INDUSTRA

ANNUAL REPORT 2019

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Management report

In 2019, the new management of the joint-stock company Industra Bank (formerly - Meridian Trade Bank, hereinafter referred to as Industra, the Bank) actively worked on changing the Bank's business model, paying particular attention to reviewing, restructuring and recovering its historical loan portfolio. Work on streamlining the Bank's loan portfolio and overall processes is important for the future growth of Industra, taking into consideration the capital strengthening measures, as provided for in the Bank's approved strategy, including the attraction of new investors.

In order to reduce the share of non-performing loans in the Bank's loan portfolio and gradually restore the successful operation of the credit institution, during the reporting period, Industra carried out extensive work to assess the quality of loans issued in previous years, in accordance with the principles of best financial accounting practices and international financial reporting standards.

Industra found that a significant number of the loans had been issued on conditions that did not comply with market practice, such as: related party lending, low-quality and insufficient collaterals for loans, loan repayment and loan servicing conditions not meeting the interests of the Bank, and others.

As a result of this, at the end of the reporting period, Industra decided to make provisions for a number of low quality and non-performing loans that had been issued until 2018 under the previous management of the Bank. The created provisions for impairment of the loans resulted in a loss of EUR 4.3 million to the Bank and the recognition of this is a pragmatic decision aimed at strengthening the possibilities for financial growth of Industra in future.

At the time of publishing the financial statements, the Bank's shareholders have completed the first phase of the Bank's capital strengthening measures by investing EUR 7 million in Industra's share capital. Thus, the shareholders of Industra have ensured equity requirements as set out in Regulation (EU) No 575/2013 and have compensated for the losses incurred as a result of provisions made during the reporting year.

During the reporting period, Industra paid great attention to ensuring compliance with international and Latvian legislation in the area of preventing the legalization of money laundering and preventing the financing of terrorism and proliferation. Industra has approved a strategy and a policy for managing the risks of money laundering, terrorism and proliferation financing, which define the basic principles of money laundering, terrorism and proliferation financing risk management, risk identification, as well as define risk mitigation and control mechanisms. The strategy and the policy for managing the risk of money laundering, terrorism and proliferation financing are implemented through the approval of relevant subordinate internal documents and the establishment of the appropriate organizational structure based on the principles of three-level protection and control.

By taking all measures to reduce risks, Industra has significantly reduced the risk of being involved in the possible legalization of such financial means that were obtained as a result of a criminal act or that could be used to finance terrorism or proliferation.

In 2019, Industra fully implemented the provisions of the Administrative Agreement concluded between the FCMC and the Bank. In accordance with the terms of the agreement, Industra ensured several independent audits of its internal control system for the prevention of money laundering and terrorism and proliferation financing (AML/CTF/CPF) and the management of sanctions risk:

1) compliance of the Bank's customer base risk classification;
2) compliance of the information technology software used in the ML/TF/PF risk management;
3) an independent assessment of the Bank's internal control system in the field of AML/CTF/CPF.

Thus, Industra has purposefully reduced the number of customers that could expose the Bank to an excessively high risk of ML/TF/PF or Sanctions risk, including by reducing the number of customers with an increased risk by 20,3% and reducing the volumes of high-risk transactions by 63,8%.

The Bank had received the first two independent audit reviews from the independent auditors Deloitte in mid-2018 and implemented all the proposals and recommendations given by the auditors already by the end of the year.

The third independent evaluation of the Bank's internal control system in the field of AML/CTF/CPF was conducted by Deloitte in early 2019. Industra received a positive evaluation of the internal control system, as well as recommendations for improving a relevant area, which were fully implemented during 2019.

Management report

During the reporting period, Industra began a gradual transformation process of the Bank. The organizational structure of the Bank has been changed to make it clearer and simplier, as well as to more precisely determine the areas of responsibility of employees. Throughout the year, there was a significant strengthening of the team of employees, which resulted in the stronger and more professional team than before.

In line with the market trends and to increase the operational efficiency of the Bank's activities, during the reporting period, most tariffs for the Bank's services and the offered deposit rates were adjusted to reflect the real situation.

During 2019, Industra continued work to optimize the number of Bank's customer service centres, which, according to the plan, is expected to be completed in 2020.

Throughout the reporting period, Industra continued to work on developing loan products and improving the efficiency of the existing loan products.

At the beginning of 2020 the spreading of virus Covid-19 throughout the world was acknowledged thus disturbing entrepreneurship and economical development. Due to uncertain and quickly developing situation the Management of the Bank considers that it is not possible to give an estimate of the virus spreading effect on the Bank at this stage. The Management of the Bank will continue to monitor possible consequences of Covid-19 pandemic and will carry out all reasonable and possible preventive activities to mitigate the effect of these consequences on the Bank's operations, financial situation and results.

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

Best regards,

Jurijs Adamovičs
Chairman of the Council

Solvita Deglava
Chairwoman of the Board

3 April 2020

INFORMATION ON THE BANK'S MANAGEMENT

Council members as of the date of signing these financial statements

Name, surname	Position	Date of appointment
Jurijs Adamovičs	Chairman of the Council	28 December 2018
Ivars Grunte	Member of the Council	10 December 2018

In March 2020 two Council members were elected – Andis Kļaviņš and Guntars Reidzāns who will undertake their duties once the approval from Finance and Capital Market Commission is received.
In 2019 Goča Tutberidze resigned from the Council.
In 2018 Natalija Prohorova and Valerijs Haliulins resigned from the Council.

