AS BlueOrange Bank

Group's Consolidated and Bank's Separate Annual Report for the year ended 31 December 2018

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

The Group consists of the Bank, which is Parent company of the Group and a number of subsidiaries. The business operations of the subsidiaries are not related to the functions of the Bank and they were set up to manage repossessed collaterals and real estate property.

In 2018, the Bank continued implement its new business model, development of the Bank's business technologies and new business lines in line with the new financial market requirements.

According to the audited data, the year 2018 was closed with a EUR 7.4 million (2017: 4.8 million EUR) profit. The Bank's net operating income during the reporting period amounted to EUR 31 million (2017: 36.9 million EUR). The Bank's equity reached EUR 66 million (2017: 60 million EUR), which is a 10% increase compared to the last year. At the end of 2018, the Bank's total assets (incl. assets under management) amounted to EUR 648 million (2017: 692 million EUR).

With the increasing deposit volume, the Bank's liquidity reached 101.1% (2017: 78.7 %) at the end of 2018. Other key financial performance indicators of the Bank were successful, as well — capital adequacy 19.8% (2017: 18.68 %), return on capital (ROE) 11.2% (2017: 8.09 %) and return on assets (ROA) 1.2% (2017: 0.75 %).

One of the Bank's main business priorities in 2018 was servicing and financing of companies and individuals in Latvia, which is evidenced by the increase in crediting volume of BlueOrange — the total amount of credit portfolio and issued loans reached EUR 264 million at the end of the year, which is 20% more than the last year. Of the total amount of loans, 73% were issued for the support of small and medium-sized enterprises, thus contributing to the growth of local companies, production volumes, export and the economy of Latvia as a whole. In total, in 2018, new loans were issued in the amount of EUR 153 million, with lending income increasing by 33%.

In the view of the changes in the financial market requirements and the introduction of the Bank's new business model, qualitative changes in the client base were achieved — over the past year the process of reducing the share of clients from high-risk countries was finalised, while the number of customers from Latvia, the Baltic States and Europe increased significantly, reaching 90% of the total number of customers. Over the past year, more than ten thousand companies and individuals became clients of the Bank.

In the last year, BlueOrange became the first *online* bank in Latvia, entitled to attract customers using remote customer identification tools. The new opportunities allowed the Bank to easily acquire and serve customers in remote areas of Latvia, as well as residents of Latvia in foreign countries, which was not possible before.

Moreover, the Bank as the first bank in Latvia installed five full-featured contactless card ATMs in 2018, highlighting yet another technology innovation in financial services industry.

Over the past year, the Bank's technological development has continued by expanding online banking functionality through the automation of internal business processes. To broaden its range of services by offering simple technological solutions for small and medium-sized enterprises, the Bank introduced e-invoicing, and is the first bank in Latvia to offer its customers such service capabilities.

The Bank's activities are constantly focused on reducing risks and raising banking security standards by improving internal control systems and processes in line with the changes in the customer base and changing regulatory requirements. By investing 600 thousand euro, two major IT projects were completed in 2018 — two automised systems were introduced in the area of operational compliance, providing a new approach to client risk assessment, thereby improving the internal control in compliance with the requirements of current international standards allowing even more effective monitoring of the Bank's client's transactions.

In expanding its range of services, the Bank opened a modern and advanced deposit-box storage for its customers at the end of 2018, which is the largest in the Baltic States, in terms of the number and size of deposit-boxes. Cooperation with Fintech companies also started in the past year and will be continued in 2019 with a view to extending crediting services as well to European countries.

Over the past year, all necessary preparations were made to enable the Bank to start offering online opening of customer accounts for trading in the CFD and Forex currency markets at the very beginning of 2019, thus the Bank was the first bank in Latvia to offer this service also to individuals outside Latvia — residents of the European Economic Area and Switzerland.

In 2019, the Bank will continue its ongoing support programme for small and medium-sized enterprises, at the same time developing as a financial-technology company that provides an extended scope of services to its clients, also online.

As at issuance of the annual report the Board proposes to distribute part of the profit amounting to EUR 3.8 million as dividends and the rest to keep as retained earnings to strengthen the capital position of the Group.

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

On behalf of the Bank,

Aleksandrs Peškovs
Chairman of the Council
31 May 2019

Dmitrijs Latiševs
Chairman of the Board

Council and Board of the Bank

Council as of 31 December 2018

Name, Surname	Position	Date of Appointment
Aleksandrs Peškovs	Chairman of the Council	22 June 2001
Sergejs Peškovs	Member of the Council	22 June 2001
	Deputy Chairman of the Council	25 July 2002
Andrejs Kočetkovs	Member of the Council	22 June 2001

Board as of 31 December 2018

Name, Surname	Position	Date of Appointment
Dmitrijs Latiševs	Member of the Board	1 July 2002
	Deputy Chairman of the Board	25 April 2003
	Chairman of the Board	27 April 2011
Inga Preimane	Member of the Board	11 January 2016
Jānis Dubrovskis	Member of the Board	24 July 2017
Igors Petrovs	Member of the Board	31 May 2018

On 22 January 2019, Jānis Dubrovskis was released from his duties of a Member of the Board.

On behalf of the Bank,

Aleksandrs Peškovs
Chairman of the Council

Dmitrijs Latiševs
Chairman of the Board

31 May 2019

Statement of the Management's responsibility

The Management of AS BlueOrange Bank (hereinafter – the "Bank") is responsible for the preparation of the consolidated financial statements of the Bank and its subsidiaries (hereinafter – the "Group") as well as for the preparation of the financial statements of the Bank.

The Group's consolidated and Bank's separate 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. Prudent and reasonable judgements and estimates have been made by the Management in the preparation of the Group's consolidated and Bank's separate financial statements.

The Group's consolidated and Bank's separate financial statements on pages 13 to 98 are prepared in accordance with the source documents and present fairly the financial position of the Group as at 31 December 2018 and the consolidated results of its operations and cash flows for the year then ended, as well as the financial position of the Bank as at 31 December 2018 and the results of its operations and cash flows for the year ended 31 December 2018.

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

On behalf of the Bank,

Aleksandrs Peškovs	Dmitrijs Latiševs
Chairman of the Council	*Chairman of the Board*

31 May 2019

Translation from Latvian original*

INDEPENDENT AUDITOR'S REPORT

To the Shareholder of JSC BlueOrange Bank

Report on the audit of the separate and consolidated financial statements

Our opinion

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

Our opinion is consistent with our additional report to the Audit Committee dated 31 May 2019.

What we have audited

The financial statements, which consist of the separate financial statements of the Bank and the consolidated financial statements of the Group (together "the financial statements") comprise:

- The Group's Consolidated and the Bank's Separate Income Statements for the year ended 31 December 2018;
- The Group's Consolidated and the Bank's Separate Statements of Other Comprehensive Income for the year ended 31 December 2018;
- The Group's Consolidated and the Bank's Separate Statements of Financial Position as at 31 December 2018;
- The Group's Consolidated and the Bank's Separate statement of changes in Shareholder's Equity for the year then ended;
- The Group's Consolidated and the Bank's Separate Statements of Cash Flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

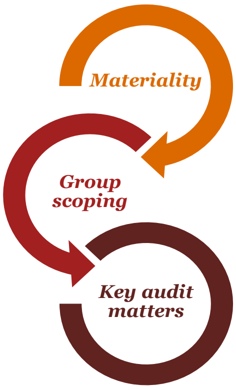
Independence

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 the ethical requirements of the Law on Audit Services that are relevant to our audit of the financial statements in the Republic of Latvia. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code and the ethical requirements of the Law on Audit Services.

We have not provided non-audit services to the Group and the Bank in the period from 1 January 2018 to 31 December 2018.

Our audit approach

Overview



- Overall Bank materiality: EUR 630 thousand
- Overall Group materiality: EUR 630 thousand

- We have audited the separate financial statements of the Bank.
- We have performed selected audit procedures over the significant balances and transactions of other subsidiaries.
- Our audit scope covered approximately 100% of the Group's revenues and 98% of the Group's total assets.

- Expected credit losses on loans (Group and Bank)
- Implementation of new standard IFRS 9 for classification & measurement of financial assets (Group and Bank)

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Bank and Group materiality separately for the separate and consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall materiality	Overall materiality applied to the Bank was EUR 630 thousand and to the Group was EUR 630 thousand.
How we determined it	1% of Group's net assets at 31 December 2018.
Rationale for the materiality benchmark applied	We chose net assets as the benchmark because net assets, in our view, is the benchmark which is of primary focus by the users of the financial statements. We chose 1%, which, based on our judgment, is within the range of acceptable quantitative materiality thresholds.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above EUR 66 thousand for Bank and EUR 63 thousand for Group, as well as the misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

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Key audit matters

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

Key audit matter	*How our audit addressed the key audit matter*
Expected credit losses on loans (Group and Bank) Refer to Note 20 to the consolidated financial statements on pages 59 - 65. We focused on this area because management has adopted IFRS 9 "Financial instruments" in 2018 and implemented expected credit loss (ECL) model for loans impairment losses. Management makes complex and subjective judgements over the estimation of the ECL. The key features of the ECL model include classification of loans to 3 stages, assessment of credit risk parameters and application of forward looking information. The amount of ECL for the Group's and Bank's loans is based on the model calculations taking into consideration the exposure at default, probability of default, changes in customer credit rating, other known risk factors impacting stage of each exposure, and taking into account estimated future cash flows from the loan repayments or sale of collateral (loss given default), and ECL adjustments by expected impact of future macroeconomic scenarios. For all loans in Stage 1 and 2 and insignificant loans in Stage 3 the expected credit losses are calculated using the ECL model, while for significant exposures in Stage 3 an expert credit judgement is applied to determine if the ECL calculated in accordance with the model needs to be adjusted. IFRS 9 adoption as at 1 January 2018 resulted in decrease of the Group's and Bank's equity by EUR 1,47 million due to remeasurements of loans. Net charges for expected credit losses for the year ended 31 December 2018 amounted EUR 1,4 million for the Group and Bank (refer to Note 20).	We assessed whether the Group's accounting policies in relation to the ECL of loans to customers are in compliance with IFRS 9 by assessing each significant model component: exposure at default, probability of default and loss given default, definitions of default and significant increase in credit risk, use of macroeconomic scenarios. We assessed the design and operating effectiveness of the controls over relevant loan data and ECL calculations. These controls included controls over authorization for loan origination, recording of loans data in the system, the non-retail loans credit file periodic review and related credit rating assessment, a timely transfer into overdue accounts and calculation on overdue days , appropriate classification into individual or collective assessment, staging assessment. We also reconciled of the source data used in the calculation PD. Further, on a sample basis we performed detailed testing over reliability of loan data, including contract dates, interest rates, collateral values and types, performing/ non-performing status and other inputs used in ECL calculation. For a sample of loans we evaluated reasonableness of assumptions made by credit expert in scenarios for individually assessed loans to legal entities. We have verified the rationale of these adjustments and also verified the reasonableness of the values of collaterals used in the assessment of the adjustments. On a sample basis we tested the collectively assessed credit loss allowance for loans to customers. We analyzed PD and LGD applied by the Bank. We recalculated the final credit loss allowance for loans and advances to legal entities assessed on collective basis. Based on available evidence we found the management assumptions and the ECL calculation methods to be reasonable.
Implementation of new standard IFRS 9 for classification & measurement of financial assets (Group and Bank) Financial assets represent the vast majority of	We assessed accounting policy of the Bank regarding classification and measurement of financial assets for

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the assets of the Group and the Bank. IFRS 9 introduced a principle based classification model, which considers both the financial characteristics of each financial instrument and the business model under which the asset has been acquired and is held. Whilst the changes in classification and measurement of financial liabilities are insignificant, for financial assets it represents a substantive change that resulted in reclassifications into three new categories: fair value through profit and loss (FVPL), fair value through other comprehensive income (FVOCI), and amortised cost (AC). Considering the new two-step classification model and new rules, the reclassifications represent a complex financial reporting area.

compliance with the requirements of International Financial Reporting Standards. We focused both on the financial characteristics and on the business model applicable for all groups of financial assets.
Since all financial assets that do not meet the characteristic of producing cash-flows solely from payment of principle and interest (SPPI) need to be measured at FVPL, we firstly reviewed the Bank's methodology used for SPPI determination. We examined parameters for all main types of financial instruments. We also obtained understanding over Bank's processes and tested implementation of controls related to the approvals of all new financial instruments. For instruments, which passed the SPPI test, the business model “held to collect” triggers the AC classification, “held to collect or sell” triggers the FVOCI classification and “held to sell” triggers the FVPL classification. We discussed the applied business models with the accounting experts of the Bank and compared them to the Bank strategies.

We also focused our attention on the disclosure of the new models and compared the information provided with the requirements of the new standards.

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

For audit of the consolidation we performed a full audit of the Bank covering 100% of the Group's revenues and 97.6% of the Group's total assets. Additionally, we tested investments in associates thus increasing the share of total audited assets of the Group to 97,7%.

Audit work in relation to the consolidated and separate financial statements was performed by the Group engagement team, no component auditors were involved.

Reporting on other information including the Report of Council and Management Board

Management is responsible for the other information, which we obtained prior to the date of this auditor's report, and which comprises:

- the Report of Council and Management board, as set out on pages 2 to 3 of the accompanying Annual Report;
- information on Council and Board of the Bank, as set out on page 4 of the accompanying Annual Report;

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- statement of Management's responsibility, as set out on page 5 of the accompanying Annual Report, and;

but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information identified above.

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

With respect to the Report of Council and Management board, we also performed the procedures required by Law on Audit Services. Those procedures include considering whether the Report of Council and Management board is prepared in accordance with the requirements of the applicable legislation.

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

- the information given in the other information identified above for the financial year for which the financial statements are prepared is consistent with the financial statements;

- the Report of Council and Management board has been prepared in accordance with the requirements of the Law on Annual Reports and Consolidated Annual Reports of the Republic of Latvia; and

In addition, in light of the knowledge and understanding of the Bank and the Group and their environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Report of Council and Management board or other information that we obtained prior to the date of this auditor's report. We have nothing to report in this respect.

Responsibilities of management and those charged with governance for the financial statements

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

In preparing the financial statements, management is responsible for assessing the Bank's 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 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 financial statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's 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 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 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 or the Group to cease to continue as a going concern.

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's 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.

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Report on other legal and regulatory requirements

Appointment

We were appointed as auditors of the Bank and the Group financial statements for the year ended 31 December 2018 on 23 October 2018. This is the first year of our appointment as auditors.

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

Ilandra Lejiņa
Certified auditor in charge
Certificate No. 168

Member of the Board

Riga, Latvia
31 May 2019

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Group's Consolidated and Bank's Separate Income Statements

	Note	2018		2017	
		Group	Bank	Group	Bank
		EUR'000	EUR'000	EUR'000	EUR'000
Interest income		12 710	12 710	11 242	11 242
Interest expenses		(6 146)	(6 146)	(3 835)	(3 835)
Net interest income	6	**6 564**	**6 564**	**7 407**	**7 407**
Fee and commission income		19 258	19 260	16 626	16 629
Fee and commission expense		(4 225)	(4 225)	(4 985)	(4 985)
Net fee and commission income	7	**15 033**	**15 035**	**11 641**	**11 644**
Net profit from trading and revaluation of financial instruments	8	2 276	2 276	473	473
Net foreign exchange income	9	5 473	5 473	7 885	7 886
Other operating income	10	1 703	1 561	772	712
Total operating income		**31 049**	**30 909**	**28 178**	**28 122**
Administrative expenses	11	(19 663)	(18 568)	(18 835)	(17 629)
Other operating expenses	12	(3 051)	(3 021)	(1 776)	(2 051)
Credit loss	19,20,21	(1 750)	(1 749)	1 109	1 109
Net impairment charge	13	(196)	(196)	(2 994)	(3 495)
Total operating expenses		**(24 660)**	**(23 534)**	**(22 496)**	**(22 066)**
Profit before taxation		**6 389**	**7 375**	**5 682**	**6 056**
Corporate income tax	14	(9)	(8)	(1 231)	(1 225)
Net profit for the year		**6 380**	**7 367**	**4 451**	**4 831**
Attributable to:					
Equity holders of the Bank		*6 380*	*7 367*	*4 442*	*4 831*
Non-controlling interest	22	-	-	*9*	-

The accompanying notes on pages 20 to 98 form an integral part of these financial statements.

The Council and the Board of the Bank approved the issue of these financial statements as presented from page 13 to 98 on 31 May 2019 The financial statements are signed on behalf of the Council and the Board of the Bank by:

Aleksandrs Peškovs
Chairman of the Council

Dmitrijs Latiševs
Chairman of the Board

31 May 2019

Group's Consolidated and Bank's Separate Statements of Other Comprehensive Income

	2018		2017	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Net profit for the year	**6 380**	**7 367**	**4 451**	**4 831**
Other comprehensive income				
Items that may be reclassified to profit or loss				
Foreign exchange revaluation reserve	(1)	-	(1)	-
Revaluation reserve – available- for-sale financial assets (equity instruments)	-	-	174	174
Revaluation reserve – available- for-sale financial assets (debt instruments)	-	-	(51)	(51)
Revaluation reserve – FVOCI (debt instruments)	(180)	(180)	-	-
Total items that may be reclassified to profit or loss	**(181)**	**(180)**	**122**	**123**
Items that will not be reclassified to profit or loss				
Revaluation reserve – FVOCI (equity instruments)	239	239	-	-
Total items that will not be reclassified to profit or loss	**239**	**239**	**-**	**-**
Total comprehensive income	**6 438**	**7 426**	**4 573**	**4 954**
Attributable to:				
Equity holders of the Bank	*6 438*	*7 426*	*4 564*	*4 954*
Non-controlling interest	-	-	*9*	-

The accompanying notes on pages 20 to 98 form an integral part of these financial statements.

The Council and the Board of the Bank approve the issue of these financial statements as presented from page 13 to 98 on 31 May 2019. The financial statements are signed on behalf of the Council and the Board of the Bank by:

Aleksandrs Peškovs
Chairman of the Council

Dmitrijs Latiševs
Chairman of the Board

31 May 2019

Group's Consolidated and the Bank's Separate Statements of Financial Position

Assets	Note	2018 Group EUR'000	2018 Bank EUR'000	2017 Group EUR'000	2017 Bank EUR'000
Cash and demand deposits with central bank	15	78 815	78 814	233 803	233 803
Loans and receivables from banks	16	45 324	45 292	118 030	118 002
Demand deposits with credit institutions		*42 335*	*42 303*	*112 523*	*112 495*
Term deposits with credit institutions		-	-	*521*	*521*
Loans issued to credit institutions		*2 989*	*2 989*	*4 986*	*4 986*
Financial assets designated at fair value through profit or loss	18	-	-	397	397
Trading assets		17 869	17 869	8 372	8 372
Fixed income securities	17	*13 419*	*13 419*	*8 253*	*8 253*
Non fixed income securities		*4 432*	*4 432*	-	-
Derivatives	32	*18*	*18*	*119*	*119*
Investment securities	19,21	94 126	94 126	85 996	85 996
Fixed income securities		*93 278*	*93 278*	*85 195*	*85 195*
Non fixed income securities		*848*	*848*	*801*	*801*
Loans and receivables	20	193 686	193 686	161 000	161 000
Investments in associates	22	827	-	827	-
Investments in subsidiary undertakings	22	-	31 630	-	31 138
Investment property	23	2 788	1 355	2 788	1 355
Property and equipment	24	30 122	5 153	30 291	5 463
Intangible assets	25	1 189	1 189	1 322	1 321
Prepayments and accrued income		296	296	287	287
Other assets	26	9 605	9 565	13 681	13 544
Corporate income tax receivable		364	361	317	317
Total assets		**475 011**	**479 336**	**657 111**	**660 995**

Group's Consolidated and the Bank's Separate Statements of Financial Position

Liabilities and Equity	Note	2018		2017	
		Group	Bank	Group	Bank
		EUR'000	EUR'000	EUR'000	EUR'000
Due to credit institutions on demand	27	1 716	1 716	1 428	1 428
Derivatives	32	-	-	232	232
Financial liabilities carried at amortized cost		407 492	408 769	594 189	596 424
Deposits and balances due to financial institutions	28	*-*	*-*	*96*	*96*
Deposits	29	*382 339*	*383 616*	*564 506*	*566 741*
Deposits (subordinated)	29	*3 986*	*3 986*	*4 561*	*4 561*
Debt securities (subordinated)	30	*21 167*	*21 167*	*25 026*	*25 026*
Deferred income and accrued expenses		1 920	1 920	1 125	1 126
Provisions		200	200	-	-
Corporate income tax payable		-	-	5	-
Other liabilities	31	815	754	2 227	1 759
Total liabilities		**412 143**	**413 359**	**599 206**	**600 969**
Shareholders' equity					
Share capital	33	39 493	39 493	39 493	39 493
Statutory reserves	33	24	24	24	24
Revaluation reserve – AFS		-	-	143	143
Revaluation reserve – FVOCI		202	202	-	-
Other reserves	22, 33	(3 432)	(2 400)	(3 431)	(2 400)
Retained earnings		26 581	28 658	21 676	22 766
Total equity attributable to equity holders of the Bank		**62 868**	**65 977**	**57 905**	**60 026**
Total equity and liabilities		**475 011**	**479 336**	**657 111**	**660 995**
Contingent liabilities and commitments	35	73 366	73 372	66 189	66 201

The accompanying notes on pages 20 to 98 form an integral part of these financial statements.

