were recognised in profit or loss.

Impairment losses on assets carried at amortised cost were measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses were recognised in profit or loss and reflected in an allowance account against loans and receivables or held to maturity financial investments.

Impairment losses on available-for-sale assets were recognised by transferring the cumulative loss that has been recognised in fair value reserve through other comprehensive income to profit or loss.

(m) Impairment of non-financial assets

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

3 Significant accounting policies, continued

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

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

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

(n) Provisions

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

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

(o) Credit related commitments

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

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

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

- from 1 January 2018: the Group and the Bank recognises a loss allowance – see note 3 (l),
- before 1 January 2018: the Group and the Bank recognised a provision in accordance with IAS 37.

(p) Taxation

(i) Current tax

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

As of 1 January 2018, according Law on Enterprise Income Tax of the Republic of Latvia, the tax rate 20% is deferred to when the profit is distributed and calculated as 0.2/0.8 from net distributed dividend (2017: 15% from profit earned), the taxation period is one month (2017: one year).

3 Significant accounting policies, continued

The taxable base includes:

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

The use of tax losses carried forward from previous periods is limited: it is possible to use these losses to decrease the amount of tax calculated on dividends in the reporting period by not more than 50%. It is possible to carry forward unused tax losses and use them in the previously described manner only until 2022.

(ii) Deferred tax for Group companies located in Latvia

In accordance with the Annual Reports and Consolidated Annual Reports Law of the Republic of Latvia, companies are permitted to recognise deferred tax supported by justified reasons. In such cases, deferred tax should be recognised, assessed and disclosed in the financial statements in line with the International Financial Reporting Standards (IFRS) as adopted by the EU. Under IAS 12 *Income taxes*, deferred tax assets and liabilities should be recognised by applying a rate expected to be applied to retained earnings. According to the new Law on Enterprise Income Tax of the Republic of Latvia adopted on 28 July 2017, and effective as of 1 January 2018, the 20% rate is only applied to distributed profits, while the 0% rate applied to retained earnings. Therefore, deferred tax assets and liabilities are recognisable as nil.

Deferred tax assets and liabilities were reversed in 2017 and changes were charged to profit or loss in the reporting period, except when deferred tax was recognised in relation to revaluation reserves. In that case, the reversal of deferred tax was charged to revaluation reserves. No deferred tax recognised in 2018.

(iii) Deferred tax for other Group companies

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

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

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

(q) Income and expense recognition

(i) Interest income and expense

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability. When calculating the effective interest rate,

3 Significant accounting policies, continued

the Bank and the Group estimate future cash flows considering all contractual terms of the financial instruments, but not future credit losses.

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

(ii) Fee and commission income and expense

Fee and commission income, including mainly account servicing fees, investment management fees and credit card servicing fees, are recognised as the related services are provided. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fee and commission expenses relate mainly to transaction and service fees, which are expressed as the services are received.

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

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

(r) Dividends

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

(s) Employee benefits

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

(t) Non-current assets held for sale

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

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

(u) Changes in accounting policies

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

The Group and the Bank have adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2018.

- *IFRS 9: Financial instruments*

The Group and the Bank implemented *IFRS 9 Financial Instruments* from 1 January 2018. IFRS 9 is applied retrospectively with the cumulative impact recognised in shareholders’ equity at 1 January 2018. Comparative information has not been restated. As a result of the adoption of IFRS 9, the Group has adopted consequential amendments to IFRS *7 Financial Instruments*. Disclosures are applied to disclosures about 2018, but have not been applied to the comparative information.

3 Significant accounting policies, continued

The Group's and the Bank's accounting policies for accounting Financial assets according IFRS 9 are described in note 3 (f), (l).

The key impact of the implementation of IFRS 9 is:

- The Bank and the Group made an assessment of the objective of the business model in which a financial asset is held at a portfolio level - "held to collect", "held to collect and sell" and "other" business models. Financial assets in portfolios being "hold to collect" and "hold to collect and sell" were assessed of whether the contractual cash flows are consistent with the SPPI test. In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank and the Group considered the contractual terms of the instrument. The business model assessment and SPPI test resulted in reclassification of debt securities and equity investments previously measured at fair value through other comprehensive income into measurement at fair value through profit and loss and of debt securities previously measured at amortised cost into measurement at fair value through profit and loss.
- At 31 December 2017, the Bank had equity investments classified as available-for-sale with a fair value of EUR19,780 thousand , the Group – EUR 6,685 thousand . Under IFRS 9, the Bank and the Group has designated these investments as measured at FVTPL. Consequently, all fair value gains and losses reported in profit and loss statements. The majority of debt securities classified as held to maturity reclassified to AMC under IFRS 9. Securities with fair value of EUR 854 thousand at 31 December 2017, however, reclassified to FVTPL by the Group, because of their contractual cash flow characteristics and the business model within which they are held. The majority of the debt securities classified as available for sale under IAS 39 are measured at FVOCI under IFRS 9. Securities with fair value of EUR 5 million at 31 December 2017, however, were reclassified as FVPL, because of their contractual cash flow characteristics and the business model within which they are held.
- The introduction of the new expected credit loss model has increased the allowance by EUR 7,500 thousand for the Bank and EUR 6,535 thousand for the Group. EUR 7,144 thousand relates to financial assets measured at amortised cost (including financial guarantees and loan commitments) for the Bank and EUR 6,179 thousand for the Group and EUR 356 thousand to financial assets at fair value through other comprehensive income for the Bank and Group.
- The total impact from IFRS 9 is recognized as reduction in shareholders' equity at 1 January 2018.
- The impact on the opening balance sheet and classification is shown in the table:

	The Group (000 EUR)				**The Bank (000 EUR)**			
	IAS 39 carrying amount 31 December 2017	**Reclassi-fication**	**Remeasu-rement**	**IFRS 9 carrying amount 1 January 2018**	**IAS 39 carrying amount 31 December 2017**	**Reclassi-fication**	**Remeasu-rement**	**IFRS 9 carrying amount 1 January 2018**
Cash and balances due from the Bank of Latvia								
Loans and receivables due from banks								
Opening balance	1,338,679	-	-		1,337,942	-	-	
Remeasurement	-	-	(14)		-	-	(14)	
Closing balance				1,338,665				1,337,928
Loans and receivables due from customers								
Reverse repo								
Opening balance	873,165	-	-		957,812	-	-	
To AMC – debt securities	-	(25,297)	-		-	(25,297)	-	
Remeasurement	-	-	(5,204)		-	-	(6,127)	
Closing balance				842,664				926,388
Held to maturity investments								
Opening balance	277,514	-	-		276,673	-	-	
To AMC – debt securities	-	(276,660)	-		-	(276,660)	-	
To FVTPL – debt securities	-	(854)	-		-	(13)	-	
Closing balance				-				-
AMC - debt								
Opening balance								
From Loans and receivables due from customers		25,297	-		-	25,297	-	
From Held to maturity investments		276,660	-		-	276,660	-	
Remeasurement		-	(796)		-	-	(796)	
Closing balance				301,161				301,161
Financial assets measured at amortized cost - total	**2,489,358**	**(854)**	**(6,014)**	**2,482,490**	**2,572,427**	**(13)**	**(6,937)**	**2,565,477**
Commitments and guarantees								
Opening balance	25,939	-	-		34,037	-	-	
Remeasurement	-	-	(165)		-	-	(207)	
Closing balance	**25,939**	**-**	**(165)**	**25,774**	**34,037**	**-**	**(207)**	**33,830**

	The Group (000 EUR)				The Bank (000 EUR)			
	IAS 39 carrying amount 31 December 2017	**Reclassi-fication**	**Remea-sure-ment**	**IFRS 9 carrying amount 1 January 2018**	**IAS 39 carrying amount 31 December 2017**	**Reclassi-fication**	**Remea-sure-ment**	**IFRS 9 carrying amount 1 January 2018**
Available-for-sale assets								
Opening balance	329,766	-	-		342,861	-	-	
To FVOCI – debt securities	-	(317,966)	-		-	(317,966)	-	
To FVTPL – debt securities	-	(5,115)	-		-	(5,115)	-	
To FVTPL – equity instruments	-	(6,685)	-		-	(19,780)	-	
Closing balance				-				-
FVOCI - debt								
Opening balance								
From Available-for-sale assets	-	317,966	(356)		-	317,966	(356)	
Closing balance FVOCI	-	-	-	317,610	-	-	-	317,610
Total FVOCI	**-**	**317,966**	**(356)**	**317,610**	**-**	**317,966**	**(356)**	**317,610**
FVTPL								
FVTPL – debt securities	14,831	5,969	-		-	5,128	-	
FVTPL – equity instruments	438	6,685	-		157	19,780	-	
Derivative financial instruments	288	-	-		288	-	-	
Closing balance				28,211				25,353
Total FVTPL	**15,557**	**12,654**	**-**	**28,211**	**445**	**24,908**	**-**	**25,353**

- The new Standard *IFRS 15 Revenue from contracts with customers* with effective date of 1 January 2018 did not have any impact on these consolidated and separate financial statements because of the nature of Group and Bank's operations and the types of revenues it earns.

(v) New standards and interpretations

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2019,and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group and the Bank are set out below. The Group and the Bank does not plan to adopt these standards early.

3 Significant accounting policies, continued

(i) IFRS 16 Leases – (Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the entity also applies IFRS 15)

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use (ROU) asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard- i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases - Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16.

Most significant impact identified is that the Group and the Bank will recognise new assets and liabilities for its operating leases of office premises. In addition, the nature of expenses related to those leases will now change because IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for ROU assets and interest expense on lease liabilities.

The Bank and the Group have estimated that, on the adoption of IFRS 16 at 1 January 2019, the Group will recognize new assets and liabilities for operating leases of office premises (ROU) in amount ofEUR 727 thousand and the Bank – EUR 32,015 thousand.

4 Risk management

The Bank and the Group have exposure to the following risks:

- credit risk
- market risk
- liquidity risks
- risk of Money Laundering and Terrorism Financing, and Violation of Sanctions
- operational risk

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

(a) Risk management policies and procedures

The Bank’s and the Group’s risk management policies aim to identify, analyse and manage the risks faced by the Bank and the Group, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Council of the Bank has overall responsibility for the oversight of the risk management framework for the Bank and the Group, overseeing the management of key risks and reviewing its risk management policies as well as approving material exposures.

The Board of Directors of the Bank is responsible for establishing its risk management procedures, monitoring and implementation of risk mitigation measures and making sure that the Bank and the Group operate within the established risk parameters.

Chief risk officer of the Bank is responsible for the overall risk management, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the Council of the Bank.

4 Risk management, continued

Credit, market and liquidity risks both at portfolio and transactional levels are managed and controlled through a system of Credit Committees and an Asset and Liability Committee.

Both external and internal risk factors are identified and managed throughout the Bank's and the Group's organisational structure. Apart from the standard credit and market risk analysis, the Risk Management Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

(b) Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Bank and the Group. The Bank and the Group have developed policies and procedures for the management of credit exposures, including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors the Group's credit risk. The Group's credit policy is reviewed and approved by the Council of the Bank.

The Bank's and the Group's credit policies establish:

- Procedures for review and approval of loan/credit applications;
- Methodology for the credit assessment of borrowers (corporate, SME and retail);
- Methodology for the credit assessment of counterparties, issuers and insurance companies;
- Methodology for the evaluation of collateral;
- Credit documentation requirements;
- Procedures for the ongoing monitoring of loans and other credit exposures.

Corporate loan/credit applications are originated by the relevant client managers and are then passed on to the Lending Department, which is responsible for the Group's corporate loan portfolio. Reports produced by the department's credit analysts are based on a structured analysis focusing on the customer's business and financial performance. The Risk Management Department's Loan Analysis Division then independently reviews the loan/credit application and the report and a second opinion is given accompanied by a check that credit policy requirements have been met. The Credit Committee reviews the loan application on the basis of submissions by the Lending Department and the Risk Management Department.

The Bank and the Group continuously monitor the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank or the Group. Either independent appraisal companies or the Bank's and the Group's specialists regularly assess the current market value of collateral, and in the event of negative movements in market prices the borrower is usually requested to put up additional security.

Apart from individual customer analysis, the credit portfolio as a whole is assessed by the Risk Management Department with regard to credit concentration and market risks. The Bank and the Group monitors concentrations of credit risk by industry/sector and by geographic location. For the analysis of concentration of credit risk in respect of Loans and receivables from customers refer to Note 19.2 "Loans and receivables due from customers".

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

4 Risk management, continued

Maximum credit risk exposure

		Gross maximum credit exposure			
	Notes	**Group**	**Bank**	**Group**	**Bank**
31 December		**2018**	**2018**	**2017**	**2017**
EUR'000					
Cash and balances with the Bank of Latvia	16	466,490	466,444	875,883	875,856
Loans and receivables due from banks	17	92,443	91,828	462,796	462,086
Loans and receivables due from customers, gross	19.2	689,507	782,014	909,041	1,007,297
Reverse repo	37	-	-	40,825	40,825
Financial assets at fair value through profit or loss	18	2,418	815	14,988	157
Financial assets at fair value through other comprehensive income	20	159,405	159,405	329,766	342,861
Debt securities at amortised cost	19.1	35,537	35,537	277,514	276,673
Total financial assets		**1,445,800**	**1,536,043**	**2,910,813**	**3,005,755**
Guarantees and letters of credit	34	4,446	4,446	7,280	7,280
Credit card commitments	34	3,381	3,386	4,752	4,753
Undrawn overdraft facilities	34	4,852	4,872	12,397	12,492
Loan and credit line commitments	34	493	9,242	1,510	9,512
Total guarantees and commitments		**13,172**	**21,946**	**25,939**	**34,037**
Total maximum credit risk exposure		**1,458,972**	**1,557,989**	**2,936,752**	**3,039,792**

The following table sets out information about the credit quality of financial assets measured at amortised cost and FVOCI debt investments. Explanation of the terms 'Stage 1', 'Stage 2' and 'Stage 3' and expected credit losses included in note 3 (l).

Loans not past due and past due less than 30 days included in stage 1 and stage 2, and past due less than 90 days and more than 30 days included in stage 3 based on evaluation of risk of default and credit ratings used to evaluate significant increase in credit risk.

Loans and receivables due from customers

The Group

EUR'000	**Gross amount**			**Expected credit loss and provisions**			**Carrying amount**		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Past due period									
Not past due and past due <= 30 days	424,854	13,299	76,765	(2,506)	(269)	(19,318)	**422,348**	**13,030**	**57,447**
Past due > 30 days <= 90 days	-	13,132	521	-	(352)	(58)	**-**	**12,780**	**463**
Past due > 90 days	-	-	160,936	-	-	(49,105)	**-**	**-**	**111,831**
Total	**424,854**	**26,431**	**238,222**	**(2,506)**	**(621)**	**(68,481)**	422,348	**25,810**	**169,741**
Commitments and Guarantees	**12,841**	**55**	**276**	**(75)**	**(1)**	**-**	**12,766**	**54**	**276**

4 Risk management, continued

The Bank

EUR'000

	Gross amount			Expected credit loss and provisions			Carrying amount		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Past due period									
Not past due and past due <= 30 days	477,468	19,287	112,503	(2,363)	(468)	(35,331)	**475,105**	**18,819**	**77,172**
Past due > 30 days <= 90 days	-	12,668	302	-	(211)	(26)	**-**	**12,457**	**276**
Past due > 90 days	-	-	159,786	-	-	(48,273)	**-**	**-**	**111,513**
Total	**477,468**	**31,955**	**272,591**	**(2,363)**	**(679)**	**(83,630)**	**475,105**	**31,276**	**188,961**
Commitments and Guarantees	**20,980**	**336**	**630**	**(127)**	**(11)**	**-**	**20,853**	**325**	**630**

Debt securities at amortised cost

The Group

EUR'000

	Gross amount			Expected credit loss			Carrying amount		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Composite credit rating									
BB+ to B	36,127	-	-	(590)	-	-	**35,537**	**-**	**-**
Total	**36,127**	**-**	**-**	**(590)**	**-**	**-**	**35,537**	**-**	**-**

The Bank

EUR'000

	Gross amount			Expected credit loss			Carrying amount		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Composite credit rating									
BB+ to B	36,127	-	-	(590)	-	-	**35,537**	**-**	**-**
Total	**36,127**	**-**	**-**	**(590)**	**-**	**-**	**35,537**	**-**	**-**

4 Risk management, continued

Financial assets at fair value though other comprehensive income

The Group

EUR'000

	Gross amount			Expected credit loss			Carrying amount		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Composite credit rating									
AAA to B+	159,591	-	-	(230)	-	-	**159,361**	**-**	**-**
Not rated	-	-	44	-	-	-	**-**	**-**	**44**
Total	**159,591**	**-**	**44**	**(230)**	**-**	**-**	**159,361**	**-**	**44**

The Bank

EUR'000

	Gross amount			Expected credit loss			Carrying amount		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Composite credit rating									
AAA to B+	159,591	-	-	(230)	-	-	**159,361**	**-**	**-**
Not rated	-	-	44	-	-	-	**-**	**-**	**44**
Total	**159,591**	**-**	**44**	**(230)**	**-**	**-**	**159,361**	**-**	**44**

(c) Market risk

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect the Bank's and the Group's income or the value of its portfolios. Market risks comprise currency risk, interest rate risk and other price risk. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising the return on risk.

Overall authority for market risk is vested in the Asset and Liability Committee (ALCO), chaired by the Chairman of the Board of Directors. Market risk limits are approved by ALCO based on recommendations of the Risk Management Department's Financial Risk Management Group.

The Bank and the Group manage their market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions and stop-loss limits, which are monitored on a regular basis by the Risk Management Department.

In addition, the Bank and the Group use a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Bank and the Group's overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by the Bank and the Group include: risk factor stress testing, where stress movements are applied to each risk category and ad hoc stress testing, which includes applying possible stress events to specific positions.

The management of interest rate risk by monitoring interest rate gap is supplemented by monitoring the sensitivity of the Bank's and the Group's net interest margin to various standard and non-standard interest rate scenarios.