Board members as of the date of signing these financial statements

Name, surname	Position	Date of appointment
Solvita Deglava	Chairwoman of the Board	03 January 2019
Ruta Amtmane	Member of the Board	21 February 2019
Jekaterina Meinharde	Member of the Board	05 December 2014

In March 2020 Raivis Kakānis was elected as the new Chairman of the Board who will undertake his duties once the approval from Finance and Capital Market Commission is received.
On 4 Apri
l 2020 Solvita Deglava will leave the position of Chairwoman of the Board.
In 2019 Dmitrijs Kozlovs and Ilze Pudiste resigned from the Board.
In 2018 Ivars Lapiņš and Sergejs Golubčikovs resigned from the Board.

STATEMENT OF RESPONSIBILITY OF THE BANK'S MANAGEMENT

The management of AS Idustra Bank is responsible for the preparation of the Bank's separate financial statements and the consolidated financial statements of the Bank and its subsidiary AS MTB Finance (hereinafter – the Group).

The financial statements presented on pages 7 to 82 are prepared based on source documents and present fairly the financial position of the Group and the Bank as at 31 December 2019 and the results of their operations, and cash flows for the year then ended.

The consolidated and the Bank's separate financial statements are prepared in accordance with the International Financial Reporting Standards, as adopted by the European Union. Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgments and estimates have been made by the management in the preparation of the financial statements.

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

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

Jurijs Adamovičs Chairman of the Council	Solvita Deglava Chairwoman of the Board

3 April 2020

Bank's separate and Group's consolidated statements of financial position

EUR'000		2019 Group	2019 Bank	2018 Group (adjusted)	2018 Bank
ASSETS					
Cash and balances due from the Bank of Latvia	6	79,015	79,015	86,559	86,559
Demand deposits with credit institutions	7	2,369	2,369	7,067	7,067
Financial assets at amortised cost	8,9	8,087	8,087	4,000	4,000
Financial assets at fair value through profit or loss	8	890	890	344	344
Loans and receivables:		46,058	65,968	61,467	79,300
Loans and term deposits due from credit institutions	10	-	-	*400*	*400*
Loans and advances to customers	11	*46,058*	*65,968*	*61,067*	*78,900*
Intangible assets		-	-	9	9
Property and equipment	12	709	705	764	758
Right-of-use assets	12	581	581	-	-
Investment properties	13	16,599	53	15,807	-
Other assets	14	8,402	5,588	6,717	4,811
Total assets		**162,710**	**163,256**	**182,734**	**182,848**
LIABILITIES AND EQUITY					
Financial liabilities at amortised cost:		156,376	156,376	171,952	171,956
Deposits	15	*154,478*	*154,478*	*168,554*	*168,558*
Subordinated liabilities	16	*1,898*	*1,898*	*3,398*	*3,398*
Other liabilities	17	3,008	2,860	2,697	2,482
Provisions		-	-	53	53
Total liabilities		**159,384**	**159,236**	**174,702**	**174,491**
Shareholders' equity					
Share capital	18	16,598	16,598	16,598	16,598
Share premium		260	260	260	260
Reserve capital	18	4,155	4,155	4,155	4,155
Fair value reserve		-	-	141	141
Accumulated loss		(17,687)	(16,993)	(13,122)	(12,797)
Total shareholders' equity		**3,326**	**4,020**	**8,032**	**8,357**
Total liabilities and equity		**162,710**	**163,256**	**182,734**	**182,848**

The accompanying notes on pages 11 to 82 form an integral part of these Bank's separate and Group's consolidated financial statements.

The Council and the Board of the Bank approved the issue of these Bank's separate and Group's consolidated financial statements as presented on pages 7 to 82 on 3 April 2020.

Jurijs Adamovičs
Chairman of the Council

Solvita Deglava
Chairwoman of the Board

3 April 2020

Bank's separate and Group's consolidated statements of profit or loss and other comprehensive income

EUR'000		2019 Group	2019 Bank	2018 Group (adjusted)	2018 Bank
Interest income	19	1,785	1,720	2,506	2,483
including income at effective interest rate		*1,335*	*1,548*	*2,243*	*2,243*
Interest expenses	20	(1,262)	(1,262)	(1,542)	(1,542)
Net interest income		**523**	**458**	**964**	**941**
Commission and fee income	21	7,620	7,613	10,077	10,074
Commission and fee expense	22	(1,877)	(1,877)	(2,263)	(2,263)
Net commission income		**5,743**	**5,736**	**7,814**	**7,811**
Gain on trading with financial instruments, net	23	1,043	1,074	2,116	2,476
Net gain on revaluation of financial assets at fair value through profit or loss	23	544	544	-	-
Other operating income		499	78	591	156
Other operating expenses		(279)	(130)	(466)	(140)
Net operating income		**8,073**	**7,760**	**11,019**	**11,244**
Administrative expenses	24	(7,891)	(7,472)	(8,108)	(7,951)
Depreciation of property and eqiupment and right-of-use assets	25	(614)	(612)	(329)	(327)
Revaluation of investment property	13	(496)	-	125	-
Net impairment allowance result	11	(3,778)	(4,014)	(3,336)	(2,665)
(Loss)/profit before taxation		**(4,706)**	**(4,338)**	**(629)**	**301**
Income tax expenses	26	-	-	(1)	(1)
(Loss)/profit after taxation		**(4,706)**	**(4,338)**	**(630)**	**300**
(Loss)/profit for the reporting period		**(4,706)**	**(4,338)**	**(630)**	**300**
Other comprehensive income					
Items that could be reclassified to profit or loss					
Net gains on financial assets measured at FVOCI		-	-	106	106
Other comprehensive income for the reporting year		-	-	**106**	**106**
Total comprehensive (loss)/profit		**(4,706)**	**(4,338)**	**(524)**	**406**

The accompanying notes on pages 11 to 82 form an integral part of these Bank's separate and Group's consolidated financial statements.