The Council and the Board of the Bank approve the issue of these financial statements as presented from page 13 to 98 on 31 May 2019. The financial statements are signed on behalf of the Council and the Board of the Bank by:

Aleksandrs Peškovs	Dmitrijs Latiševs
Chairman of the Council	*Chairman of the Board*

31 May 2019

Group's Consolidated Statements of Changes in the Shareholders' Equity

	Note	Share capital	Statutory reserves	Revaluation reserve – AFS	Revaluation reserve – FVOCI	Other reserves	Retained earnings	Total equity attributable to equity holders of the parent	Non-controlling interest	Total equity
		EUR`000	EUR`000	EUR`000	EUR`000	EUR'000	EUR`000	EUR`000	EUR`000	EUR`000
Balance as at 1 January 2016		39 493	24	20	-	(2 417)	21 243	58 363	4 438	62 801
Comprehensive income for the reporting period:										
Revaluation reserve – financial assets		-	-	123	-	-	-	123	-	123
Foreign exchange revaluation reserve		-	-	-	-	(1)	-	(1)	-	(1)
Net profit for the period		-	-	-	-	-	4 442	4 442	9	4 451
Total comprehensive income for the reporting period		-	-	123	-	(1)	4 442	4 564	9	4 573
Transactions with shareholders recorded directly in equity:										
Adjustment of profit/(loss) of previous years		-	-	-	-	-	(9)	(9)	-	(9)
Acquisition of NCI without a change in control		-	-	-	-	(1 013)	-	(1 013)	(4 447)	(5 460)
Dividends paid	33	-	-	-	-	-	(4 000)	(4 000)	-	(4 000)
Balance as at 31 December 2017		39 493	24	143	-	(3 431)	21 676	57 905	-	57 905
Changes on initial application of IFRS 9		-	-	(143)	143	-	(1 475)	(1 475)	-	(1 475)
Restated balance as at 1 January 2018		39 493	24	-	143	(3 431)	20 201	56 430	-	56 430
Comprehensive income for the reporting period:										
Revaluation reserve – financial assets		-	-	-	59	-	-	59	-	59
Foreign exchange revaluation reserve		-	-	-	-	(1)	-	(1)	-	(1)
Net profit for the reporting period		-	-		-	-	6 380	6 380	-	6 380
Total comprehensive income for the reporting period		-	-		59	(1)	6 380	6 438	-	6 438
Balance as at 31 December 2018		39 493	24	-	202	(3 432)	26 581	62 868	-	62 868

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Chairman of the Council

Dmitrijs Latiševs
Chairman of the Board

31 May 2019

	Note	Share capital EUR'000	Statutory reserves EUR'000	Other reserves EUR'000	Revaluation reserve – AFS EUR'000	Revaluation reserve – FVOCI EUR'000	Retained Earnings EUR'000	Total capital and reserves EUR'000
Balance as at 1 January 2016		39 493	24	(2 400)	20	-	21 935	59 072
Comprehensive income for the reporting period:								
Revaluation reserve –financial assets		-	-	-	123	-	-	123
Net profit for the period		-	-	-	-	-	4 831	4 831
Total comprehensive income for the reporting period		-	-	-	123	-	4 831	4 954
Transactions with shareholders recorded directly in equity:								
Dividends paid		-	-	-	-	-	(4 000)	(4 000)
Balance at 31 December 2017		39 493	24	(2 400)	143	-	22 766	60 026
Changes on initial application of IFRS 9		-	-	-	(143)	143	(1 475)	(1 475)
Restated balance as at 1 January 2018		39 493	24	(2 400)	-	143	21 291	58 551
Comprehensive income for the reporting period:								
Revaluation reserve –financial assets		-	-	-	-	59	-	59
Net profit for the reporting period		-	-	-	-	-	7 367	7 367
Total comprehensive income for the reporting period		-	-	-	-	59	7 367	7 426
Balance as at 31 December 2018		39 493	24	(2 400)	-	202	28 658	65 977

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Chairman of the Council	*Chairman of the Board*

31 May 2019

Group's Consolidated and Bank's Separate Statements of Cash Flows

	Note	2018 Group EUR'000	2018 Bank EUR'000	2017 Group EUR'000	2017 Bank EUR'000
Cash flow from operating activities					
Profit before taxation		**6 389**	**7 375**	**5 682**	**6 056**
Adjustment of profit of previous years		-	-	(9)	-
Amortisation of intangible assets		376	375	328	327
Depreciation of property and equipment		1 763	506	479	338
Impairment of assets		1 945	1 945	1 885	2 386
Result from disposal of investment property		-	-	(72)	(73)
Increase in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations		**10 473**	**10 201**	**8 293**	**9 034**
(Increase) in loans and receivables		(35 393)	(35 393)	(44 659)	(44 659)
(Increase)/decrease in term deposits with banks		5 405	5 405	(5 405)	(5 405)
(Increase)/decrease in investment securities		(8 648)	(8 648)	65 599	65 599
(decrease) in trading financial assets		(9 497)	(9 497)	(5 327)	(5 327)
Increase/(decrease) in financial assets at fair value through profit or loss		397	397	(397)	(397)
(increase) in prepayments and accrued income		(9)	(9)	(66)	(66)
decrease in other assets		3 974	3 987	2 594	1 556
Increase/(decrease) in deposits and due to banks		(182 838)	(183 796)	6 321	6 095
Increase/(decrease) in held-for-trading financial liabilities		(232)	(232)	96	96
(decrease) in other liabilities and current tax liabilities		(1 244)	(838)	(923)	(1 191)
Increase in deferred income and accrued expenses		795	794	138	139
Net cash from/(used in) operating activities before tax and interest		**(216 817)**	**(217 629)**	**26 264**	**25 474**
Corporate income tax paid		(9)	(8)	(739)	(739)
Net cash from/(used in) operating activities		**(216 826)**	**(217 637)**	**25 525**	**24 735**
Cash flows from investment activities					
Purchase of fixed and intangible assets		(1 922)	(624)	(8 008)	(1 312)
Disposals of fixed and intangible assets		-	-	2	-
Disposal of investment property		-	-	400	400
Capital increase in investment in subsidiaries	22	-	(492)	-	(5 404)
Acquisition of subsidiaries, net of cash acquired	22	-	-	-	(489)
Net cash (used in) investing activities		**(1 922)**	**(1 116)**	**(7 606)**	**(6 805)**
Cash flows from financing activities					
Bonds issued	30	-	-	5 000	5 000
Bonds (repaid)		(3 829)	(3 829)	-	-
Acquisition of Non-controlling interests		-	-	(5 460)	(5 460)
Dividends paid	33	-	-	(4 000)	(4 000)
Net cash (used in) financing activities		**(3 829)**	**(3 829)**	**(4 460)**	**(4 460)**
Net changes in cash and cash equivalents		**(222 577)**	**(222 582)**	**13 459**	**13 470**
Cash and cash equivalents at the beginning of the reporting year		**345 000**	**344 972**	**331 541**	**331 502**
Cash and cash equivalents at the end of the reporting period	34	**122 423**	**122 390**	**345 000**	**344 972**
Interest received		12 746	12 746	12 619	12 619
Interest paid		(4 685)	(4 685)	(3 561)	(3 561)

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Chairman of the Council

Dmitrijs Latiševs
Chairman of the Board

31 May 2019

1. GENERAL INFORMATION

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

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

The sole shareholder of the Bank is a Joint Stock Company BBG that holds 100% of voting shares of the Bank. JSC BBG is a financial management company registered in Latvia and owned by four Latvian companies and two private individuals, none of the ultimate beneficial owners controls the Group as at 31 December 2018. The consolidated financial statements of the parent company AS BBG can be obtained from the Enterprise Register of Latvia

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

Name of the company	**Country of incorporation, address**	**Line of business**	**Holding 31.12.2018 , %**	**Holding 31.12.2017, %**
SIA BlueOrange International	M. Pils iela 13, Riga, Latvia,	Financial Services	100	100
SIA CityCap Service	Kr. Valdemara iela 149, Riga, Latvia	Real estate development	100	100
SIA Zapdvina Development	Kr. Valdemara iela 149, Riga, Latvia	Real estate development	100	100
Kamaly Development EOOD	Etiera k-s ½B – 18, Sveti Vlas, Burgas obl., Nesebier 8256, Bulgaria	Real estate development	100	100
UAB Kamaly Development	Klaipedos m. sav. Klaipedos m., Karklu g. 12, Lithuania	Management of collaterals overtaken by the bank	100	100
AS Pils Pakalpojumi	Smilšu iela, Riga, Latvia	Real estate development	100	61
Foxtran Management Ltd	Suite 102, Blake Building, Corner Eyre & Huston Str., Belize	Management of collaterals overtaken by the bank	100	100
Enarlia International Inc	Suite 102, Blake Building, Corner Eyre & Huston Str., Belize	Management of collaterals overtaken by the bank	100	100
SIA Jēkaba 2	Jēkaba iela, Riga, Latvia	Real estate development	100	100
BlueOrange- UK Limited	55 Park Lane - Suite 14, London W1 1NR, UK	Advisory services	100	100
Mateli Estate SIA	Kr. Valdemara 149-405, Riga, Latvia	Real estate development	100	100
Darzciems Entity SIA	Kr. Valdemara 149-405, Riga, Latvia	Real estate development	100	100
Mazirbe Estate SIA	Kr. Valdemara 149-405, Riga, Latvia	Real estate development	100	100
Lielie Zaķi SIA	Kr. Valdemara 149-405, Riga, Latvia	Real estate development	100	100
Pulkarne Entity SIA	Kr. Valdemara 149-405, Riga, Latvia	Real estate development	100	100

Investments in associated companies (the Bank and the Group):

Company	**Country of incorporation, address**	**Line of business**	**Holding (%) 31.12.2018**	**Holding (%) 31.12.2017**
AS Termo biznesa Centrs	Kr. Valdemāra iela 149, Riga, Latvia	Real estate development	26.15	26.15

2. BASIS OF PREPARATION

(1) Statement of Compliance

The financial statements of the Bank and the Group ("financial statements") have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, and regulations of the Financial and Capital Market Commission of the Republic of Latvia ('FCMC') in force as at 31 December 2018.

The Group's consolidated and the Bank's separate financial statements were authorized for issue by the Board on 31 May 2019. Shareholders have the power to reject the financial statements prepared and issued by the management and the right to request that new financial statements are issued.

(2) Functional and presentation currency

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

(3) Basis of measurement

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

- financial instruments at fair value through profit or loss are stated at fair value;
- derivative instruments are stated at fair value;
- financial instruments at FVOCI;
- repossessed collaterals are recognised at lower of its carrying amount and fair value less cost to sell .

3. SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been applied in the preparation of these Group's Consolidated and the Bank's Separate Financial Statements. The accounting principles have been consistently applied except for the changes in accounting policies described in Note 3.22.

(1) Basis for consolidation

(i) Subsidiaries

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

Investments in subsidiaries are carried in the Bank's separate financial statements at cost less impairment, if any.

(ii) Non-controlling interest

Non-controlling interest is measured as a proportion of fair value of net assets of the acquired subsidiary at the acquisition date. Changes in the Group's interest in a subsidiary other than resulting in the loss of control are recognised through equity (transactions with shareholders).

(iii) Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured by the Group at fair value when control is lost.

(iv) Interest in equity-accounted investees

The Group's interests in equity accounted investees comprise interests in associates.

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies.

Investments in associates are accounted for in the Group's consolidated financial statements using the equity method. They are initially recognised at cost, including transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI in equity-accounted investees, until the date on which significant influence or joint control ceases.

Investments in associates are carried in the Bank's separate financial statements at cost less impairment, if any.

(v) 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 equity-accounted investees are eliminated to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(vi) Common Group accounting policy

In the preparation of the consolidated financial statements, the financial statements of those Group entities that use different accounting policies are adjusted to conform with the Group's accounting policy.

(2) Foreign currency

Transactions in foreign currencies are translated into the respective functional currencies of the Group companies at the exchange rate at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in the income statement.

The exchange rates for the most significant currencies as set by the European Central Bank at reporting date are as follows:

	31 December 2018	31 December 2017
USD	1.145	1.1993

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into EUR at exchange rates set by the European Central Bank at the reporting date. The income and expenses of foreign operations are translated into the functional currency at the exchange rates of transaction dates.

Foreign currency differences are recognized in other comprehensive income and accumulated in the translation reserve, except to the extent that the translation difference is allocated to non-controlling interest.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in other comprehensive income and accumulated in the translation reserve.

(3) Financial instruments

a) *Classification*

Financial instruments are classified into the following categories (policy applicable from 1 January 2018):

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

— It is held within a business model whose objective is to hold assets to collect contractual cash flows, and

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

A financial asset is measured at FVOCI only if tit meets both of the following conditions and is not designated as at FVTPL:

— It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and

— Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at **FVTPL**. IFRS 9 also allows entities to irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or FVOCI as FVTPL, if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

On initial recognition, an equity instrument other than held for trading, may be irrevocably designated as FVOCI, with no subsequent reclassification of profit or losses to the income statement.

Financial liabilities carried at amortised cost represent financial liabilities of the Group and the Bank other than financial instruments designated at fair value through profit or loss. This category includes due to credit institutions on term, customer deposits, issued bonds and other financial liabilities.

Financial liabilities carried at amortized cost are initially measured at fair value less directly attributable transaction costs and are subsequently remeasured to amortized cost using the effective interest rate.

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 portfolio level because this best reflects the way the business is managed and information is provided to management. The information that is considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice, including whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of assets;

- how the performance of the portfolio is evaluated and reported to the Bank's and the Group's management;

- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's and the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

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.

SPPI assessment

Classification for debt instruments is driven by the group business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect cash flows and sells assets it may be classified as FVOCI.

Making SPPI assessment, the Group and the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial instruments are classified into the following categories (policy applicable before 1 January 2018):

Financial instruments at fair value through profit or loss are held-for-trading financial instruments and financial assets and liabilities that the Group and the Bank initially defines as assets and liabilities designated at fair value through profit or loss.

A financial instrument is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

Derivatives are also categorized as held for trading unless they are designated as a hedging instrument for hedge accounting purposes.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group and the Bank has the positive intention and ability to hold to maturity, and which are not designated at fair value through profit or loss, available for sale, or loans and receivables. Held-to-maturity financial instruments include certain debt securities.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than (a) those that the Group or the Bank intends to sell immediately or in the short-term, (b) those that the Group or the Bank upon initial recognition designates as at the fair value through profit or loss or as available for sale; or (c) those for which the holder may not recover substantially all of its initial investments, other than because of credit deterioration. Loans and receivables include amounts due from credit institutions on term, loans and receivables from customers and other financial assets which comply with these classification criteria. Loans and receivables are accounted for at amortized cost using the effective interest method. Certain expenses, such as legal fees or sales commissions for employees acting as agents or other expenses that are incurred in securing a loan are treated as part of the cost of the transaction.

Available-for-sale financial assets are financial assets classified at inception as available for sale or assets other than classified as financial assets at fair value through profit and loss or held to maturity or loans and receivables. Available for sale instruments include short term investments and certain debt and equity securities. Generally, this category is assigned by the Bank and the Group to financial assets that are held for an indeterminate period of time and may be sold based on liquidity or interest rate needs, or as a result of changes in exchange rates and share prices.

Financial liabilities carried at amortised cost represent financial liabilities of the Group and the Bank other than financial instruments designated at fair value through profit or loss. This category includes due to credit institutions on term, customer deposits, issued bonds and other financial liabilities.

Financial liabilities carried at amortized cost are initially measured at fair value less directly attributable transaction costs and are subsequently remeasured to amortized cost using the effective interest rate.

Subordinated deposits have a fixed term of at least five years from the date of placement and they are repayable before maturity only in the event of termination of the Bank's operations or the Bank's bankruptcy and such deposits rank before shareholders' claims. Subordinated debts are repayable before maturity only in the event of termination of the Bank's operations, or the Bank's bankruptcy.

b) Recognition

The Group and the Bank initially recognize loans and advances, deposits, debt securities issued and subordinated liabilities on the date at which they are originated. Regular way purchases and sales of financial assets are recognized on the settlement date at which the Group and the Bank commits to purchase or sell the asset. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognized on the trade date at which the Group and the Bank becomes a party to the contractual provisions of the instrument.

c) Measurement

A financial asset or financial liability is initially measured at fair value plus (for a financial asset or liability other than measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition of the financial asset or liability, in the case of a financial asset or liability other than measured at fair value through profit or loss.

A financial asset or financial liability is initially measured at fair value plus (for a financial asset or liability other than measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition of the financial asset or liability, in the case of a financial asset or liability other than measured at fair value through profit or loss.

Subsequent to initial recognition, all financial assets and liabilities measured at fair value through profit or loss and all financial assets measured at FVOCI (available for sale financial assets - policy applicable before 1 January 2018) are measured at fair value.

All financial liabilities other than those measured at fair value through profit or loss and financial asset s other than those measured at FVTPL or FVOCIare measured at amortized cost using the effective interest rate method.

Profit or loss arising from changes in the fair value of financial instruments measured at fair value through profit or loss are recognized in the income statement.

d) Amortized cost measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method, minus any reduction for impairment.

The effective interest rate is a method of calculating the amortized cost of a financial asset or liability, which is based on the recognition of interest income and expenses over a specific period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the management estimates cash flows considering all contractual terms of the financial instrument but does not consider future losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

e) Derecognition

A financial asset (or, where applicable a part of a financial asset or a part of a group of similar financial assets) **is derecognised** when:

- the rights to receive cash flows from the asset have expired; or

- the Group and the Bank have transferred the rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but have assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and

- the Group and the Bank either (a) have transferred substantially all the risks and rewards of the asset, or (b) have neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control of the asset.

When the Group and the Bank has transferred the rights to receive cash flows from an asset or has entered into a pass-through arrangement and have neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's and the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group and the Bank could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's and the Bank's continuing involvement is the amount of the transferred asset that the Group and the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's and the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial assets – write-off. Financial assets are written-off, in whole or in part, when the Group exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a dercognition event. The Group may write-off financial assets that are still subject to enforcement activity when the Group seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

Financial assets – modification. The Group sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Group assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: any new contractual terms that substantially affect the risk profile of the asset (eg profit share or equity-based return), significant change in interest rate, change in the currency denomination, new collateral or credit enhancement that significantly affects the credit risk associated with the asset or a significant extension of a loan when the borrower is not in financial difficulties.

If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Group derecognises the original financial asset and recognises a new asset at its fair value. The date of renegotiation is considered to be the date of initial recognition for subsequent impairment calculation purposes, including determining whether a SICR has occurred. The Group also assesses whether the new loan or debt instrument meets the SPPI criterion. Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss, unless the substance of the difference is attributed to a capital transaction with owners.

In a situation where the renegotiation was driven by financial difficulties of the counterparty and inability to make the originally agreed payments, the Group compares the original and revised expected cash flows to assets whether the risks and rewards of the asset are substantially different as a result of the contractual modification. If the risks and rewards do not change, the modified asset is not substantially different from the original asset and the modification does not result in derecognition. The Group recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets), and recognises a modification gain or loss in profit or loss.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires

When the contractual cash flows of a financial assets are substantially modified, such a modification is treated as a derecognition of the original assets and the recognition of a new financial asset, and the difference in respective carrying amounts is recognised in the income statement. In the case of financial asset modification, which does not lead to derecognition, the Group and the Bank recalculates the gross carrying amount of the financial asset and recognises a modification gain or loss.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or when the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

f) Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Group and the Bank have a legal right to set off the amounts and intend either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the trading activity.

(4) Identification and measurement of impairment of financial assets

Identification and measurement of impairment (policy applicable from 1 January 2018):

IFRS 9 fundamentally changed the credit loss recognition methodology. The standard replaced IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. The Group and the Bank are required to recognize an allowance for expected losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts.

IFRS 9 requires a loss allowance to be recognized at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date.

The Bank and the Group recognize loss allowances at an amount equal to lifetime ECLs (Stage 2 and Stage 3 instruments), except financial instruments for which credit risk has not increased significantly since initial recognition, for which the amount recognized will be the 12-month ECLs (Stage 1 instruments).

Accordingly, the Bank and the Group have established a policy to perform an assessment at the end of each reporting period as to whether a given asset's credit risk has increased significantly since initial recognition. When determining whether the credit risk on a financial instrument has increased significantly since initial recognition, the Bank and the Group consider reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Bank's and the Group's historical experience and forward-looking information. The Bank and the Group primarily identify whether a significant increase in credit risk has occurred for an exposure by comparing the remaining lifetime probability of default (PD) as at the reporting date, with the remaining lifetime PD for this point in time that was estimated on initial recognition of the exposure.

Significant assets are tested for impairment on an individual basis, while for insignificant assets a collective assessment is performed. The collective assessment is based on probabilities of default (PD) obtained from the statistical data for the different type of loans and borrowers, adjusted by several macro factors in order to include forward-looking information. For the individual assessement the Bank and the Group estimate ECLs based on a probability-weighted estimate of the present value of all cash shortfalls over the remaining expected life of the financial asset, i.e. the difference between: the contractual cash flows that are due to the Bank and the Group under the contract, and the cash flows that they expect to receive, discounted at the effective interest rate of the loan.