4 Risk management, continued

(i) Interest rate risk

Interest rate risk is the risk that movements in interest rates will affect the Bank's and the Group's income or the value of its portfolios of financial instruments.

The Bank and the Group are exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements arise. For further analysis of interest repricing refer to Note 42 Interest rate risk analysis.

An analysis of sensitivity of the net income for the year to changes of market interest rate impacting the interest income on variable interest rate financial instrument and the fair value of fixed interest rate financial instruments measured at fair value based on a scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves, all other variables remaining constant, is as follows:

Group	**2018**		**2017**	
'000 EUR	**Profit for the period**	**Other comprehensive income**	**Profit for the period**	**Other comprehensive income**
100bp parallel increase	1,780	-	4,323	-
100bp parallel decrease	(1,780)	-	(4,323)	-

Bank	**2018**		**2017**	
'000 EUR	**Profit for the period**	**Other comprehensive income**	**Profit for the period**	**Other comprehensive income**
100bp parallel increase	2,491	-	5,150	-
100bp parallel decrease	(2,491)	-	(5,150)	-

(ii) Currency risk

The Bank and the Group have assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. For further information on the Bank's and the Group's exposure to currency risk at year-end refer to Note 41 Currency analysis.

An analysis of sensitivity of the Bank's and the Group's net income and other comprehensive income for the year to changes in the foreign currency exchange rates based on positions existing as at 31 December 2018 and 2017 and a scenario of a 5% change in USD to EUR exchange rates, while the other variable remain constant, is as follows:

4 Risk management, continued

Group '000 EUR	2018 Profit for the period	2018 Other comprehensive income	2017 Profit for the period	2017 Other comprehensive income
5% appreciation of USD against EUR	(1,342)	-	229	301
5% depreciation of USD against EUR	1,342	-	(229)	(301)

Bank '000 EUR	2018 Profit for the period	2018 Other comprehensive income	2017 Profit for the period	2017 Other comprehensive income
5% appreciation of USD against EUR	1,716	-	319	972
5% depreciation of USD against EUR	(1,716)	-	(319)	(972)

(iii) Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when the Bank and the Group take a long or short position in a financial instrument.

An analysis of sensitivity of the Bank's and the Group's net income for the year and equity to changes in securities prices based on positions existing as at 31 December 2018 and 2017. Changes in other comprehensive income relate to changes in available for sale securities prices. Scenario of a 5% change in all securities prices, while the other variables remain constant, is as follows:

Group '000 EUR	2018 Profit for the period	2018 Other comprehensive income	2017 Profit for the period	2017 Other comprehensive income
5% increase in securities prices	550	7,970	747	16,488
5% decrease in securities prices	(550)	(7,970)	(747)	(16,488)

Bank '000 EUR	2018 Profit for the period	2018 Other comprehensive income	2017 Profit for the period	2017 Other comprehensive income
5% increase in securities prices	543	7,970	8	17,143
5% decrease in securities prices	(543)	(7,970)	(8)	(17,143)

(d) Liquidity risk

Liquidity risk is the risk that the Bank and the Group will encounter difficulty in raising funds to meet its commitments. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions, including the Bank and the Group. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

4 Risk management, continued

The Bank and the Group maintain liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due. The Bank's and the Group's liquidity policies are reviewed and approved by the Council of the Bank.

The Bank and the Group seek to actively support a diversified and stable funding base comprising debt securities in issue, long-term and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policies of the Bank and the Group require:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources;
- managing the concentration and profile of debts;
- maintaining debt financing plans;
- maintaining a portfolio of highly marketable assets that can easily be traded as protection against any interruption to cash flow;
- maintaining liquidity and funding contingency plans;
- monitoring balance sheet liquidity ratios against regulatory requirements.

The Treasury Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans and receivables from banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank and the Group as a whole.

The daily liquidity position is monitored under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department. The Risk Management Department provide a regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions. Under normal market conditions, liquidity reports covering the liquidity position of the Bank and the Group are presented to senior management on a daily basis. Decisions on the Bank's and the Group's liquidity management are made by the Asset and Liability Management Committee and implemented by the Treasury Department.

The process of the Bank's liquidity management includes assessment and analysis of banking financing sources. A significant source of funding is customer demand deposits, most of which are current accounts. These funds are considered to be open-ended, i.e. they have no contractual maturity and are available to customers without any restrictions on withdrawals. Experience of the Bank and conducted statistical analysis, applied on historical data of changes on current account and card account balances, make it possible to estimate the effective maturity of such funds remaining in the accounts of the Bank. Current accounts and the conceptually similar deposit types due to "on demand" are classified in line with the Bank's experience regarding the life cycle of these deposits with the Bank, although customers may receive deposits from the Bank at any time and without any penalties applied. The following table provides a breakdown of demand deposits based on the time of their presence in the account, which does not exceed 5 years.

Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. Both the interest and principal cash flows should be included in the analysis as this best represents the liquidity risk being faced by the Group and the Bank.

4 Risk management, continued

The Group

Analysis of financial liabilities' undiscounted cash flows based on effective maturity as at 31 December 2018:

EUR'000	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances due to banks	2,403	-	-	-	-	**2,403**	**2,403**
Current accounts and deposits due to customers	239,508	63,766	203,283	517,020	23,462	**1,047,039**	**1,019,696**
Issued debt securities	-	-	-	72	-	**72**	**62**
Other financial liabilities	348	-	-	-	-	**348**	**348**
Total	**242,259**	**63,766**	**203,283**	**517,092**	**23,462**	**1,049,862**	**1,022,509**
Guarantees (maximum exposure)	**372**	**490**	**3,328**	**220**	**-**	**4,410**	**4,446**
Credit related commitments	**8,726**	**-**	**-**	**-**	**-**	**8,726**	**8,726**

Analysis of financial liabilities' undiscounted cash flows based on effective maturity as at 31 December 2017:

EUR'000	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities							
Due to Bank of Latvia	-	-	-	120,000	-	**120,000**	**120,000**
Deposits and balances due to banks	26,618	-	-	569	-	**27,187**	**27,187**
Current accounts and deposits due to customers	626,937	130,346	245,750	1,338,156	22,495	**2,363,684**	**2,340,512**
Other financial liabilities	1,514	-	-	-	-	**1,514**	**1,514**
Derivative liabilities							
- Inflow	(125)	(1,605)	(549)	-	-	**(2,279)**	**-**
- Outflow	126	1,624	559	-	-	**2,309**	**30**
Total	**655,070**	**130,365**	**245,760**	**1,458,725**	**22,495**	**2,512,415**	**2,489,243**
Guarantees (maximum exposure)	**473**	**2,332**	**2,651**	**354**	**-**	**5,810**	**7,280**
Credit related commitments	**18,659**	**-**	**-**	**-**	**-**	**18,659**	**18,659**

4 Risk management, continued

The Bank

Analysis of financial liabilities' undiscounted cash flows based on effective maturity as at 31 December 2018:

EUR'000	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances due to banks	2,348	-	-	-	-	**2,348**	**2,348**
Current accounts and deposits due to customers	256,030	61,654	201,171	516,368	23,462	**1,058,685**	**1,033,539**
Issued debt securities							
Other financial liabilities	340	-	-	-	-	**340**	**340**
Total	**258,718**	**61,654**	**201,171**	**516,368**	**23,462**	**1,061,373**	**1,036,227**
Guarantees (maximum exposure)	**373**	**490**	**3,328**	**220**	**-**	**4,411**	**4,446**
Credit related commitments	**17,500**	**-**	**-**	**-**	**-**	**17,500**	**17,500**

Analysis of financial liabilities' undiscounted cash flows based on effective maturity as at 31 December 2017:

EUR'000	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities							
Due to Bank of Latvia	-	-	-	120,000	-	**120,000**	**120,000**
Deposits and balances due to banks	26,459	-	-	569	-	**27,028**	**27,028**
Current accounts and deposits due to customers	648,322	128,137	245,746	1,337,604	22,495	**2,382,304**	**2,359,214**
Issued debt securities							
Other financial liabilities	397	-	-	-	-	**397**	**397**
Derivative liabilities							
- Inflow	(125)	(1,605)	(549)	-	-	**(2,279)**	**-**
- Outflow	126	1,624	559	-	-	**2,309**	**30**
Total	**675,179**	**128,156**	**245,756**	**1,458,173**	**22,495**	**2,529,759**	**2,506,669**
Guarantees (maximum exposure)	**473**	**2,332**	**2,651**	**354**	**-**	**5,810**	**7,280**
Credit related commitments	**26,757**	**-**	**-**	**-**	**-**	**26,757**	**26,757**

4 Risk management, continued

The Group

The table below analyses the Bank's and the Group's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date.

Analysis of financial liabilities' contractual undiscounted cash flows as at 31 December 2018:

EUR'000	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances due to banks	2,403	-	-	-	-	**2,403**	**2,403**
Current accounts and deposits due to customers	587,587	16,624	146,729	272,888	23,462	**1,047,290**	**1,019,696**
Issued debt securities	-	-	-	72	-	**72**	**62**
Other financial liabilities	348	-	-	-	-	**348**	**348**
Total	**590,338**	**16,624**	**146,729**	**272,960**	**23,462**	**1,050,113**	**1,022,509**
Guarantees (maximum exposure)	**372**	**490**	**3,328**	**220**	**-**	**4,410**	**4,446**
Credit related commitments	**8,726**	**-**	**-**	**-**	**-**	**8,726**	**8,726**

Analysis of financial liabilities' contractual undiscounted cash flows as at 31 December 2017:

EUR'000	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities							
Due to Bank of Latvia	-	-	-	120,000	-	**120,000**	**120,000**
Deposits and balances due to banks	26,618	-	-	569	-	**27,187**	**27,187**
Current accounts and deposits due to customers	2,093,144	22,301	74,300	151,444	22,495	**2,363,684**	**2,340,512**
Issued debt securities	-	-	-	-	-	**-**	**-**
Other financial liabilities	1,514	-	-	-	-	**1,514**	**1,514**
Derivative liabilities							
- Inflow	(125)	(1,605)	(549)	-	-	**(2,279)**	**-**
- Outflow	126	1,624	559	-	-	**2,309**	**30**
Total	**2,121,277**	**22,320**	**74,310**	**272,013**	**22,495**	**2,512,415**	**2,489,243**
Guarantees (maximum exposure)	**473**	**2,332**	**2,651**	**354**	**-**	**5,810**	**7,280**
Credit related commitments	**18,659**	**-**	**-**	**-**	**-**	**18,659**	**18,659**

4 Risk management, continued

The Bank

Analysis of financial liabilities' contractual undiscounted cash flows as at 31 December 2018:

EUR'000	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances due to banks	2,348	-	-	-	-	**2,348**	**2,348**
Current accounts and deposits due to customers	604,109	14,387	144,492	272,235	23,462	**1,058,685**	**1,033,539**
Issued debt securities							
Other financial liabilities	340	-	-	-	-	**340**	**340**
Total	**606,797**	**14,387**	**144,492**	**272,235**	**23,462**	**1,061,373**	**1,036,227**
Guarantees (maximum exposure)	**373**	**490**	**3,328**	**220**	**-**	**4,411**	**4,446**
Credit related commitments	**17,500**	**-**	**-**	**-**	**-**	**17,500**	**17,500**

Analysis of financial liabilities' contractual undiscounted cash flows as at 31 December 2017:

EUR'000	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities							
Due to Bank of Latvia	-	-	-	120,000	-	**120,000**	**120,000**
Deposits and balances due to banks	26,459	-	-	569	-	**27,028**	**27,028**
Current accounts and deposits due to customers	2,114,529	20,092	74,296	150,892	22,495	**2,382,304**	**2,359,214**
Issued debt securities							
Other financial liabilities	397	-	-	-	-	**397**	**397**
Derivative liabilities							
- Inflow	(125)	(1,605)	(549)	-	-	**(2,279)**	**-**
- Outflow	126	1,624	559	-	-	**2,309**	**30**
Total	**2,141,386**	**20,111**	**74,306**	**271,461**	**22,495**	**2,529,759**	**2,506,669**
Guarantees (maximum exposure)	**473**	**2,332**	**2,651**	**354**	**-**	**5,810**	**7,280**
Credit related commitments	**26,757**	**-**	**-**	**-**	**-**	**26,757**	**26,757**

4 Risk management, continued

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

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

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

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

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

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

There is according to the AML requirements designated AML/CTF Board Member, whose area of responsibility is the activity of the Bank in AML/CFT. The designated AML/CFT Board Member controls the observance of requirements of this policy and other external and internal AML/CFT regulations in the Bank, and together with the Board makes strategic decisions within the framework of the Bank's policy to be implemented.

To ensure making significant, long-term decisions on the measures to be taken to ensure that the business activity of the Bank complies with the legislation regulating AML/CTF and the observance of the applicable sanctions regimes, as well as prevent damage to be incurred in case of the loss of confidence in the Bank, The Compliance Committee has been set up. The Compliance Committee is a collegial body aimed to ensure that the business activity of the Bank meets the legislation regulating AML/CTF and the observance of the national and international sanctions and protect the Bank from losses, which may occur due to malicious illegal activities and compromising the good reputation of the Bank.

To ensure making effective decisions on the measures to be taken to secure the Bank against the risk to get involved in possible ML/TF transactions and breaches of the applicable national and international sanctions regimes, the Bank has set up the Client Policy Compliance Committee. This Client Policy Compliance Committee is a collegial body established in the Bank aimed to insure the assessment of

4 Risk management, continued

transactions of the Bank's clients and that the cooperation between the Bank and the client meets the legislation regulating AML/CTF and the observance of the national and international sanctions.

The Bank has formed a structural unit for AML/CTF and the applicable national and international sanctions monitoring – the Internal Control Department. The main purpose of this structural unit is daily

work with AML/CTF, preventing the breach of the applicable national and international sanctions regimes, the clients' identification and due diligence, monitoring of the clients' transactions, detecting of unusual and suspicious transactions and reporting relevant data to the Control Service and the State Revenue Service.

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

The following international and national sanctions are binding on the Bank – those of the United Nations (UN), the European Union (EU), the Republic of Latvia and the Office of Foreign Assets Control (OFAC) of the US Department of the Treasury.
Sanctions Policy of the Bank sets out the key principles and requirements that govern the Bank's approach to sanctions of the UN, the EU, the Republic of Latvia and the OFAC.
The Bank prohibits business activity, including prohibitions on commencing or continuing relationship with a client or providing products or services or facilitating transactions that the Bank believes may violate the applicable sanctions legislation or the Sanctions Policy.
There is an allocated Sanctions Officer, who improves, develops and oversees the internal regulations according to legislative requirements of the EU and the Republic of Latvia and ensures the best practice and efficiency in sanctions monitoring by ensuring integrity and compliance with the internal requirements.

The Bank's main AML/sanctions policy principles are as follows:
The Bank according to its activity type by assessing and understanding ML/TF risk and the risk of breaching applicable national and international sanction restrictions associated with its activity and clients develops AML/CTF internal control system, which includes drafting respective policies and procedures.
The Bank allocates and contributes sufficient financial, material and intellectual resources to ensure due activity, to monitor its clients' activity and to implement the Banks' policy.
The Bank ensures that the employees in charge of identification, registration, servicing, monitoring and due diligence of the Bank's clients know and acknowledge risks associated with ML/TF and breach of sanctions regimes, AML/CTF legislation and organises regular personnel training to improve their skills to meet requirements of the internal control system, raise their qualification and quality of work.
The Bank at least once in 18 calendar months ensures that an independent examination of the ML/TF and sanction breach risk management internal control system, including the information technology solutions used, is carried out and where required takes measures to improve the efficiency of the internal control system.
The Bank, in compliance with the requirements of the legislation and legal empowerment of the participant of civil law relations of the private law, ensures the activity of the internal control system that allows to know its clients' business activities according to the specific character of the clients' business, and monitors and conducts due diligence of transactions by documenting such activities to secure itself against the risk to get involved in possible ML/TF transactions and breaches of the national and international sanction restrictions.

The Bank cooperates or starts to cooperate with such a foreign bank, which has AML/CFT legislation in effect in its country, and this foreign bank observes this legislation. The Bank does not cooperate with

4 Risk management, continued

foreign shell banks, banks located in jurisdictions with low "Know Your Client" standards or recognised as banks not cooperating in combating ML/TF.

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

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

During 2015 and 2016 FCMC performed a review of the Bank's compliance with the Law on money laundering and terrorism financing prevention.

In 2015 FCMC imposed a fine of EUR 35 thousand for incompliance detected during the review of operations of internal control system. FCMC pointed to insufficient customers research and transactions tracking.

In 2017 an administrative case was initiated by FCMC and on 17 July 2017 the Bank and FCMC signed an administrative agreement according to which a settlement was reached, and the case was closed. As a part of administrative agreement, the Bank was fined and Board members responsible for AML were warned. The fine was imposed for lack of compliance with several points of AML law and several points of Commission Regulation No 234. The amount of imposed fine was determined taking into account severity of the violation of applicable legislation and the Credit Institution Law gives FCMC the right to impose a fine of up to 10% of total net revenue of the Bank for the previous financial year. Taking into account extent and nature of the violations identified and the fact that the Bank was in process of improving internal controls, the maximum amount of fine was reduced by 89% and amounted to EUR 1,567 thousand. According to the stipulated conditions of the administrative agreement, the Bank conducted several actions:

- The vast majority of internal AML policies and procedures have been changed and updated. This process is done on a regular and continuous basis reflecting changes in the AML legislation, regulatory environment, recommendations and findings of internal and external auditors and regulator.
- The Bank made significant financial investments in its internal control (AML) systems, processes and environment.
- The Bank conducted complex and full-cycle AML audit by KPMG Baltics SIA.
- The remediation action plan was created and approved by the regulator FCMC in order to implement and fulfil all requirements/findings. In this framework, the Bank is closely monitored by its regulator.
- The Bank conducted enterprise wide risk assessment in order to fully identify and understand possible risks and necessary control and risk mitigation measures.
- The Bank conducted complex customer base revision and as the result of this de-risking a cooperation with significant number of high risk customers has been terminated; at the moment the total number of high risk customers is less than 5%.
- Specific external AML/Sanctions-related IT solutions were updated as well as several completely new internal IT solutions and platforms were developed and implemented for customers on-boarding, due diligence, monitoring, screening purposes and detection of risk-factors.
- The Bank pays a special attention to its human resources and provides regular internal and external AML, KYC, CDD, SARs, Sanctions related trainings to its employees. The majority of staff responsible for AML/Sanctions issues and processes received international AML certificates by ACAMS.