The Council and the Board of the Bank approved the issue of these Bank's separate and Group's consolidated financial statements as presented on pages 7 to 82 on 3 April 2020.

Jurijs Adamovičs
Chairman of the Council

Solvita Deglava
Chairwoman of the Board

3 April 2020

Bank's separate and Group's consolidated statements of changes in shareholder's equity

Group EUR'000	Share capital	Share premium	Reserve capital	Fair value reserve	Accumulated loss	Total equity
As at 31 December 2017	**16,598**	**260**	**4,155**	**35**	**(10,600)**	**10,448**
IFRS 9 implementation impact	-	-	-	-	(1,892)	**(1,892)**
Adjusted balance as at 1 January 2018	**16,598**	**260**	**4,155**	**35**	**(12,492)**	**8,556**
Profit for the reporting period	-	-	-	-	*42*	*42*
Other comprehensive income	-	-	-	*106*	-	*106*
Total comprehensive income	-	-	-	**106**	**42**	**148**
As at 31 December 2018	**16,598**	**260**	**4,155**	**141**	**(12,450)**	**8,704**
Unadjusted reserve in the previous reporting period	-	-	-	-	*(672)*	*(672)*
Adjusted balance as at 1 January 2019	**16,598**	**260**	**4,155**	**141**	**(13,122)**	**8,032**
Reclassification of revaluation reserve from FVOCI to FVPL	-	-	-	*(141)*	*141*	-
Loss for the reporting period	-	-	-	-	*(4,706)*	*(4,706)*
Total comprehensive loss	-	-	-	-	**(4,706)**	**(4,706)**
As at 31 December 2019	**16,598**	**260**	**4,155**	-	**(17,687)**	**3,326**

Bank EUR'000	Share capital	Share premium	Reserve capital	Fair value reserve	Accumulated loss	Total equity
As at 31 December 2017	**16,598**	**260**	**4,155**	**35**	**(11,205)**	**9,843**
IFRS 9 implementation impact	-	-	-	-	(1,892)	**(1,892)**
Adjusted balance as at 1 January 2018	**16,598**	**260**	**4,155**	**35**	**(13,097)**	**7,951**
Profit for the reporting period	-	-	-	-	*300*	*300*
Other comprehensive income	-	-	-	*106*	-	*106*
Total comprehensive income	-	-	-	**106**	**300**	**407**
As at 31 December 2018	**16,598**	**260**	**4,155**	**141**	**(12,797)**	**8,358**
Reclassification of revaluation reserve from FVOCI to FVPL	-	-	-	*(141)*	*141*	-
Loss for the reporting period	-	-	-	-	*(4,338)*	*(4,338)*
Total comprehensive loss	-	-	-	-	**(4,338)**	**(4,338)**
As at 31 December 2019	**16,598**	**260**	**4,155**	-	**(16,993)**	**4,020**

The accompanying notes on pages 11 to 82 form an integral part of these Bank's separate and Group's consolidated financial statements.

The Council and the Board of the Bank approved the issue of these Bank's separate and Group's consolidated financial statements as presented on pages 7 to 82 on 3 April 2020.

Jurijs Adamovičs
Chairman of the Council

Solvita Deglava
Chairwoman of the Board

3 April 2020

Bank's separate and Group's consolidated statements of cash flows

EUR'000		2019 Group	2019 Bank	2018 Group (adjusted)	2018 Bank
Cash flows from operating activities					
Profit/(loss) before taxation		(4,706)	(4,338)	(630)	300
Depreciation of property and equiment and right-of use assets		622	621	329	327
Increase of impairment allowance		3,778	4,014	3,336	2,665
Revaluation of investment property		496	-	(125)	-
Other changes		151	151	107	107
Increase in cash and cash equivalents used in operating activities before changes in operating assets and liabilities		**341**	**448**	**3,017**	**3,399**
Due from credit institutions (term over 3 months)		400	400	309	309
Decrease in loans and advances to customers		11,235	8,933	10,566	8,739
Increase in financial assets at FVTPL		(548)	(548)	(58)	(58)
(Increase)/decrease in fnancial assets at amortised cost		(4,085)	(4,085)	34,550	34,550
(Increase)/decrease in other assets		(1,932)	(1,697)	1,610	2,536
Decrease in deposits		(14,080)	(14,080)	(80,869)	(80,867)
Increase/(decrease) in other liabilities		259	326	(2,855)	(2,823)
Net cash flows from operating activities		**(8,410)**	**(10,303)**	**(33,730)**	**(34,215)**
Cash flow from investing activities					
Purchase of property and equipment		(144)	(144)	(92)	(92)
Disposal of property and equipment		86	86	-	-
Acquisition of investment property		(2,697)	(52)	(485)	-
Disposal of investment property		752	-	-	-
Net cash flow from investing activities		**(2,003)**	**(110)**	**(577)**	**(92)**
Cash flows from financing activities					
Decrease in subordinated liabilities		(1,500)	(1,500)	(1,985)	(1,985)
Repayment of lease liabilities (IFRS 16)		(328)	(328)	-	-
Net cash flows from financing activities		**(1,828)**	**(1,828)**	**(1,985)**	**(1,985)**
Net decrease in cash and cash equivalents		**(12,241)**	**(12,241)**	**(36,292)**	**(36,292)**
Cash and cash equivalents at the beginning of the year		**93,625**	**93,625**	**129,917**	**129,917**
Cash and cash equivalents at the end of the year	27	**81,384**	**81,384**	**93,625**	**93,625**

The accompanying notes on pages 11 to 82 form an integral part of these Bank's separate and Group's consolidated financial statements.