The Bank and the Group have grouped their loans into Stage 1, Stage 2 and Stage 3, based on the applied impairment methodology, as described below:

— Stage 1 – Performing loans: when loans are first recognized, the Bank and the Group recognize an allowance based on twelve months expected credit losses.

— Stage 2 – Loans with a significant increase in credit risk: when a loan shows a significant increase in credit risk since initial recognition, the Bank and the Group recognize an allowance for the lifetime expected credit loss.

In addition, a significant increase in credit risk is assumed to have taken place, if an alarm signal is reported concerning the loan that indicates a significant increase in credit risk, the Bank and the Group expect to grant the borrower forbearance or when forbearance measures have already taken place, or the facility is included in watch list , and if the borrower falls more than 30 days past due in making its contractual payments

— Stage 3 – Impaired loans: Financial assets are recognized in Stage 3 when there is objective evidence that the loan is impaired. This category includes non-performing loans (also defaulted) and loans in the process of recovery. A loan is considered as defaulted, if it is clear that borrower will not be able to fulfil his obligations to the Bank without any additional measures like realisation of collateral, or if the borrower falls more than 90 days past due in making its contractual payments. The lifetime expected credit losses are recognized for these loans and in addition, the Bank and the Group accrue interest income on the amortised cost of the loan net of allowances.

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

For financial guarantee contracts, the Bank and the Group estimate their lifetime ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that is incurred less any amounts that the guarantor expect to recover from the holder, the debtor or any other party. For other off-balance sheet loan commitments (credit lines, overdrafts) ECL is estimated similarly to on-balance sheet instruments, applying the certain conversion factor, which is calculated based on historical data of usage of such facilities.

Limitation of estimation techniques

The models applied by the Bank and the Group may not always capture all characteristics of the market at a point in time as they cannot be recalibrated at the same pace as changes in market conditions. Interim adjustments are expected to be needed until the base models are updated. Although the Bank and the Group use data that are as current as possible, models used to calculate ECLs are be based on data that are one month in arrears and adjustments will be made for significant events occurring prior to the reporting date.

Identification and measurement of impairment (policy applicable before 1 January 2018):

At each reporting date the Group and the Bank assess whether there is objective evidence that the financial assets other than carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the impairment event has an impact on the future cash flows of the asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group and the Bank on terms that the Group and the Bank 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 is objective evidence of impairment.

The Group and Bank consider evidence of impairment for loans and advances and held-to-maturity investment securities at specific asset level. All loans and receivables from customers and held-to-maturity investment securities are assessed for specific impairment. Accordingly, the Bank does not set aside a collective impairment allowance on loans and receivables due from customers and held-to-maturity investment securities. The Group and the Bank believe that credit risk arising from these financial assets is covered by individual assessment.

Loans are stated at the amount of the principal outstanding, less any impairment allowances. Impairment losses and recoveries are recognized monthly based on regular loan reviews. Allowances during the period are recognized in the income statement.

Impairment losses on assets carried at amortized cost are 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 are recognized in the income statement and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognized through the unwinding of the discount. If an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale assets are recognized by transferring the cumulative loss that has been recognized in equity through the statement of other comprehensive income to the income statement. The cumulative loss that is removed from equity and recognized in the income statement is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in the income statement. Changes in impairment allowance attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available for sale bond increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in income statement, the impairment loss is reversed, with the amount of the reversal recognised in income statement. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is not reversed through the income statement and is recognized directly in other comprehensive income.

(5) Fair value measurement

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

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

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

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

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

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

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

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

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

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

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

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

The Group and the Bank recognize transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. The Group and the Bank recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred. For further analysis of the basis for fair value refer to Note 45.

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

Due from other credit institutions

Policy applicable from 1 January 2018:

Demand deposits with central banks, and placements with credit institutions are classified as financial assets measured at amortised cost, provided that the following criteria are met:

- they are held within the business model, which aim is achieved by collecting contractual cash flows ("Held to collect" business model);

- their contractual cash flows represent solely payments of principal and interest on outstanding principal
- the Group does not designate them on initial recognition to fair value through profit or loss measurement option

Policy applicable before 1 January 2018:
Demand deposits with central banks, and placements with credit institutions are classified as loans and receivables

Loans

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

Shares and other non-fixed income securities

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

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

Derivatives

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

Liabilities to other credit institutions and customers

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

(6) Derivatives

Derivatives include foreign currency swaps and forwards. As at 31 December 2018 and 2017 all derivatives of the Group and the Bank were classified as financial instruments held for trading.

Derivatives are initially recognized 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.

Changes in the fair value of derivatives are recognised immediately in the income statement.

Although the Group and the Bank trades in derivative instruments for risk hedging purposes, the Group and the Bank does not apply hedge accounting.

(7) Repo transactions

Repo transactions are recognized as financing transactions. When the Bank or the Group is the seller of securities, securities continue to be recognized on the statement of financial position. Proceeds from the sale are recognized as a liability to the purchaser of the securities. When the Bank or the Group is the purchaser of securities, the purchased securities are not recognized in the statement of financial position. The amount paid for securities is recognized as a loan provided to the seller. The Group is involved in two types of such transactions – classic *repo* and *buy/sellback* transactions. The result of *repo* and *buy/sellback* transactions is recognized in the income statement on an accrual basis as interest income or expense.

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.

(8) 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, use in the production or supply of goods or services or for administrative purposes.

If the use of the property has been changed, investment properties are reclassified to property and equipment.

Investment property is initially measured at cost. Subsequently investment property is carried at its cost less any accumulated depreciation and any accumulated impairment losses. The useful life of investment property has been estimated at 20 years with the annual depreciation rate of 5%.

(9) Repossessed assets

In the normal course of business the Group and the Bank occasionally take title to property and other assets that originally were pledged as security for a loan. 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 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 assets classified as held for sale.

(10) Property and equipment

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

Current repair and maintenance costs are charged to the income statement as incurred. Capital repairs of property and equipment are added to property and equipment at cost, and its useful life is extended. Upon increasing the carrying amount of an item of property and equipment by expenses incurred to replace a material component, the replaced component is derecognised according to the derecognition requirements.

Items of property and equipment are derecognised when disposed or when no economic benefits are expected from the use or disposal of these items in the future. Gains or losses from derecognition of items of property and equipment are determined as the difference between the proceeds from disposal and the net carrying amount of the asset at the date of disposal, and are recognised in the income statement.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the individual assets. Depreciation is calculated from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. 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.

Depreciation methods, useful lives and residual amounts are reviewed at each reporting date.

Land and buildings

The cost of land and buildings disclosed in the financial statements is their assumed fair value measured at the date of acquisition. Subsequent measurement is carried out on a cost basis similar to other items of property and equipment. Land is not depreciated.

Construction in progress and capital repairs of real estate properties include costs directly attributable to construction in progress, including a corresponding proportion of direct overheads incurred during the establishment of the item of property and equipment. Depreciation of such assets is calculated from the date when the assets are put into operation.

Real estate properties are depreciated over the useful life which is determined to be 20 years.

Leasehold improvements

Depreciation of leasehold improvements is calculated over the remaining period of lease. Depreciation is calculated from the date when leasehold improvements are completed and ready for use.

Useful lives of vehicle and other property and equipment

The annual depreciation percentages are as follows:

Furniture and equipment	20%
Computers	25%
Mobile phones	50%
Others	20%
Vehicle	10%

(11) Intangible assets

Intangible assets, except goodwill, are identifiable non-monetary assets without physical substance (licenses, software that is separately identifiable from electronic devices and others) held for rendering of services or other purposes if it is expected that an economic benefit attributable to these assets will flow to the Group and the Bank.

Intangible assets are recorded at cost less accumulated amortization and amortized to the profit or loss in equal amounts over the useful life of the intangible asset. The annual amortization rate for software is 20%.

(12) Recognition of income and expenses

All significant categories of income and expenses, including interest income and expenses, are recognized on an accrual basis.

Interest income and expenses are recognized in the income statement based on the effective interest rate of the asset/liability. 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 (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group and Bank estimate future cash flows considering all contractual terms of the financial instruments, but not future credit losses.

Interest income and expenses include discount or premium amortization or other difference between the carrying amount of an interest bearing instrument and its value on the maturity date calculated based on the effective interest rate method.

Fee and commission income and expense are recognised on an accrual basis. Fees earned from the provision of services over a period of time are recognised over that service period. Loan origination fees together with the related direct costs, are deferred and amortised to interest income over the estimated life of the financial instrument using the effective interest rate method. Fee and commission income is recognised over time on a straight line basis as the services are rendered, when the customer simultaneously receives and consumes the benefits provided by the Group's and the Bank's performance. Such income includes fees for loan, lease or other credit enhancement contracts administration.

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realized and unrealized fair value changes, interest, dividends and foreign exchange differences.

(13) Off-balance sheet items

In the ordinary course of business, the Group and the Bank has been involved with off-balance sheet financial instruments consisting of commitments to extend loans and advances, financial guarantees and commercial letters of credit. Such financial instruments are recorded in the balance sheet when they are funded or related fees are incurred or received.

The Group and the Bank measures issued financial guarantees initially at their fair value, which is normally evidenced by the amount of fees received. This fee amount is then amortised on a straight-line basis over the life of the guarantee. At each balance sheet date, the guarantees are measured at the higher of (i) the unamortized balance of the amount at initial recognition and (ii) Expected credit loss.

Documentary and commercial letters of credit represent written undertakings by the Bank and the Group on behalf of a customer authorising a third party to draw drafts on the Bank and the Group up to a stipulated amount under specific terms and conditions.

(14) Taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the income statement except to the extent that it relates to the items recognized in other comprehensive income or directly in equity.

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

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 recognized 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 tax profit, 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 recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. 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 realized.

Changes to the Corporate Income Tax legislation effective since 1 January 2018

As of 1 January 2018, the new Law on Corporate Income Tax of the Republic of Latvia comes into effect, setting out a conceptually new regime for paying taxes. As of the date, the tax rate is 20% instead of the 15%, the taxation period is one month instead of a year and the taxable base includes:

- distributed profit (dividends calculated, payments equivalent to dividends, conditional dividends) and
- conditionally or theoretically distributed profit (non-operating expenses, doubtful debts, excessive interest payments, loans to related parties, decrease of income or excessive expenses which are incurred by entering into 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).

Deferred tax

According to the new Law on Enterprise Income Tax of the Republic of Latvia adopted on 28 July 2017, and effective from 1 January 2018, a 20% rate is only applied to distributed profits. Therefore, deferred tax assets and liabilities are recognisable at nil amount. This principle has been applied in the Group's and Bank's financial statements for the year ended 31 December 2018.

(15) Cash and cash equivalents

Cash and cash equivalents are cash on hand and amounts due from the Bank of Latvia and other credit institutions with initial maturities of up to 3 months, except liabilities towards the Bank of Latvia and other credit institutions with initial maturities of up to 3 months.

(16) Leases

Operating lease (the Group and the Bank as a lessee)

Payments made under operating leases are recognized in profit or loss statement on a straight-line basis over the term of the lease.

Operating lease (the Group as lessor)

An operating lease is a lease other than a finance lease. Assets leased out under an operating lease, are presented within property and equipment in the statement of financial position, less accumulated depreciation. They are depreciated over their expected useful lives on a basis consistent with similar owned Property and equipment. Income is recognised on a straight-line basis over each lease term.

(17) Provisions

Provisions are recognized in the statement of financial position when the Group and the Bank have a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

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.

(18) Short-term employee benefits

Short term employee benefits, including salaries and social security contributions, bonuses and vacation benefits are included in net operation expenses on an accrual bases. The Group and the Bank pay fixed security contributions to the State Social Fund on behalf of its employees during the employment period in accordance with local legal requirements and the Group and the Bank will have no obligations to pay further contributions relating to retired employees.

(19) Loans and advances to customers

ALoans and advances to customers are recorded when the Group advances money to purchase or originate a loan due from a customer. Based on the business model and the cash flow characteristics, the Group classifies loans and advances to customers into one of the following measurement categories: (i) AC: loans that are held for collection of contractual cash flows and those cash flows represent SPPI and loans that are not voluntarily designated at FVTPL, and (ii) FVTPL: loans that do not meet the SPPI test or other criteria for AC or FVOCI are measured at FVTPL.

(20) Assets under management

Assets managed by the Bank and the Group on behalf of customers are not treated as assets of the Bank and the Group. The Group and the Bank assume no risk in relation to these assets.

(21) *Investments in debt securities and Investments in equity securities*

Investment securities includes Investments in debt securities and Investments in equity securities.

Investments in debt securities. Based on the business model and the cash flow characteristics, the Group and the Bank classifies investments in debt securities as carried at AC, FVOCI or FVTPL. Debt securities are carried at AC if they are held for collection of contractual cash flows and where those cash flows represent SPPI, and if they are not voluntarily designated at FVTPL in order to significantly reduce an accounting mismatch.

Debt securities are carried at FVOCI if they are held for collection of contractual cash flows and for selling, where those cash flows represent SPPI, and if they are not designated at FVTPL. Interest income from these assets is calculated using the effective interest method and recognised in profit or loss. An impairment allowance estimated using the expected credit loss model is recognised in profit or loss for the year. All other changes in the carrying value are recognised in OCI. When the debt security is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from OCI to profit or loss.

Investments in debt securities are carried at FVTPL if they do not meet the criteria for AC or FVOCI. The Group and the Bank may also irrevocably designate investments in debt securities at FVTPL on initial recognition if applying this option significantly reduces an accounting mismatch between financial assets and liabilities being recognised or measured on different accounting bases.

Investments in equity securities. Financial assets that meet the definition of equity from the issuer's perspective, i.e. instruments that do not contain a contractual obligation to pay cash and that evidence a residual interest in the issuer's net assets, are considered as investments in equity securities by the Group.

Investments in equity securities are measured at FVTPL, except where the Group elects at initial recognition to irrevocably designate an equity investments at FVOCI. The Group's policy is to designate equity investments as FVOCI when those investments are held for strategic purposes other than solely to generate investment returns. When the FVOCI election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses and their reversals, if any, are not measured separately from other changes in fair value. Dividends continue to be recognised in profit or loss when the Group's right to receive payments is established except when they represent a recovery of an investment rather than a return on such investment.

(22) New standards and interpretations

The following new and amended IFRS and interpretations as adopted by EU became effective in 2018, and had impact on the operations of the Group and the Bank and these financial statements:

IFRS 15 Revenue from Contracts with Customers

The new standard introduces the core principle that revenue must be recognized when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognized, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognized if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalized and amortized over the period when the benefits of the contract are consumed. In accordance with the transition provisions in IFRS 15 the Group has elected simplified transition method with the effect of transition to be recognized as at 1 January 2018 in the consolidated financial statements for the year ending 31 December 2018 which is the first year when the Group applies IFRS 15.

Due to structure of the Group's revenues, implementation of IFRS 15 did not have any significant impact on the revenue recognition timing, transaction price and recognition of discounts, rebates and bonuses. The Group has assessed that relevant accounting policy change concerns recognition and measurement of costs incurred to secure contracts, which, if any, previously were expensed immediately, while under IFRS 15 will be capitalized and amortized over the period when the benefits of the contract are consumed. No such significant costs have been incurred during 2018.

The Group has not changed presentation of assets and liabilities related to contracts with customers and continues to present them as Trade and other receivables and Trade and other payables.

IFRS 9 Financial instruments

The Group and the Bank has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Group and the Bank did not early adopt any of IFRS 9 provision in previous periods.

As permitted by the transitional provisions of IFRS 9, the Group and the Bank elected not to restate comparative figures. Any adjustment to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings of the current period.

The adoption of IFRS 9 has resulted in changes in accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets.

Impairment of financial assets

IFRS 9 fundamentally changed the credit loss recognition methodology. The standard replaced IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. The Group and the Bank are required to recognize an allowance for expected losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset. Loss allowances based on lifetime expected credit losses are calculated also for purchased or originated credit-impaired assets (POCI) regardless of the changes in credit risk during the lifetime of an instrument. The Group and the Bank has established a policy to perform an assessment at the end of each reporting period of whether credit risk has increased significantly since initial recognition by considering the change in the risk of default occurring over the remaining life of the financial instrument.

The assets to test for impairment are divided into three groups depending on the stage of credit deterioration. Stage 1 includes assets where there has been no significant increase in credit risk or which are classified as low risk (rating categorised as "Investment grade" or higher), stage 2 includes assets where there has been a significant increase in credit risk and stage 3 includes defaulted assets. Significant assets in stage 3 are tested for impairment on an individual basis, while for insignificant assets a collective assessment is performed.

In stage 1, the allowances equal the 12 month expected credit loss. In stage 2 and 3, the allowances equal the lifetime expected credit losses.

The agreed IFRS 9 impairment methodology is documented in internal procedures, applied in daily life. In general, IFRS 9 impairment model results in earlier recognition of credit losses for the respective items and increases the amount of loss allowances recognised for these items. Moreover, the impairment calculations under IFRS 9 are more volatile and pro-cyclical than under IAS 39, mainly due to the significant subjectivity applied in the forward looking scenarios. IFRS 9 impairment requirements are applied retrospectively, with transition impact recognized in retained earnings.

Classification and measurement of financial instruments

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at January 2018 are compared as follows (reconciliation of statement of financial position balances from IAS 39 to IFRS 9):

Group Financial assets	Original measurement category under IAS 39	New measurement category under IFRS 9	IAS 39 carrying amount 31 December 2017 EUR'000	Remeasurements (ECL allowances)	New carrying amount under IFRS9 1 January 2018 EUR'000
Cash and balances with central banks	Loans and receivables	Amortised cost	233 803	-	233 803
Due from Banks and other credit institutions	Loans and receivables	Amortised cost	118 030	(7)	118 023
Financial assets designated at fair value through profit or loss	Financial assets at FVTPL	Financial assets at FVTPL	397	-	397
Trading assets					
Held-for-trading financial assets	Financial assets at FVTPL	Financial assets at FVTPL	8 372	-	8 372
Trading assets total			**8 372**	-	**8 372**
Investment securities					
Available for sale debt instruments	Available for sale	FVOCI	53 660	-	53 660
Available for sale equity instruments	Available for sale	FVOCI	801	-	801
Held- to- maturity financial assets	Held- to- maturity financial assets	Amortised cost	31 535	(126)	31 409
Investment securities total			**85 996**		**85 870**
Loans and advances to customers	Loans and receivables	Amortised cost	161 000	(1 255)	159 745
Off – balance liabilities			-	(87)	-
Changes on initial application of IFRS 9 (ECL) total			-	(1 475)	-

There were no changes for classification and measurement of financial liabilities.

Transition effect of IFRS9 implementation on equity is following:

	Note	Share capital	Statutory reserves	Revaluation reserve – AFS	Revaluation reserve – FVOCI	Other reserves	Retained earnings	Total equity attributable to equity holders of the parent	Non-controlling interest	Tot equi
		EUR`000	EUR`000	EUR`000	EUR`000	EUR'000	EUR`000	EUR`000	EUR`000	EUR`0
Balance as at 31 December 2017		**39 493**	**24**	**143**	**-**	**(3 431)**	**21 676**	**57 905**	**-**	**57 90**
Changes on initial application of IFRS 9		-	-	(143)	**143**	**-**	**(1 475)**	**(1 475)**	**-**	**(1 475**
Restated balance as at 1 January 2018		**39 493**	**24**	**-**	**143**	**(3 431)**	**20 201**	**56 430**	**-**	**56 43**

Notes to the Group's Consolidated and Bank's Separate Annual Report

Financial assets previously classified as available for sale have been reclassified to new category "Financial assets at fair value through other comprehensive income" under IFRS9 as their previous category under IAS39 weas "retired", with no changes to their measurement basis.

The following new and amended IFRS and interpretations as adopted by EU became effective in 2018, but had no significant impact on the operations of the Group and the Bank and these financial statements:

Amendments to IFRS 2 "Share-based Payment" (effective for annual periods beginning on or after 1 January 2018);
Amendments to IFRS 4 "Insurance Contracts" – Applying IFRS 9 "Financial statements" with IFRS 4 "Insurance contracts" (effective for annual periods beginning on or after 1 January 2018);
Amendments to IAS 40 "Investment Property" – Transfers of investment property (effective for annual periods beginning on or after 1 January 2018).
IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (effective for annual periods beginning on or after 1 January 2018).
Annual improvements to IFRS's 2016. The amendments include changes that affect 2 standards:

- IFRS 1 "First-time Adoption of International Financial Reporting Standards" (effective for annual periods beginning on or after 1 January 2018;
- IAS 28 "Investments in Associates and Joint Ventures" (effective for annual periods beginning on or after 1 January 2018).

Certain new standards and interpretations have been published that become effective for the accounting periods beginning on 1 January 2019 or later periods or are not yet endorsed by the EU:

IFRS 16 "Leases" (effective for annual periods beginning on or after 1 January 2019).

IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019) 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. The main impact the Bank's financial statements will come from the accounting of property leases. Such leasing contract will be accounted for on the balance sheet to a larger extent than today. On 1 January 2019 the bank recognized the right-of-use asset in the amount of 12 575 thousand EUR and lease liability in the amount of 12 575 thousand EUR, the Group recognized the right -of-use asset in the amount of 0 EUR and lease liability in the amount of 0 EUR. All property leases are intragroup agreements. A reconciliation of the operating lease commitments disclosed in Note 11 to this liability is as follows:

EUR	**31 December 2018 / 1 January 2019**
Total future minimum lease payments for non-cancellable operating leases (Note 11)	16 674
Effect of discounting to present value	(4 099)
Total lease liabilities	**12 575**

IFRIC 23 "Uncertainty over Income Tax Treatments" (effective for annual periods beginning on or after 1 January 2019).
Amendments to IFRS 9 "Financial instruments" – Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019).

Amendments to IAS 28 "Investments in Associates and Joint Ventures" – Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019, not yet endorsed in the EU).
Annual improvements to IFRS's 2017 (effective for annual periods beginning on or after 1 January 2019, not yet endorsed in the EU). The amendments include changes that affect 4 standards:

- IFRS 3 - "Business Combinations",
- IFRS 11 - "Joint Arrangements"
- IAS 12 - "Income taxes"
- IAS 23 - "Borrowing costs".

Plan Amendment, Curtailment or Settlement - Amendments to IAS 19 (effective for annual periods beginning on or after 1 January 2019, not yet endorsed in the EU).
Amendments to the Conceptual Framework for Financial Reporting (effective for annual periods beginning on or after 1 January 2020, not yet endorsed in the EU)
Amendments to IFRS 3 "Business Combinations" - Definition of a business (effective for annual periods beginning on or after 1 January 2020, not yet endorsed in the EU)
Amendments to IAS 1 "Presentation of Financial Statement" and IAS 8 "Accounting Polices, Changes in Accounting Estimating and Errors" - Definition of materiality (effective for annual periods beginning on or after 1 January 2020, not yet endorsed in the EU)
IFRS 17 "Insurance contracts" (effective for annual periods beginning on or after 1 January 2021, not yet endorsed in the EU).
Amendments to IFRS 10 "Consolidated financial statements" and IAS 28 "Investments in Associates and Joint Ventures" - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective date to be determined by the IASB, not yet endorsed in the EU)

The Group and the Bank has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Group and the Bank anticipates that the adoption of all other standards, revisions and interpretations will have no material impact on the financial statements of the Group and the Bank in the period of initial application except IFRS 16 as described above.

4. RISK MANAGEMENT

Within the framework of the internal control system, the Group and the Bank have developed and follow the risk management policy or fundamental principles approved by the Council, which are defined below:

1) general guidelines observed by the Group and the Bank in their activities aimed at decreasing all types of risks which may lead to losses;
2) description of risk transactions and other risks to which the Group and the Bank are exposed;
3) identification and management of the significant risks, including measurement, evaluation, control, and preparation of risk reports;
4) setting limits and restrictions for risk transactions together with regular control and development;
5) updating of normative documents regarding the risk management process according to market changes.

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

The development of the risk management system as described by the risk management policy is ensured by the Board of the Bank, the key decisions are made by the Investment Committee, Credit Committee, Non-financial Risk Management Committee and Customer Activity Compliance Control Committee according to their regulations. Risk Officer is responsible for the overall control and monitoring of the risk management system. Risk management on a daily basis is ensured by independent risk management departments. The risk management system is monitored by the Internal Audit Service on a regular basis is being continuously developed pursuant to the development of the Group and the Bank and activities on financial markets. Risk management is carried out both on the Group and Bank level.

(1) Credit risk

Credit risk is the risk of potential loss resulting from the non-fulfilment of contractual obligations by the Group's or the Bank's debtor or counterparty.

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

The management of risks related to ordinary loans involves the assessment of the potential borrower's credit standing that is performed by the Financial Analysis and Risk Management Department. Decisions on granting loans are made by the Credit Committee based on the above analysis and evaluation of collateral. Subsequent to loan granting, the Financial Analysis and Risk Management Department performs a regular analysis of the borrower's financial position, which enables the Bank and the Group to take prompt action in the case of deterioration of the borrower's financial position.

Credit risk that is related to inter-bank operations (or operations with financial institutions), including the credit risk related to inter-bank settlements and the Bank's investments in debt securities, is controlled by the Bank's Investment Committee that sets limits for transactions with each counter party and issuer.

The Bank and the Group monitor the concentration of significant assets, liabilities, as well as contingent liabilities and commitments' credit risk by geographical regions (i.e. countries, groups of countries, specific regions within the countries etc.), customer groups (i.e. central governments, local authorities, state enterprises, private enterprises, private individuals, etc.) and industries. Credit risks are presented in Note 43.

Impairment policies

An important part of the credit risk management is the estimation of provisions under IFRS9, which mostly is based on an assessment of credit risk of the financial instruments. In order to estimate ECL for debt securities, inter-bank deposits, letters of credit and financing against securities portfolio, the statistics of historical defaults and recovery rates by Moody's is used. Historical PD are applied accordingly to instruments' or issuers' external credit ratings. If an instrument has not any external rating, it is conservatively assumed to apply historical data which is relevant for the rating B-. For the instruments with prime grades, where historical PD is equal to 0%, it is assumed to take PD=0.005%. PD under these scenario ranges from 0.005% for prime grade instruments to 30% for instruments with the lowest ratings. Significant increase in credit risk for such instruments is recognized if the instrument is downgraded and PD corresponding to the rating increases by at least 100bp.

The approach for the ECL calculations for loan portfolio are based both on a collective and individual assessment. Criteria for the individual ECL assessment are the following:

- outstanding amount of a loan or total amount of loans granted to one specific customer group exceeds 3 mio. EUR;
- outstanding amount of a loan or total amount of loans granted to one specific customer group exceeds 0.5 mio. EUR and internal credit rating "Weak"/"Hard to estimate" is assigned or amount of potential losses estimated over 40%.

All other loans are assessed on a collective basis. Calculations of ECL in this case are based on different PD scenarios, taking into account forward looking macroeconomic information. Scenarios are based on Latvia's banking sector statistics about NPL, which is published by FCMC quarterly. From this statistics PD scenarios are developed for the following groups of customers and types of loans:

- Residential corporate loans;
- Non-residential loans;
- Residential private individuals: mortgages, card loans, consumer loans and other loans.

For stage 1 loans PD scenarios are adjusted by the following macroeconomic factors:

- for corporate loans annual change in real GDP is applied;
- for private individuals loans annual change in labour costs is applied.

For stage 2 loans it is used maximal PD in the period of 5 years, which itself contains a combination of macroeconomic factors typical for period of crisis and downgrade in economy, which allows to model PD for loans with significant increase in credit risk taking into account forward looking macroeconomic information. As a result, PD ranges from 1.7% to 13.5% for stage 1 loans, and from 8.5% to 30.3% for stage 2 loans. Scenarios are updated quarterly basing on updated statistics. For stage 3 loans PD equals to 100% is conservatively applied.

LGD is estimated based on collateral value, in case of overcollateralization LGD is assumed 0.5% of outstanding loan value.

For individually assessed loans at least two scenarios are developed: base case scenario and negative one. Depending on loan quality, history and all other necessary information, Bank's credit analysts estimate the probability for each scenario. ECL is calculated as a probability weighted difference between PV of cash flow under each scenario and PV of contractual cash flow.

Impairments for different financial instruments are recognized based on calculated ECL coefficients, and dynamically changes depending on outstanding amount of each instrument.

(2) Currency risk

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

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

An analysis of sensitivity of the Bank's net profit or loss for the year and comprehensive income to changes in the foreign currency exchange rates based on positions existing as at 31 December 2017 and 2016 and a simplified scenario of a 20% change in the USD to EUR exchange rates is as follows:

	2018		2017	
EUR'000	**Profit or loss**	**Shareholders' equity**	**Profit or loss**	**Shareholders' equity**
5% appreciation of USD against EUR	28	28	4	4
5% depreciation of USD against EUR	(28)	(28)	(4)	(4)

An analysis of the foreign currency position is presented in Note 41.

(3) Interest rate risk

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

For the purpose of controlling the interest rate risk, the Investment Committee performs regular analyses of assets and liabilities by maturity and type of interest. A change of interest rates by 100 basis points would result in the following changes in profit or loss and capital and reserves:

	2018 EUR'000	**2017 EUR'000**
EUR	1 041	2 403
USD	(49)	703

The interest repricing analysis is disclosed in Note 42.

(4) Debt securities price risk

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

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

EUR'000	2018 Profit or loss	2018 OCI	2017 Profit or loss	2017 OCI
10% increase in securities prices	1 342	3 450	825	5 366
10% decrease in securities prices	(1 342)	(3 450)	(825)	(5 366)

(5) Liquidity risk

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

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

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

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

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

Details of the reported ratio of net liquid assets versus current liabilities at the reporting date were as follows:

	2018	2017
As at 31 December	70.25%	74.90%

Net liquid assets include cash and cash equivalents, bonds and receivables from credit institutions net of current liabilities.

Liquidity Coverage Ratio (LCR) at the reporting date was as follows:

	2018	2017
As at 31 December	140.55%	230.69%

In accordance with 'Normative regulations on establishing a capital and liquidity adequacy assessment process' No. 199 of the FCMC, the Bank carries out the assessment of the liquidity reserve adequacy necessary for its operations within the liquidity adequacy assessment process (ILAAP). Liquidity analysis is presented in Note 40.

(6) Country risk

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

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

(7) Operational risk

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

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

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

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

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

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

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

(a) General Policy

The main goal of the Group's and the Bank's existing business model is to provide financial services to clients, thus involving the risk of money laundering and terrorism financing. Accordingly, the Group and the Bank devote significant efforts to ensuring compliance with the laws and regulations of the Republic of Latvia, recommendations of international organisations and the best-practice requirements on the prevention of money laundering and terrorism financing (hereinafter — AML/CFT).

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

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

Throughout the business relationship between the client and the Bank, the Bank continues to collect information on the client's economic activities and personal activities as far as it is necessary to meet the requirements laid down in the legislation. Client files are supplemented and updated on a regular basis with client due diligence results and supporting documents of transactions. In the opinion of the Bank's management, through gaining the understanding about the client business activities, monitoring their transactions and refraining from the execution of suspicious financial transactions, the Group and the Bank minimize the risk of being involved in potential money laundering and terrorism financing activities.

The Bank has approved the "Anti-Money Laundering and Counter Terrorism Financing Strategy", that sets the key principles of management of the money laundering and terrorism financing risk (hereinafter — ML/FT risk), as well as the risk identification, mitigation and control mechanisms. The ML/FT risk management strategy and the AML/CFT Policy are introduced through a set of internal documents, approved by the management, setting an appropriate organisational structure with three-tiers of principles of protection and control:

- Tier 1 controls — employees of structural units in charge of acquiring and servicing customers, ensuring the compliance with the Know Your Customer (KYC) principle both at the customer acceptance stage and during business relationship;
- Tier 2 controls — structural units in charge of client transaction monitoring and support, ensuring the analysis of client information and transactions of clients using certain tools, including automated ones, as well as monitoring and reporting on transactions to the Control Service.
- Tier 3 controls — implemented by the Internal Audit Service through independent and regular assessments of the AML/CFT risk management practice.

The Bank's internal control system in the area of AML/CFT is based on the principle of segregation of duties and responsibilities between the structural units and employees; it forms the basis for the decision-making, client activity monitoring and the activities of compliance units. The Client Activity Compliance Committee was established with the goal to ensure the organisation and control over general internal control measures in the area of client compliance.

(b) Implementation of the Action plan developed in response to the results of the review conducted in 2016 by the US consultants

Following the recommendations issued by the Financial and Capital Market Commission (hereinafter — FCMC) in 2016, the Bank entered into an agreement with a US advisory firm, Lewis Baach Kaufmann Middlemiss. The goal of the consultant was to evaluate the Bank's Anti Money Laundering and Counter Terrorism Financing and Sanctions Programme for compliance with the requirements of the US Bank Secrecy Act, the Patriot Act, the OFAC sanctions program and other applicable regulations or governing guidance, and to identify gaps and provide recommendations for improvement.

The evaluation was focused on the following key areas: management of the AML/CFT Program, allocation of responsibilities, internal controls, training measures, independent testing, as well as the information systems used for the AML/CFT procedures. A number of recommendations were included in the review report, based on which the Bank's Board approved the Action plan, which included measures aimed at improving the AML/CFT internal control system in the area of customer transaction monitoring, risk assessment and management, as well as the information systems.

The Bank started the implementation of the above Action plan during the first half of 2017 by introducing improvements in its internal control system and internal regulations, and providing additional training to the employees. Among other things, a decision was taken by the Board to introduce two new information systems for client transaction monitoring. Given the time-consuming nature of the implementation process, the introduction of the new client transaction monitoring systems was completed in 2018.

(c) The results of the review of the internal control system in the area of AML/CFT by the FCMC

In the second half of 2017, the FCMC conducted a full-scope AML/CFT review at the Bank in order to evaluate the Bank's compliance with the AML/CFT Law of the Republic of Latvia and to verify whether the Bank's practice is compliant with the FCMC regulations and requirements set by other supervisory authorities.

The key findings of the review by the FCMC relate to the following aspects of the internal control system in the area of AML/CFT, which require significant improvements:

- Gathering documents and information on the source of wealth of the client true beneficiaries and documenting the process of assessment;
- Client risk scoring;
- Client due diligence and documenting;

— Client transaction monitoring and documenting the decisions.

Following the receipt of the final opinion on the review from the FCMC, the Bank approved the Action plan for the elimination of the deficiencies. In 2018, the Bank finished the introduction of improvements to its client risk scoring system, and during the first half of 2018 a set of new client risk scoring factors were introduced in the client risk scoring system.

In 2018, the FCMC initiated administrative proceedings based on the results of the review. Under the administrative proceedings, the FCMC and the Bank signed an Administrative Agreement on 21 December 2018, which effectively terminated the proceedings initiated by the FCMC, the parties agreeing on implementation of a specific set of measures aimed at improving the Bank's system of internal control. By signing the Administrative Agreement, the Bank committed to introduce improvements within a specified period in its internal system of control over client transactions. The Bank agreed to pay a penalty of 1,247 thousand EUR to the State of Latvia. Entering into the Administrative Agreement represents the Bank's voluntary decision to seek settlement and undertake improvements aimed at eliminating deficiencies in the process of client due diligence and transaction monitoring.

(9) Management of compliance risk

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

The Bank has introduced the compliance control system, which is based on the principle that the function of compliance control in the Bank is provided by an organisationally separated unit — the Compliance Control Department, which acts under the direct authority of the Chief Compliance Officer.

The main goal of the Compliance Control Department is to ensure the identification, assessment and management of the compliance risk. The purpose of the compliance function is to ensure the identification, documentation, assessment of the compliance risk, by ensuring that prior to the initiation of any new activity, the compliance risk associated with the respective activity is identified, and the Bank's compliance with compliance laws, rules and standards is assessed.

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

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

In the view of the entry into force of the General Data Protection Regulation on 25 May 2018, the Bank's Compliance Control Department carried out a major audit on data processing to ensure that the Bank complies with the requirements of the General Data Protection Regulation.

(10) Capital management

The Bank's Capital Adequacy Management Policy requires maintenance of a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business as well as to ensure the Bank's capital at an adequate level for covering potential risks arising from current and future operations.

Under the capital requirements introduced by Regulation (EU) No 575/2013 of the European Parliament and of the Council and the FCMC banks need to maintain a ratio of capital to risk weighted assets ("statutory capital ratio") above the prescribed minimum level. Although the minimum required level as at 31 December 2018 was 8%, according to a special request by the FCMC the Bank was required to ensure a higher capital adequacy of 11.60% during the period from 1 December 2017 In addition to the above capital requirement for the overall risk coverage, the Bank is required to maintain compliance with the total capital reserve requirement calculated in accordance with Section 35^{22}, 35^{23}, 35^{24} or 35^{25} of the Credit Institution Law - 2.67% (Capital conservation buffer – 2.50%, institution-specific countercyclical capital buffer – 0.12% (as at 31.12.2018), systemic risk buffer – 1% for risk transactions with Estonian residents). The requirements of the total capital reserve should be met using Tier 1 capital.

As at 31 December 2018 the Bank and the Group were in compliance with the capital adequacy and the minimum capital requirement specified in the Law On Credit Institutions and the rules of the FCMC, as well as in compliance with the higher ratio required by the FCMC. For the calculation of capital adequacy refer to Note 44.

In addition to the calculation of the capital adequacy ratio in accordance with 'Normative regulations on establishing a capital and liquidity adequacy assessment process' No. 199 of the FCMC, the Bank regularly conducts its own internal capital adequacy assessment in order to ensure that it covers all the risks assumed by the Bank and whether they are covered by the capital.

5. USE OF ESTIMATES AND JUDGMENTS

The preparation of financial statements in conformity with IFRS as adopted by EU requires management to make judgements, estimates and assumptions 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, the actual results ultimately may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to the accounting estimates are recognized 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.

Main estimates and underlying assumptions are related to the impairment of financial instruments :

Impairment of financial instruments
IFRS 9 fundamentally changed the credit loss recognition methodology. The standard replaced IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. The Group is required to recognize an allowance for expected losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts.
The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- evaluating the criteria for assessment of significant increase in credit risk and allocation of loans to stage 1, 2 or 3;
- assessing accounting interpretations and modelling assumptions used to build the models that calculate ECL, including the various formulas and the choice of inputs;
- the modelling and calculation of key parameters of ECL model, including probability of default (PD), loss given default (LGD) and exposure at default (EAD);
- determining the macro-economic indicators and incorporating forward-looking information into the ECL model;
- estimating the above mentioned indicators for reliable future period and for three different scenarios (baseline, optimistic and pessimistic) and assigning probabilities to those scenarios; and
- estimating ECL under base case and risk case scenarios for Stage 3 individual assessments and assigning probabilities to those scenarios.

6. NET INTEREST INCOME

	2018		2017	
Interest income	**Group EUR'000**	**Bank EUR'000**	**Group EUR'000**	**Bank EUR'000**
Interest income on assets at amortized cost (loans):	11 187	11 187	8 720	8 720
Deposits with credit institutions	*147*	*147*	*385*	*385*
Loans and receivables	*11 040*	*11 040*	*8 335*	*8 335*
including interest income on impaired loans	*528*	*528*	*690*	*690*
Interest income from Held for trading financial assets	-	-	379	379
Interest income from available-for-sale financial assets	-	-	325	325
Interest income from held-to-maturity securities	-	-	1 818	1 818
Interest income from financial assets at fair value through profit or loss	418	418	-	-
Interest income from financial assets measured at fair value through other comprehensive income	144	144	-	-
Interest income from financial assets measured at amortised cost (fixed income securities)	961	961	-	-
Total interest income	**12 710**	**12 710**	**11 242**	**11 242**
Interest expense				
Interest expense from liabilities measured at amortized cost:	2 354	2 354	489	489
Deposits	*2 354*	*2 354*	*489*	*489*
Interest expense on issued bonds	1 326	1 326	1 379	1 379
Payments to the Deposit Guarantee Fund and other funds	872	872	909	909
Other interest expense	1 594	1 594	1 058	1 058
Total interest expense	**6 146**	**6 146**	**3 835**	**3 835**
Net interest income	**5 634**	**5 634**	**7 015**	**7 015**

7. NET FEE AND COMMISSION INCOME

	2018		2017	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Fee and commission income				
Money transfers	2 869	2 871	5 039	5 039
Commissions on loans monitoring and service	435	435	351	351
Securities transactions	3 815	3 815	2 344	2 344
Assets management	1 098	1 098	1 142	1 142
Client service	7 385	7 385	2 498	2 501
Payment card service	3 656	3 656	5 252	5 252
Total fee and commission income	**19 258**	**19 260**	**16 626**	**16 629**
Fee and commission expense				
Money transfers	321	321	603	603
Payment card service	3 293	3 293	4 025	4 025
Securities transactions	566	566	357	357
Other	45	45		
Total fee and commission expenses	**4 225**	**4 225**	**4 985**	**4 985**
Net fee and commission income	**15 033**	**15 035**	**11 641**	**11 644**

During the reporting year, commission fee income from servicing of customer payment operations decreased significantly with the corresponding increase in commission income from securities transactions and client service. The key reasons for this are the AML requirements introduced in 2017 with regard to international customers.