In order to improve Bank's compliance with AML several external reviews and audits were performed by independent parties.

4 Risk management, continued

In 2016 the Bank engaged Navigant Consulting Inc. to provide certain AML and Counter-Terrorist Financing advisory services. Specifically, the Bank engaged Navigant Consulting Inc. to review and assess the Bank's AML and Sanctions compliance program to identify gaps, if any that exist between such program and US AML laws and regulations. Within the performed audit Bank's AML & Sanctions program was evaluated to be at a Low to Moderate level of compliance. Respectively, the Bank's AML & Sanctions Systems comply with some, but not all of the US (BSA/AML/OFAC) requirements and expectations. The Bank was given particular recommendations (required elements and optional suggestions) in order to design, implement and adhere to the US requirements and guidance. The Action Plan was created and fully implemented.

In November 2017 the Bank engaged an external auditor to assist the Bank in assessing AML Compliance program with the requirements of applicable local and international AML/CFT regulations and best practices, review the Bank's compliance with international and national sanction programs, review of the Bank's IT systems' compliance. The audit was finalized in April, 2018 and shortly after relevant Remediation Plans based on identified gaps were worked out, approved by the Board and submitted to FCMC. According to an agreement reached with FCMC, the Bank submits full and detailed information on the Plans implementation progress regularly. As per this day, the Bank is in the completion stage, the vast majority of the work is completed.

Also Internal Audit of the Bank is performing internal audits of AML risks management system in the Bank and the Group on regular basis.

(f) Operational risk

Operational risk refers to the risk of losses resulting from inadequate or failed internal processes or procedures, human error, system failure or external events. The definition includes legal risk and information risk.

In order to prevent increase of operational risk, the Bank and Group provides monitoring of operational risks, i. e. – daily monitoring on how the Bank's and Group's employees follow the internal regulations, permanent monitoring of the employees' performance quality, as well as regular monitoring of business processes and technological liaison.

To ensure conditions for effective disclosure of significant operational risk, as well as general evaluation of operational risk, the Risk Management Department maintains an analytical Bank's and Group's operational risk management database "RB Operational risk", which provides complete information regarding operational risk events, their types and scope in terms of activities directions, particular bank operations and other deals, conditions of their emergence and disclosure; and regarding losses, which have occurred.The Board of Directors of the Bank in cooperation with the Risk Management Department informs the Council of the Bank on the key directions of concentration of operational risk, causes for its emergence and measures taken to decrease any possible operational losses.

(g) Capital Management

The Bank's and the Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders returns is also recognised and the Bank and the Group recognise the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantage and security afforded by a solid capitalization. The Financial and Capital Market Commission sets and monitors capital requirements for the Bank and for the Group.

The Bank and the Group define as capital those items defined by statutory regulation as capital. Under the current capital requirements set by Financial and Capital Market Commission, banks must maintain a ratio of capital to risk weighted assets ("capital ratio") above the prescribed minimum level. As at 31 December 2018, the individual minimum level for the Bank is 12.1% (2017: 12.1%). The Bank was in compliance with the statutory capital ratio during the years ended 31 December 2018 and 31 December

4 Risk management, continued

2017. As at 31 December 2018 required for the Bank TSCR (total capital requirement) ratio is 12.1%, OCR (overall capital requirement) ratio is 16.11% (2017: TSCR ratio 12.1%, OCR ratio 16.11%).

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

	2018 '000 EUR Group	2018 '000 EUR Bank	2017 '000 EUR Group	2017 '000 EUR Bank
Tier 1 capital				
Share capital	142,287	142,287	142,287	142,287
Share premium	6,843	6,843	6,843	6,843
Other reserves	89	23	88	23
Accumulated other comprehensive income	(3,211)	(2,246)	2,406	3,976
Other transitional adjustment to CET1 Capital	6,292	7,125	(958)	(1,356)
Non-controlling interest	-	-	-	-
Value adjustments due to the requirements for prudent valuation	(171)	(171)	(345)	(343)
Retained earnings from prior years	223,099	216,791	207,931	201,122
Current year profit	22,750	21,483	32,141	33,034
Intangible assets	(2,499)	(2,498)	(2,633)	(2,632)
Deferred tax assets	(173)	-	-	-
Additional deductions of CET1 Capital due to Article 3 (CRR)	(41,097)	(36,322)	(27,081)	(24,687)
Dividends declared or proposed	-	-	(12,729)	(12,729)
Total tier 1 capital	**354,209**	**353,315**	**347,950**	**345,538**
Tier 2 capital				
Paid up capital instruments (preference shares)	26,629	26,629	26,629	26,629
Share premium (preference shares)	45,700	45,700	45,700	45,700
Long term deposits qualifying as regulatory capital	37,944	37,944	47,501	47,501
Additional deductions of T2 Capital due to Article 3 CRR	-	-	(27,081)	(24,687)
Total tier 2 capital	**110,273**	**110,273**	**92,749**	**95,143**
Total capital	**464,482**	**463,588**	**440,699**	**440,681**
Total risk exposure amount	**1,289,905**	**1,265,980**	**1,829,855**	**1,808,764**
Total capital ratio	**36.01%**	**36.62%**	**24.08%**	**24.36%**

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

The regulatory requirement represents total risk exposure adjusted for capital requirement related to operating risks. The total risk exposure is measured by means of a hierarchy of risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for unrecognised credit commitments, with some adjustments to reflect the more contingent nature of the potential losses.

5 Use of estimates and judgements

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

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

Key sources of estimation uncertainty and judgement:

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

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated and separate financial statements is included in the following notes:

Note 3(i) and Note 3(u): classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.

Note 3(l): establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, incorporation forward-looking information into measurement of ECL and models used to measure ECL.

(ii) Determining fair value of financial instruments

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

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

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

(iv) Impairment of assets shown under other assets

Assets are valued at lower of cost and net realisable value. When assessing net realisable value of assets, management prepares several valuation models (e.g. replacement cost, discounted future cash flows) and compares them to observable market data (e.g. similar transactions taking place on the market, offer made by potential buyers).

(vi) Impairment of investments in subsidiaries

Investments in subsidiaries are valued at cost less accumulated impairment losses in the Bank's separate financial statements. On a regular basis, the Bank compares the cost of investment with the carrying

5 Use of estimates and judgments, continued

amount of net assets of a subsidiary to see whether any impairment indication exists. In addition, the management assessed future cash flows to be generated by the subsidiaries and as a result of this assessments concluded that there is no objective evidence of impairment of the investment. If impairment indication exists, the recoverable amount of the investment is calculated based on discounted estimated future cash flows of the subsidiary. Future cash flows are based on budgets and projections prepared by the subsidiary and assessed for reasonableness.

(vii) Useful lives of equipment

Estimated useful lives of equipment are based on practical experience over using similar equipment in the past. Each year damaged items and technically out-of-date items are identified and their useful life or carrying amount is adjusted individually.

(viii) Consolidation of investment funds

The Group is holding units of investment funds for which it acts as asset management company, i.e. has power over investment decisions within the investment strategy published in the fund prospectus. At each reporting date the Group evaluates the linkage between power and exposure to variable returns and decides whether the respective fund shall be consolidated or not. See Note 43.

(ix) Acquisition of new subsidiaries

Upon each acquisition of a subsidiary, the Group evaluates whether it obtained control over business as defined by IFRS adopted by EU, in which case acquisition accounting is applied. If control is gained only over individual assets and liabilities, the consideration paid is allocated to the acquired assets and liabilities.

(x) Estimating provisions

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

6 Net interest income

	2018 '000 EUR Group	2018 '000 EUR Bank	2017 '000 EUR Group	2017 '000 EUR Bank
Interest income				
Loans and receivables due from customers	49,301	36,991	66,919	56,217
Loans and receivables due from financial institutions	4,082	4,008	5,450	5,447
Financial assets at fair value through other comprehensive income (Available for sale assets)	1,532	1,532	6,490	6,490
Financial assets at Amortised Cost (Held-to-maturity investments)	4,477	4,457	9,281	9,235
Amounts receivable under reverse repurchase agreements	132	132	911	911
Financial assets at fair value through profit or loss	215	215	-	-
	59,739	**47,335**	**89,051**	**78,300**
Interest expense				
Current accounts and deposits due to customers	7,127	7,082	10,702	10,564
Deposits and balances due to financial institutions	2,999	2,572	3,812	3,297
Other interest expense	5,129	3,997	6,251	5,260
	15,255	**13,651**	**20,765**	**19,121**

Effective interest rate on account balances in certain currencies is negative. As the interest resulting from a negative effective interest rate on financial assets reflects an outflow of economic benefits, it is presented as interest expense.

7 Fee and commission income

	2018 '000 EUR Group	2018 '000 EUR Bank	2017 '000 EUR Group	2017 '000 EUR Bank
E-commerce	20,717	20,717	26,875	26,875
Money transfers	4,125	4,125	14,826	14,826
Commission income from payment cards	3,886	3,886	8,063	8,063
Commission from account servicing	25,170	25,176	10,859	10,870
Revenue from customer asset management and brokerage commissions	4,859	4,273	6,774	5,554
Commission from documentary operations	195	195	694	694
Cash withdrawals	145	145	158	158
Remote system fee	56	56	119	119
Other	8,624	8,528	4,424	4,603
	67,777	**67,101**	**72,792**	**71,762**

8 Fee and commission expense

	2018 '000 EUR Group	2018 '000 EUR Bank	2017 '000 EUR Group	2017 '000 EUR Bank
E-commerce	22,438	22,438	24,679	24,679
Payment card expenses	3,779	3,779	7,659	7,659
Agent commissions	2,649	2,147	1,635	1,301
On correspondent accounts	487	487	2,529	2,529
Brokerage fees	1,105	1,105	1,203	1,071
Other	369	359	458	584
	30,827	**30,315**	**38,163**	**37,823**

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

	2018 '000 EUR Group	2018 '000 EUR Bank	2017 '000 EUR Group	2017 '000 EUR Bank
Equity instruments	1,227	1,027	(44)	(44)
Debt securities	(117)	(54)	891	-
Other	(170)	(170)	27	27
	940	**803**	**874**	**(17)**

10 Net foreign exchange gain

	2018 '000 EUR Group	2018 '000 EUR Bank	2017 '000 EUR Group	2017 '000 EUR Bank
Gain/(loss) from revaluation of financial assets and liabilities	(533)	378	(189)	155
Gain on spot transactions and derivatives	13,169	13,184	23,191	23,192
	12,636	**13,562**	**23,002**	**23,347**

11 Net realised gain/(loss) on financial assets at fair value through other comprehensive income

	2018 '000 EUR Group	2018 '000 EUR Bank	2017 '000 EUR Group	2017 '000 EUR Bank
Equity instruments	-	-	(59)	(27)
Debt securities	(585)	(585)	509	509
Other	-	-	(1)	-
	(585)	**(585)**	**449**	**482**

12 Other income/(expense)

	2018 ’000 EUR Group	2018 ’000 EUR Bank	2017 ’000 EUR Group	2017 ’000 EUR Bank
Rental income from operating leases	5,045	747	4,850	824
Fair value change of Investment property	(3,359)	(314)	(803)	507
Penalties received	1,424	1,122	853	627
(Written off)/Recovery of assets written off	313	313	310	252
Gain/(Loss) from sale of property and equipment	310	-	328	-
Gain /(Loss) from sale of Investment property	1,774	325	13	-
Dividends received	101	2,036	535	2,978
Gain/(Loss) from derecognition of subsidiary (note 44)	504	96	(1,343)	(760)
Income from steel processing	3,187	-	2,755	-
Income from production of electricity and heating	697	-	1,473	-
Other	1,107	542	395	1,086
	11,103	**4,867**	**9,366**	**5,514**

Income from steel production, electricity and heating is generated by subsidiaries of the Group whose principal activity is manufacturing.

13 Impairment losses

	2018 '000 EUR Group	2018 '000 EUR Bank	2017 '000 EUR Group	2017 '000 EUR Bank
Impairment losses				
Loans and advances due from banks	(2)	(2)	-	-
Loans and receivables due from customers	(28,193)	(28,646)	(18,985)	(18,637)
Intangible assets	(53)	-	(436)	-
Property and equipment	-	-	(216)	-
FVOCI (2017: Available-for-sale financial assets)	(225)	(225)	-	-
AMC – debt securities (2017: Held-to-maturity investments)	(29)	(29)	-	-
Investments in subsidiaries	-	(725)	-	(3,122)
Other non-financial assets	(114)	(73)	(952)	(588)
	(28,616)	**(29,700)**	**(20,589)**	**(22,347)**
Reversals of impairment losses				
Loans and advances due from banks	14	14	-	-
Loans and receivables due from customers	11,465	11,555	8,107	7,905
FVOCI (2017: Available-for-sale financial assets)	341	341	-	1,033
AMC - debt securities (2017: Held-to-maturity investments)	232	232	-	-
Other non-financial assets	72	72	67	10
	12,124	**12,214**	**8,174**	**8,948**
Net impairment losses	**(16,492)**	**(17,486)**	**(12,415)**	**(13,399)**

14 General and administrative expenses

	2018 ’000 EUR Group	2018 ’000 EUR Bank	2017 ’000 EUR Group	2017 ’000 EUR Bank
Employee compensation	18,882	13,441	22,343	17,038
Salaries to Board of Directors and Council	1,977	1,295	4,621	4,006
Payroll related taxes on employee remuneration	4,898	3,529	6,290	4,930
Depreciation and amortisation	2,889	1,327	3,778	2,008
Repairs and maintenance	2,559	792	3,379	880
Taxes other than on corporate income and payroll	2,793	1,524	3,129	1,915
IT related costs	1,695	1,691	1,798	1,791
Rent	1,473	3,128	1,992	3,502
Representative offices	621	526	1,413	1,166
Advertising and marketing	837	161	1,358	764
Communications and information services	980	832	1,331	1,142
Travel expenses	1,158	627	1,694	1,276
Professional services	348	373	361	301
Provision for bonus and payroll related taxes	1,929	1,849	2,007	2,060
Representation	116	98	883	681
Charity and sponsorship	868	3	1,543	986
Credit card service	171	171	242	242
Insurance	289	216	296	230
Employee health insurance	193	185	306	282
Audit services	455	212	382	142
Subscription of information	236	236	178	178
Office supplies (Stationery)	92	30	116	58
Security	148	119	137	122
Other	3,695	1,861	6,486	4,882
Reversal of provisions for the management bonus	(96)	(96)	(2,545)	(2,545)
	49,206	**34,130**	**63,518**	**48,037**

The amount of reversed provision for bonuses represents the part of potential bonuses which, in addition to bonuses annually paid out by the Bank and the Group, might be paid discretionary by the Bank, subject to certain conditions.

15 Income tax expense

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

	2018 '000 EUR Group	2018 '000 EUR Bank	2017 '000 EUR Group	2017 '000 EUR Bank
Current tax expense				
Current tax expense	1,453	997	8,938	7,929
Deferred tax	(66)	-	(1,754)	45
Total income tax expense in the profit and loss	**1,387**	**997**	**7,184**	**7,974**

The tax rate applicable in countries in which group entities operate:	**2018**	**2017**
Latvia	25.00%	15.00%
Belarus	18.00%	18.00%
Cyprus	12.50%	12.50%
Russia	20.00%	20.00%

(b) Reconciliation of effective tax rate:

In year 2017 Latvian tax legislation was amended. As of 1 January 2018, according Law on Enterprise Income Tax of the Republic of Latvia, the tax rate 20% is deferred to when the profit is distributed and calculated as 0.2/0.8 from net distributed dividend. Before 2018 corporate income tax in Latvia was payable for financial year taxable profit.

	2017 '000 EUR Group	2017 '000 EUR Bank
Profit before tax	40,678	41,008
Income tax at the applicable tax rate (15% for 2017)	**6,102**	**6,151**
Non-deductible expenses	5,229	4,908
Tax exempt income	(3,746)	(3,746)
Tax paid abroad	1,493	1,359
Tax relief on donations	(831)	(831)
Write off of deferred tax	(1,249)	45
Over provided in prior years	186	88
	7,184	**7,974**

16 Cash and balances due from the Bank of Latvia

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

	31 Dec 2018 '000 EUR Group	31 Dec 2018 '000 EUR Bank	31 Dec 2017 '000 EUR Group	31 Dec 2017 '000 EUR Bank
Cash	2,658	2,613	3,487	3,460
Balances due from the Bank of Latvia	463,832	463,831	872,396	872,396
	466,490	**466,444**	**875,883**	**875,856**

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

In accordance with the Bank of Latvia's regulations, the Bank is required to maintain a compulsory reserve set based on the average monthly balance of its liabilities.

The compulsory reserve is compared to the Bank's average monthly correspondent account balance in EUR. The Bank's average correspondent balance should exceed the compulsory reserve requirement. The Bank was in compliance with the aforementioned compulsory reserve requirement during the reporting year.

17 Loans and receivables due from banks

	31 Dec 2018 '000 EUR Group	31 Dec 2018 '000 EUR Bank	31 Dec 2017 '000 EUR Group	31 Dec 2017 '000 EUR Bank
Demand accounts				
Latvian commercial banks	258	-	1,671	1,360
OECD banks	65,567	65,567	351,058	351,058
Other non-OECD banks	26,618	26,261	109,423	109,024
Total Demand accounts	**92,443**	**91,828**	**462,152**	**461,442**
Deposit accounts				
OECD banks	-	-	593	593
Other non-OECD banks	-	-	51	51
Total loans and deposits	**-**	**-**	**644**	**644**
	92,443	**91,828**	**462,796**	**462,086**

Concentration of placements with banks

As at 31 December 2018 the Bank and the Group had 3 balances (2017: 5), which exceeded 10% of total loans and receivables from banks.