The Council and the Board of the Bank approved the issue of these Bank's separate and Group's consolidated financial statements as presented on pages 7 to 82 on 3 April 2020.

Jurijs Adamovičs
Chairman of the Council

Solvita Deglava
Chairwoman of the Board

3 April 2020

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

1 GENERAL INFORMATION

Information on the Bank

AS Industra Bank (previously – AS Meridian Trade Bank, AS SMP Bank; hereinafter – the Bank) was incorporated in the Republic of Latvia as a joint stock company "Multibanka" in 1994, in Riga and is licensed as a bank offering a wide range of financial services to enterprises and individuals. The legal address of the Bank is Elizabetes iela 57, Riga, Latvia. The Bank has 4 client service centres in Riga, and client service centres in Liepāja, Ventspils, Daugavpils, Olaine, Jelgava, Saulkrasti and Jūrmala. The Bank has a foreign branch in Vilnius (Lithuania) with client service centres in Klaipeda (Lithuania) and Kaunas (Lithuania). In February 2019 a representative office in Moscow (Russian Federation) was closed.

These financial statements include the Group's consolidated and the Bank's separate financial statements. The consolidated financial statements for year ended 31 December 2019 include the financial statements of the Bank and its subsidiary AS MTB Finance (hereinafter - the Group). The legal address of the AS MTB Finance is Elizabetes iela 57, Riga, Latvia. AS MTB Finance manages investment properties portfolio and provides leasing services.

The financial statements were approved for issue by the Board on 3 April 2020. The shareholders have the right to reject these financial statements and request that new financial statements are prepared.

Legislation regulating the Bank's operations

The Bank's operations are governed by the law 'On Credit Institutions', 'Commercial Law' and regulations issued by the Financial and Capital Market Commission (the FCMC). The above regulations govern capital adequacy, minimum equity, liquidity, foreign exchange positions, risk transaction restrictions with respect to one counterparty, group of related customers and related parties of the Bank, as well as other applicable requirements.

2 BASIS OF PREPARATION

Statement of Compliance

These financial statements have been prepared in accordance with the International Financial Reporting Standards as adopted by the EU (IFRS) on a going concern basis. The financial statements were prepared on a historical cost basis, except for financial assets and liabilities measured at fair value through other comprehensive income, that were disclosed at fair value.

After considering key risks the management believes that the going concern basis is appropriate for the preparation of these financial statements, however material uncertainty exists with regard to the going concern basis which is described in Note 41. The financial and capital position of the Group and its business activities, the objectives and policies of risk management and the key risks to which the Group is exposed are described in section 'Risk Management'. Liquidity risk management is particularly important with regard to the going concern basis as the inability to attract sufficient funds to fulfill payment liabilities may cause the Bank to borrow funds at excessive cost, breach regulatory requirements, delay regular settlements or make the Group no longer compliant with the going concern basis. For more information please refer to section 'Liquidity risk management'. Of equal importance to the Group's compliance with the going concern basis is compliance with regulatory requirements, in particular those relating to capital adequacy.

Business activities are planned and carried out by the Group in view of the available capital and in line with regulatory requirements. The capital adequacy calculation and wider disclosures on current and expected capital adequacy requirements are provided in section 'Capital management'. In addition to other risk policies and procedures the Group has a comprehensive liquidity risk management and capital planning framework in place.

The management of the Group and the Bank consistently monitors and evaluates the market situation and its potential impact on the Group and the Bank, if any. Based on the information available to date the management is certain that the measures implemented by the Bank are sufficient and appropriate and there is no material impact on the Bank's and the Group's operations at the reporting date nor is any expected in the future.

The preparation of financial statements under IFRS as adopted by the EU requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities and the reported income and expenses for the reporting period. Although such estimates are based on reasonable information available to management regarding these events and activities, actual results may differ from these estimates.

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

2 BASIS OF PREPARATION (continued)

Basis of measurement

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

- financial assets and liabilities at fair value through profit or loss are stated at fair value (including financial assets held for trading);
- financial assets at fair value through other comprehensive income are stated at fair value;
- investment property is carried at fair value.

Functional and Presentation Currency

All amounts in these financial statements are presented in thousands of euro (EUR'000), unless stated otherwise. Euro is the functional currency of the Group and the Bank.

3 SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been applied in the preparation of the consolidated financial statements:

Basis for consolidation

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.

The investment in AS MTB Finance, in which the Bank holds a 100% interest and voting rights, is accounted for in the Bank's separate financial statements at cost less impairment.

Transactions eliminated on consolidation

Intra-group transactions, balances and unrealised profits arising from intra-group transactions are eliminated in the course of consolidation. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

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 a former subsidiary is measured by the Group at fair value when control is lost.

Currency translation

Foreign exchange transactions are translated into the respective functional currency at the reference exchange rate published by the European Central Bank on the date of the respective transaction.

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

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into the functional currency at the spot exchange rate at the date of acquisition or the date that the fair value was determined, respectively. Foreign currency differences arising on translation are recognised in the profit and loss statement.

Assets and liabilities of foreign subsidiaries, including goodwill and fair value adjustments arising at the acquisition, are translated into functional currency at the reference exchange rate published by the European Central Bank at the end of the reporting period. The income and expenses of foreign subsidiaries are translated into functional currency at the average exchange rates on the date of transaction.