8. NET PROFIT/LOSS FROM TRADING AND REVALUATION OF FINANCIAL INSTRUMENTS

	2018		2017	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Net profit/(loss) from trading with financial assets held-for-trading	-	-	276	276
Net profit/(loss) from trading with financial assets at fair value through profit or loss	2 379	2 379	-	-
Net profit/(loss) from trading with debt financial assets at fair value through other comprehensive income	70	70	-	-
Net profit from revaluation of financial assets and liabilities	(173)	(173)	197	197
Net profit from trading and revaluation of financial instruments	**2 276**	**2 276**	**473**	**473**

Notes to the Group's Consolidated and Bank's Separate Annual Report

9. NET FOREIGN EXCHANGE INCOME

	2018 Group EUR'000	2018 Bank EUR'000	2017 Group EUR'000	2017 Bank EUR'000
Net profit from foreign exchange transactions	5 533	5 533	7 888	7 888
Net profit/(loss) from revaluation of foreign exchange	(60)	(60)	(3)	(2)
Net foreign exchange income	**5 473**	**5 473**	**7 885**	**7 886**

10. OTHER OPERATING INCOME

	Note	2018 Group EUR'000	2018 Bank EUR'000	2017 Group EUR'000	2017 Bank EUR'000
Fines received		1 062	1 062	83	81
Profit from disposal of real estate		-	-	78	78
Gain on disposal of property and equipment		-	-	2	-
Dividends received		81	81	2	2
Recovery of written-off assets		-	-	1	1
Gain from initial recognition of financial asset	18	-	-	397	397
Other		560	418	209	153
Total other operating income		**1 703**	**1 561**	**772**	**712**

11. ADMINISTRATIVE EXPENSES

		2018 Group EUR'000	2018 Bank EUR'000	2017 Group EUR'000	2017 Bank EUR'000
Salaries to the members of the Board and Council		583	583	619	619
Staff remuneration		8 864	8 657	8 728	8 410
Compulsory state social security contributions		2 144	2 104	2 192	2 133
Other staff costs		124	122	194	189
Communications and transport		343	331	368	349
Professional services		1 983	1 956	1 581	1 556
Rent, public utilities and maintenance		1 020	1 679	1 398	1 265
Depreciation costs	24	1 763	506	479	338
Amortization costs	25	376	375	328	327
Computer network		556	556	631	631
Advertisement and marketing expenses		366	365	409	408
Other taxes		910	734	911	814
Insurance		136	122	115	114
Audit fee		304	304	56	56
Other		191	174	826	420
Total administrative expenses		**19 663**	**18 568**	**18 835**	**17 629**

The average number of employees in the Group in 2018 was 316 (2017 – 349) and that in the Bank was 312 (2017 – 335).

In 2018, the auditor received a fee of EUR 304 thousand, of which EUR 295 thousand was for the audit of the financial statements (consolidated annual report) and EUR 9 thousand for other audit related engagements. In 2017, the fee amounted to EUR 56 thousand, of which EUR 50 thousand was for the audit of the financial statements (consolidated annual report) and EUR 6 thousand for other audit related engagements.

b) Operating lease payments (Group)

	31 Dec 2018 '000 EUR	31 Dec 2017 '000 EUR
Less than one year	-	45
Between one and five years	-	7
More than 5 years	-	-
	-	**52**

The Group leases a number of premises under operating lease. The leases typically run for 1 to 5 years, with an option to renew the lease after that date. None of the leases includes contingent rentals.

During the current year EUR 108 thousand was recognised as an expense in the profit or loss in respect of operating leases (2017: EUR 302 thousand).

Operating lease payments (Bank)

	31 Dec 2018 '000 EUR	31 Dec 2017 '000 EUR
Less than one year	879	94
Between one and five years	3 516	173
More than 5 years	12 278	620
	16 673	**887**

The Bank leases a number of premises under operating lease. The leases typically run for 20 years, with an option to renew the lease after that date. None of the leases includes contingent rentals.

IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019) introduces a single, on-balance sheet lease accounting model for lessees The main impact the Group's and the Bank's financial statements will come from the accounting of property leases. Such leasing contract will be accounted for on the balance sheet to a larger extent than today. On 1 January 2019 the bank recognized the right-of-use asset in the amount of 12 575 thousand EUR and lease liability in the amount of 12 575 thousand EUR, the Group recognized the right -of-use asset in the amount of 0 EUR and lease liability in the amount of 0 EUR. All property leases are intragroup agreements.

During the current year EUR 854 thousand was recognised as an expense in the profit or loss in respect of operating leases (2017: EUR 366 thousand).

Notes to the Group's Consolidated and Bank's Separate Annual Report

12. OTHER OPERATING EXPENSES

	2018		2017	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Membership fees	267	267	227	227
Fees for real estate management	2	2	21	11
Fines	1 247	1 247	37	37
Royalties for the use of a trademark	1 048	1 048	1 283	1 283
Other	291	261	208	493
Result of disposal of repossessed movable property	196	196	-	-
Total other operating expenses	**3 051**	**3 021**	**1 776**	**2 051**

In 2018, as part of its operating activities the Bank made payments of EUR 1 048 thousand (2017: EUR 1 283 thousand) for the use of the registered trademarks BlueOrange and Baltikums to the owner of this trademark (licensor).

13. NET IMPAIRMENT CHARGE

Impairment of assets for the Group

	2018 EUR'000	2017 EUR'000
Total allowances as at the beginning of the reporting period	**7 324**	**8 166**
Increase in the impairment allowance for investment property	-	*1 043*
Increase in the impairment allowance for other assets	*196*	*2 118*
Release of allowances for other assets	-	*(167)*
Change for the year	**196**	**2 994**
Investment property written off during the reporting year	-	*(1 463)*
Other assets written off during the year	*(196)*	*(2 373)*
Total allowance as at the end of the reporting period	**7 324**	**7 324**

Impairment of assets for the Bank

	2018 EUR'000	2017 EUR'000
Total allowances as at the beginning of the reporting period	**9 026**	**9 367**
Increase in the impairment allowance for subsidiaries	-	*850*
Increase in the impairment allowance for investment property	-	*700*
Increase in the impairment allowance for other assets	*196*	*2 112*
Release of allowances for other assets	-	*(167)*
Change for the year	**196**	**3 495**
Investment property written off during the reporting year	-	*(1 463)*
Other assets written off during the year	*(196)*	*(2 373)*
Total allowance as at the end of the reporting period	**9 026**	**9 026**

14. CORPORATE INCOME TAX

	2018		2017	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Deferred tax	-	-	(795)	(795)
Corporate income tax	(9)	(8)	(436)	(430)
Total current year tax expense	**(9)**	**(8)**	**(1 231)**	**(1 225)**

The table below shows the reconciliation between the current tax expense and the theoretically calculated tax amount.

	2018		2017	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Corporate income tax for the conditionally distributed profit (starting from taxation year 2018)	(9)	(8)	-	-
Corporate income tax (in accordance with the law in force until 31.12.2017.)	-	-	(436)	(430)
Tax credit (charge) resulting from de-recognition of deferred tax liability (asset)	-	-	(795)	(795)
Total corporate income tax	**(9)**	**(8)**	**(1 231)**	**(1 225)**

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, a 20% rate is only applied to distributed profits while a 0% rate is expected to be applied to undistributed profits. Therefore, deferred tax assets and liabilities are recognisable at nil amount as of 31 December 2017.

15. CASH AND DEMAND DEPOSITS WITH CENTRAL BANK

	2018		2017	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Cash	522	521	1 302	1 302
Balance with the Bank of Latvia (including the minimum reserve deposit)	78 293	78 293	232 501	232 501
Total	**78 815**	**78 814**	**233 803**	**233 803**

According to the regulations of the Financial and Capital Markets Commission, the total amount of funds on the account with the Central Bank should not be less than the amount of the obligatory reserves calculated from the average amount of customer deposits during the month. The obligatory reserve as at 31 December 2018 was EUR 3 939 thousand (2017: EUR 4 277 thousand).

Cash and balances with the Bank of Latvia are available on demand, thus, taking into account very low probabilities of default of these balances, expected credit loss is immaterial.

16. LOANS AND RECEIVABLES FROM BANKS

	2018 Group EUR'000	2018 Bank EUR'000	2017 Group EUR'000	2017 Bank EUR'000
Demand deposits with credit institutions				
Credit institutions registered in Latvia	6	6	5 476	5 476
Credit institutions registered in OECD countries	33 541	33 510	40 581	40 581
Credit institutions of other countries	8 788	8 787	66 466	66 438
Total demand deposits with credit institutions	**42 335**	**42 303**	**112 523**	**112 495**
Loans issued to credit institutions	**-**	**-**	**4 986**	**4 986**
Term deposits with credit institutions	**3 005**	**3 005**	**521**	**521**
Expected credit loss	(16)	(16)		
Total deposits with credit institutions	**45 324**	**45 292**	**118 030**	**118 002**

Deposits with credit institutions 2018

Group, EUR'000

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Gross	45 340	-	-	45 340
(Less) allowance for impairment	(16)	-	-	(16)
Net	45 324	-	-	45 324

Deposits with credit institutions 2018

Bank, EUR'000

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Gross	45 308	-	-	45 308
(Less) allowance for impairment	(16)	-	-	(16)
Net	**45 292**	-	-	**45 292**

Information about credit loss allowances

Group and Bank EUR'000

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Opening balance at 1 January 2018	7	-	-	7
Transfers due to change in credit risk:				
-remaining credit risk changes	10	-	-	10
New originated or purchased	10	-	-	10
Derecognised	(11)	-	-	(11)
Change for the year	9	-	-	9
FX and other movements	-	-	-	-
Closing balance at 31 December 2018	16	-	-	16

In 2018, the growth of the loan portfolio and low interest rates on the interbank market contributed to the decrease in the amounts due on demand from credit institutions registered in OECD countries.

The Bank's demand deposits with credit institutions based on rating agency ratings are as follows:

	2018 EUR'000	2017 EUR'000
Rated from AAA to A-	11 662	55 169
Rated from BBB+ to BBB-	2 081	2 181
Rated from BB+ to BB-	9 474	19 978
Rated below BB-	1 916	10 061
Not rated	20 159	30 613
Total deposits with credit institutions	**45 292**	**118 002**

As at 31 December 2018, the Bank had correspondent accounts with 25 banks (2017: 33). The largest account balances exceeding 10% of total deposits with credit institutions were with EUROCLEAR BANK SA/NV – 10 786 thousand EUR (2017 - 6 749 thousand EUR), ED AND F MAN CAPITAL MARKETS LIMITED – 6 587 thousand EUR (2017 - 11 432 thousand EUR) un DUKASCOPY BANK SA – 6 296 thousand EUR (2017 - 2 299 thousand EUR).

As 31 December 2018, EUR 1 673 thousand was pledged with ED AND F MAN CAPITAL MARKETS LIMITED and EUR 63 thousand was pledged with INTL FCStone Limited as a security for customer derivative transaction contracts.

17. TRADING ASSETS

Financial assets at fair value through profit or loss (IFRS 9)

	2018	
	Group EUR'000	**Bank EUR'000**
Investment funds	4 432	4 432
Fixed income securities issued by other financial institutions in Latvia	5 876	5 876
Fixed income securities issued by companies and credit institutions of OECD countries	3 736	3 736
Fixed income securities issued by companies and credit institutions of non-OECD countries	3 807	3 807
Derivatives	18	18
Total	**17 869**	**17 869**

Held for trading financial assets (IAS 39)

	2017	
	Group EUR'000	**Bank EUR'000**
Fixed income securities issued by other financial institutions in Latvia	2 062	2 062
Fixed income securities issued by companies and credit institutions of OECD countries	1 959	1 959
Fixed income securities issued by companies and credit institutions of non-OECD countries	4 232	4 232
Derivatives	119	119
Total	**8 372**	**8 372**

An analysis of the credit quality of trading financial assets based on rating agency ratings where applicable, is as follows:

	2018 EUR'000	**2017 EUR'000**
Fixed income securities		
-Corporate bonds and securities of credit institutions		
Rated from AAA to A-	-	2 594
Rated from BB+ to BB-	7 462	2 722
Rated below BB-	-	2 937
Not rated	5 957	-
Total corporate bonds and securities of credit institutions	**13 419**	**8 253**
Non fixed income securities (not rated)	**4 432**	**-**
Derivatives	**18**	**119**
Total	17 869	8 372

Bank evaluates investment in Exchange Traded Fund as low credit risk investment. Exchange Traded Fund has very diversified credit risks, which is supported by the following facts:
The concentration of investment assets in single holdings does not exceed 1% of total assets;
The largest investment sector are government bonds ~80% of Net assets;
Exposure breakdown by geography is wide - the largest exposures are in Mexico ~ 5%, Indonesia ~ 5%, Russia 4%, and other countries under 3% are 61% in total. Exposure breakdown by credit quality is the following: AA Rated 3.04%, A Rated 10.75%, BBB Rated 37.17%, BB Rated 18.49%, B Rated 27.61% , CCC and below rated 2.94% of total market value.

18. FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

In January 2016, the Bank acquired claim rights of the Bank's client (the borrower), a Lithuanian company SUBARE, against an insurance company S.C. Certasig – Societate De Asigurare Si Reasigurare S.A. (Certasig).

Claim rights are based on an insurance policy of EUR 1 200 000, which SUBARE used to insure the towing of the ship Georg Buchner from Rostock in Germany to Klaipėda in Lithuania. The ship sunk on 30 May 2013 (an actual insurance event occurred), however the insurance company (Certasig) refused to pay the claim.

Fair value of the claim right against the insurance company Certasig as estimated by the Bank as at 31 December 2018 is EUR 0 (as at 31 December 2017 EUR 397 350). This estimate is based on the assumptions made by the Bank's specialists after consulting Thomas Cooper, a law firm hired by the Bank.

19. INVESTMENT SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Financial assets measured at fair value through other comprehensive income (IFRS 9)

	2018	
	Group EUR'000	**Bank EUR'000**
Fixed income securities - Debt securities		
Fixed income securities issued by central governments of OECD countries	34 499	34 499
Total fixed income securities - Debt securities	**34 499**	**34 499**
Shares and other non-fixed income securities – Equity securities		
Shares in VISA INC	593	593
Shares of Viduskurzemes AAO SIA	218	218
SWIFT shares	37	37
Total of shares and other securities with non-fixed income – Equity securities	**848**	**848**
Total	**35 347**	**35 347**
Impairment allowance	**(23)**	**(23)**

Financial assets measured at fair value through other comprehensive income (fixed income securities)

Group and Bank, EUR'000

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Gross	34 499	-	-	34 499
Allowance for impairment	(23)			(23)
Net	34 476	-	-	34 476

Information about credit loss allowances

Group and Bank, EUR'000

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Opening balance at 1 January 2018	18	-	-	18
Transfers due to change in credit risk:				
-remaining credit risk changes	(8)	-	-	(8)
New originated or purchased	43	-	-	43
Derecognised	(29)	-	-	(29)
Change for the year	6	-	-	6
FX and other movements	(1)	-	-	(1)
Closing balance at 31 December 2018	23	-	-	23

Available for sale financial assets (IAS 39)

	2017	
	Group EUR'000	Bank EUR'000
Fixed income securities		
Fixed income securities issued by credit institutions	23 391	23 391
Fixed income securities issued by central governments of Republic of Latvia	4 082	4 082
Fixed income securities issued by central governments of OECD countries	2 001	2 001
Fixed income securities issued by central governments of Non-OECD countries	23 750	23 750
Fixed income securities issued by international organisations	436	436
Total fixed income securities	**53 660**	**53 660**
Shares and other non-fixed income securities		
Shares in VISA INC	518	518
Shares of Viduskurzemes AAO SIA	530	530
SWIFT shares	65	65
Total	**1 113**	**1 113**
Impairment allowance	*(312)*	*(312)*
Total of shares and other securities with non-fixed income	**801**	**801**
Total available for sale financial assets for sale	54 461	54 461

Investment securities measured at fair value through other comprehensive income based on rating agency ratings are as follows:

	2018 EUR'000	2017 EUR'000
Fixed income securities		
- Fixed income securities issued by credit institutions		
Rated from AAA to A-	-	17 831
Rated from BBB+ to BBB-	-	5 034
Rated from BB- to BB+	-	526
Total fixed income securities issued by credit institutions	**-**	**23 391**
- Fixed income securities issued by central governments of LR		
Not rated	-	4 082
Total fixed income securities issued by central governments of LR	**-**	**4 082**
- Fixed income securities issued by central governments of OECD countries		
Rated from AAA to A-	31 486	-
Rated from BBB+ to BBB-	3 013	2 001
Total fixed income securities issued by central governments of OECD countries	**34 499**	**2 001**
- Fixed income securities issued by central governments of Non-OECD countries		
Rated from AAA to A-	-	**22 350**
No rate	-	**1 400**
Total fixed income securities issued by central governments of Non-OECD countries	**-**	**23 750**
- Fixed income securities issued by international organisations		
Rated from AAA to A-	-	-
Rated from BB- to BB+	-	436
Total fixed income securities issued by international organisations	**-**	**436**
Total fixed income securities	**34 499**	**53 660**
Impairment allowance	**(23)**	**-**

20. LOANS AND RECEIVABLES

(a) Loans	2018 Group EUR'000	2018 Bank EUR'000	2017 Group EUR'000	2017 Bank EUR'000
Financial institutions	5 380	5 380	4 749	4 749
Corporates	177 975	177 975	148 641	148 641
Individuals	16 856	16 856	11 644	11 644
Total loans and receivables	**200 211**	**200 211**	**165 034**	**165 034**
Impairment allowance	(6 525)	(6 525)	(4 034)	(4 034)
Net loans and receivables	**193 686**	**193 686**	**161 000**	**161 000**

(b) Analysis of loans by type

	2018 Group EUR'000	2018 Bank EUR'000	2017 Group EUR'000	2017 Bank EUR'000
Loan portfolio				
Corporate loans	138 500	138 500	87 478	87 478
Industrial loans	22 013	22 013	49 535	49 535
Payment cards loans	2 041	2 041	1 089	1 089
Mortgage loans	21 957	21 957	12 303	12 303
Finance lease	1 881	1 881	1 939	1 939
Other loans	7 521	7 521	4 710	4 710
Total loan portfolio	**193 913**	**193 913**	**157 054**	**157 054**
Securities-backed loans				
Reverse repo	-	-	7 980	7 980
Financing	6 298	6 298	-	-
Total securities-backed loans	**6 298**	**6 298**	**7 980**	**7 980**
Total loans and receivables	**200 211**	**200 211**	**165 034**	**165 034**
Impairment allowance	(6 525)	(6 525)	(4 034)	(4 034)
Net loans and receivables	**196 686**	**196 686**	**161 000**	**161 000**

(c) Geographical segmentation of the loans

	2018 Group EUR'000	2018 Bank EUR'000	2017 Group EUR'000	2017 Bank EUR'000
Loans to residents of Latvia	107 253	107 253	83 450	83 450
Loans to residents of OECD countries	67 253	67 253	43 994	43 994
Loans to residents of non-OECD countries	25 704	25 704	37 590	37 590
Total loans and receivables	**200 211**	**200 211**	**165 034**	**165 034**
Impairment allowance	(6 525)	(6 525)	(4 034)	(4 034)
Net loans and receivables	**193 686**	**193 686**	**161 000**	**161 000**

(d) Ageing structure of the loan portfolio

Bank	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
As at 31 December 2018							
Net carrying amount	**193 686**	178 978	12 917	14	3	1 774	14 708
Out of which impaired	**9 629**	7 852	-	-	3	1 774	1 777
As at 31 December 2017							
Net carrying amount	**161 000**	159 012	19	966	613	390	1 988
Out of which impaired	**12 063**	11 057	-	3	613	390	1 006

The Group's ageing structure is not materially different from that of the Bank.

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Gross	**159 347**	**26 862**	**14 002**	**200 211**
(Less) allowance for impairment	(578)	(1 574)	(4 373)	6 525
Net	**158 769**	**25 288**	**9 629**	**193 686**

(e) Impaired loans

	2018 EUR'000		2017 EUR'000	
	Group	Bank	Group	Bank
Impaired loans, gross	14 002	14 002	16 097	16 097
Impairment allowance	(4 373)	(4 373)	(4 034)	(4 034)
Net loans and receivables	9 629	9 629	12 063	12 063

The extent to which collateral and other credit enhancements mitigate credit risk for financial assets carried at amortised cost that are credit impaired, is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets").

The effect of collateral on credit impaired assets at 31 December 2018 is as follows.

	Over-collateralised assets		Under-collateralised assets	
EUR'000	Carrying value of the assets	Value of collateral	Carrying value of the assets	Value of collateral
Loans to corporate customers	**8 811**	**19 879**	**808**	**308**
Standard lending	1 637	4 256	16	-
Loans to SME	7 174	15 623	792	308
Loans to individuals	**4**	**30**	**6**	**-**
Consumer loans	4	30	-	-
Credit cards	-	-	6	-

The effect of collateral on credit impaired assets at 31 December 2017 is as follows.

	Over-collateralised assets		Under-collateralised assets	
EUR'000	Carrying value of the assets	Value of collateral	Carrying value of the assets	Value of collateral
Loans to corporate customers	**9 011**	**10 679**	**3 017**	**2 667**
Standard lending	-	-	-	-
Loans to SME	9 011	10 679	3 017	2 667
Loans to individuals	**-**	**-**	**35**	**-**
Consumer loans	-	-	1	-
Credit cards	-	-	34	-

(f) Movements in the impairment allowance

Movements in the loan impairment allowance for the year ended 31 December 2018 are as follows:

Group and Bank, EUR'000

Corporates

	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Opening balance at 1 January 2018	1 178	9	3 782	4 969	138 683	964	13 743	153 390
Transfers due to change in credit risk:								
-to lifetime (from Stage 1 to Stage 2)	(1 536)	1 536	-	-	(23 540)	23 540	-	-
-to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(365)	(8)	373	-	(3 940)	(1 639)	5 579	-
-to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-	-	-		-	-	-	-
-remaining credit risk changes	1 469	(136)	273	**1 606**	-	-	-	-
New originated or purchased	700	36	-	**736**	61 091	3 955	-	65 046
Derecognised	(783)	(30)	(133)	**(946)**	(29 409)	-	(5 367)	(34 776)
Change for the year	(515)	1 398	513	1 396	-	-	-	-
Write-offs	-	-	(149)	**(149)**			(149)	(149)
FX and other movements	(310)	167	61	**(82)**	(214)	40	21	(153)
Closing balance at 31 December 2018	353	1 574	4 207	6 134	142 671	26 860	13 827	183 358

Changes in the credit loss allowance due to movements between the stages are represented in the remaining credit risk changes row. The amount of new originated or purchased loans represents loans in the portfolio as at 31 December 2018 while the amount of derecognised loans represent loans in the portfolio as at 1 January 2018 and derecognised during 2018.