17 Loans and receivables due from banks, continued

The largest balances due from credit institutions as of 31 December 2018 in the Bank and the Group were as follows:

	31 Dec 2018 '000 EUR	%
Raiffeisenbank Bank International AG	44,160	48.09
Sberbank of Russia AO	18,761	20.43
Euroclear Bank SA	9,593	10.45
State Street Bank and Trust Co.	4,105	4.47
PKO Bank Polski SA	2,556	2.78
Total	**79,175**	**86.22**

The largest balances due from credit institutions as of 31 December 2017 in the Bank and the Group were as follows:

	31 Dec 2017 '000 EUR	%
DZ BANK AG	83,382	18.04
KBC Bank N.V.	71,937	15.57
Raiffeisenbank SCHWEIZ GENOSSENSCHAFT (Zurich)	58,367	12.63
Sberbank of Russia	53,468	11.57
Erste Group Bank AG	50,029	10.83
Total	**317,183**	**68.64**

18 Financial assets at fair value through profit or loss

	31 December		31 December	
	2018 '000 EUR Group	2018 '000 EUR Bank	2017 '000 EUR Group	2017 '000 EUR Bank
Debt securities				
- with rating from AAA to A	635	-	3,746	-
- with rating from BBB+ to BBB-	-	-	10,891	-
- non-investment grade	968	968	152	-
- not rated	-	-	42	-
Equity instruements	9,397	9,888	438	157
Derivative financial instruments	815	815	288	288
Financial assets at fair value through profit or loss	**11,815**	**11,671**	**15,557**	**445**
Derivative financial instruments	-	-	(30)	(30)
Financial liabilities at fair value through profit or loss	**-**	**-**	**(30)**	**(30)**

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

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

Derivative financial assets and liabilities

The Group	**31 Dec 2018 ’000 EUR**		**31 Dec 2017 ’000 EUR**	
	Carrying amount	**Notional amount**	**Carrying amount**	**Notional amount**
Assets				
Fair value of options	123	n/a	279	n/a
Currency swap contracts	-	-	9	527
Forward contracts	692	-	-	-
Total derivative financial assets	**815**		**288**	
Liabilities				
Currency swap contracts	-	-	30	2,309
Total derivative liabilities	**-**		**30**	

The Bank	**31 Dec 2018 ’000 EUR**		**31 Dec 2017 ’000 EUR**	
	Carrying amount	**Notional amount**	**Carrying amount**	**Notional amount**
Assets				
Fair value of options	123	n/a	279	n/a
Currency swap contracts	-	-	9	527
Forward contracts	692	-	-	-
Total derivative financial assets	**815**		**288**	
Liabilities				
Currency swap contracts	-	-	30	2,309
Total derivative liabilities	**-**		**30**	

19 Financial assets at amortised cost

19.1 Debt securities (2017: Held-to maturity investments)

	31 Dec 2018 ’000 EUR Group	31 Dec 2018 ’000 EUR Bank	31 Dec 2017 ’000 EUR Group	31 Dec 2017 ’000 EUR Bank
Debt securities				
- Government and municipal bonds				
Latvia	-	-	3,516	3,516
Russia	-	-	11,948	11,948
Other	-	-	1,674	1,674
Total government and municipal bonds	**-**	**-**	**17,138**	**17,138**
- Corporate bonds				
Russia	-	-	36,411	36,411
USA	-	-	92,628	91,955
Other European Union countries	35,537	35,537	37,994	37,826
Other non-European Union countries	-	-	93,343	93,343
Total corporate debt securities	**35,537**	**35,537**	**260,376**	**259,535**
	35,537	**35,537**	**277,514**	**276,673**
Of which pledged under sale and repurchase agreements with Bank of Latvia	-	-	2,530	2,530

Analysis of movements in the allowance for expected credit losses, 31 Dec 2018

The Group, EUR’000

	Opening balance as at 1 Jan 2018	Origination and acquisition	Derecognition and repayments	Changes in credit risk, net	Other adjustments	Closing balance as at 31 Dec 2018
Stage 1	778	23	(154)	(53)	(4)	590
Stage 2	19	-	(18)	-	(1)	-
Total	**797**	**23**	**(172)**	**(53)**	**(5)**	**590**

The Bank, EUR’000

	Opening balance as at 1 Jan 2018	Origination and acquisition	Derecognition and repayments	Changes in credit risk, net	Other adjustments	Closing balance as at 31 Dec 2018
Stage 1	778	23	(154)	(53)	(4)	590
Stage 2	19	-	(18)	-	(1)	-
Total	**797**	**23**	**(172)**	**(53)**	**(5)**	**590**

19.2 Loans and receivables due from customers

	31 Dec 2018 ’000 EUR Group	31 Dec 2018 ’000 EUR Bank	31 Dec 2017 ’000 EUR Group	31 Dec 2017 ’000 EUR Bank
Companies				
Finance leases	28,859	-	29,526	-
Loans	481,760	662,320	688,952	868,338
Individuals				
Finance leases	59,194	-	51,605	-
Loans	119,694	119,694	138,958	138,959
Expected credit losses	(71,608)	(86,671)	-	-
Specific impairment allowance	-	-	(75,228)	(90,310)
Collective impairment allowance	-	-	(1,473)	-
Net Loans and receivables from customers	**617,899**	**695,343**	**832,340**	**916,987**

(a) Finance leases

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

	31 Dec 2018 ’000 EUR Group	31 Dec 2017 ’000 EUR Group
Gross investment in finance leases, receivable		
Less than one year	32,243	32,176
More than one year	63,782	57,239
Total gross investment in finance leases	96,025	89,415
Unearned finance income	(7,972)	(8,284)
Net investment in finance lease before allowance	88,053	81,131
Expected credit losses	(1,875)	-
Impairment allowance	-	(1,497)
Net investment in finance lease	**86,178**	**79,634**

	31 Dec 2018 ’000 EUR Group	31 Dec 2017 ’000 EUR Group
The net investment in finance leases comprises:		
Less than one year	27,235	27,013
Between one and five years	58,943	52,621
Net investment in finance lease	**86,178**	**79,634**

19.2 Loans and receivables due from customers, continued

(b) Credit quality of loan portfolio

(i) Ageing structure of loan portfolio

The Group, 31 Dec 2018

EUR'000	Gross amount Stage 1	Gross amount Stage 2	Gross amount Stage 3	Expected credit loss	Net carrying amount	Uncollateralised exposure of net carrying amount
Not past due and past due <= 30 days	424,854	13,299	76,765	(22,093)	492,825	18,072
Past due > 30 days <= 90 days	-	13,132	521	(410)	13,243	58
Past due > 90 days	-	-	160,936	(49,105)	111,831	45,105
Total	**424,854**	**26,431**	**238,222**	**(71,608)**	**617,899**	**63,235**

The Bank, 31 Dec 2018

EUR'000	Gross amount Stage 1	Gross amount Stage 2	Gross amount Stage 3	Expected credit loss	Net carrying amount	Uncollateralised exposure of net carrying amount
Not past due and past due <= 30 days	477,468	19,287	112,503	(38,161)	571,097	60,421
Past due > 30 days <= 90 days	-	12,668	302	(237)	12,733	2,078
Past due > 90 days	-	-	159,786	(48,273)	111,513	367
Total	**477,468**	**31,955**	**272,591**	**(86,671)**	**695,343**	**(62,866)**

31 Dec 2017

The Group	**Total EUR'000**	**Of which not past due on the reporting date**	**Of which past due by the following terms: Less than 30 days**	**31-90 days**	**91-180 days**	**More than 180 days**	**Net carrying amount of overdue loans**
Net carrying amount	**832,340**	649,871	25,067	28,610	21,694	107,098	182,469
Uncollateralised exposure of net carrying amount	**150,700**	135,784	6,418	2,539	305	5,654	14,916
Out of which impaired	**151,782**	34,668	7,781	27,062	1,522	80,749	117,114
The Bank							
Net carrying amount	**916,987**	736,337	23,747	28,221	21,583	107,099	**180,650**
Uncollateralised exposure of net carrying amount	**119,560**	106,982	5,160	1,566	199	5,653	**12,578**
Out of which impaired	**164,008**	47,069	7,719	26,953	1,518	80,749	**116,939**

19.2 Loans and receivables due from customers, continued

(ii) Analysis of loan portfolio by type of collateral

The following table provides the analysis of the loan portfolio, net of impairment, by main types of collateral as at 31 December 2018:

The Group

EUR'000	31 Dec 2018	% of loan portfolio	31 Dec 2017	% of loan portfolio
Commercial buildings	192,965	31.23	265,819	31.94
Commercial assets pledge	144,693	23.42	235,498	28.29
Traded securities	25,709	4.16	49,755	5.98
Mortgage on residential properties	57,113	9.24	84,187	10.11
Land mortgage	37,077	6.00	54,935	6.60
Without collateral	133,860	21.67	85,597	10.28
Other mortgage	24,396	3.95	23,454	2.82
Guarantee	512	0.08	31,524	3.79
Deposit	1,240	0.20	885	0.11
Non-traded securities	334	0.05	686	0.08
Total	**617,899**	**100.00**	**832,340**	**100.00**

The Bank

EUR'000	31 Dec 2018	% of loan portfolio	31 Dec 2017	% of loan portfolio
Commercial buildings	244,847	35.21	362,512	39.53
Commercial assets pledge	219,219	31.53	272,231	29.69
Traded securities	25,709	3.70	49,755	5.43
Mortgage on residential properties	57,300	8.24	84,764	9.24
Land mortgage	41,903	6.03	59,893	6.53
Without collateral	52,705	7.58	47,460	5.18
Guarantee	512	0.07	31,524	3.44
Deposit	1,240	0.18	884	0.10
Non-traded securities	334	0.05	686	0.07
Other	51,574	7.41	7,278	0.79
Total	**695,343**	**100.00**	**916,987**	**100.00**

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

19.2 Loans and receivables due from customers, continued

(iii) Movements in the expected credit losses

The following tables show reconciliation from the opening to the closing balance of the expected credit losses for the year 2018:

The Group

EUR'000

	Opening balance, 1 Jan 2018	Origination and acquisition	Write-offs and repayments	Changes in credit risk, net	Other adjustments	Closing balance, 31 Dec 2018
Stage 1	3,836	3,333	(851)	(3,390)	(422)	2,506
Stage 2	551	-	(57)	(112)	239	621
Stage 3	77,404	1,894	(27,451)	16,141	493	68,481
Total	**81,791**	**5,227**	**(28,359)**	**12,639**	**310**	**71,608**

The Bank

EUR'000

	Opening balance, 1 Jan 2018	Origination and acquisition	Write-offs and repayments	Changes in credit risk, net	Other adjustments	Closing balance, 31 Dec 2018
Stage 1	3,965	2,717	(430)	(3,473)	(416)	2,363
Stage 2	576	-	(18)	(117)	238	679
Stage 3	91,895	1,805	(27,506)	16,940	495	83,629
Total	**96,436**	**4,522**	**(27,954)**	**13,350**	**317**	**86,671**

Movements in the loan impairment allowance for the year ended 31 December 2017 are as follows:

EUR'000	**2017 '000 EUR Group**	**2017 '000 EUR Bank**
Allowance for impairment		
Balance at 1 January	94,331	107,539
Charge for the year:		
Specific impairment allowance	18,640	18,637
Collective impairment allowance	345	-
Reversal of impairment allowance loss		
Specific impairment allowance	(7,974)	(7,905)
Collective impairment allowance	(133)	-
Effect of foreign currency translation	(7,313)	(7,281)
Write offs	(21,195)	(20,680)
Balance at 31 December	**76,701**	**90,310**

19.2 Loans and receivables due from customers, continued

(c) Industry analysis of the loan portfolio

	31 Dec 2018 ’000 EUR Group	31 Dec 2018 ’000 EUR Bank	31 Dec 2017 ’000 EUR Group	31 Dec 2017 ’000 EUR Bank
Financial services	174,202	247,296	184,033	257,772
Real estate management	133,858	218,385	213,062	295,732
Individuals	113,012	113,012	134,107	134,108
Transport and communication	50,482	52,972	63,566	66,356
Wholesale and retailing	32,129	32,129	75,109	75,109
Investments in finance lease	86,178	-	79,634	-
Construction	965	965	11,644	11,644
Manufacturing	10,228	10,790	10,366	10,931
Food industry	5,599	5,599	3,006	3,006
Tourism	1,110	1,110	2,117	3,767
Other	10,136	13,085	55,696	58,562
	617,899	**695,343**	**832,340**	**916,987**

(d) Geographical analysis of the loan portfolio

	31 Dec 2018 ’000 EUR Group	31 Dec 2018 ’000 EUR Bank	31 Dec 2017 ’000 EUR Group	31 Dec 2017 ’000 EUR Bank
Latvia	177,202	249,082	179,843	257,665
Other OECD countries	178,415	178,316	226,829	226,800
Non-OECD countries	262,282	267,945	425,668	432,522
	617,899	**695,343**	**832,340**	**916,987**

(e) Significant credit exposures

According to regulatory requirements, the Bank and the Group are not allowed to have a credit exposure to one client or group of related clients more than 25% of its equity. As at 31 December 2018 and 2017 the Bank and the Group were in compliance with this requirement.

20 Financial assets at fair value through other comprehensive income (2017: Available-for-sale assets)

	2018 '000 EUR Group	2018 '000 EUR Bank	2017 '000 EUR Group	2017 '000 EUR Bank
Debt securities				
- with rating from AAA to A	72,461	72,461	143,391	143,391
- with rating from BBB+ to BBB-	44,998	44,998	125,358	125,358
- non-investment grade	41,946	41,946	54,332	54,332
Rietumu Asset Management Funds				
Cash Reserve Fund	-	-	-	4,238
Fixed Income High Yield Fund	-	-	-	4,485
Fixed Income Investment Grade Fund	-	-	-	4,371
Global Equity Fund	-	-	-	396
VISA Inc shares	-	-	5,951	5,951
Other equity instruments	-	-	734	339
Total fair value	**159,405**	**159,405**	**329,766**	**342,861**
Acquisition cost	161,881	161,881	328,006	338,886
Revaluation	(2,246)	(2,246)	3,408	3,975
Impairment allowance	(230)	(230)	(1,648)	-
Total fair value	**159,405**	**159,405**	**329,766**	**342,861**
Of which pledged under sale and repurchase agreements with Bank of Latvia	-	-	128,069	128,069

20 Financial assets at fair value through other comprehensive income (2017: Available-for-sale assets) continued

Analysis of movements in the allowance for expected credit losses, 31 Dec 2018

The Group, EUR'000

	Opening balance, 1 Jan 2018	**Origination and acquisition**	**Derecognition and repayments**	**Changes in credit risk, net**	**Other adjustments**	**Closing balance, 31 Dec 2018**
Stage 1	267	203	(260)	26	(6)	230
Stage 2	89	-	(66)	(19)	(4)	-
Total	**356**	**203**	**(326)**	**7**	**(10)**	**230**

The Bank, EUR'000

	Opening balance, 1 Jan 2018	**Origination and acquisition**	**Derecognition and repayments**	**Changes in credit risk, net**	**Other adjustments**	**Closing balance, 31 Dec 2018**
Stage 1	267	203	(260)	26	(6)	230
Stage 2	89	-	(66)	(19)	(4)	-
Total	**356**	**203**	**(326)**	**7**	**(10)**	**230**

Analysis of movements in the impairment allowance, 31 Dec 2017

	31 Dec 2017 '000 EUR Group	**31 Dec 2017 '000 EUR Bank**
Balance at 1 January	1,648	9,527
Reversal of impairment allowance loss (reorganisation of CIF RB Opportunity Fund I)	-	(1,033)
Write offs	-	(8,494)
Balance at 31 December	**1,648**	**-**

21 Investments in subsidiaries

Investment in subsidiaries at 31 December 2018 ('000 EUR):

Company	Address	Share Capital	Equity	Bank's share of total share capital, %	Gross carrying amount
RB Investments SIA	Vesetas str.7, Riga, Latvia	14,229	9,724	100%	14,228
RB Securities Ltd	Stasinou str.1, Mitsi Building 1, 2nd floor, Flat/office 5, Plateia Eleftherias, P.C.1060, Nicosia, Cyprus	11,211	2,999	99.99%	10,956
Overseas Estates SIA	Vesetas str.7, Riga, Latvia	9,480	541	100%	7,346
Rietumu Asset Management IPS	Vesetas str.7, Riga, Latvia	500	906	100%	500
Rietumu Leasing Ltd	Odoevskogo str.117, 6th floor, office 9, Minsk, Belarus	275	4,602	99.5%	2,362
InCREDIT GROUP SIA	Krisjana Barona str.130, Riga, Latvia	500	7,510	51%	255
RB Drosiba SIA	Vesetas str.7, Riga, Latvia	71	158	100%	71
Vesetas 7 SIA	Vesetas str.7, Riga, Latvia	142	7,735	100%	3,263
Rietumu Bankas Labdaribas Fonds	Vesetas str.7, Riga, Latvia	-	3,734	100%	-
Euro Textile Group SIA	Ganibu dambis str. 30, Riga, Latvia	887	(888)	100%	1,000
Rietumu Jazz SIA	Vesetas str.7, Riga, Latvia	3	1	100%	3
Aristida Briana 9 SIA	Aristida Briana str. 9, Riga, Latvia	558	13	100%	112
Lilijas 28 SIA	Vesetas str. 7, Riga, Latvia	182	640	100%	620
Vangazu Nekustamie ipasumi SIA	Gaujas str. 24/34, Vangazi, Incukalna region, Latvia	4,398	3,343	100%	3,357
KI FUND SIA	Vesetas str. 7, Riga, Latvia	5,719	4,721	100%	5,719
Impairment allowance					(16,983)
Total Bank's investment in subsidiaries, net					**32,809**