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Currency	Reporting date	
	31.12.2019	**31.12.2018**
USD	1.1234	1.1450
RUB	69.9563	79.7153

Financial instruments

Financial instruments are classified into the following categories:

Financial assets at fair value through profit or loss

Financial assets are measured at fair value through profit or loss if they are not measured at amortised cost or measured at fair value through other comprehensive income.

For equity instruments that would otherwise be measured at fair value through profit or loss, at initial recognition an irrevocable election may be made to recognise those at fair value through other comprehensive income. The option to choose is applicable to each instrument individually.

Interest on financial assets measured at fair value through profit or loss is included in net interest income. Revaluation and trading gains or losses arising from changes in the fair value of the respective financial assets are included directly in the income item "Net financial income". Such financial assets and liabilities after initial recognition are revalued at fair value based on available market prices or broker quoted prices.

Financial assets at amortised cost

In order to measure a financial asset at amortised cost, it should be held concurrently within a such business model that aims to hold a financial asset in order to receive its contractual cash flows and the contractual terms of the financial asset should give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI principle). Financial assets measured at amortised cost are carried at amortised cost using the effective interest rate method, less any allowance for impairment.

A gain or loss on a financial asset that is measured at amortised cost is recognised in profit or loss when the financial asset is derecognised, reclassified through the amortisation process or in order to recognise impairment gains or losses. Financial assets at amortised cost are recognised on drawdown. From the date of signing of a relevant contract till drawdown they are accounted for as off-balance sheet commitments.

When amending or revising the contractual cash flows of financial assets that do not result in derecognition, the Group and the Bank shall recalculate the gross carrying amount of the financial assets and recognise revenue or expense from changes in the statement of income. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets). The new gross carrying amount is an estimate of the present value resulting from the initial effective interest rate of the financial asset or the credit-adjusted effective interest rate on a financial asset that is impaired or impaired by discounting the modified or revised contractual cash flows. Estimates of expected cash flows include all contractual cash flows and payments, except for expected credit losses, unless the financial asset is acquired or issued with impairment. Costs or commissions adjust the carrying amount of the modified financial asset and are amortised over the remaining period of repayment of the modified asset.

If financial assets cannot be recovered, they are written off and charged against allowance for credit losses. The management of the Group decides on writing-off of financial assets. Recoveries of loans previously written off are credited to the statement of income.

This category includes claims on credit institutions, loans and advances to customers and fixed income securities that correspond to the principle of "solely principal and interest payments".

Liabilities at amortised cost

Liabilities at amortised cost include deposits and account balances of credit institutions, balances of customer current accounts and customer deposits, subordinated liabilities and other financial liabilities.

Financial liabilities at amortised cost are initially measured at fair value less direct transaction costs and subsequently measured at amortised cost using the effective interest rate method.

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

The fixed maturity of subordinated deposits is at least five years at the time of their creation and these deposits must be repaid before maturity only in the event of the cessation of business or bankruptcy of the Bank, when those are ranked before shareholders' claims. Likewise, issued subordinated debt securities must be repaid before maturity only in the event of the cessation of business or bankruptcy of the Bank, when they rank before the shareholders' claims.

Financial assets at fair value through other comprehensive income

For a financial asset to be measured at fair value through other comprehensive income, it should be concurrently held within a business model the aim thereof is both to receive contractual cash flows and to sell the financial asset and the contractual terms of the financial asset should give rise on specific dates to cash flows that are "solely payments of principal and interest on the principal amount outstanding". The Group's financial assets measured at fair value through other comprehensive income are expected to be held for an indefinite period of time and may be sold if required by liquidity or changes in interest rates, exchange rates or share prices.

Financial assets measured at fair value through other comprehensive income are subsequently, after initial recognition, re-measured at fair value based on available market prices. A revaluation gain or loss on a financial asset measured at fair value through other comprehensive income is recognised in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognised or reclassified. For debt securities the difference between the initial carrying amount and amortised cost determined by the effective interest rate method is treated as interest income; upon de-recognising of a security the cumulative fair value revaluation gain previously recognised in other comprehensive income is reclassified from equity to profit or loss.

For non-equity financial instruments measured at fair value through other comprehensive income, the loss allowance is recognised in other comprehensive income and does not reduce the carrying amount in the balance sheet. For equity instruments, that are not held for trading and not acquired as a result of business combinations, the Group and the Bank, upon initial recognition, should make an irrevocable election to present the subsequent changes in fair value of the instruments in other comprehensive income or in profit or loss. This election is made on an instrument-by- instrument basis. Amounts presented in other comprehensive income are not subsequently transferred to profit or loss, but cumulative gain or loss on disposal is transferred directly to retained earnings.

Recognition

All purchases and sales of financial assets that require delivery in accordance with accepted market principles ('ordinary' purchases and sales) are accounted for at the date of the transaction, which is the date on which the Group / the Bank commits to deliver the financial asset. Other purchases are recognised when the Group / the Bank becomes a party to the contractual terms of the instrument.

Measurement

A financial asset or liability is initially measured at fair value plus transaction costs that are directly attributable to the acquisition of a financial asset or liability if the financial asset or liability is not measured at fair value through profit or loss.

After initial recognition, financial assets are measured at fair value without deducting transaction costs that might arise in the event of a sale or exclusion.