Individuals	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Opening balance at 1 January 2018	**101**	**-**	**11**	**112**	**11 633**	**-**	**11**	**11 644**
Transfers due to change in credit risk:								
-to lifetime (from Stage 1 to Stage 2)	(1)	1	-	-	(2)	2	-	-
-to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(165)	165	-	-	(175)	-	175	-
-to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-	-	-	-	-	-	-	-
-remaining credit risk changes	(20)	-	322	**302**	-	-	-	-
New originated or purchased	196	-	-	**196**	6 592	-	27	6 619
Derecognised	(12)	-	(68)	**(80)**	(1 397)	-	-	(1 397)
Change for the year	**(2)**	**166**	**254**	**418**	-	-	-	-
Write-offs			(38)	**(38)**			(38)	(38)
FX and other movements	126	(165)	(62)	**(101)**	25			25
Closing balance at 31 December 2018	**255**	**1**	**165**	**391**	**16 676**	**2**	**175**	**16 853**

Changes in the credit loss allowance due to movements between the stages are represented in the remaining credit risk changes row. The amount of new originated or purchased loans represents loans in the portfolio as at 31 December 2018 while the amount of derecognised loans represent loans in the portfolio as at 1 January 2018 and derecognised during 2018.

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

Group and Bank, EUR'000

Corporates

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	2017 EUR'000
Opening balance at 1 January 2017	**6 027**
Increase in the impairment allowance for loans	1 176
Release of provisions for loans	(2 592)
Loans written off during the year	(543)
Effect of foreign currency translation	(40)
Closing balance at 31 December 2017	**4 028**

Individuals

	2017 EUR'000
Opening balance at 1 January 2017	**12**
Increase in the impairment allowance for loans	-
Release of provisions for loans	(5)
Loans written off during the year	-
Effect of foreign currency translation	(1)
Closing balance at 31 December 2017	**6**

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

	2018 EUR'000	2017 EUR'000
Water transport	40 512	26 578
Financial services	6 234	7 453
Wholesale	56 617	54 664
Real Estate	28 631	17 189
Leisure, recreation, sports	569	589
Overdrafts	7 923	4 660
Metal manufacture	3 669	9 105
Transport and storage	8 652	5 014
Private customers – mortgage loans and consumer loans	7 707	10 780
Manufacture of food products	2 078	2 095
Other services	31 094	22 873
Net loans and receivables	**193 686**	**161 000**

(h) Analysis of loans by type of collateral (Group and Bank)

EUR'000	31 December 2018	% of loan portfolio	31 December 2017	% of loan portfolio
Commercial buildings	42 432	22	48 725	30
Real estate – first mortgage	16 009	8	13 645	8
Commercial assets pledge	41 567	21	45 952	29
Commercial assets: water transport	29 433	15	16 029	10
Trading securities	6 588	3	7 980	5
Guarantee	13 670	7	3 650	2
Deposit	56	-	57	-
Inventories	19 412	10	16 949	11
No collateral	24 519	14	8 013	5
Net loans and receivables	**193 686**	**100**	**161 000**	**100**

(j) Restructured loans

As at 31 December 2018 and 2017, the loans restructured by the Group and the Bank possessed the following signs of restructuring:

	2018 EUR'000	2017 EUR'000
Reduced interest rate	569	589
Loan holidays	9 486	15 376
Other	1 652	
Total restructured loans	**11 707**	**15 965**

(k) Repossessed assets

No collaterals were repossessed during 2018. In 2017, loan collateral in the amount of EUR 610 thousand was repossessed.

(l) Significant credit exposures

As at 31 December 2018 the Bank had no borrowers or groups of related borrowers, respectively, whose total loan balances exceeded 10% of loans and receivables from customers.

As at 31 December 2017 the Bank had no borrowers or groups of related borrowers, respectively, whose total loan balances exceeded 10% of loans and receivables from customers.

According to regulatory requirements, the Bank is not allowed to have a credit exposure to one customer or group of related customers of more than 25% of Bank's equity. As at 31 December 2018 and 2017, the Bank was in compliance with this requirement.

21. INVESTMENT SECURITIES AT AMORTISED COST

Financial assets measured at amortised cost (IFRS 9)

	Group EUR'000	Bank EUR'000
Fixed income securities		
Fixed income securities issued by the government of LR	7 999	7 999
Fixed income securities issued by companies and credit institutions of LR	1 027	1 027
Fixed income securities issued by the government of other countries	21 640	21 640
Fixed income securities issued by companies and credit institutions of other countries	28 269	28 269
Impairment allowance	(156)	(156)
Total fixed income securities	**58 779**	**58 779**

Financial assets measured at amortised cost 2018

Group and Bank, EUR'000

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Gross	58 935	-	-	58 935
(Less) allowance for impairment	(156)	-	-	(156)
Net	**58 779**	-	-	**58 779**

Financial assets measured at amortised cost Group and bank, EUR'000
Information about credit loss allowances

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Opening balance at 1 January 2018	**126**	-	-	**126**
Transfers due to change in credit risk:				
-remaining credit risk changes	(46)	-	-	(46)
New originated or purchased	62	-	-	62
Derecognised	(22)	-	-	(22)
Change for the year	**(6)**	-	-	**(6)**
FX and other movements	36	-	-	36
Closing balance at 31 December 2018	**156**	-	-	**156**

Held to maturity financial assets (IAS 39)

	2017 Group EUR'000	2017 Bank EUR'000
Fixed income securities		
Fixed income securities issued by companies and credit institutions of LR	2 049	2 049
Fixed income securities issued by companies and credit institutions of other countries	29 486	29 486
Total fixed income securities	**31 535**	**31 535**

Quality analysis of investment securities at amortised cost, based on rating agency ratings, is as follows:

	2018 EUR'000	2017 EUR'000
Debt securities and other fixed income securities		
- Corporate bonds		
Rated from AAA to A-	13 989	2 532
Rated from BBB+ to BBB-	24 857	4 695
Rated from BB+ to BB-	12 971	19 647
Rated below BB-	3 806	1 957
No rate	3 312	2 704
Total corporate bonds	**58 935**	**31 535**
Impairment allowance	(156)	-
Debt securities and other fixed income securities	**58 779**	**31 535**

22. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

(a) Investments in subsidiaries (Bank)

Company	*Ownership share*	Carrying amount at 31.12.2018 EUR'000	Carrying amount at 31.12.2017 EUR'000
SIA BlueOrange International	*100%*	5 249	5 009
Impairment allowance		(2 249)	*(2 249)*
SIA Zapdvina Development	*100%*	12 274	12 024
Impairment allowance		(806)	*(806)*
SIA CityCap Service	*100%*	548	548
Impairment allowance		(158)	*(158)*
UAB Kamaly Development	*100%*	3	3
AS Pils Pakalpojumi	*100%*	15 281	15 281
Impairment allowance		(2 400)	*(2 400)*
Impairment allowance		(548)	*(548)*
SIA Jēkaba 2	*100%*	4 049	4 049
Impairment allowance		(106)	*(106)*
SIA Mateli Estate	*100%*	81	81
SIA Darzciems Estate	*100%*	65	63
SIA Mazirbe Estate	*100%*	88	88
SIA Lielie Zaki	*100%*	84	84
SIA Pulkarne Entity	*100%*	175	175
		31 630	**31 138**

In 2018, the Bank increased the share capital of its subsidiary, SIA Zapdvina Development, by EUR 250 000. After this increase, the share capital of SIA Zapdvina Development consisted of 11 748 018 shares with nominal value of EUR 1 amounting to EUR 11 748 018. In previous years the Bank recognised an impairment allowance for its investment in SIA Zapdvina Development in the amount of EUR 806 thousand triggered by impairment of this subsidiary's assets. In 2018, based on the appraisal, no additional impairment allowances were not recognised. SIA Zapdvina Development owns a land plot in Daugavpils.

In previous years, the Bank recognised an impairment allowance for its investment in SIA CityCap Service in the amount of EUR 158 thousand triggered by impairment of this subsidiary's assets. Based on the appraisal, in 2018 impairment allowances were not recognised.

In 2018, the Bank increased the share capital of its subsidiary, SIA BlueOrange International by 240 000 shares with nominal value of EUR 1 for a total of EUR 240 000. After this increase, the share capital of SIA SIA BlueOrange International consisted of 5 226 658 shares with nominal value of EUR 1 amounting to EUR 5 226 658.
In previous years, the Bank recognised an impairment allowance for its investment in SIA BlueOrange International in the amount of EUR 2 249 thousand EUR triggered by impairment of this investment in subsidiaries. Based on the appraisal, in 2018 impairment allowances were not recognised.
SIA BlueOrange International has three subsidiaries and an associate.

In previous years, the Bank recognised an impairment allowance for its investment in SIA Jēkaba 2 in the amount of EUR 106 thousand.

In 2018, the Bank increased the share capital of its subsidiary, SIA Darzciems Estate by EUR 2,000. After this increase, the share capital of SIA Darzciems Estate consisted of 229 730 shares with nominal value of EUR 1 amounting to EUR 229 730

(b) Investments in subsidiaries by the Bank's subsidiary SIA BlueOrange International

Company	**Capital contribution**	**Carrying amount at 31.12.2018 EUR'000**	**Carrying amount at 31.12.2017 EUR'000**
KamalyDevelopment EOOD (Bulgaria)	100%	692	692
Impairment allowance		(364)	*(364)*
Foxtran Management Ltd. (Belize)	100%	2 104	1 984
Impairment allowance		(559)	*(559)*
Enarlia International Inc. (Belize)	100%	483	363
Impairment allowance		(353)	*(353)*
		2 003	**1 763**

In 2018, SIA BlueOrange International increased the share capital of its subsidiary Foxtran Management Ltd. By EUR 120 thousand.

In 2018, SIA BlueOrange International increased the share capital of its subsidiary Enarlia International Inc by EUR 120 thousand.

In the previous years, an impairment allowance for the investment in Foxtran Management Ltd. was recognised in the amount of EUR 559 and for the investment in Enarlia International Inc. an impairment allowance in the amount of EUR 353 thousand was recognised. Allowances were recognised since the investment in SIA BlueOrange International exceeded net assets of Foxtran Management Ltd and Enarlia International Inc.

In the previous years, SIA BlueOrange International recognised impairment allowances for the investment in KamalyDevelopment EOOD in the amount of EUR 364 thousand.

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

Company	**Capital contribution**	**Carrying amount at 31.12.2018 EUR'000 Group**	**Carrying amount at 31.12.2017 EUR'000 Group**
AS Termo biznesa Centrs	26.15%	1 848	1 848
Impairment allowance		*(1 021)*	*(1 021)*
Total		**827**	**827**

SIA BlueOrange International has an associate AS Termo biznesa Centrs. The property owned by AS Termo biznesa Centrs was appraised on the basis of discounted cash flow using a weighted average rate of 9.14%. Based on an appraisal, in 2018 and 2017 an impairment allowance was not recognised.

Financial information of the associate AS Termo biznesa centrs:

	Current assets EUR'000	**Long-term investments EUR'000**	**Total assets EUR'000**	**Current liabilities EUR'000**	**Non-current liabilities EUR'000**	**Total liabilities EUR'000**	**Net assets EUR'000**	**Income EUR'000**	**Expenses EUR'000**	**Net loss EUR'000**	**Group's share in net assets 26.15% EUR'000**	**Group's share in loss 26.15% EUR'000**
31 December 2017												

AS Termo biznesa Centrs	**68**	**339**	**407**	**(34)**	**(14)**	**(48)**	**359**	**220**	**(221)**	**(1)**	**94**	**0.26**
31 December 2018												
AS Termo biznesa Centrs	**62**	**336**	**398**	**(32)**	**(16)**	**(48)**	**350**	**233**	**(242)**	**(9)**	**91**	**0.26**

As losses for 2018 are insignificant they have no impact on the Group results.

(e) *Acquisition of non-controlling interest in 2017*

In August 2017, the Bank acquired 39% of the controlling interest in AS Pils Pakalpojumi from AS BBG, therefore the investment in share capital increased to 100%; to that date the Bank held a 61% investment.

The carrying amount of AS Pils Pakalpojumi's net assets in the Group's consolidated financial statements on the date of the acquisition was EUR 11 403 thousand.

In thousands of euro	
Carrying amount of NCI acquired (11 403 x 39%)	4 447
Cash consideration paid to NCI	(5 460)
Result of acquisition of NCI without a change in control	**(1 013)**

The decrease in equity attributable to owners of the Company comprised a decrease in other reserves of EUR 1 013 thousand.

Reconciliation of movements of liabilities to cash flows arising from financing activities (acquisition of NCI) (no comparative available for 2018 as there was no such transaction)

		Assets
EUR	**Note**	**Acquisition of NCI**
Balance at 1 January 2017		-
Change from financing cash flows		
Consideration paid		(5 460)
Total changes from financing cash flows		**(5 460)**
Balance at 31 December 2017		-

(d) Transactions under common control in 2017

In 2017, the Bank obtained 100% ownership of five subsidiaries under common control transaction from the sole shareholder of the Bank - Joint Stock Company BBG ***(no comparative available for 2018 as there was no such transaction)***:

Company:	**Shareholding obtained**	**Fair value of net assets as at the transaction date 31.07.2017 EUR'000**	**Consideration paid EUR'000**
SIA Darzciems Estate	100%	61	(61)
SIA Mazirbe Estate	100%	88	(88)
SIA Pulkarne Entity	100%	175	(175)
SIA Lielie Zaki	100%	84	(84)
SIA Mateli Estate	100%	81	(81)

Total	**489**	**(489)**

23. INVESTMENT PROPERTY

Investment property of the Group and the Bank represents the following:

	2018		2017	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Real estate in Latvia	2 200	155	2 200	155
Real estate in Lithuania	2 807	2 807	2 807	2 807
Real estate in Bulgaria	521	-	521	-
Impairment allowance	(2 740)	(1 607)	*(2 740)*	*(1 607)*
	2 788	**1 355**	**2 788**	**1 355**

	Group EUR'000	Bank EUR'000
31 December 2017	**2 788**	**1 355**
Impairment allowance	-	-
31 December 2018	**2 788**	**1 355**

Investment property is recognized at cost. Investment property consists of land and commercial properties.

Direct operating expenses (including repairs and maintenance costs) incurred by the Group in connection with the investment property which has not earned a rental income during the reporting year amounted to EUR 2 thousand (2017: EUR 21 thousand).
Direct operating expenses (including repairs and maintenance costs) incurred by the Bank in connection with the investment property which has not earned a rental income during the reporting year amounted to EUR 2 thousand (2017: EUR 11 thousand).
The Group and the Bank did not earn any income on investment property neither in 2018 nor in 2017.

The following table shows the valuation technique used in measuring the fair value of property, as well as the significant unobservable inputs used.

Group's investment

Type	Carrying amount, EUR '000	Valuation method	Significant unobservable inputs	2018	2017	Correlation between balance sheet data and fair value measurement, EUR '000
Land plot, Kungu iela, Liepāja, Latvia	60 (2017: 60)	Comparison approach	Sales price* varies from EUR to EUR per m2	11,1 -15,8	11,10 to 15,85	Fair value would increase (reduce) if the price per m^2 was higher (lower)
Buildings and a land plot, Jurģu iela, Jūrmala, Latvia	95 (2017: 95)	Comparison approach	Sales price* varies from EUR to EUR per m2	435 - 446	435 - 446	Fair value would increase (reduce) if the price per m^2 was higher (lower)
Golf club divided into 103 adjacent land plots and warehouse, Klaipeda, Lithuania	1 200 (2017: 1 200)	Comparison approach	Sales price* varies from EUR to EUR per m2 for each land plot separately based on footage	0.37-0.57 for land plot over 8.2 ha 5 -5.8 for land plot 1 ha 2.42 – 6.41 for land plots till 300 m2	2.4 for land plot over 8.2 ha 1 EUR for the rest of the land plots	Fair value would increase (reduce) if the price per m^2 was higher (lower)
Apartments, Bulgaria	328 (2017: 328)	Comparison approach	Sales price* varies from EUR to EUR per m2	1 176 – 1 506	1 900 – 1 950	Fair value would increase (reduce) if the price per m^2 was higher (lower)
Land plot, Mūku purvs, Latvia	386 (2017: 386)	Comparison approach	Sales price* varies from EUR to EUR per m2	28.7 - 41	28.7 - 41	Fair value would increase (reduce) if the price per m^2 was higher (lower)
Land plot, Akācijas iela, Daugavpils, Latvia	250 (2017: 250)	Comparison approach	Sales price* varies from EUR to EUR per m2	7.8 – 8.71	7.8 – 8.71	Fair value would increase (reduce) if the price per m^2 was higher (lower)
Land plot in Ķekavas pagasts, Ķekavas novads, Latvia	170 (2017: 170)	Comparison approach	Sales price* varies from EUR to EUR per m2	3.02 – 3.12	-	Fair value would increase (reduce) if the price per m^2 was higher (lower)
Land plot, Kārsavas iela, Riga, Latvia	61 (2017: 61)	Comparison approach	Sales price* varies from EUR to EUR per m2	70.42 – 82.16	-	Fair value would increase (reduce) if the price per m^2 was higher (lower)
Land plot in Kolkas pagasts, Dundaga novads, Latvia	86 (2017: 86)	Comparison approach	Sales price* varies from EUR to EUR per m2	1.46 – 2.08	-	Fair value would increase (reduce) if the price per m^2 was higher (lower)
Land plot in Lejas akmeņi, Ķekavas novads, Latvia	82 (2017: 82)	Comparison approach	Sales price* varies from EUR to EUR per m2	0.55 – 0.58	-	Fair value would increase (reduce) if the price per m^2 was higher (lower)
Land plot in Krāslavas novads, Kombuļu pagasts	70 (2017: 70)	Comparison approach	Sales price* varies from EUR to EUR per m2	0.08 – 0.11	-	Fair value would increase (reduce) if the price per m^2 was higher (lower)
Total	**2 788**					

Bank's investment

Type	Carrying amount, EUR '000	Valuation method	Significant unobservable inputs			Correlation between balance sheet data and fair value measurement, EUR '000
				2018	2017	
Land plot, Kungu iela, Liepāja, Latvia	60 (2017: 60)	Comparison approach	Sales price* varies from EUR to EUR per m2	11,1 -15,8	11,10 to 15,85	Fair value would increase (reduce) if the price per m^2 was higher (lower);
Buildings and land plot, Jurģu iela, Jūrmala, Latvia	95 (2017: 95)	Comparison approach	Sales price* varies from EUR to EUR per m2	435 - 446	435 - 446	Fair value would increase (reduce): if the price per m^2 was higher (lower);
Golf club divided into 103 adjacent land plots and warehouse, Klaipeda, Lithuania	1 200 (2017: 1 200)	Comparison approach	Sales price* varies from EUR to EUR per m2 for each land plot separately based on footage	0.37-0.57 for land plot over 8.2 ha 5 -5.8 for land plot 1 ha 2.42 – 6.41 for land plots till 300 m2	2.4 for land plot over 8.2 ha 1 EUR for the rest of the land plots	Fair value would increase (reduce) if the price per m^2 was higher (lower);
Total	**1 355**					

* 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.

24. PROPERTY AND EQUIPMENT

	Land and buildings EUR'000		Leasehold improvements EUR'000		Vehicles EUR'000		Office equipment EUR'000		Construction in progress EUR'000		Total EUR'000	
	Group	Bank	Group	Bank	Group	Bank	Group	Bank	Group	Bank	Group	Bank
Cost												
31 December 2016	14 721	-	-	-	66	66	1 722	1 344	7 996	4 397	24 505	5 807
Additions	-	-	-	-	1 439	39	733	450	5 400	389	7 572	878
Transfers	4 783	-	-	4 786	-	-	-	-	(4 783)	(4 786)	-	-
Disposals							(124)	(123)			(124)	(123)
31 December 2017	19 504	-	-	4 786	1 505	105	2 331	1 671	8 613	-	31 953	6 562
Additions	-	-	-	-	-	-	402	381	1 298	-	1 700	381
Transfers	9 807	-	-	-	-	-	-	-	(9 807)	-	-	-
Disposals	-	-	-	(183)	-	-	(90)	(90)	(104)	-	(194)	(273)
31 December 2018	29 311	-	-	4 603	1 505	105	2 643	1 962	-	-	33 459	6 670
Depreciation												
31 December 2016	303	-	-	-	28	28	970	851	-	-	1 301	879
Depreciation	295	-	-	166	17	17	167	155	-	-	479	338
Disposals	-	-	-	-	-	-	(118)	(118)	-	-	(118)	(118)
31 December 2017	598	-	-	166	45	45	1 019	888	-	-	1 662	1 099
Depreciation	1 238	-		230	162	22	363	254	-	-	1 763	506
Disposals		-		-	-	-	(88)	(88)	-	-	(88)	(88)
31 December 2018	1 836	-		396	207	67	1 294	1 054	-	-	3 337	1 517
Net carrying amount												
31 December 2017	18 906	-	-	4 620	1 460	60	1 312	783	8 613	-	30 291	5 463
31 December 2018	27 475	-	-	4 207	1 298	38	1 349	908	-	-	30 122	5 153

The two buildings that the Bank rents from its subsidiaries at Smilšu street and Jēkaba street are used as the Head office of the Bank. From the Group's perspective, these buildings are considered to be corporate assets and are classified as property and equipment. In 2018 and 2017, the management believes that there are no indications that these sites may be impaired.