21 Investments in subsidiaries, continued

Investment in subsidiaries at 31 December 2017 ('000 EUR):

Company	**Address**	**Share Capital**	**Equity**	**Bank's share of total share capital, %**	**Gross carrying amount**
RB Investments SIA	Vesetas str.7, Riga, Latvia	14,229	10,227	100%	14,228
RB Securities Ltd	Stasinou str.1, Mitsi Building 1, 2nd floor, Flat/office 5, Plateia Eleftherias, P.C.1060, Nicosia, Cyprus	11,211	2,999	99.99%	10,956
Overseas Estates SIA	Vesetas str.7, Riga, Latvia	9,480	422	100%	7,346
Rietumu Asset Management IPS	Vesetas str.7, Riga, Latvia	500	1,081	100%	500
Rietumu Leasing Ltd	Odoevskogo str.117, 6th floor, office 9, Minsk, Belarus	275	3,228	99.5%	2,362
KI Invest Ltd	Naucnij pr.19, 8th Floor, Office 12, Moscow, Russia	116	(16)	100%	122
InCREDIT GROUP SIA	Krisjana Barona str.130, Riga, Latvia	500	5,043	51%	255
RB Drosiba SIA	Vesetas str.7, Riga, Latvia	71	136	100%	71
RB Baki Ltd	Atartuk 84rospect 2-9, Baku, AZ1110, Azerbaijan	-	-	90%	4
Langervaldes 2 SIA	Vesetas str.7, Riga, Latvia	462	574	100%	463
SBD SIA	Vesetas str.7, Riga, Latvia	460	64	100%	1
Vesetas 7 SIA	Vesetas str.7, Riga, Latvia	142	6,371	100%	3,263
Rietumu Bankas Labdaribas Fonds	Vesetas str.7, Riga, Latvia	-	-	100%	-
Euro Textile Group SIA	Ganibu dambis str. 30, Riga, Latvia	887	(819)	100%	1,000
Rietumu Jazz SIA	Vesetas str.7, Riga, Latvia	3	3	100%	3
Aristida Briana 9 SIA	Aristida Briana str. 9, Riga, Latvia	558	(246)	100%	112
Lilijas 28 SIA	Vesetas str. 7, Riga, Latvia	182	678	100%	620
Vangazu Nekustamie ipasumi SIA	Gaujas str. 24/34, Vangazi, Incukalna region, Latvia	4,398	3,377	100%	3,357
KI FUND SIA	Vesetas str. 7, Riga, Latvia	5,719	5,106	100%	5,719
Impairment allowance					(16,380)
Total Bank's investment in subsidiaries, net					**34,002**

21 Investments in subsidiaries, continued

Movements in the impairment allowance

Movements in the investment in subsidiaries impairment allowance for the year ended 31 December 2018 and 2017 are as follows:

	2018 '000 EUR Bank	2017 '000 EUR Bank
Allowance for impairment		
Balance at 1 January	16,380	13,258
Charge for the year	725	3,122
Sales of subsidiary	(122)	-
Balance at 31 December	**16,983**	**16,380**

22 Equity accounted investees

The Group owns a share in the following associates, both associated companies provide information services and their assets consist mainly from property and equipment for their operations. The total assets and revenues are not material to the Group.

Name	Country of incorpora-tion	Principal activities	Ownership %	Amount of investment	Ownership %	Amount of investment
			31 December 2018		31 December 2017	
				'000 EUR		'000 EUR
AED Rail Service SIA	Latvia	Railway information services	43.00%	32	43.00%	12
Dzelzcelu Tranzits SIA	Latvia	Railway information services	49.12%	-	49.12%	-
Total				**32**		**12**

23 Property and equipment

The Group

Cost/Revalued amount '000 EUR	**Land and buildings**	**Construction in progress**	**Vehicles**	**Office equipment and machinery**	**Advances**	**Total**
At 1 January 2018	**38,041**	**2,510**	**2,843**	**21,684**	**129**	**65,207**
Additions	3	1,165	283	333	114	**1,898**
Disposals	(32)	(2)	(429)	(829)	(2)	**(1,294)**
Transfers	-	11	-	-	(11)	**-**
Sale of subsidiary	-	-	-	(3)	-	**(3)**
Reclassification from investment property	-	567	-	-	-	**567**
Revaluation	73	-	-	-	-	**73**
FX translation effect	(39)	(73)	11	(4)	-	**(105)**
At 31 December 2018	**38,046**	**4,178**	**2,708**	**21,181**	**230**	**66,343**
Depreciation						
At 1 January 2018	**6,029**	**-**	**1,780**	**14,438**	**-**	**22,247**
Depreciation charge	783	-	397	1,159	-	**2,339**
Disposals	-	-	(362)	(721)	-	**(1,083)**
Sale of subsidiary	-	-	-	(2)	-	**(2)**
Impairment loss	-	-	-	-	-	**-**
FX translation effect	(28)	-	-	(2)	-	**(30)**
At 31 December 2018	**6,784**	**-**	**1,815**	**14,872**	**-**	**23,471**
Net carrying amount						
At 31 December 2018	**31,262**	**4,178**	**893**	**6,309**	**230**	**42,872**
At 31 December 2017	**32,012**	**2,510**	**1,063**	**7,246**	**129**	**42,960**

23 Property and equipment, continued

The Group, continued

Cost/Revalued amount '000 EUR	**Land and buildings**	**Construction in progress**	**Vehicles**	**Office equipment and machinery**	**Advances**	**Total**
At 1 January 2017	**38,864**	**2,236**	**2,917**	**23,224**	**114**	**67,355**
Additions	79	268	152	1,092	126	**1,717**
Disposals	(261)	-	(231)	(2,264)	(73)	**(2,829)**
Transfers	-	6	15	17	(38)	**-**
Sale of subsidiary	-	-	(8)	(375)	-	**(383)**
Reclassification to investment property	(477)	-	-	-	-	**(477)**
Revaluation	(91)	-	-	-	-	**(91)**
FX translation effect	(73)	-	(2)	(10)	-	**(85)**
At 31 December 2017	**38,041**	**2,510**	**2,843**	**21,684**	**129**	**65,207**
Depreciation						
At 1 January 2017	**5,248**	**-**	**1,564**	**15,055**	**-**	**21,867**
Depreciation charge	782	-	433	1,421	-	**2,636**
Disposals	-	-	(210)	(2,163)	-	**(2,373)**
Sale of subsidiary	-	-	(6)	(85)	-	**(91)**
Impairment loss	-	-	-	216	-	**216**
FX translation effect	(1)	-	(1)	(6)	-	**(8)**
At 31 December 2017	**6,029**	**-**	**1,780**	**14,438**	**-**	**22,247**
Net carrying amount						
At 31 December 2017	**32,012**	**2,510**	**1,063**	**7,246**	**129**	**42,960**
At 31 December 2016	**33,616**	**2,236**	**1,349**	**8,173**	**114**	**45,488**

23 Property and equipment, continued

Revalued assets

As at 31 December 2018 and 2017, properties consisting of office buildings and land were revalued based on report by external independent and qualified property appraisers with recent experience in the location and category of the property being valued. The independent appraisers provide the fair value of the property portfolio every year.

The fair value measurement for property (land and buildings) has been categorised as a Level 3 in the fair value hierarchy.

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

Type	Valuation technique	Significant unobservable inputs	Inter-relation between significant unobservable inputs and fair value measurement
Office premises in administrative building in the net carrying amount of EUR 555 thousand (2017: EUR 507 thousand) located in Minsk, Belarus	Market comparison technique: The fair value was based on results of comparable sales of similar buildings	Price per m^2 – EUR 868 (2017: EUR 792)	The fair value would increase (decreased) if the price per m^2 was higher (lower).
Office building (17,071 m2) and land in the amount of EUR 30,190 thousand (2017: EUR 30,940 thousand) located in Riga, Latvia	Discounted cash flows technique: The model is based on discounted cash flows from rental income.	Rental income per m^2 of EUR 12-20 (2017: EUR 14-16) Discount rate of 6.5 % (2017: 7%)	The estimated fair value would increase (decrease) if: - Rental income per m^2 was higher (lower) - The discount rate was lower (higher) - Annual capital expense are lower (higher) - The occupancy rate was higher (lower)

23 Property and equipment, continued

The Bank

'000 EUR	Construction in progress	Vehicles	Office equipment	Advances	Total
Cost/Revalued amount					
1 January 2018	**2,484**	**2,721**	**12,792**	**129**	**18,126**
Additions	1,023	274	107	9	**1,413**
Disposals	-	(423)	(560)	(2)	**(985)**
Advances	11	-	-	(12)	**(1)**
At 31 December 2018	**3,518**	**2,572**	**12,339**	**124**	**18,553**
Depreciation and impairment losses					
At 1 January 2018	**-**	**1,713**	**8,509**	**-**	**10,222**
Depreciation charge	-	384	461	**-**	**845**
Disposals	-	(357)	(543)	**-**	**(900)**
At 31 December 2018	**-**	**1,740**	**8,427**	**-**	**10,167**
Net carrying amount					
At 31 December 2018	**3,518**	**832**	**3,912**	**124**	**8,386**
At 31 December 2017	**2,484**	**1,008**	**4,283**	**129**	**7,904**

'000 EUR	Construction in progress	Vehicles	Office equipment	Advances	Total
Cost/Revalued amount					
1 January 2017	**2,211**	**2,803**	**13,218**	**27**	**18,259**
Additions	260	131	541	126	**1,058**
Disposals	(1)	(213)	(977)	**-**	**(1,191)**
Transfers	14	-	10	(24)	**-**
At 31 December 2017	**2,484**	**2,721**	**12,792**	**129**	**18,126**
Depreciation and impairment losses					
At 1 January 2017	-	1,500	8,816	**-**	**10,316**
Depreciation charge	-	417	657	**-**	**1,074**
Disposals	-	(204)	(964)	**-**	**(1,168)**
At 31 December 2017	**-**	**1,713**	**8,509**	**-**	**10,222**
Net carrying amount					
At 31 December 2017	**2,484**	**1,008**	**4,283**	**129**	**7,904**
At 31 December 2016	**2,211**	**1,303**	**4,402**	**27**	**7,943**

24 Intangible assets

The Group

’000 EUR	Goodwill	Software	Other	Advances	Total
Cost amount					
At 1 January 2018	**1,069**	**12,979**	**1,573**	**1,032**	**16,653**
Additions	53	411	-	33	**497**
Disposals	-	(485)	(1)	(19)	**(505)**
Write off	(53)	-	-	-	**(53)**
Reclassification from other assets	-	292	(40)	(292)	**(40)**
At 31 December 2018	**1,069**	**13,197**	**1,532**	**754**	**16,552**
Amortisation and impairment losses					
At 1 January 2018	**-**	**12,501**	**1,110**	**-**	**13,611**
Amortisation charge	-	477	73	-	**550**
Disposals	-	(447)	(1)	-	**(448)**
Impairment write off	(53)	-	-	-	**(53)**
Impairment loss	53	-	-	-	**53**
At 31 December 2018	**-**	**12,531**	**1,182**	**-**	**13,713**
Net carrying amount					
At 31 December 2018	**1,069**	**666**	**350**	**754**	**2,839**
At 31 December 2017	**1,069**	**478**	**463**	**1,032**	**3,042**

’000 EUR	Goodwill	Software	Other	Advances	Total
Cost amount					
At 1 January 2017	**1,069**	**13,277**	**1,971**	**925**	**17,242**
Additions	-	454	42	345	**841**
Disposals	-	(3)	(4)	-	**(7)**
Write off	-	-	(436)	-	**(436)**
Sale of subsidiary	-	(902)	-	(97)	**(999)**
Transfer (investment in subsidiary share capital)	-	12	-	-	**12**
Reclassification from other assets	-	141	-	(141)	**-**
At 31 December 2017	**1,069**	**12,979**	**1,573**	**1,032**	**16,653**
Amortisation and impairment losses					
At 1 January 2017	**-**	**11,649**	**991**	**-**	**12,640**
Amortisation charge	-	1,019	123	-	**1,142**
Disposals	-	(3)	(4)	-	**(7)**
Impairment write off	-	-	436	-	**436**
Sale of subsidiary	-	(164)	-	-	**(164)**
Impairment loss	-	-	(436)	-	**(436)**
At 31 December 2017	**-**	**12,501**	**1,110**	**-**	**13,611**
Net carrying amount					
At 31 December 2017	**1,069**	**478**	**463**	**1,032**	**3,042**
At 31 December 2016	**1,069**	**1,628**	**980**	**925**	**4,602**

Goodwill of EUR 1,069 thousand (2017: EUR 1,069 thousand) originated on the acquisition of a payment card business unit in 2001.

24 Intangible assets, continued

The Bank

'000 EUR	Goodwill	Software	Other	Advances	Total
Cost amount					
At 1 January 2018	**1,069**	**13,192**	**81**	**322**	**14,664**
Additions	-	411		33	**444**
Disposals	-	(484)	(1)	**(19)**	**(504)**
Transfers from advances	-	292	(40)	(291)	**(39)**
At 31 December 2018	**1,069**	**13,411**	**40**	**45**	**14,565**
Amortisation and impairment losses					
At 1 January 2018	**-**	**12,006**	**26**	**-**	**12,032**
Amortisation charge	-	477	5	**-**	**482**
Disposals	-	(446)	(1)	-	**(447)**
At 31 December 2018	**-**	**12,037**	**30**	**-**	**12,067**
Net carrying amount					
At 31 December 2018	**1,069**	**1,374**	**10**	**45**	**2,498**
At 31 December 2017	**1,069**	**1,186**	**55**	**322**	**2,632**

'000 EUR	Goodwill	Software	Other	Advances	Total
Cost amount					
At 1 January 2017	**1,069**	**12,599**	**43**	**215**	**13,926**
Additions	-	454	42	248	**744**
Disposals	-	(2)	(4)	**-**	**(6)**
Transfers from advances	-	141	-	(141)	**-**
At 31 December 2017	**1,069**	**13,192**	**81**	**322**	**14,664**
Amortisation and impairment losses					
At 1 January 2017	**-**	**11,079**	**25**	**-**	**11,104**
Amortisation charge	-	929	5	**-**	**934**
Disposals	-	(2)	(4)	-	**(6)**
At 31 December 2017	**-**	**12,006**	**26**	**-**	**12,032**
Net carrying amount					
At 31 December 2017	**1,069**	**1,186**	**55**	**322**	**2,632**
At 31 December 2016	**1,069**	**1,520**	**18**	**215**	**2,822**

Goodwill of EUR 1,069 thousand (2017: EUR 1,069 thousand) originated on the acquisition of a payment card business unit in 2001.

25 Investment property

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

	31 Dec 2018 ’000 EUR Group	31 Dec 2018 ’000 EUR Bank	31 Dec 2017 ’000 EUR Group	31 Dec 2017 ’000 EUR Bank
Balance at 1 January	90,178	10,470	91,299	10,687
Sale of subsidiary	(1,105)	-	-	-
Transferred from property and equipment	-	-	477	-
Transferred from other assets	388	-	602	-
Transferred to Non-current assets held for sale	(2,759)	-	(157)	-
Transferred to property and equipment	(494)	-	-	-
Additions	7,912	24	6,111	33
Disposals	(5,569)	(837)	(7,162)	(757)
Revaluations	(3,359)	(314)	(803)	507
Currency revaluation	(819)	-	(189)	-
Balance at 31 December	**84,373**	**9,343**	**90,178**	**10,470**

Rental income and operating expense for the year ended 31 December 2018, the Group:

	Carrying amount ’000 EUR	Rental income ‘000 EUR	Operating expenses ‘000 EUR
Investment property rented out	44,459	4,586	2,429
Investment property held for value appreciation	39,914	-	379
Total	**84,373**	**4,586**	**2,808**

Rental income and operating expense for the year ended 31 December 2017, the Group:

	Carrying amount ’000 EUR	Rental income ‘000 EUR	Operating expenses ‘000 EUR
Investment property rented out	64,483	4,210	2,814
Investment property held for value appreciation	25,695	-	386
Total	**90,178**	**4,210**	**3,200**

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

All investment properties represent Level 3 fair value hierarchy.