Derecognition

Financial assets – write-off

Financial assets are written off in full or in part when the Group /the Bank has exhausted all practical possibilities of recovery and has concluded that there is no reason to believe that the amounts will be recovered. The write-off is a de-recognition event. The Group / the Bank may write off financial assets that are still subject to enforcement activity when the Group/ the Bank seeks to recover amounts that are due under contracts, however, there is no reason to believe that they will be recovered.

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets – de-recognition

The Group / the Bank derecognises financial assets when:
- the assets are redeemed or the rights to cash flows from the assets expired; or
- the Group / the Bank transfers the rights to the cash flows from the financial assets or enter into a relevant agreement, while

(i) transferring all material risks and rewards of ownership of the asset, or
(ii) neither transferring nor retaining all material risks and rewards inherent in the ownership of the asset, nor retaining control. Control is maintained if the other party to the transaction does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale transaction.

Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase ("repo") agreements are accounted for as secured financing transactions, with the securities retained in the statement of financial position and the counterparty liability included in amounts payable under repo transactions. The difference between the sale and repurchase price represents the interest expense and is recognised in the statement of comprehensive income over the term of the repo agreement using the effective interest rate method.

Securities purchased under agreements to resell ("reverse repo") are recorded as amounts receivable under reverse repo transactions. The differences between the purchase and resale prices are treated as interest income and accrued over the term of the "reverse repo" agreement using the effective interest method. If assets purchased under an agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

Derivatives

Derivative financial instruments including foreign exchange contracts, currency and interest rate swaps and other derivative financial instruments are initially recognised in the statement of financial position at their fair value. Attributable transaction costs are recognised in the profit and loss statement of the relevant period. Fair values are obtained from quoted market prices or discounted cash flow models, as appropriate. OTC derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The Group and the Bank do not use hedge accounting.

Offsetting

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

Property and equipment

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses. 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. Cost includes expenses that are directly attributable to the acquisition of the asset.

Depreciation is charged to the profit and loss statement on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date when the asset becomes available for use or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Depreciation methods, useful lives and residual values are assessed annually. The annual depreciation rates are as follows:

Buildings	5%
Furniture and cars	20%
Computers	35%
Other fixed assets	20%

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

Intangible assets acquired by the Group or the Bank are stated at cost less accumulated amortisation and impairment losses.

Software licences are capitalised on the basis of the costs incurred to acquire and customise the specific software. Depreciation is charged to the profit and loss statement on a straight-line basis over the estimated useful lives of the individual assets. The estimated useful lives are 5 to 7 years.

Repossessed assets

As part of the normal course of business the Group and Bank occasionally take possession of property that originally was pledged as security for a loan. When the Group and Bank acquire (i.e. gains a full title to) a property in this way, the property's classification follows the nature of its intended use by the Group and Bank. When the Group and the Bank are uncertain of their intentions with respect to property that they have repossessed, those properties are classified as investment property. Other types of collateral (repossessed finance lease objects) are classified as other assets and carried at cost net of impairment loss.

Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business or for administrative purposes. All investment properties are carried at fair value through profit and loss. The fair value of investment property is based on a valuation by an independent appraiser who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued. The fair value of the Group's investment property is measured by independent appraisers on a regular basis.

Recognition of income and expenses

All significant categories of income and expenses are recognised on an accrual basis.

Interest income is recognised as it accrues in the profit and loss statement using the effective interest method. Interest income and expense include the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Loan origination fees and other fees including the related direct costs that are considered an integral part of the total loan profitability are deferred and amortised to the interest income over the estimated life of the financial instrument using the effective interest rate method.

Other fees, commissions and other income and expense items are recognised when the corresponding service has been

Fair value measurement principles

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 has access at that date. The fair value of liabilities represents the risk of default.

A number of the Group's accounting policies and disclosures require the determination of fair value for both financial and non-financial assets and liabilities carried at fair value or disclosures on their fair value should be made in the financial statements.

The Group and the Bank have an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values. The valuation team reports directly to Finance Director.

Specific controls include:

- verification of observable pricing;
- re-performance of model valuations;
- a review and approval process for new models against observed market transactions;
- analysis and investigation of significant daily valuation movements;
- review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments compared to previous month.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in the profit 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 the Bank measure the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the fair value is established by the Group and the Bank 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 should make maximum use of market inputs, rely as little as possible on estimates specific to the Group and the Bank, incorporate all factors that market participants would consider in setting a price, and be consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Group and the Bank calibrate valuation techniques and test them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

Where third-party information, such as broker quotes or pricing services, are used to measure fair value, the Group and the Bank assess and document 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 the 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.

In determining the fair value of assets or liabilities the Group and the Bank use observable market data to the extent possible. 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 categorised in different levels of the fair value hierarchy, the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group and the Bank recognise transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. For further analysis of the basis for fair value refer to Note 39.

Impairment losses

Financial assets

The Management of the Group and the Bank considers both specific exposures and portfolio-level risks in determining the balance of impairment allowance for expected credit losses. The expected credit loss assessment is forward-looking and is based on unbiased and probability-weighted information about past events, current conditions and forecasts of future economic conditions. Impairment allowance for expected credit losses is recognised even if no credit loss event has happened. A loan or portfolio of loans is impaired and impairment losses are incurred if, and only if, there is objective evidence that the estimated present value of future cash flows is less than the current carrying value of the loan or portfolio of loans, and it can be reliably estimated.

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

For off-balance contingent liabilities, allowances for expected future losses are recognised as provisions. The provisioning principles for expected losses arising from off-balance sheet financial commitments and contingent liabilities are consistent with the principles and methods applied for on-balance sheet exposures. Additional considerations are applied to adjustments for expected conversion and future use patterns of the committed limits as well as the Group's performance in timely identification and termination of limits for deteriorating exposures.