25. INTANGIBLE ASSETS

Group	Software EUR'000
Acquisition cost	
31 December 2016	**2 223**
Disposed in the reporting period	434
Acquired in the reporting period	(6)
31 December 2017	**2 651**
Disposed in the reporting period	-
Acquired in the reporting period	243
31 December 2018	**2 894**
Amortization	
31 December 2016	**1 007**
Amortization for the reporting period	328
Amortization of assets disposed in the reporting period	(6)
31 December 2017	**1 329**
Amortization for the reporting period	376
Amortization of assets disposed in the reporting period	-
31 December 2018	**1 705**
Net carrying amount	
31 December 2017	**1 322**
31 December 2018	**1 189**

Bank	Software EUR'000
Acquisition cost	
31 December 2016	**2 204**
Disposed in the reporting period	(6)
Acquired in the reporting period	434
31 December 2017	**2 632**
Disposed in the reporting period	-
Acquired in the reporting period	243
31 December 2018	**2 875**
Amortization	
31 December 2016	**990**
Amortization for the reporting period	327
Amortization of assets disposed in the reporting period	(6)
31 December 2017	**1 311**
Amortization for the reporting period	375
Amortization of assets disposed in the reporting period	-
31 December 2018	**1 686**
Net carrying amount	
31 December 2017	**1 321**
31 December 2018	**1 189**

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26. OTHER ASSETS

	2018		2017	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Guarantee deposits for credit card operations	7 778	7 778	7 686	7 686
Credit card claims and other payment services	739	739	616	616
Prepayments and receivables	590	590	4 231	4 231
Short term debts	81	81		
Repossessed collaterals	3 552	3 552	3 552	3 552
Assets classified as held for sale	-	-	610	610
Other	428	377	549	401
Total other assets	**13 168**	**13 117**	**17 244**	**17 096**
Allowances for other assets	(3 563)	(3 552)	(3 563)	(3 552)
Other assets, net	**9 605**	**9 565**	**13 681**	**13 544**

In 2018, security deposits of EUR 7 778 thousand (2017: EUR 7 686 thousand) were reserved for potential transactions connected with MasterCard Europe and VISA Card systems.

As of 31 December 2018, other assets includes one yacht (in 2017 – one yacht). Initially, movable property was recognised based on take-over value which set to be a notional cost. Subsequently, management reviewed movable property for impairment indicators and recognised assets based on its recoverable value which was fair value less cost to sell as at 31 December 2018 . The fair value was determined using market data.

Movements in the impairment allowance

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

	2018		2017	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Opening balance	**3 563**	**3 552**	**3 985**	**3 980**
Increase in the impairment allowance for repossessed collaterals	-	-	1 421	1 421
Increase in the impairment allowance for other assets	-	-	697	691
Change due to change in credit risk (net)	196	196	-	-
Other assets write-offs	(196)	(196)	(691)	(691)
Repossessed collaterals write offs	-	-	(1 849)	(1 849)
Closing balance	**3 563**	**3 552**	**3 563**	**3 552**

As at 31 December 2018, the Group and Bank did not recognise an additional impairment allowance for movable property (2017: EUR 1 421 thousand).
As at 31 December 2018, the Group and Bank recognised an additional impairment allowance of EUR 195 thousand for receivables (2017: 691). The estimated net fair value of the Group's and the Bank's movable property (yacht Silver Rose), taking into account the poor technical condition of the yacht (damage to the hull), was set at 0 EUR (in 2017 -0 EUR).

The table describes the valuation method used to arrive at the fair value of other assets, and the significant unobservable inputs 31 December 2018 and 31 December 2017:

Type	Carrying amount, EUR '000	Valuation method	Significant unobservable inputs			Correlation between balance sheet data and fair value measurement, EUR '000
				2018	2017	
Apartment, Bulduru Prospekts, Jūrmala, Latvia	- (2017: 610)	Comparison approach	Purchase price	-	610	Fair value would increase (reduce) if the price per m^2 was higher (lower)
Moveable property, yacht Silver Rose	- (2017: none)	Comparison approach	Sales price* varies from	-	-	Fair value would increase (reduce) if the unit price was higher (lower)
Total	**- (2017: 610)**					

* sales price for moveable property are market prices for similar yachts adjusted for certain criteria such as size, age, yacht builder and yacht location, resulting in the significant unobservable inputs.

27. DUE TO CREDIT INSTITUTIONS ON DEMAND

	2018		2017	
	Group EUR'000	**Bank EUR'000**	**Group EUR'000**	**Bank EUR'000**
Credit institutions registered in Latvia	1 706	1 706	893	893
Credit institutions registered in OECD countries	10	10	449	449
Credit institutions registered in other countries (non-OECD)	-	-	86	86
	1 716	**1 716**	**1 428**	**1 428**

As at 31 December 2018 the Bank had two credit institutions whose account balances each exceeded 10% of total deposits on demand with other credit institutions. Total balances of these credit institutions as at 31 December 2018 amounted to EUR 1 706 thousand.

As at 31 December 2017, the Bank had four credit institutions whose account balances each exceeded 10% of total deposits on demand with other credit institutions. Total balances of accounts of these credit institutions as at 31 December 2017 amounted to EUR 1 338 thousand.

28. DUE TO CREDIT INSTITUTIONS

	2018		2017	
	Group EUR'000	**Bank EUR'000**	**Group EUR'000**	**Bank EUR'000**
Credit institutions registered in other countries (non-OECD)	-	-	96	96
	-	**-**	**96**	**96**

29. FINANCIAL LIABILITIES CARRIED AT AMORTIZED COST: DEPOSITS

	2018		2017	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Current accounts:				
Financial institutions	17 446	17 608	31 104	31 269
Corporate entities	101 172	102 287	381 632	383 702
Individuals	49 342	49 342	82 118	82 118
	167 960	**169 237**	**494 854**	**497 089**
Term deposits:				
Subordinate liabilities	3 986	3 986	4 561	4 561
Other financial institutions	1 122	1 122	1 482	1 482
Corporate entities	5 490	5 490	25 005	25 005
Individuals	207 767	207 767	43 165	43 165
	218 365	**218 365**	**74 213**	**74 213**
Total deposits	**386 325**	**387 602**	**569 067**	**571 302**

Geographical segmentation of the deposits

	2018		2017	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Deposits of residents registered in Latvia	57 908	59 106	39 648	41 818
Deposits of residents registered in OECD countries	247 268	247 268	237 847	237 862
Deposits of residents registered in other countries (non-OECD)	81 149	81 228	291 572	291 622
Total deposits	**386 325**	**387 602**	**569 067**	**571 302**

As at 31 December 2018, the Bank maintained customer deposit balances of EUR 9 852 thousand which were reserved by the Bank as collateral for loans and other credit instruments granted by the Bank (as at 31 December 2017: EUR 10 002 thousand).

As at 31 December 2018, the Bank had no customers/customer groups with deposits exceeding 10% of the total customer deposits (as at 31 December 2017: none).

30. FINANCIAL LIABILITIES CARRIED AT AMORTIZED COST: SUBORDINATED DEBT SECURITIES

Subordinated bonds have a fixed term at their origination. Subordinated bonds are repayable before maturity only on winding up or bankruptcy of the Bank. Subordinated bonds rank before shareholders' claims.

This issue is offered to a limited number of investors and it does not represent a public offer in the understanding of the Financial Instruments Market Law of Latvia.

	2018		2017	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Issued subordinated bonds	20 682	20 682	24 511	24 511
Accrued interest payments	485	485	515	515
Total	**21 167**	**21 167**	**25 026**	**25 026**

The table below summarises issued bonds with the following maturities and carrying amount:

ISIN	Currency	Issue size	Par value	Date of issue	Date of maturity	Discount/ coupon rate, %	Group/ Bank 31/12/2018	Group/ Bank 31/12/2017
Subordinated bonds								
LV0000801082	USD	880	1 000	05.12.2012	12.11.2019	6.0	-	733
LV0000801074	EUR	10 000	1 000	05.12.2012	12.11.2019	6.0	100	3 200
LV0000801629	EUR	10 000	1 000	25.11.2014	28.11.2021	6.0	10 000	10 000
LV0000801611	USD	10 000	1 000	25.11.2014	28.11.2021	6.0	102	98
LV0000801728	EUR	20 000	1 000	16.04.2015	24.04.2022	6.0	10 480	10 480
Issued debt securities, total ('000 EUR)							**20 682**	**24 511**

Reconciliation of movements of liabilities to cash flows arising from financing activities (bonds)

EUR	Note	Liabilities Bonds issued
Balance at 1 January 2018		**25 026**
Change from financing cash flows		
Repayments for bonds issued		(3 829)
Total changes from financing cash flows		**(3 829)**
The effect of changes in foreign exchange rates		3
Liability - related		
Interest expense	6	1 326
Interest paid		(1 359)
Total liability-related other changes		**(33)**
Balance at 31 December 2018		**21 167**

EUR	Note	Liabilities Bonds issued
Balance at 1 January 2017		**19 937**
Change from financing cash flows		
Proceeds from bonds issued		5 000
Total changes from financing cash flows		**5 000**
The effect of changes in foreign exchange rates		**-**
Liability - related		
Interest expense	6	1 379
Interest paid		(1 290)
Total liability-related other changes		**89**
Balance at 31 December 2017		**25 026**

31. OTHER LIABILITIES

	2018		2017	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Other financial liabilities				
Credit card payments	123	123	580	580
Financing transactions	-	-	456	456
Receivables under VP transactions	-	-	9	9
Money in transit	203	203	6	6
Other liabilities, balances of closed customers' accounts	290	290	200	200
Other non-financial liabilities				
Operating and other liabilities	79	79	232	169
Tax settlements	31	31	5	5
VAT payable	10	10	4	-
Other liabilities related to contrition work	79	18	735	334
	815	754	2 227	1 759

32. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

Group and Bank	2018 EUR'000		2017 EUR'000	
	Carrying amount	Nominal value	Carrying amount	Nominal value
Assets				
Future contracts	18	38 293	119	55 680
Total derivative financial assets	**18**	**38 293**	**119**	**55 680**
Liabilities				
Future contracts	-	-	232	55 793
Total derivative liabilities	-	-	**232**	**55 793**

As at 31 December 2018 the Bank had 6 outstanding foreign exchange forward contracts (in 2017 – 22 contracts, including none with related parties).

33. SHARE CAPITAL AND RESERVES

As of 31 December 2018, the authorized share capital comprised 28 209 653 ordinary shares (2017: 28 209 653 ordinary shares). As at 31 December 2018, share capital comprised 28 209 653 shares with total nominal value of EUR 39 493 514.20. Nominal value of one share is EUR 1.40. The structure of shareholders holding ordinary shares did not change. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at the shareholders' meetings. All shares rank equally with regard to the Bank's residual assets.

	2018		2017	
	Quantity	EUR'000	Quantity	EUR'000
Share capital				
Ordinary shares with voting rights	28 209 653	39 493	28 209 653	39 493
	28 209 653	**39 493**	**28 209 653**	**39 493**

The reserve capital of EUR 24 thousand is not subject to any restrictions and can be distributed to the shareholders following an appropriate decision.

Dividends

Dividends payable are restricted to the maximum retained earnings of the Bank, which are determined according to the legislation of Latvia. In accordance with the legislation of the Republic of Latvia, the amount of reserves available for distribution at the reporting date is EUR 28 658 thousand (2017: EUR 22 766 thousand).

During 2018, dividends were not distributed (2017: EUR 4 million, 0.14 EUR per share).

Reconciliation of movements of liabilities to cash flows arising from financing activities (dividend)

		Liabilities
EUR	**Note**	**Dividends**
Balance at 1 January 2018		-
Dividend declared		-
Change from financing cash flows		
Dividend paid		-
Total changes from financing cash flows		-
Balance at 31 December 2018		-

		Liabilities
EUR	**Note**	**Dividends**
Balance at 1 January 2017		-
Dividend declared		4 000
Change from financing cash flows		
Dividend paid		(4 000)
Total changes from financing cash flows		**(4 000)**
Balance at 31 December 2017		-

34. CASH AND CASH EQUIVALENTS

	2018		2017	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Cash and balances due from central banks	78 815	78 814	233 803	233 803
Due from credit institutions on demand and within 3 months	45 324	45 292	112 625	112 597
Due to credit institutions on demand and within 3 months	(1 716)	(1 716)	(1 428)	(1 428)
Total cash and cash equivalents	**122 423**	**122 390**	**345 000**	**344 972**

35. CONTINGENT LIABILITIES AND COMMITMENTS

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

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

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

	2018		2017	
	Group EUR'000	**Bank EUR'000**	**Group EUR'000**	**Bank EUR'000**
Unused loan facilities	65 498	65 498	51 319	51 319
Unused credit card facilities	2 182	2 188	2 111	2 123
Guarantees	5 686	5 686	12 759	12 759
	73 366	**73 372**	**66 189**	**66 201**
Provisions	*(200)*	*(200)*	-	-

The total contractual amounts of the above loan commitments may differ from the cash flow that may actually be required in future as these commitments may expire before they are claimed.

Group EUR'000

	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL)**	**Stage 3 (lifetime ECL for credit-impaired)**	**Total**
Contingent liabilities and commitments, Gross	68 651	4 708	7	73 366
Allowance for impairment	(190)	(10)	-	(200)
Net	**68 461**	**4 698**	**7**	**73 166**

Bank EUR'000

	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL)**	**Stage 3 (lifetime ECL for credit-impaired)**	**Total**
Contingent liabilities and commitments, Gross	68 657	4 708	7	73 372
Allowance for impairment	(190)	(10)	-	(200)
Net	**68 467**	**4 698**	**7**	**73 172**

Movements in the impairment allowance of contingent liabilities and commitments

Movements in the loan impairment allowance for the year ended 31 December 2018 are as follows:

Group EUR'000

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Opening balance at 1 January 2018	**276**	**-**	**-**	**276**
Transfers due to change in credit risk:				
-to lifetime (from Stage 1 to Stage 2)	(10)	10	-	-
-remaining credit risk changes	(109)	-	-	(109)
New originated or purchased	170	-	-	171
Derecognised	(134)	-	-	(134)
Change for the year	**(83)**	**10**	**-**	**(73)**
FX and other movements	(3)	-	-	(3)
Closing balance at 31 December 2018	**190**	**10**	**-**	**200**

Bank EUR'000

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Opening balance at 1 January 2018	**276**	**-**	**-**	**276**
Transfers due to change in credit risk:				
-to lifetime (from Stage 1 to Stage 2)	(10)	10	-	-
-remaining credit risk changes	(109)	-	-	(109)
New originated or purchased	169	-	-	169
Derecognised	(134)	-	-	(134)
Change for the year	**(84)**	**10**	**-**	**(74)**
FX and other movements	(2)	-	-	(2)
Closing balance at 31 December 2018	**190**	**10**	**-**	**200**

36. LITIGATION

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

37. ASSETS AND LIABILITIES UNDER MANAGEMENT

	2018		2017	
	Group	Bank	Group	Bank
Assets under management	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**
Due from credit institutions registered in Latvia	131 683	131 683	1 497	1 497
Due from foreign credit institutions	-	-	-	-
Loans to customers	8 665	8 665	6 002	6 002
Non fixed income securities	20 566	20 566	12 846	12 846
Fixed income securities	7 969	7 969	8 767	8 767
Other assets	-	-	1 971	1 971
Total assets under management	**168 883**	**168 883**	**31 083**	**31 083**
Liabilities under management				
Non-resident trust liabilities	27 248	27 248	19 869	19 869
Resident trust liabilities	141 635	141 635	11 214	11 214
Total liabilities under management	**168 883**	**168 883**	**31 083**	**31 083**

As the number of customers grew in 2018 so did the amount of assets under management. The largest share of assets under management were invested in non-fixed income securities and due from credit institutions registered in Latvia . As at 31 December 2018 there were 1 asset under management from related parties (as at 31 December 2017: none). Assets under management include loans granted on a trust basis (trust loans) made on behalf of a third party (the beneficiary).

38. RELATED PARTY TRANSACTIONS

Related parties are defined as shareholders who have a significant influence over the Bank (parent company), members of the Council and the Board and Other related parties, that are companies in which parent company and members of the Council and the Board have a controlling interest, , key management personnel, their close relatives and companies in which they have a controlling interest, as well as associated and related companies. All transactions with related parties have been carried out at an arm's length.

Loans, deposits and other claims and liabilities to related parties include the following:

	2018		2017	
	Group EUR'000	**Bank EUR'000**	**Group EUR'000**	**Bank EUR'000**
Loans to related parties	3 921	3 921	2 869	2 869
incl. the parent company	-	-	-	-
incl. members of the Council and the Board	*1 489*	*1 489*	*371*	*371*
incl. other related parties	*2 432*	*2 432*	*2 498*	*2 498*
Impairment allowance	(139)	(139)	-	-
Net loans to related parties	3 782	3 782	2 869	2 869
Other requirements – debt securities	5 047	5 047	4	5
Total loans and other claims	**8 829**	**8 829**	**2 873**	**2 874**
Term and demand deposits and loans	5 159	6 437	2 473	4 708
incl. from the parent company	*298*	*298*	*195*	*195*
incl. from subsidiaries	-	*1 278*	-	*2 235*
incl. from the members of the Council and Board	*802*	*802*	*614*	*614*
incl. from others	*4 059*	*4 059*	*1 664*	*1 664*
Other liabilities	-	-	170	171
Total deposits and liabilities	**5 159**	**6 437**	**2 643**	**4 879**
Contingent liabilities and commitments	**2 728**	**2 734**	**2 970**	**2 982**

	2018		2017	
	Group Interest rate %	**Bank Interest rate %**	**Group Interest rate %**	**Bank Interest rate %**
Loans to related parties	1.21	1.21	1.00	1.003
Term and demand deposits	0.01	0.01	0.01	0.01

Remuneration to the member of Council and Board during 2018 amounted to EUR 495 thousand (2017: EUR 619 thousand) (see Note 11).

	2018		2017	
Income from related party transactions	**Group EUR'000**	**Bank EUR'000**	**Group EUR'000**	**Bank EUR'000**
Commission revenue	59	60	35	39
Interest income	69	69	34	34
Other income	677	677	-	-
Expenses from related party transactions				
Commission expenses	69	69	-	-
Interest expenses	2	2	11	11
Rent payments	-	740	204	416
Other expenses	1	250	37	399

39. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (BANK)

The table below reflects the undiscounted maturity analysis of financial assets and liabilities based on the contraction term from the reporting date until the maturity dates of the respective assets and liabilities. The remaining period to maturity of assets and liabilities as at 31 December 2018 was as follows:

2018
EUR'000

	Up to 1 month including	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	5 years and over, or no maturity	Total EUR'000
Financial assets							
Cash and demand deposits with central banks	78 814	-	-	-	-	-	**78 814**
Deposits with credit institutions	45 292	-	-	-	-	-	**45 292**
Trading financial assets	11 907	7	-	5 955	-	-	**17 869**
Loans and receivables	29 412	5 155	7 334	52 160	92 607	7 018	**193 686**
Investment securities	47 116	5 897	1 661	79	37 533	1 840	**94 126**
Other financial assets	483	-	-	-	-	9 082	**9 565**
Total financial assets	**213 024**	**11 059**	**8 995**	**58 194**	**130 140**	**17 940**	**439 352**
Financial liabilities							
Demand deposits with credit institutions	1 716	-	-	-	-	-	**1 716**
Financial liabilities carried at amortized cost	182 702	36 859	78 204	48 932	60 895	1 177	**408 769**
Other financial liabilities	608	-	-	-	-	-	**608**
Total financial liabilities	**185 026**	**36 859**	**78 204**	**48 932**	**60 895**	**1 177**	**411 093**
Maturity gap	**27 998**	**(25 800)**	**(69 209)**	**9 262**	**69 245**	**16 763**	**28 259**
Contingent liabilities and commitments	**73 372**	-	-	-	-	-	**73 372**

The maturity analysis of the Group is not significantly different from that of the Bank disclosed above.

The negative gap positions are managed in accordance with the Bank's Liquidity risk management policy. There are limits for maturity gap positions, which are set and monitored by the Bank's Investment committee.