25 Investment property, continued

The following table shows the valuation technique used in measuring fair value of investment property of the Group and significant unobservable inputs used as at 31 December 2018:

Type	Valuation technique	Significant unobservable inputs	Carrying amount '000 EUR
Residential property	Market comparison technique: The fair value was based on results of comparable sales of similar properties	Average price per m^2 *	
- Riga		EUR 840 – 1,700	14,473
- Jurmala		EUR 1,110 – 3,300	3,686
- Other areas in Latvia		EUR 400 – 1,500	6,359
- Moscow, Russia		EUR 3,354 – 6,635	1,740
Land	Market comparison technique: The fair value was based on results of comparable sales of similar land plots	Average price per m^2 *	
- Riga		EUR 10 – 100	6,644
- Jurmala		EUR 15 – 60	1,789
- Other areas in Latvia		EUR 0.1 – 30	11,236
Commercial property	Market comparison technique: The fair value was based on results of comparable sales of similar properties	Average price per m^2 *	
- Riga		EUR 276 – 1,485	19,812
- Other areas in Latvia		EUR 67 – 204	1,227
- Belarus		EUR 538	784
- Moscow, Russia		EUR 2,000-2,280	3,200
- Riga region	Discounted cash flows technique: The model is based on discounted cash flows from rental income	Rental income per m^2 EUR 5 Annual discount rate of 10%	2,756
Commercial property - Hotels (Jurmala)	Discounted cash flows technique: The model is based on discounted cash flows from rental income	Annual discount rate of 7% EUR 45 – 241 income per hotel room The occupancy rate increasing over time from 37% to 58%	2,484
- Terminal (Ventspils)	Discounted cash flows technique: The model is based on discounted cash flows from transhipment, storage and blending of palm oil products	Income from palm oil products transhipment 13.88 EUR / t. Transhipment volumes 100 – 160 thousand tons per year. Annual discount rate of EBITDA 13%. Capitalization rate 11.3%.	4,140
- Commercial premises (Riga)	Discounted cash flows technique: The model is based on discounted cash flows from sales income after property reconstruction	Annual discount rate 7% Sales price* for m2 EUR 2,421-2,930 Sales price* for a car parking lot EUR 10,000	1,543
- Residential, office and shop premises (Riga)	Market comparison technique: The fair value was based on results of comparable sales of similar properties	Average sales price per m^2 * EUR 1,862-2,166	2,500
Total			**84,373**

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

25 Investment property, continued

The following table shows the valuation technique used in measuring fair value of investment property of the Group and significant unobservable inputs used as at 31 December 2017:

Type	Valuation technique	Significant unobservable inputs	Carrying amount ‘000 EUR
Residential property	Market comparison technique: The fair value was based on results of comparable sales of similar properties	Average price per m² *	
- Riga		EUR 800 – 1,900	14,556
- Jurmala		EUR 1,176 – 1,994	4,376
- Other areas in Latvia		EUR 400 – 1,500	7,301
- Moscow, Russia		EUR 3,068 – 4,100	2,084
Land	Market comparison technique: The fair value was based on results of comparable sales of similar land plots	Average price per m² *	
- Riga		EUR 40 – 90	12,807
- Jurmala		EUR 37 – 57	1,978
- Other areas in Latvia		EUR 0.1 – 50	12,145
Commercial property	Market comparison technique: The fair value was based on results of comparable sales of similar properties	Average price per m² *	
- Riga		EUR 250 – 1,400	12,370
- Other areas in Latvia		EUR 67 – 230	1,954
- Belarus		EUR 278 - 987	1,552
- Moscow, Russia		EUR 2,612	2,941
- Riga region	Discounted cash flows technique: The model is based on discounted cash flows from rental income	Rental income per m² EUR 6 Annual discount rate of 10%	2,749
Commercial property - Hotels (Jurmala)	Discounted cash flows technique: The model is based on discounted cash flows from rental income	Annual discount rate of 7% EUR 50 – 225 income per hotel room The occupancy rate increasing over time from 36% to 52%	2,760
- Terminal (Ventspils)	Discounted cash flows technique: The model is based on discounted cash flows from transhipment, storage and blending of palm oil products	Income from palm oil products transhipment 11 – 13 EUR / t. Transhipment volumes 100 – 150 thousand tons per year. Annual discount rate of EBITDA 11.9%. Capitalization rate 10.39%.	4,100
- Shop (Riga)	Discounted cash flows technique: The model is based on discounted cash flows from rental income	Annual discount rate of 8.5% Occupancy rate 95% Rental income EUR 5.14 per m²	3,311
- Commercial premises (Riga)	Discounted cash flows technique: The model is based on discounted cash flows from sales income after property reconstruction	Annual discount rate 5-15% Sales price* for m2 EUR 3,041 Sales price* for a car parking lot EUR 10,000	1,271
- Residential, office and shop premises (Riga)	Market comparison technique: The fair value was based on results of comparable sales of similar properties	Average price per m² * EUR 682	1,923
Total			**90,178**

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

26 Other assets

	31 Dec 2018 ’000 EUR Group	31 Dec 2018 ’000 EUR Bank	31 Dec 2017 ’000 EUR Group	31 Dec 2017 ’000 EUR Bank
Other financial assets				
Cash in transit	20,019	19,936	23,598	22,394
Other	48	-	748	-
Other non-financial assets				
Collateral assumed on non-performing loans	4,160	4,160	4,643	4,255
Prepayments	791	495	837	386
Recoverable VAT	4,086	-	4,287	-
Tax prepayments	87	-	19	-
Gold	-	-	318	318
Other debtors	2,875	1,887	2,884	998
Other	5,630	3,158	4,708	3,049
Impairment allowance	(3,649)	(3,331)	(3,912)	(3,521)
	34,047	**26,305**	**38,130**	**27,879**

Impairment allowance as at 31 December 2018 and 2017 is recognized mainly for receivables - other debtors. Assets classified as collateral assumed on non-performing loans in the amount of EUR 4,160 thousand by the Group (2017: EUR 4,643 thousand) and EUR 4,160 thousand by the Bank (2017: EUR 4,255 thousand), represent repossessed loan collateral. Collateral assumed on non-performing loans are initially recognised at take-over value which set to be a notional cost. Subsequently, management has determined a recoverable amount which was fair value less cost to sell as at 31 December 2018 using market data. After the acquisition of the collateral and unless all legal titles are transferred to the Group and the Bank, the Group and the Bank do not define classification of the collateral, whether it should be investment property, property, plant and equipment or non-current asset held for sale, therefore the collateral is part of other assets.

Analysis of movements in the value of collateral assumed on non-performing loans

	2018 ’000 EUR Group	2018 ’000 EUR Bank	2017 ’000 EUR Group	2017 ’000 EUR Bank
Balance at 1 January	4,643	4,255	4,939	4,494
Addition	-	-	510	-
Sale of collateral completed	(95)	(95)	(239)	(239)
Reclassified to investment property	(388)	-	(567)	-
Balance at 31 December	**4,160**	**4,160**	**4,643**	**4,255**

26 Other assets, continued

Collateral assumed on non-performing loans by type of property

	31 Dec 2018 ’000 EUR Group	31 Dec 2018 ’000 EUR Bank	31 Dec 2017 ’000 EUR Group	31 Dec 2017 ’000 EUR Bank
Residential property	3,522	3,522	3,617	3,617
Land	565	565	565	565
Commercial property	73	73	73	73
Operating lease	-	-	388	-
	4,160	**4,160**	**4,643**	**4,255**

Analysis of movements in the impairment allowance

	2018 ’000 EUR Group	2018 ’000 EUR Bank	2017 ’000 EUR Group	2017 ’000 EUR Bank
Balance at 1 January	3,912	3,521	3,274	2,942
Charge for the year	114	73	952	588
Recovery	(72)	(72)	(67)	(10)
Acquisition of subsidiaries	(1)	-	-	-
Sale of subsidiary	-	-	(3)	-
Written off	(311)	(199)	(249)	-
Currency revaluation	7	8	5	1
Balance at 31 December	**3,649**	**3,331**	**3,912**	**3,521**

27 Deposits and balances due to banks

	31 Dec 2018 ’000 EUR Group	31 Dec 2018 ’000 EUR Bank	31 Dec 2017 ’000 EUR Group	31 Dec 2017 ’000 EUR Bank
Vostro demand accounts	2,348	2,348	26,459	26,459
Term deposits	55	-	728	569
	2,403	**2,348**	**27,187**	**27,028**

Concentration of deposits and balances due to banks

As at 31 December 2018 the Bank and the Group had balances with three clients (two as at 31 December 2017), which exceeded 10 % of total deposits and balances from banks. The gross value of these balances as of 31 December 2018 was EUR 1,222 thousand, EUR 360 thousand and EUR 245 thousand accordingly (2017: EUR 10,311 thousand and EUR 6,236 thousand).

28 Current accounts and deposits due to customers

	31 Dec 2018 '000 EUR Group	31 Dec 2018 '000 EUR Bank	31 Dec 2017 '000 EUR Group	31 Dec 2017 '000 EUR Bank
Private companies				
- current accounts	331,556	348,078	1,564,847	1,586,232
- term deposits	41,368	40,810	59,017	58,560
Total private companies	**372,924**	**388,888**	**1,623,864**	**1,644,792**
Government				
- current accounts	29	29	17	17
- term deposits	21	-	31	-
Total government	**50**	**29**	**48**	**17**
Private individuals				
- current accounts	251,440	251,440	514,327	514,327
- term deposits	395,282	393,182	202,273	200,078
Total private individuals	**646,722**	**644,622**	**716,600**	**714,405**
Total current accounts and deposits due to customers	**1,019,696**	**1,033,539**	**2,340,512**	**2,359,214**

(a) Geographical analysis

	31 Dec 2018 '000 EUR Group	31 Dec 2018 '000 EUR Bank	31 Dec 2017 '000 EUR Group	31 Dec 2017 '000 EUR Bank
Latvia	159,817	170,320	254,289	269,454
Other OECD countries	366,807	370,305	841,377	841,377
Non-OECD countries	493,072	492,914	1,244,846	1,248,383
	1,019,696	**1,033,539**	**2,340,512**	**2,359,214**

(b) Concentrations of current accounts and customer deposits

As of 31 December 2018 and 2017, the Bank and the Group had no customers, whose balances exceeded 10% of total customer accounts.

(c) Subordinated deposits

As of 31 December 2018 the Bank and the Group had subordinated deposits of EUR 77,944 thousand (2017: EUR 88,633 thousand). For maturities see note 4.

29 Issued debt securities

On 1th October 2018 Rietumu Leasing OOO issued unsecured bonds in amount of EUR 62 with maturity of three years and interest payments quarterly.

	2018 '000 EUR Group	2018 '000 EUR Bank	2017 '000 EUR Group	2017 '000 EUR Bank
Balance at 1 January	**-**	**-**	**57,809**	**57,985**
Change from financing cash flows				
Issued debt securities	62	-	-	-
Change due to maturity and early redemption	-	-	(57,809)	(57,985)
Total changes from financing cash flows	**62**	**-**	**(57,809)**	**(57,985)**
Balance at 31 December	**62**	**-**	**-**	**-**

30 Other liabilities and accruals

	31 Dec 2018 '000 EUR Group	31 Dec 2018 '000 EUR Bank	31 Dec 2017 '000 EUR Group	31 Dec 2017 '000 EUR Bank
Other financial liabilities				
Cash in transit	8	-	1,109	-
Other	340	340	405	397
Other non-financial liabilities				
Management bonus accrual	7,075	7,071	5,318	5,318
Deferred income	3,615	615	3,741	966
Annual leave accrual	1,747	1,380	2,260	1,920
Deposits guarantee fund	290	290	569	388
VAT payable	294	189	258	-
Prepayments	1,263	71	1,110	23
Dividends payable	24	6	35	13
Accounts payable to suppliers	6,676	2,815	2,300	454
Accrued liabilities	2,872	1,875	3,031	2,193
Other	790	218	2,014	746
	24,994	**14,870**	**22,150**	**12,418**

31 Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities as of 31 December 2018 and 2017.

These taxable and tax deductible temporary differences, which have no expiry dates, are listed below at their tax affected accumulated values:

The Group

	Assets		**Liabilities**		**Net**	
’000 EUR	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Loans and advances to customers	-	-	-	(163)	-	(163)
Property and equipment	142	33	-	-	142	33
Intangible assets	-	-	-	-	-	-
Investment property	-	-	(189)	(55)	(189)	(55)
Other assets	255	59	-	-	255	59
Other liabilities	3	-	(84)	(263)	(81)	(263)
Total recognised deferred tax assets/(liabilities)	**400**	**92**	**(273)**	**(481)**	**127**	**(389)**
Recognised deferred tax liabilities					**127**	**(389)**

The rate of tax applicable for deferred taxes equals tax rates applicable in countries in which subsidiaries operate, as disclosed in Note 15.

Movement in temporary differences during the year ended 31 December 2018

The Group	**2018 ’000 EUR**	**2017 ’000 EUR**
Balance at 1 January – deferred tax liability	(426)	(3,110)
Balance at 1 January – deferred tax asset	37	259
Charge to profit for the year	66	1,754
Charge in other comprehensive income	-	499
Transfer to Revaluation reserve	474	159
Currency revaluation	(24)	50
Balance at 31 December	**127**	**(389)**
Deferred tax asset	**173**	**37**
Deferred tax liability	**(46)**	**(426)**

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

32 Share capital and reserves

(a) Issued capital and share premium

The largest shareholders of the Bank as of 31 December 2018 and 31 December 2017 are as follows:

	2018 '000 EUR	%	2017 '000 EUR	%
Ordinary shares				
Companies non-residents				
Boswell (International) Consulting Limited	47,111	33.11%	47,111	33.11%
Companies residents				
Esterkin Family Investments Ltd	47,125	33.12%	47,125	33.12%
Suharenko Family Investments Ltd	24,665	17.34%	24,665	17.34%
Other	1,579	1.10%	1,579	1.10%
Private persons				
Others	21,807	15.33%	21,807	15.33%
Ordinary shares, total	**142,287**	**100%**	**142,287**	**100%**
Preference shares				
Companies	9,515		11,351	
Private persons	17,114		15,278	
Preference shares, total	**26,629**		**26,629**	
Issued capital	**168,916**		**168,916**	
Share premium	**52,543**		**52,543**	

The ultimate controlling parties of the Bank are Esterkin Family Investments Ltd, Boswell (International) Consulting Limited and Suharenko Family Investments Ltd.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank and to residual assets.

Preference shares

Preference shares are shares which have preference over ordinary shares for payment of dividend. The dividend is defined as percentage of issuance price and if not paid, it is accumulated. It is upon Bank's discretion to delay the dividend payments indefinitely. Preference share shareholders do have voting rights if dividends are not received or are partly received for two consecutive years.

(b) Dividends

During reporting period dividends for the previous period were paid in amount of EUR 12,729 thousand (2017: EUR 44,208 thousand). Dividends are proportionately divided between ordinary and preference shares.

	2018 '000 EUR Group	2018 '000 EUR Bank	2017 '000 EUR Group	2017 '000 EUR Bank
Change from financing cash flows				
Dividend paid	12,729	12,729	44,208	44,208
Dividends paid to non-controlling interest shareholders	1,225	-	1,176	-
Total changes from financing cash flows	**13,954**	**12,729**	**45,384**	**44,208**

32 Share capital and reserves, continued

(c) Other reserves

Out of all Other reserves those amounting to EUR 23 thousand at the Bank (2017: EUR 23 thousand) represent contributions made by shareholders in previous years.

(d) Fair value reserve

The fair value reserve represents the changes in fair value of available for sale assets and is reduced by deferred tax charged on unrealised gains or losses on revaluation of the available for sale financial instruments.

Movements in fair value reserve

Movements in the fair value reserve net of tax for the year ended 31 December 2018 and 2017 are as follows:

	2018 '000 EUR Group	2018 '000 EUR Bank	2017 '000 EUR Group	2017 '000 EUR Bank
Balance at 1 January	3,409	3,976	1,805	4,734
Effect from changed accounting policy - IFRS 9	(1,941)	(2,508)	-	-
Revaluation of other available for sale assets	(3,714)	(3,714)	1,604	(758)
Balance at 31 December	**(2,246)**	**(2,246)**	**3,409**	**3,976**

(e) Revaluation reserve

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

	2018 '000 EUR Group	2018 '000 EUR Bank	2017 '000 EUR Group	2017 '000 EUR Bank
Revaluation reserve as at 1 January	1,381	-	1,340	-
Transfer to retained earnings	(27)	-	(27)	-
Revaluation of property and equipment	86	-	(91)	-
Transfer from Deferred tax	474	-	159	-
Revaluation reserve as at 31 December	**1,914**	**-**	**1,381**	**-**

33 Cash and cash equivalents

Cash and cash equivalents consist of the following:

	31 Dec 2018 ’000 EUR Group	31 Dec 2018 ’000 EUR Bank	31 Dec 2017 ’000 EUR Group	31 Dec 2017 ’000 EUR Bank
Cash	2,658	2,613	3,487	3,460
Balances due from the Bank of Latvia	463,832	463,831	872,396	872,396
	466,490	**466,444**	**875,883**	**875,856**
Demand loans and receivables from banks	92,443	91,828	462,152	461,442
Demand deposits and balances due to banks	(2,348)	(2,348)	(26,459)	(26,459)
Total	**556,585**	**555,924**	**1,311,576**	**1,310,839**

34 Commitments and guarantees

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

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

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

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

	31 Dec 2018 ’000 EUR Group	31 Dec 2018 ’000 EUR Bank	31 Dec 2017 ’000 EUR Group	31 Dec 2017 ’000 EUR Bank
Contracted amount				
Loan and credit line commitments	493	9,242	1,510	9,512
Credit card commitments	3,381	3,386	4,752	4,753
Undrawn overdraft facilities	4,852	4,872	12,397	12,492
Guarantees and letters of credit	4,446	4,446	7,280	7,280
Total commitments and guarantees	**13,172**	**21,946**	**25,939**	**34,037**
Provisions	(76)	(138)	-	-
Credit risk exposure	**13,096**	**21,808**	**25,939**	**34,037**

34 Commitments and guarantees, continued

Movements in the provisions for commitments and guarantees, 31 Dec 2018:

The Group, EUR'000

	Opening balance 1 Jan 2018	Origination and acquisition	Derecognition and repayments	Changes in credit risk, net	Closing balance 31 Dec 2018
Stage 1	162	24	(93)	(18)	75
Stage 2	2	-	(2)	1	1
Total	**164**	**24**	**(95)**	**(17)**	**76**

The Bank, EUR'000

	Opening balance 1 Jan 2018	Origination and acquisition	Derecognition and repayments	Changes in credit risk, net	Closing balance 31 Dec 2018
Stage 1	201	25	(93)	(6)	127
Stage 2	6	-	(2)	7	11
Total	**207**	**25**	**(95)**	**1**	**138**

35 Provisions

	31 Dec 2018 '000 EUR Group	31 Dec 2018 '000 EUR Bank	31 Dec 2017 '000 EUR Group	31 Dec 2017 '000 EUR Bank
Provisions for possible obligations – Litigations (Note 36 (b))	34,000	34,000	20,000	20,000
Provisions for commitments and guarantees (Note 34)	76	138	-	-
Total	**34,076**	**34,138**	**20,000**	**20,000**

Movements in the provisions:

EUR'000	2018 '000 EUR Group	2018 '000 EUR Bank	2017 '000 EUR Group	2017 '000 EUR Bank
Balance at 1 January	**20,000**	**20,000**	-	-
IFRS 9 provisions for commitments and guarantees (day-one implementation impact):	164	207	-	-
Restated balance at 1 January	**20,164**	**20,207**	-	-
Increase of provisions for possible obligations – Litigations (Note 36 (b))	14,000	14,000	20,000	20,000
Decrease of provisions for commitments and guarantees (Note 34)	(88)	(69)	-	-
Balance at 31 December	**34,076**	**34,138**	**20,000**	**20,000**

36 Litigations

(a) Ordinary legal proceedings

In the ordinary course of business, the Bank and the Group are involved in a number of judicial proceedings brought against the Bank and the Group by its customers, in respect of matters such as ownership and property rights, cancellation or challenge of the transactions or contracts and monetary claims. As at 31 December 2018, there were 17 open legal proceedings against the Bank and the Group with a total amount under dispute of EUR 381 thousand (31 December 2017: EUR 239 thousand). The ultimate outcome of any such litigation is uncertain and any position taken by the Management Board involves significant judgement and inherent estimation uncertainty. In respect of the above litigation proceedings, no liability (provision) has been recognized as in the Management Board's view, supported by the result of the analysis by the Bank's external legal advisers, the likelihood of any loss (outcome of economic resources) arising therefrom is possible rather than probable.