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

Stage 1 – performing loans: when loans are first recognised, the Group and the Bank recognise an allowance based on twelve months expected credit losses.

Stage 2 – loans with significant increase in credit risk: when a loan shows a significant increase in credit risk since initial recognition, the Group and the Bank record an allowance for the lifetime expected credit loss. The Group and the Bank use the following criteria to determine a significant increase in credit risk: contractual payments are overdue by more than 30 days, the loan is included in the watch list, the value of the collateral is lower than the carrying amount of the loan, a negative outlook for the industry.

Stage 3 – impaired loans with objective evidence of impairment. The Group and the Bank recognise lifetime expected credit losses for these loans and, in addition, accrue interest income on the amortised cost of the loan net of allowances. Provisions for impairment losses on individual loans are calculated according to the present value of their discounted future cash flows, however, the collateral value is adjusted to reflect the amount expected to be earned from the collateral. The definition of 'default' as used by the Group and the Bank to classify financial assets into Stage 3 does not differ from the one provided in Article 178 of Regulation 575/2013, i.e. exposure delayed 90 and more days (less days for some products), significant restructuring, insolvency or bankruptcy, or similar legal proceedings started or other indicators of unlikeliness to pay. Evidence that a financial asset is credit- impaired includes the following observable data:

- significant financial difficulty of the borrower;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting to the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, a concession that the Bank or the Group would not otherwise consider;
- the borrower entering bankruptcy or other financial reorganisation becomes highly probable;
- the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses;
- a combination of several other events that cause a loan to become credit-impaired.

The Group and the Bank recognise impairment for FVOCI debt securities as applicable, depending on whether they are classified as Stage 1, 2 or 3, as explained above. However, in this event the expected credit losses will not reduce the carrying amount of these financial assets in the financial statement, 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 recognised in other comprehensive income as an accumulated impairment amount, with a corresponding charge to profit or loss.

For FVOCI debt securities considered to be 'low risk', the Group and the Bank apply a policy which assumes that the credit risk on the instrument has not increased significantly since initial recognition. Such instruments will include trade, investment grade securities where the borrower has strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. For 'low risk' assets ECL is calculated as explained in Stage 1 above.

When estimating lifetime ECLs for undrawn loan commitments, the Group and the Bank: a) estimate the expected portion of the loan commitment that will be drawn down over the expected life of the loan commitment, and b) calculate the present value of cash shortfalls between the contractual cash flows that are due to the Group and the Bank and the cash flows the Group and the Bank expect to receive for that expected portion of the loan drawn down.

For financial guarantee contracts, the Group and the Bank calculate the lifetime of ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the guarantor expects to receive from the holder, the debtor or any other party.

For revolving facilities such as credit cards and overdrafts, the Group and the Bank measure ECLs by determining the period over which they expect to be exposed to credit risk, taking into account the credit risk management actions that they expect to take once the credit risk has increased and that serve to mitigate losses.

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Following a decrease in credit risk, a financial asset may be re-classified from Stage 3 to Stage 2 or from Stage 2 to Stage 1. The Group and the Bank use a sufficiently long (in some events – up to 2 years) probation period since all factors of enhanced risk or default do not exist any more, to establish a possibility to move a financial asset from Stage 3 to Stage 2 and from Stage 2 to Stage 1.

Expected credit loss will be determined by the Group and the Bank using the so-called EAD x PD x LGD method, where EAD is exposure at default, PD is probability of default and LGD is loss given default. The main macroeconomic and industry factors taken into account are gross domestic product, inflation rate and unemployment rate, real estate prices. For measurement of expected credit losses financial instruments are grouped on the basis of similar probability of default and common credit peculiarities.

As part of the portfolio based EAD x PD x LGD method each component is determined separately and then all components are aggregated on the portfolio level. PD evaluation is made by the Bank using migration matrices based on historical performance of portfolio of financial assets adjusted for forward-looking forecasts. EAD evaluation is made by the Group and the Bank using payment schedules adjusted, where necessary, for advance payments and taking into account off-balance sheet transactions.

Model validation includes reviews of input data, underlying assumptions used for expected credit loss evaluation, and review of model output data. Back-testing is performed by testing whether the Stage 2 indicators correctly reflect an increase in credit risk, and namely, the Bank analyses the number and amount of cases when a loan is reclassified directly from Stage 1 to Stage 3, as well as it is intended to compare the actual historical performance of portfolio to the expected credit loss estimation results as per developed models.

The Group and the Bank first assess whether objective evidence of impairment exists individually for loans that are individually significant, and individually or collectively for loans that are not individually significant. If the Group and the Bank determine that no objective evidence of impairment exists for an individually assessed loan, whether significant or not, it includes that loan in a group of loans with similar credit risk characteristics and collectively assess them for impairment. As soon as information is available that specifically identifies losses on individually impaired loans included in a group of loans with similar credit risk characteristics, those loans are removed from the group. Assets that are individually assessed for impairment or for which an impairment loss is already recognised, are excluded from the total financial assets group tested to identify the risk of impairment.

The assessment of whether lifetime expected credit losses should be recognised is based on significant increases in the likelihood (Stage 2) or risk of a default (Stage 3) occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring. In most cases, there will be a significant increase in credit risk before a financial asset becomes credit-impaired or an actual default occurs (Stage 3), thus default (Stage 3) and credit-impaired loan classification will be closely aligned and will indicate non-performance of the borrower or significance of forbearance measures undertaken, but classification will not necessarily equal in all cases.