The table below reflects the undiscounted maturity analysis of financial assets and liabilities based on the contraction term from the reporting date until the maturity dates of the respective assets and liabilities. The remaining period to maturity of assets and liabilities as at 31 December 2017 was as follows:

2017 EUR'000	Up to 1 month including	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	5 years and over, or no maturity	Total EUR'000
Financial assets							
Cash and demand deposits with central banks	233 803	-	-	-	-	-	**233 803**
Deposits with credit institutions	112 597	-	4 986	419	-	-	**118 002**
Financial assets at fair value through profit and loss	-	-	397	-	-	397	**397**
Held-for-trading financial assets	5 371	50	10	2 941	-	-	**8 372**
Available-for-sale financial assets	53 660	-	-	-	-	801	**54 461**
Loans and receivables	7 531	13 590	11 333	43 364	77 589	7 593	**161 000**
Held-to-maturity financial assets	22 872	607	902	2 872	4 282	-	**31 535**
Other financial assets	7 096	-	-	-	-	5 838	**12 934**
Total financial assets	**442 930**	**14 247**	**17 231**	**49 596**	**81 871**	**14 629**	**620 504**
Financial liabilities							
Demand deposits with credit institutions	1 428	-	-	-	-	-	**1 428**
Derivatives	71	161	-	-	-	-	**232**
Financial liabilities carried at amortized cost	501 128	268	3 551	36 687	54 446	25 410	**596 424**
Other financial liabilities	1 251	-	-	-	-	-	**1 251**
Total financial liabilities	**503 878**	**429**	**3 655**	**36 687**	**54 446**	**240**	**599 335**
Maturity gap	**(60 948)**	**13 818**	**13 576**	**12 909**	**27 425**	**14 389**	**21 169**
Contingent liabilities and commitments	**66 201**	-	-	-	-	-	**66 201**

The maturity analysis of the Group is not significantly different from that of the Bank disclosed above.

The negative gap positions are managed in accordance with the Bank's Liquidity risk management policy. There are limits for maturity gap positions, which are set and monitored by the Bank's Investment committee.

40. FINANCIAL RISK MANAGEMENT

Liquidity risk (Bank)

Residual contractual maturities of financial liabilities of the Bank are presented below. The Group's residual contractual maturities of financial liabilities have not been presented as the difference to the Bank's analysis is insignificant.

EUR'000

31 December 2018	**Carrying amount**	**Gross nominal inflow / (outflow)**	**Less than 1 month**	**1– 3 months**	**3 months to 1 year**	**1-5 years and more**
Non-derivative liabilities						
Demand deposits with credit institutions	1 716	(1 716)	(1 716)	-	-	-
Financial liabilities carried at amortized cost: deposits	387 602	(410 521)	(182 916)	(37 257)	(127 848)	(62 500)
Financial liabilities carried at amortized cost: subordinated debt securities	21 167	(4 063)	(103)	(207)	(1 085)	(2 668)
Total non-derivative liabilities	**410 485**	**(416 300)**	**(184 735)**	**(37 464)**	**(128 933)**	**(65 168)**
Derivative liabilities						
Trading: outflow	-	-	-	-	-	-
Trading: inflow	-	-	-	-	-	-
Total derivative liabilities	**-**	**-**	**-**	**-**	**-**	**-**
Unused loan and credit card commitments	67 685	(67 685)	(67 685)	-	-	-
Guarantees given	5 686	(5 686)	(533)			(5 153)
Total Liabilities	**483 856**	**(489 671)**	**(252 953)**	**(37 464)**	**(128 933)**	**(70 321)**

EUR'000

31 December 2017	**Carrying amount**	**Gross nominal inflow / (outflow)**	**Less than 1 month**	**1– 3 months**	**3 months to 1 year**	**1-5 years and more**
Non-derivative liabilities						
Demand deposits with credit institutions	1 428	(1 428)	(1 428)	-	-	-
Financial liabilities carried at amortized cost: deposits	571 398	(573 187)	(501 200)	(412)	(40 862)	(30 713)
Financial liabilities carried at amortized cost: subordinated debt securities	25 026	(30 196)	(122)	(245)	(1 188)	(28 641)
Total non-derivative liabilities	**597 852**	**(604 811)**	**(502 750)**	**(657)**	**(42 050)**	**(59 354)**
Derivative liabilities						
Trading: outflow	49 007	(49 007)	(8 322)	(40 685)	-	-
Trading: inflow	(48 775)	48 775	8 251	40 524	-	-
Total derivative liabilities	**232**	**(232)**	**(71)**	**(161)**	**-**	**-**
Unused loan and credit card commitments	53 442	(53 442)	(53 442)	-	-	-
Guarantees given	12 759	(12 759)			(453)	(12 306)
Total Liabilities	**664 285**	**(671 244)**	**(556 262)**	**(818)**	**(42 503)**	**(71 661)**

41. CURRENCY ANALYSIS OF ASSETS AND LIABILITIES (BANK)

The Latvian banking legislation requires that the total foreign currency open position may not exceed 20% of the equity.

The EUR equivalent of assets and liabilities as at 31 December 2018 by the currencies in which they are denominated is as follows:

2018 EUR'000	EUR EUR'000	USD EUR'000	Other currencies EUR'000	Total EUR'000
Financial assets				
Cash and demand deposits with central banks	78 637	168	9	**78 814**
Loans and receivables from banks	19 504	19 484	6 304	**45 292**
Trading financial assets	14 044	3 825	-	**17 869**
Loans and receivables	179 478	12 074	2 134	**193 686**
Investment securities	80 038	8 247	5 841	**94 126**
Other financial assets	6 640	2 541	384	**9 565**
Total financial assets	**378 341**	**46 339**	**14 672**	**439 352**
Financial liabilities				
Demand deposits with credit institutions	(33)	(1 683)	-	**(1 716)**
Financial liabilities carried at amortized cost	(374 808)	(28 211)	(5 750)	**(408 769)**
Other financial liabilities	(488)	(104)	(24)	**(616)**
Total financial liabilities	**(375 329)**	**(29 998)**	**(5 774)**	**(411 101)**
Assets (liabilities) arising from currency exchange				
Spot and forward transaction receivables	63 000	48 247	1 216	**112 463**
Spot and forward transaction liabilities	(38 274)	(64 029)	(10 061)	**(112 364)**
Net long/short currency position	**27 738**	**559**	**53**	**28 350**

The currency analysis of the Group is not significantly different from that of the Bank disclosed above.

The currency gap positions are managed in accordance with the Bank's Currency risk management policy. There are limits for currency gap positions.

41. CURRENCY ANALYSIS OF ASSETS AND LIABILITIES (BANK) (continued)

The Latvian banking legislation requires that the total foreign currency open position may not exceed 20% of the equity.

The EUR equivalent of assets and liabilities as at 31 December 2017 by the currencies in which they are denominated is as follows:

2017 **EUR'000**	**EUR** **EUR'000**	**USD** **EUR'000**	**Other currencies** **EUR'000**	**Total** **EUR'000**
Financial assets				
Cash and demand deposits with central banks	233 519	228	56	**233 803**
Loans and receivables from banks	23 704	82 996	11 302	**118 002**
Financial assets at fair value through profit and loss	397	-	-	**397**
Held-for-trading financial assets	3 595	4 773	4	**8 372**
Available-for-sale financial assets	45 445	8 054	962	**54 461**
Loans and receivables	81 874	77 487	1 639	**161 000**
Held-to-maturity financial assets	14 251	17 284	-	**31 535**
Other financial assets	6 974	5 396	564	**12 934**
Total financial assets	**409 759**	**196 218**	**14 527**	**620 504**
Financial liabilities				
Demand deposits with credit institutions	(294)	(1 134)	-	**(1 428)**
Derivatives	(232)	-	-	**(232)**
Financial liabilities carried at amortized cost	(352 576)	(227 588)	(16 260)	**(596 424)**
Other financial liabilities	(248)	(950)	(53)	**(1 251)**
Total financial liabilities	**(353 350)**	**(229 672)**	**(16 313)**	**(599 335)**
Assets (liabilities) arising from currency exchange				
Spot and forward transaction receivables	33 307	70 313	3 663	**107 283**
Spot and forward transaction liabilities	(68 907)	(36 774)	(1 679)	**(107 360)**
Net long/short currency position	**20 809**	**85**	**198**	**21 092**

The currency analysis of the Group is not significantly different from that of the Bank disclosed above.

The currency gap positions are managed in accordance with the Bank's Currency risk management policy. There are limits for currency gap positions.

42. REPRICING MATURITY ANALYSIS (BANK)

Interest rate risk relates to the changes in the value of the financial instrument as a result of changes in the market rates. As at 31 December 2018, interest rate re-pricing categories were:

2018 EUR'000	Up to 1 month including	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	Over 5 years	Non interest bearing	Total EUR'000
FINANCIAL ASSETS								
Cash and demand deposits with central banks	78 293	-	-	-	-	-	521	**78 814**
Loans and receivables from banks	2 984	-	-	-	-	-	42 308	**45 292**
Trading financial assets	18	41	70	-	11 930	1 210	4 600	**17 869**
Investment securities	-	5 759	1 997	143	83 224	984	2 019	**94 126**
Loans and receivables	99 570	5 316	5 149	52 344	29 561	922	824	**193 686**
Other financial assets	-	-	-	-	-	-	9 565	**9 565**
Total financial assets	**180 865**	**11 116**	**7 216**	**52 487**	**124 715**	**3 116**	**59 837**	**439 352**
FINANCIAL LIABILITIES								
Demand deposits with credit institutions	-	-	-	-	-	-	1 716	**1 716**
Financial liabilities carried at amortized cost	12 736	36 509	78 281	48 573	57 965	100	174 605	**408 769**
Other financial liabilities	-	-	-	-	-	-	616	**616**
Total financial Liabilities	**12 736**	**36 509**	**78 281**	**48 573**	**57 965**	**100**	**176 937**	**411 101**
Interest rate risk net position	**168 129**	**(25 393)**	**(71 065)**	**3 914**	**66 750**	**3 016**	**(117 100)**	**28 251**
Interest rate risk gross (cumulative) position	**168 129**	**142 736**	**71 671**	**75 585**	**142 335**	**145 351**	**28 251**	**56 502**

The reprising maturity analysis of the Group is not significantly different from that of the Bank disclosed above.

42. REPRICING MATURITY ANALYSIS (BANK) (continued)

Interest rate risk relates to the changes in the value of the financial instrument as a result of changes in the market rates. As at 31 December 2017, interest rate re-pricing categories were:

2017 EUR'000	Up to 1 month including	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	Over 5 years	Non interest bearing	Total EUR'000
FINANCIAL ASSETS								
Cash and demand deposits with central banks	232 501	-	-	-	-	-	1 302	**233 803**
Loans and receivables from banks	-	-	4 980	417	-	-	112 605	**118 002**
Financial assets at fair value through profit and loss	-	-	-	-	-	-	397	**397**
Held-for-trading financial assets	99	20	-	-	6 348	1 756	149	**8 372**
Available-for-sale financial assets	3 334	428	4 677	5 026	39 985	-	1 011	**54 461**
Loans and receivables	62 376	10 610	13 306	38 763	34 301	999	645	**161 000**
Held-to-maturity financial assets	1 664	2 153	4 037	8 610	14 604	-	467	**31 535**
Other financial assets	-	-	-	-	-	-	12 934	**12 934**
Total financial assets	**299 974**	**13 211**	**27 000**	**52 816**	**95 238**	**2 755**	**129 510**	**620 504**
FINANCIAL LIABILITIES								
Demand deposits with credit institutions	-	-	-	-	-	-	(1 428)	**(1 428)**
Derivative financial instruments	(71)	(161)	-	-	-	-	-	**(232)**
Financial liabilities carried at amortized cost	(3 980)	(250)	(2 760)	(36 561)	(45 542)	(240)	(507 091)	**(596 424)**
Other financial liabilities	-	-	-	-	-	-	(1 251)	**(1 251)**
Total financial Liabilities	**(4 051)**	**(411)**	**(2 760)**	**(36 561)**	**(45 542)**	**(240)**	**(509 770)**	**(599 335)**
Interest rate risk net position	**295 923**	**12 800**	**24 240**	**16 255**	**49 696**	**2 515**	**(380 260)**	**21 169**
Interest rate risk gross (cumulative) position	**295 923**	**308 723**	**332 963**	**349 218**	**398 914**	**401 429**	**21 169**	**42 338**

The reprising maturity analysis of the Group is not significantly different from that of the Bank disclosed above.

43. MAXIMUM CREDIT ANALYSIS

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

Maximum credit exposure

		Gross maximum credit exposure	
	Notes	**Bank**	**Bank**
At 31 December		**2018**	**2017**
EUR'000			
Cash and balances with central banks	15	78 814	233 803
Loans and receivables from banks	16	45 292	118 002
Financial assets at fair value through profit and loss	18	-	397
Trading financial assets	17, 32	17 869	8 372
Loans and receivables	20	193 686	161 000
Other financial assets	26	9 565	12 932
Total financial assets		**345 226**	**534 506**
Outstanding letters of credit	35	-	-
Unused loan facilities	35	65 498	51 319
Unused credit card facilities	35	2 188	2 123
Guarantees	35	5 686	12 759
Total guarantees and commitments		**73 372**	**66 201**
Total maximum credit risk exposure		**418 598**	**600 707**

The maximum credit risk exposure analysis of the Group is not significantly different from that of the Bank disclosed above.

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the consolidated statement of financial position. For financial guarantees issued, commitments to extend credit, undrawn credit lines and export/import letters of credit, the maximum exposure to credit risk is the amount of the commitment.

Credit risk management. Credit risk is the single largest risk for the Group's business; management therefore carefully manages its exposure to credit risk.

The estimation of credit risk for risk management purposes is complex and involves the use of models, as the risk varies depending on market conditions, expected cash flows and the passage of time. The assessment of credit risk for a portfolio of assets entails further estimations of the likelihood of defaults occurring, the associated loss ratios and default correlations between counterparties.

Limits. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Limits on the level of credit risk by product and industry sector are approved regularly by management. Such risks are monitored on a revolving basis and are subject to an annual, or more frequent, review

Credit risks policies are presented in Note 4.1.

Notes to the Group's Consolidated and Bank's Separate Annual Report

44. CAPITAL ADEQUACY CALCULATION (BANK)

	2018 EUR'000	2017 EUR'000
Tier 1		
Share capital	39 493	39 493
Statutory reserves	24	24
Retained earnings for the previous periods	21 291	17 935
Profit for the reporting period	7 367	4 831
Changes on application of IFRS 9	2 419	-
Revaluation reserve – financial assets	242	129
Other reserves	(2 443)	(2 418)
Intangible Assets	(1 189)	(1 321)
Other deductions	(53)	(169)
Reduction of Tier 1 capital (Pillar 2 adjustments)	(98)	(279)
Total Tier 1	**67 053**	**58 225**
Subordinated debt	**14 331**	**20 812**
Reduction of Tier 2 capital (Pillar 2 adjustments)	(97)	(279)
Tier 2 capital	**14 234**	**20 533**
Equity	**81 287**	**78 758**
Risk-weighted value		
Banking portfolio	328 468	349 358
Trading portfolio	25 299	13 769
Operating risk	57 542	58 549
Total risk exposure amount loan adjustment	-	16
Total risk weighted assets	**411 309**	**421 692**
Total capital as a percentage of risk weighted assets (total capital ratio)	**19.76%**	**18.68%**
Total tier 1 capital expressed as a percentage of risk-weighted assets ("tier 1 capital ratio")	**16.30%**	**13.81%**

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

As at 31 December 2018, the Bank's capital adequacy ratio was 19.76% (2017: 18.68%) which corresponds to the requirements set in the Basel Capital Accord and the regulations of the FCMC of Latvia.Under the capital requirements introduced by Regulation (EU) No 575/2013 of the European Parliament and of the Council and the FCMC banks need to maintain a ratio of capital to risk weighted assets ("statutory capital ratio") above the prescribed minimum level. Although the minimum required level as at 31 December 2018 was 8%, according to a special request by the FCMC the Bank was required to ensure a higher capital adequacy of 11.60% during the period from 1 December 2017 In addition to the above capital requirement for the overall risk coverage, the Bank is required to maintain compliance with the total capital reserve requirement calculated in accordance with Section 35^{22}, 35^{23}, 35^{24} or 35^{25} of the Credit Institution Law - 2.67% (Capital conservation buffer – 2.50%, institution-specific countercyclical capital buffer – 0.12% (as at 31.12.2018), systemic risk buffer – 1% for risk transactions with Estonian residents). The requirements of the total capital reserve should be met using Tier 1 capital.

During the years 2018 and 2017 as of 31 December of these years the Bank and the Group were in compliance with the capital adequacy and the minimum capital requirement specified in the Law On Credit Institutions and the rules of the FCMC, as well as in compliance with the higher ratio required by the FCMC.

In addition to the calculation of the capital adequacy ratio in accordance with 'Normative regulations on establishing a capital and liquidity adequacy assessment process' No. 199 of the FCMC, the Bank regularly conducts its own internal capital adequacy assessment in order to ensure that it covers all the risks assumed by the Bank and whether they are covered by the capital.

45. FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Financial instruments measured at fair value

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

The Group and the Bank

31 December 2018	Published price quotations (1)	Valuation techniques based on market observable inputs (2)	Valuation techniques based on unobservable inputs (3)	Total
Financial assets				
Financial assets designated as at fair value through profit or loss:				
Fixed income securities	7 708	-	5 711	**13 419**
Non fixed income securities	4 432	-	-	**4 432**
Financial assets	-	-	-	**-**
Derivatives	-	18	-	**18**
Financial assets measured at fair value through other comprehensive income				
Fixed income securities	34 498	-	-	**34 498**
Non fixed income securities and shares	-	630	218	**848**
	46 638	**648**	**5 929**	**53 215**
Financial liabilities				
Derivatives	-	-	-	-
	-	-	-	-

31 December 2017	Published price quotations (1)	Valuation techniques based on market observable inputs (2)	Valuation techniques based on unobservable inputs (3)	Total
Financial assets				
Financial assets at fair value through profit or loss:				
Fixed income securities	7 027	-	1 226	**8 253**
Financial assets	-	-	397	**397**
Derivatives	-	119	-	**119**
Available-for-sale assets				
Fixed income securities	53 660	-	-	**53 660**
Non fixed income securities and shares	-	583	218	**801**
	60 687	**702**	**1 841**	**63 230**
Financial liabilities				
Derivatives	-	232	-	232
	-	**232**	-	**232**

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

45. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

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

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

Type	Valuation technique
Financial assets and liabilities designated as at fair value through profit or loss.	Market comparison technique: The fair values are based on broker quotes. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments.
Financial assets measured at fair value through other comprehensive income (Available-for-sale assets - 2017).	Valuation is based on financial indicators, including discounted cash flows and value of Bank's position with the price hedge

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

Type	Valuation method	Significant unobservable inputs	Inter-relation between significant unobservable inputs and fair value measurement
Assets at fair value through profit or loss (illiquid bonds)	Valuation is based on financial indicators, including discounted cash flows.	Net assets	The estimated fair value would increase (decrease), if: Increase/(decrease) in net assets
Financial assets at fair value through profit or loss	Outlook of the court case and estimated proceeds	Court case's order	The estimated fair value would increase (decrease) if: Positive (negative) court case's order
Financial assets measured at fair value through other comprehensive income (Available-for-sale assets -2017)	Valuation is based discounted dividend model	Future net revenues; CAPEX	The estimated fair value would increase (decrease) if: revenue increases/ (decreases/ CAPEX decreases/ (increases)

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

31.12.2018

Financial assets at fair value	**31.12.2017**	**Acquired**	**Fair value adjustment**	**31.12.2018**
Financial assets at fair value through profit or loss	397	-	(397)	**-**
Fixed income securities	1 226	4 485	-	**5 711**
Non fixed income securities	218	-	-	**218**
Total financial assets at fair value	**1 841**	**4 485**	**(397)**	**5 929**

31.12.2017

Financial assets at fair value	**31.12.2017**	**Acquired**	**Fair value adjustment**	**31.12.2018**
Financial assets at fair value through profit or loss	-	397	-	**397**
Fixed income securities	301	925	-	**1 226**
Non fixed income securities and shares	530	-	(312)	**218**
Total financial assets at fair value	**831**	**1 322**	**(312)**	**1 841**

45. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

a. Financial instruments not measured at fair value

The table below analyses the fair values of financial instruments other than measured at fair value by the level in the fair value hierarchy into which each fair value measurement is categorised.

31 December 2018	Level 1: EUR'000	Level 2: EUR'000	Level 3: EUR'000	Total fair value EUR'000	Total carrying amount EUR'000
Financial assets					
Cash and demand deposits with central bank	521	78 293	-	78 814	78 814
Loans and receivables from banks	-	-	45 292	45 292	45 292
Loans to customers	-	-	193 686	194 693	193 686
Investment securities	56 504	-	2 275	58 661	58 779
Other financial assets			9 565	9 565	9 565
Financial liabilities					
Deposits and balances due to financial institutions	-	-	1 716	1 716	1 716
Financial liabilities carried at amortized cost	-	-	408 769	408 763	408 769
Other financial liabilities			608	608	608

31 December 2017	Level 1: EUR'000	Level 2: EUR'000	Level 3: EUR'000	Total fair value EUR'000	Total carrying amount EUR'000
Financial assets					
Cash and demand deposits with central bank	1 302	232 501	-	233 803	233 803
Loans and receivables from banks	-	-	118 002	118 002	118 002
Loans to customers	-	-	161 000	160 768	161 000
Investment securities	28 979	-	2 556	31 880	31 535
Other financial assets	-	-	12 932	12 932	12 932
Financial liabilities					
Deposits and balances due to financial institutions	-	-	1 428	1 428	1 428
Financial liabilities carried at amortized cost	-	-	596 424	596 475	596 424
Other financial liabilities	-	-	1 251	1 251	1 251

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

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

46. EVENTS AFTER THE REPORTING PERIOD

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