(b) Litigation in France

The Bank is defendant in a court case for alleged involvement in tax evasion and aggravated money laundering. Criminal investigation in France started in July 2011 (further to enquiries from that country's tax authorities in respect of another (unrelated) entity - France Off Shore) focusing on alleged tax evasion offences committed by that entity. Within that investigation the Bank, and former head of its representative office in Paris were placed under investigation for suspicion of aggravated money laundering on 12 December 2012.

On 6 July 2017, the 32nd section of the Paris Criminal Court ruled in its first instance judgment that the Bank was guilty of aggravated money laundering by providing assistance, as a bank, to placement, concealment or conversion operations of the proceed of an offence. The Court ordered the Bank to pay a criminal fine of EUR 80 million and damages, jointly and severally with the other defendants, of EUR 10 million to the French State and EUR100 thousand court expenses. In addition, the Bank was ordered to stop any banking activities in France for 5 years. The Bank lodged its appeal against the first instance judgement on 12 July 2017, followed by an appeal by the Public Prosecutor, to leave the upper limit of the amount of any penalties above that included in the first instance court's sentence. As at the date of approval of these separate and consolidated financial statements, the date for the appeal court hearing has been planned to take place late September 2019. The Management Board intends to cooperate with all relevant authorities in the proceeding. However, although there can be no assurance as to the ultimate outcome of the case, the Bank believes to have a meritorious defence, and so it intends to vigorously defend its position. Among other things, the amounts the Bank was sentenced to pay appear inflated and ungrounded based on the understanding of the French criminal law by the Bank and its legal advisers.

Taking into account all the remaining potential court instances of the case, both in France and in Latvia, the legal process may continue for a period of time of 2-3 years or more. As at 31 December 2017, the Bank recognized a provision amounting to EUR 20 million and as at 31 December 2018 EUR 14 million (total EUR 34 million) which it believes to be the best estimate of the expenditure to be ultimately required to settle the obligation, including fines, damages, procedural expenditure and expected legal expenses. The Management Board is of the position that the enforcement of any final decision coming out of the above-mentioned proceedings in France will require prior recognition by the relevant Latvian court in accordance with the relevant requirements of the Criminal Procedure Law of the Republic of Latvia. Assuming that the first-instance court ruling is upheld by the courts both in France and in Latvia, which in the Management Board's view is not certain, significant amount of judgment would be required in particular in estimating the amounts of the fines the Bank would be ordered to pay by the Latvian court, as there are no prior cases of judicial precedent available, coupled with the fact that certain provisions of the Latvian Criminal Procedure Law and Criminal Law are open to differing interpretations, in particular as it related to where and to what extent the fines levied in such proceedings can be capped based on the provisions of those laws. In arriving at its best estimate of the amount of the provision, the Management Board assumed that the relevant Latvian court decides to align the fine with the sanction provided in the Criminal Law, following the general provisions of that law – i.e. assuming that a cap of 3.8MEUR will apply as included in Art. 784 of the Criminal Procedure Law. However, alternative outcomes cannot be excluded based on different interpretations of the Latvian laws.

Accordingly, due to the inherent uncertainty associated with the proceedings of such nature as exacerbated by the above factors, while the Bank and the Group believe the amount of the provision recognized in these separate and consolidated financial statements to represent their best estimate of the expenditure to be ultimately required to settle the obligation, the actual expenditure required to settle the said claim may be substantially in excess of these amounts reserved.

37 Reverse repo

	31 Dec 2018 '000 EUR Group	31 Dec 2018 '000 EUR Bank	31 Dec 2017 '000 EUR Group	31 Dec 2017 '000 EUR Bank
Nomura International plc	-	-	40,825	40,825
Total	**-**	**-**	**40,825**	**40,825**

38 Trust and custody activities

(a) Trust activities

Funds under trust management represent securities and other assets managed and held by the Bank and the Group on behalf of customers. The Bank and the Group earn commission income for holding such assets. The Bank and the Group are not subject to interest, credit, liquidity, price and currency risk with respect of these securities in accordance with the agreements concluded with the customers. As at 31 December 2018 the total assets held by the Group on behalf of customers and assets under management were EUR 332,060 thousand (2017: EUR 531,281 thousand) and by the Bank EUR 214,559 thousand (2017: EUR 397,940 thousand) accordingly.

39 Related party transactions

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

'000 EUR	31 Dec 2018			31 Dec 2017		
	Subsidiaries and associates	**Key management**	**Other related parties**	**Subsidiaries and associates**	**Key management**	**Other related parties**
Loans and receivables due from customers	165,716	105	22,465	166,103	322	16,585
Expected credit losses	(18,431)	(1)	(65)	(16,475)	-	-
Current accounts and deposits due to customers	3,256	9,474	908	21,631	18,296	54,831
Equity instruments	1,229	-	-	-	-	-
Commitments and guarantees	8,774	781	140	8,331	880	153
Interest income	6,809	4	782	7,429	11	778
Interest expense	-	904	528	-	1,051	1,040

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

	31 Dec 2018 ’000 EUR Group	31 Dec 2018 ’000 EUR Bank	31 Dec 2017 ’000 EUR Group	31 Dec 2017 ’000 EUR Bank
Members of the Council	503	483	557	517
Members of the Board of Directors	1,474	812	4,064	3,489
Total	**1,977**	**1,295**	**4,621**	**4,006**

During the year 2018, the Bank paid rent and maintenance expenses to its subsidiary Vesetas 7 SIA in the amount of EUR 2,483 thousand (2017: EUR 2,347 thousand).

During the year 2018, the Bank received dividends from its subsidiary InCredit GROUP SIA in the amount of EUR 1,275 thousand (2017: EUR 1,224 thousand); from LANGERVALDES 2 SIA in the amount of EUR 105 thousand and from RB Asset Management in the amount of EUR 570 thousand.

40 Fair value of financial assets

(a) Financial assets measured at fair value

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

The Group

31 Dec 2018	**Level (1)**	**Level (2)**	**Level (3)**	**Total**
Financial assets				
Financial assets at fair value through other comprehensive income	146,354	13,006	45	**159,405**
Financial assets at fair value through profit or loss	2,192	1,809	7,814	**11,815**

31 Dec 2017	**Level (1)**	**Level (2)**	**Level (3)**	**Total**
Financial assets				
Available for sale assets	301,418	21,613	6,735	**329,766**
Financial assets at fair value through profit or loss	15,112	387	58	**15,557**
Financial liabilities				
Financial assets at fair value through profit or loss	-	30	-	**30**

The Bank

31 Dec 2018	**Level (1)**	**Level (2)**	**Level (3)**	**Total**
Financial assets				
Financial assets at fair value through other comprehensive income	146,354	13,006	45	**159,405**
Financial assets at fair value through profit or loss	2,211	1,809	7,651	**11,671**

31 Dec 2017	**Level (1)**	**Level (2)**	**Level (3)**	**Total**
Financial assets				
Available for sale assets	314,909	21,613	6,339	**342,861**
Financial assets at fair value through profit or loss	-	387	58	**445**
Financial liabilities				
Financial assets at fair value through profit or loss	-	30	-	**30**

40 Fair value of financial assets, continued

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

Type	Valuation technique
Financial assets and liabilities 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.

Under Level 3 of fair value hierarchy certain shares were classified, the fair value of which is measured based on estimated fair value of underlying assets.

Financial assets not measured at fair value

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

The Group

31 December 2018	Level 1 ’000 EUR	Level 2 ’000 EUR	Level 3 ’000 EUR	Total fair values ’000 EUR	Total carrying amount ‘000 EUR
Financial assets					
Loans and receivables due from banks	-	-	92,443	92,443	92,443
Loans and receivables due from customers	-	-	617,899	617,899	617,899
Debt securities at amortised cost	36,329	-	-	36,329	35,537
Other financial assets	-	-	20,067	20,067	20,067
Financial liabilities					
Deposits and balances due to banks	-	-	2,403	2,403	2,403
Deposits and balances due to customers	-	-	1,019,696	1,019,696	1,019,696
Due to Bank of Latvia					
Issued debt securities	-	-	62	62	62
Other financial liabilities	-	-	348	348	348
31 December 2017					
Financial assets					
Loans and receivables due from banks	-	-	462,796	462,796	462,796
Loans and receivables due from customers	-	-	832,340	832,340	832,340
Reverse repo	-	-	40,825	40,825	40,825
Held-to-maturity instruments	278,490	-	-	278,490	277,514
Other financial assets	-	-	24,346	24,346	24,346
Financial liabilities					
Deposits and balances due to banks	-	-	27,187	27,187	27,187
Deposits and balances due to customers	-	-	2,340,512	2,340,512	2,340,512
Due to Bank of Latvia	-	-	120,000	120,000	120,000
Other financial liabilities	-	-	1,514	1,514	1,514

40 Fair value of financial assets, continued

The Bank

31 December 2018	**Level 1 ’000 EUR**	**Level 2 ’000 EUR**	**Level 3 ’000 EUR**	**Total fair values ’000 EUR**	**Total carrying amount ‘000 EUR**
Financial assets					
Loans and receivables due from banks	-	-	91,828	91,828	91,828
Loans and receivables due from customers	-	-	695,343	695,343	695,343
Reverse repo	-	-	-	-	-
Debt securities at amortised cost	36,329	-	-	36,329	35,537
Other financial assets	-	-	19,936	19,936	19,936
Financial liabilities					
Deposits and balances due to banks	-	-	2,348	2,348	2,348
Deposits and balances due to customers	-	-	1,033,539	1,033,539	1,033,539
Other financial liabilities	-	-	340	340	340
31 December 2017					
Financial assets					
Loans and receivables due from banks	-	-	462,086	462,086	462,086
Loans and receivables due from customers	-	-	916,987	916,987	916,987
Reverse repo			40,825	40,825	40,825
Held-to-maturity instruments	277,656	-	-	277,656	276,673
Other financial assets	-	-	22,394	22,394	22,394
Financial liabilities					
Deposits and balances due to banks	-	-	27,028	27,028	27,028
Due to Bank of Latvia			120,000	120,000	120,000
Deposits and balances due to customers	-	-	2 359,214	2,359,214	2,359,214
Other financial liabilities	-	-	397	397	397

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

41 Currency analysis

The following table shows the currency structure of financial assets and liabilities of the Group as at 31 December 2018:

The Group

	EUR '000 EUR	**USD '000 EUR**	**Other currencies '000 EUR**	**Total '000 EUR**
Financial assets				
Cash and balances with Bank of Latvia	465,468	907	115	**466,490**
Financial assets at fair value through profit or loss	2,217	9,362	236	**11,815**
Loans and receivables due from banks	4,689	54,975	32,779	**92,443**
Loans and receivables due from customers	450,094	130,606	37,199	**617,899**
Financial assets at fair value through other comprehensive income	159,405	-	-	**159,405**
Debt securities at amortised cost	35,537	-	-	**35,537**
Total financial assets	**1,117,410**	**195,850**	**70,329**	**1,383,589**
Financial liabilities				
Deposits and balances due to banks	750	1,428	225	**2,403**
Current accounts and deposits due to customers	806,636	168,441	44,619	**1,019,696**
Issued debt securities	-	62	-	**62**
Total financial liabilities	**807,386**	**169,931**	**44,844**	**1,022,161**
Net position as of 31 December 2018	**310,024**	**25,919**	**25,485**	
Net off balance sheet position as of 31 December 2018	**(9,201)**	**4,223**	**4,978**	
Net total positions as of 31 December 2018	**300,823**	**30,142**	**30,463**	
Net total positions as of 31 December 2017	**364,050**	**(10,083)**	**(7,015)**	

41 Currency analysis, continued

The following table shows the currency structure of financial assets and liabilities of the Group as at 31 December 2017:

The Group

	EUR '000 EUR	USD '000 EUR	Other currencies '000 EUR	Total '000 EUR
Financial assets				
Cash and balances with Bank of Latvia	873,776	1,298	809	**875,883**
Financial instruments at fair value through profit or loss	144	15,347	66	**15,557**
Loans and receivables due from banks	2,078	348,211	112,507	**462,796**
Loans and receivables due from customers	436,978	393,144	2,218	**832,340**
Reverse repo	-	40,825	-	**40,825**
Available-for-sale assets	129,612	200,061	93	**329,766**
Held-to-maturity investments	6,718	270,796	-	**277,514**
Total financial assets	**1,449,306**	**1,269,682**	**115,693**	**2,834,681**
Financial liabilities				
Financial instruments at fair value through profit or loss	30	-	-	**30**
Due to Bank of Latvia	120,000	-	-	**120,000**
Deposits and balances due to banks	5,735	15,063	6,389	**27,187**
Current accounts and deposits due to customers	980,760	1,243,863	115,889	**2,340,512**
Total financial liabilities	**1,106,525**	**1,258,926**	**122,278**	**2,487,729**
Net position as of 31 December 2017	**342,781**	**10,756**	**(6,585)**	
Net off balance sheet position as of 31 December 2017	**21,269**	**(20,839)**	**(430)**	
Net total positions as of 31 December 2017	**364,050**	**(10,083)**	**(7,015)**	
Net total positions as of 31 December 2016	**341,181**	**9,337**	**(3,641)**	

41 Currency analysis, continued

The following table shows the currency structure of financial assets and liabilities of the Bank as at 31 December 2018:

The Bank

	EUR '000 EUR	USD '000 EUR	Other currencies '000 EUR	Total '000 EUR
Financial assets				
Cash and balances with Bank of Latvia	465,423	906	115	**466,444**
Financial assets at fair value through profit or loss	1,979	9,577	115	**11,671**
Loans and receivables due from banks	4,254	54,918	32,656	**91,828**
Loans and receivables due from customers	553,471	141,002	870	**695,343**
Financial assets at fair value through other comprehensive income	159,405	-	-	**159,405**
Debt securities at amortised cost	35,537	-	-	**35,537**
Total financial assets	**1,220,069**	**206,403**	**33,756**	**1,460,228**
Financial liabilities				
Deposits and balances due to banks	750	1,428	170	**2,348**
Current accounts and deposits due to customers	817,313	171,573	44,653	**1,033,539**
Total financial liabilities	**818,063**	**173,001**	**44,823**	**1,035,887**
Net position as of 31 December 2018	**402,006**	**33,402**	**(11,067)**	
Net off balance sheet position as of 31 December 2018	(9,201)	4,223	4,978	
Net total positions as of 31 December 2018	**392,805**	**37,625**	**(6,089)**	
Net total positions as of 31 December 2017	**430,693**	**(14,708)**	**(6,524)**	

41 Currency analysis, continued

The following table shows the currency structure of financial assets and liabilities of the Bank as at 31 December 2017:

The Bank

	EUR '000 EUR	USD '000 EUR	Other currencies '000 EUR	Total '000 EUR
Financial assets				
Cash and balances with Bank of Latvia	873,750	1,298	808	**875,856**
Financial instruments at fair value through profit or loss	130	315	-	**445**
Loans and receivables due from banks	1,495	348,210	112,381	**462,086**
Loans and receivables due from customers	520,113	393,990	2,884	**916,987**
Reverse repo	-	40,825	-	**40,825**
Available-for-sale assets	129,283	213,485	93	**342,861**
Held-to-maturity investments	6,718	269,955	-	**276,673**
Total financial assets	**1,531,489**	**1,268,078**	**116,166**	**2,915,733**
Financial liabilities				
Financial instruments at fair value through profit or loss	30	-	-	**30**
Due to Bank of Latvia	120,000	-	-	**120,000**
Deposits and balances due to banks	5,610	15,063	6,355	**27,028**
Current accounts and deposits due to customers	996,425	1,246,884	115,905	**2,359,214**
Total financial liabilities	**1,122,065**	**1,261,947**	**122,260**	**2,506,272**
Net position as of 31 December 2017	**409,424**	**6,131**	**(6,094)**	
Net off balance sheet position as of 31 December 2017	**21,269**	**(20,839)**	**(430)**	
Net total positions as of 31 December 2017	**430,693**	**(14,708)**	**(6,524)**	
Net total positions as of 31 December 2016	**427,132**	**(7,523)**	**(2,624)**	

42 Interest rate risk analysis

The following table shows the interest rate contracted re-pricing risk of financial assets and liabilities of the Group as at 31 December 2018, based on the earlier of contractual interest rate repricing or maturity:

	Less than 1 month ’000 EUR	1 to 3 months ’000 EUR	3 months to 1 year ’000 EUR	1 to 5 years ’000 EUR	More than 5 years ’000 EUR	Non-interest bearing ’000 EUR	Total ’000 EUR
Financial assets							
Cash and balances with Bank of Latvia	-	-	-	-	-	466,490	**466,490**
Financial assets at fair value through profit or loss	87	549	-	-	-	11,179	**11,815**
Loans and receivables due from banks	-	-	-	-	-	92,443	**92,443**
Loans and receivables due from customers	73,247	182,680	64,347	105,293	10,807	181,525	**617,899**
Financial assets at fair value through other comprehensive income	-	-	-	-	-	159,405	**159,405**
Debt securities at amortised cost	-	-	-	28,366	-	7,171	**35,537**
Total financial assets	**73,334**	**183,229**	**64,347**	**133,659**	**10,807**	**918,213**	**1,383,589**
Financial liabilities							
Deposits and balances due to banks	-	-	-	-	-	2,403	**2,403**
Current accounts and deposits due to customers	4,510	13,975	141,783	261,501	12,022	585,905	**1,019,696**
Issued debt securities	-	-	-	62	-	-	**62**
Total financial liabilities	**4,510**	**13,975**	**141,783**	**261,563**	**12,022**	**588,308**	**1,022,161**
Net position as at 31 December 2018	**68,824**	**169,254**	**(77,436)**	**(127,904)**	**(1,215)**	**329,905**	
Net position as at 31 December 2017	**74,495**	**259,038**	**10,813**	**239,692**	**(4,062)**	**(233,024)**	

42 Interest rate risk analysis, continued

The following table shows the interest rate contracted re-pricing risk of financial assets and liabilities of the Group as at 31 December 2017, based on the earlier of contractual interest rate repricing or maturity:

	Less than 1 month ’000 EUR	1 to 3 months ’000 EUR	3 months to 1 year ’000 EUR	1 to 5 years ’000 EUR	More than 5 years ’000 EUR	Non-interest bearing ’000 EUR	Total ’000 EUR
Financial assets							
Cash and balances with Bank of Latvia	-	-	-	-	-	875,883	**875,883**
Financial assets at fair value through profit or loss	-	-	-	-	-	15,557	**15,557**
Loans and receivables due from banks	-	-	-	-	-	462,796	**462,796**
Loans and receivables due from customers	87,472	264,605	53,739	200,147	3,046	223,331	**832,340**
Reverse repo	-	-	-	-	-	40,825	**40,825**
Available-for-sale assets	-	-	-	-	-	329,766	**329,766**
Held-to-maturity investments	505	14,322	31,589	180,262	3,940	46,896	**277,514**
Total financial assets	**87,977**	**278,927**	**85,328**	**380,409**	**6,986**	**1,995,054**	**2,834,681**
Financial liabilities							
Financial instruments at fair value through profit or loss	-	-	-	-	-	30	**30**
Due to Bank of Latvia	-	-	-	-	-	120,000	**120,000**
Deposits and balances due to banks	-	-	-	500	-	26,687	**27,187**
Current accounts and deposits due to customers	13,482	19,889	74,515	140,217	11,048	2,081,361	**2,340,512**
Total financial liabilities	**13,482**	**19,889**	**74,515**	**140,717**	**11,048**	**2,228,078**	**2,487,729**
Net position as at 31 December 2017	**74,495**	**259,038**	**10,813**	**239,692**	**(4,062)**	**(233,024)**	
Net position as at 31 December 2016	**196,746**	**301,658**	**(70,101)**	**255,870**	**(3,399)**	**(333,897)**	

42 Interest rate risk analysis, continued

The following table shows the interest rate contracted re-pricing risk of financial assets and liabilities of the Bank as at 31 December 2018, based on the earlier of contractual interest rate repricing or maturity:

Financial assets	Less than 1 month ’000 EUR	1 to 3 months ’000 EUR	3 months to 1 year ’000 EUR	1 to 5 years ’000 EUR	More than 5 years ’000 EUR	Non-interest bearing ’000 EUR	Total ’000 EUR
Cash and balances with Bank of Latvia	-	-	-	-	-	466,444	**466,444**
Financial assets at fair value through profit or loss	-	-	-	-	-	11,671	**11,671**
Loans and receivables due from banks	-	-	-	-	-	91,828	**91,828**
Loans and receivables due from customers	73,345	254,495	74,106	99,919	5,292	188,186	**695,343**
Financial assets at fair value through other comprehensive income	-	-	-	-	-	159,405	**159,405**
Debt securities at amortised cost	-	-	-	28,366		7,171	**35,537**
Total financial assets	**73,345**	**254,495**	**74,106**	**128,285**	**5,292**	**924,705**	**1,460,228**
Financial liabilities							
Deposits and balances due to banks	-	-	-	-	-	2,348	**2,348**
Current accounts and deposits due to customers	4,351	13,975	141,768	258,841	12,022	602,582	**1,033,539**
Total financial liabilities	**4,351**	**13,975**	**141,768**	**258,841**	**12,022**	**604,930**	**1,035, 887**
Net position as at 31 December 2018	**68,994**	**240,520**	**(67,662)**	**(130,556)**	**(6,730)**	**319,775**	
Net position as at 31 December 2017	**99,611**	**328,975**	**9,914**	**229,654**	**(7,056)**	**(251,637)**	

42 Interest rate risk analysis, continued

The following table shows the interest rate contracted re-pricing risk of financial assets and liabilities of the Bank as at December 31, 2017, based on the earlier of contractual interest rate repricing or maturity:

Financial assets	**Less than 1 month ’000 EUR**	**1 to 3 months ’000 EUR**	**3 months to 1 year ’000 EUR**	**1 to 5 years ’000 EUR**	**More than 5 years ’000 EUR**	**Non-interest bearing ’000 EUR**	**Total ’000 EUR**
Cash and balances with Bank of Latvia	-	-	-	-	-	875,856	**875,856**
Financial assets at fair value through profit or loss	-	-	-	-	-	445	**445**
Loans and receivables due from banks	-	-	-	-	-	462,086	**462,086**
Loans and receivables due from customers	113,093	334,874	50,644	189,625	51	228,700	**916,987**
Reverse repo	-	-	-	-	-	40,825	**40,825**
Available-for-sale assets	-	-	-	-	-	342,861	**342,861**
Held-to-maturity investments	-	13,986	31,589	180,262	3,941	46,895	**276,673**
Total financial assets	**113,093**	**348,860**	**82,233**	**369,887**	**3,992**	**1,997,668**	**2,915,733**
Financial liabilities							
Financial instruments at fair value through profit or loss	-	-	-	-	-	30	**30**
Due to Bank of Latvia	-	-	-	-	-	120,000	**120,000**
Deposits and balances due to banks	-	-	-	500	-	26,528	**27,028**
Current accounts and deposits due to customers	13,482	19,885	72,319	139,733	11,048	2,102,747	**2,359,214**
Total financial liabilities	**13,482**	**19,885**	**72,319**	**140,233**	**11,048**	**2,249,305**	**2,506,272**
Net position as at 31 December 2017	**99,611**	**328,975**	**9,914**	**229,654**	**(7,056)**	**(251,637)**	
Net position as at 31 December 2016	**213,098**	**365,338**	**(76,106)**	**231,851**	**(5,686)**	**(311,510)**	

43 Interest in other entities

Non-controlling interest in subsidiaries

The following table summarises the information relating to the Group`s subsidiaries that have material non-controlling interests (NCI), before any intra-group eliminations as at 31 December 2018 and for the year ended:

`000 EUR	InCredit Group SIA	Other subsidiaries	Total
Percentage of Non-controlling interest	**49%**		
Loans and advances due from customers	49,257		
Loans and receivables due from banks	172		
Other assets	573		
Deposits and balances due to financial institutions	(35,026)		
Current accounts and deposits due to customers	(2,100)		
Other liabilities	(5,258)		
Net assets	**7,618**		
Carrying amount of Non-controlling interest	**3,733**	**412**	**4,145**
Revenue	12,723		
Profit after tax	4,966		
Total comprehensive income	**4,966**		
Profit/(loss) allocated to Non-controlling interest	**2,433**	**(265)**	**2,168**
Cash flows from operating activities	708		
Cash flows from investment activities	52		
Cash flows from financing activities, before dividends to NCI	349		
Cash flows from financing activities - cash dividends to NCI	(1,225)		
Net increase (decrease) in cash and cash equivalents	**(116)**		

43 Interest in other entities, continued

The following table summarises the information relating to each of the Group`s subsidiaries that has material non-controlling interests (NCI), before any intra-group eliminations as at 31 December 2017 and for the year ended:

`000 EUR	InCredit Group SIA	RAM Fund-Fixed income High Yield USD	RAM Fund-Fixed income Investment grade USD	Other subsidiaries	Total
Percentage of Non-controlling interest	**49%**	**40.50%**	**48.82%**		
Financial assets at fair value through profit or loss	-	4,996	7,244		
Loans and advances due from customers	43,236	-	-		
Loans and receivables due from banks	297	2,478	1,225		
Other assets	409	-	-		
Deposits and balances due to financial institutions	(33,295)	-	-		
Current accounts and deposits due to customers	(2,196)	-	-		
Other liabilities	(3,408)	(17)	(14)		
Net assets	**5,043**	**7,457**	**8,455**		
Carrying amount of Non-controlling interest	**2,471**	**3,020**	**4,128**	**647**	**10,266**
Revenue	9,717	450	399		
Profit after tax	2,722	350	309		
Total comprehensive income	**2,722**	**350**	**309**		
Profit/(loss) allocated to Non-controlling interest	**1,334**	**142**	**151**	**(70)**	**1,557**
Cash flows from operating activities	(4,166)	(542)	2,577		
Cash flows from investment activities	(108)	-	-		
Cash flows from financing activities, before dividends to NCI	5,532	162	(2,885)		
Cash flows from financing activities - cash dividends to NCI	(1,176)	-	-		
Net increase (decrease) in cash and cash equivalents	**82**	**(380)**	**(308)**		

43 Interest in other entities, continued

The Group is holding units of investment funds for which it acts as asset management company, i.e. has power over individual investment decisions in line with investment strategy published in the prospectus. The Group is obtaining fixed fee for asset management and custodian services. As at 31 December 2018 the Group evaluated that it has control over two investment funds (31 December 2017 over four investment funds) and the funds are consolidated.

44 Disposal of subsidiaries

The disposal of the subsidiaries in 2018 had the following effect on the Group`s assets and liabilities at the date of disposal:

`000 EUR	TC Gaiļezers SIA	Hotel Jūrnieks SIA	Cabinet Holding SIA	Total
Disposed shares %	**100%**	**100%**	**100%**	
Assets				
Loans and receivables due from banks	74	-	4	**78**
Property and equipment	-	1	-	**1**
Investment property	-	1,105	-	**1,105**
Intangible assets	-	-	-	**-**
Other assets	60	104	2	**166**
Current tax asset	13	-	-	**13**
Liabilities				
Deposits and balances due to financial institutions	-	(1,667)	-	**(1,667)**
Current accounts and deposits due to customers	-	-	(50)	**(50)**
Other liabilities	(56)	(21)	(21)	**(98)**
Net identifiable assets and liabilities	**91**	**(478)**	**(65)**	**(452)**
Attributable to equity holders of the Bank	**91**	**(478)**	**(65)**	**(452)**
Interest retained	**-**	**-**	**3**	**3**
Consideration received	**47**	**2**	**-**	**49**

44 Disposal of subsidiaries, continued

The disposal of the subsidiaries in 2017 had the following effect on the Group`s assets and liabilities at the date of disposal:

`000 EUR	**Miera 30C SIA**	**Rietumu IT services SIA**	**Rietumu Transport un Logistics SIA**	**Ilūkstes siltums SIA**	**RB Namu serviss SIA**	**Total**
Disposed shares %	**100%**	**100%**	**100%**	**100%**	**100%**	
Assets						
Cash and due from central banks	-	-	-	5	-	**5**
Loans and receivables due from banks	24	691	3	11	11	**740**
Loans and receivables	-	-	-	14	-	**14**
Property and equipment	-	305	-	20	4	**329**
Intangible assets	-	835	-	-	-	**835**
Other assets	-	72	-	19	15	**106**
Current tax asset	1	-	-	-	-	**1**
Liabilities						
Current accounts and deposits due to customers	-	-	-	(2)	-	**(2)**
Other liabilities	-	(90)	-	(60)	(14)	**(164)**
Net identifiable assets and liabilities	**25**	**1,813**	**3**	**7**	**16**	**1,864**
Attributable to equity holders of the Bank	**25**	**1,813**	**3**	**7**	**16**	**1,864**
Consideration received	**25**	**300**	**3**	**190**	**3**	**521**

45 Acquisition of subsidiaries

In 2018 the Group acquired acquired the following subsidiaries:

	Cabinet Holding SIA
Date of acquisition	14.05.2018
Acquired shares %	100%

The acquisition of the subsidiaries had the following effect on the Group`s assets and liabilities at the date acquisition:

‘000 EUR	**Cabinet Holding SIA**
Assets	
Loans and advances due from customers	2
Current accounts and deposits due to customers	(37)
Other liabilities	(15)
Deferred tax liability	-
Net identifiable assets and liabilities	**(50)**
Net identifiable assets and liabilities attributable to equity holders of the bank	**(50)**
(Goodwill)/Negative goodwill	**(53)**
Consideration paid	**3**

Acquisition of business

On 14th of May 2018, the Group acquired the full control over a business combination Cabinet Holding SIA.

In 2017, no new subsidiaries were acquired.

46 Transactions with non-controlling interest without impact on control

No transactions with non-controlling interest without impact on control occurred in year 2018.

In October 2017, the Group acquired additional 33.11% interest in SBD SIA, increasing its ownership from 66.89% to 100%.

The result of the transaction is summarized below:

`000 EUR	SBD SIA	Total
Non-controlling interest purchased	**33.11%**	**33.11%**
Net assets at the date of the purchase	**62**	**62**
Consideration paid	**-**	**-**
Impact on individual items of equity		
Increase in retained earnings	21	21

47 Liquidation of CIF RB Opportunity Fund I

On 22nd of June 2017, the Bank and the Board of CIF RB Opportunity Fund I (the Fund) decided to liquidate the Fund (100% owned by the Bank). The decision was made to optimize the operations of the Group. The liquidation process was finished on 21st of December 2017. The liquidation had the following effect on the Bank`s assets and equity at the date of liquidation:

'000 EUR	
Assets	
Cash	16,696
Available-for-sale assets	(26,504)
Investments in subsidiaries	9,808
Equity	
Fair value reserve	(3,194)
Profit for the period	3,194

48 Going Concern assumption

Several major changes in the operating environment of Latvian and Baltic banks occurred during 2018 and early 2019:

- On 13 February 2018, the U.S. Department of the Treasury's Financial Crimes Enforcement Network (‘FinCEN’) issued a finding and notice of proposed rulemaking (‘NPRM’), pursuant to Section 311 of the USA PATRIOT Act, against one of the Latvia’s largest banks. On 19 February 2018, following an outflow of funds from that bank, the European Central Bank (ECB) instructed the local banking regulator to impose a moratorium on outgoing payments from that bank. On 24 February 2018, the process of effectively a wind up of the bank started.
- In response to these events, several amendments to Latvian legislation were adopted in 2018, which introduced significant restrictions on the risk profile of clients that banks may serve. Representatives of the Latvian government have publicly stated that the government’s goal is to reduce the share of non-residents among the Latvian bank customers to 5%.
- On 23 August 2018, report on the 5th round of the Council of Europe's Moneyval Committee on Mutual Evaluation of Latvia was officially published, evaluating national measures to prevent money laundering and terrorist financing. Based on the outcome of Moneyval’s evaluation procedures, Latvia has been subjected to enhanced supervision, and Latvia is required to submit a progress report within one year including an overview implementation status for the recommendations. Failure to implement these recommendations can lead to significant negative consequences for Latvia's access to international financial markets.
- In mid-2018 and early 2019, two large Scandinavian banks - Danske Bank and Swedbank - gained wide negative publicity in connection with suspected involvement in money laundering activities. Regulators in several countries have launched investigations into possible incompliances by Danske Bank in this area. On 19 February 2019, the Estonian Banking Supervision Institute, Finantsinspektsioon, issued an order to close the Danske Bank’s branch in Estonia. On the same day, Danske Bank announced the closure of its branches in the Baltic States and the Russian Federation.

The Bank’s response

These changes affected not only services to the existing customers of the Bank but also required review of potential target markets and customers of the Bank. Significant amendments to the Bank’s strategy were developed and implemented in year 2018. The most significant change was de-shelling that resulted in closing of more than 4 000 customer accounts comparing to 2017. As a result of such measures the share of high-risk customers decreased from 30% in 2017 to 3.1% by the end of 2018. Bank decided not to accept any new customers domiciled outside of EU or OECD.

These changes in the Bank’s business model demanded for a revised business plan. It was produced and presented to FCMC in October’18. The plan was approved by the Regulator and additional assistance was provided in order to implement it.

The plan had two major cornerstones – first of all in order to stabilize the funding base while walking away from Eastern customers it was decided to attract middle- and long-term deposits from EU residents. By using the solution provided by one of the most successful German fintech companies the Bank was able to tap into abundant liquidity of German savers thus creating predictable and reliable liability structure.

Having secured the resource base the Bank turned to lending as a key source of income that is contrary to transaction business that was paramount within the previous business model. The Bank sees itself as a more risk-averse market participant now. Significant capital base together with specific industry knowledge and flexibility of privately-owned enterprise gives the Bank the necessary edge when it comes to complicated deals like mezzanine lending or cross-border operations.

The Bank continues to hold strong liquidity position with the Liquidity coverage ratio (LCR) at the end of 2018 being 1290% with minimum requirement of 100% (according Regulation (EU) No 575/2013 Of The European Parliament And Of The Council). The fall of assets led to decrease in total risk exposure amount and change in capital ratio. The Capital ratio rose to 37.72% at the end of 2018 from 24.36% at the end of 2017.

The management of the Bank and the Group is continuously monitoring and assessing the market situation and potential impact of the above market developments on the Bank and the Group. Based on information available to the management at the date of these financial statements, the management is confident that the measures in place at the Bank at this moment are sufficient and appropriate to ensure further successful operations of the Bank and the Group. The Bank's management will continue working on the changes required by its new strategy and believes that upon approval of these financial statements, there are no circumstances that would threaten the continuation of the Bank’s or the Group’s business operations.