For individually assessed loans, the amount of impairment loss is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows discounted at the loan's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The calculation of the present value of the estimated future cash flows of a collateralised loan reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. The amount of the loss is recognised in the profit and loss statement.

If, in a subsequent period, the amount of the impairment loss decreases, the previously recognised impairment loss is reversed. Any subsequent reversal of the impairment loss is recognised in the profit and loss statement, to the extent that the carrying value of the loan does not exceed what its amortised cost would have been absent the impairment at the reversal date. When a borrower fails to make a contractual payment of interest or principal due, but the Group believes that impairment is not appropriate on the basis of the level of collateral available or the stage of collections of amounts owed to the Group, the carrying amount of the loan is classified as past due but not impaired.

For purchased or originated credit-impaired financial assets, expected credit losses are discounted using the credit-adjusted effective interest rate determined at initial recognition. For purchased or originated credit-impaired financial assets only the cumulative changes in lifetime expected credit losses since initial recognition are recognised as a loss allowance. Favourable changes in lifetime expected credit losses are recognised as an impairment gain, even if the lifetime expected credit losses are less than the amount of expected credit losses that were included in the estimated cash flows on initial recognition.

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Fully impaired loans, the recovery of which may become economically unviable, may be written-off and charged against impairment allowance. They are not written-off until the necessary legal procedures have been completed and the amount of the loss is determined. When a loan or receivable is written-off, the claim against the borrower normally is not forgiven. Subsequent recoveries of amounts previously written-off are reported in the statement of profit and loss as recovered written-off assets within net credit losses on financial instruments.

For unused credits that have been granted, under the terms of the credit agreement, but not used, a conversion factor is calculated, which depends on historical data on the use of credit limits for the past 3 years. The unused credit amount is multiplied by the conversion factor and added to the loan balance.

Similarly as for loans to customers, the Group and the Bank estimate expected credit losses to reflect changes in credit risk since initial recognition of debt securities, loans to credit institutions and central banks exposures and commitments to extend credit. Impairment allowances are recognised based on forward looking information, even if no credit loss event has happened. The assessment considers broad range of information, but as most of these types of exposures are rated, it relies heavily on external credit ratings and rating agencies' reported default rates derived by calculating multi-period rating transition matrices. The LGD depends on the type of issuer (counterparty) and the external credit rating. Discounted cash flow is used to calculate EAD. The effective interest rate on debt securities is the yield at the time of purchase. The effective interest rate on a money market transaction is the interest rate of the transaction. Expected losses for balances in correspondent accounts and interbank overnight loans are not calculated due to the short-term nature of transactions (not exceeding one day).

If no credit rating is assigned, then the country's long-term credit rating is used, downgraded by 1 rating notch. Impairment provisions apply to financial assets measured at amortised cost but does not apply to financial assets measured at fair value through profit or loss. The Group and the Bank will recognise impairment for FVOCI debt securities, depending on whether they are classified as Stage 1, 2, or 3, as described above. The expected credit losses will not reduce the carrying amount of these financial assets in the statement on financial position, which remains at fair value.

For financial assets measured at fair value through other comprehensive income, the loss allowances are recognised in other comprehensive income and does not reduce their carrying amount in the balance sheet.

Non financial assets

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

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. The main assets and cash generating units considered by the Group comprise investment properties. Properties are valued on an individual basis. Impairment losses are recognised as profit or loss in the profit and loss statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

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

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

The impact of the reversal of existing allowances and recognition of a new impairment allowance for loans and receivables according to IFRS 9 is a net increase in allowances by 1,892 thousand euros for the Group and the Bank. It decreases capital and reserves. In order to reduce the negative impact of implementation of IFRS 9 on the capital ratios of the Group and the Bank, for the purposes of capital adequacy calculation the Group and the Bank use the 5-year transition period provided under the Regulation (EU) 2017/2395 (of 12 December 2017) concerning the impact of IFRS 9 on equity (CET1). During 2019, it is permitted to charge 85% of the allowance for expected loss back to equity.

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Loan commitments

In the normal course of business, the Group and the Bank enter into credit related commitments comprising irrevocable credit line facilities, letters of credit and guarantees, and provides other forms of credit insurance.

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

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably. For unused credit amounts that have been granted but not used in accordance with the terms of the loan agreement, a conversion factor is calculated, depending on the historical use of the credit limits over the last 3 years. The amount of unused credit is multiplied by the conversion factor and added to the loan balance. For the purpose of calculating EAD for unused loans, it is assumed that the unused credits will be repaid in accordance with the repayment schedule of the relevant loan agreement.

Financial guarantee liabilities and provisions for other credit related commitments are included within other liabilities.

Taxation

As of 1 January 2018, the new Law on Corporate Income Tax of the Republic of Latvia came 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.

Cash and Cash Equivalents

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

Leases

Policy applicable from 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. The main impact on the Bank's financial statements will come from the accounting of property leases. On 1 January 2019 the Bank recognized the right-of-use asset and lease liability.

The Group and the Bank as a lessee

Where the Bank acts as a lessee, the standard requires that right-of-use (RoU) assets and lease liabilities arising from most leases are recognised on the balance sheet. Depreciation of the RoU assets and interest expenses related to lease liabilities are recognised in the profit and loss statement. In the cash flow statement payments for the principal portion of the lease liability are presented within financing activities and payments for the interest portion are presented within operating activities.

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

The lease liability is initially measured as the present value of lease payments that are not paid at the commencement date. Over time, the liability will increase with interest expense accruals and decrease with lease payments. The RoU asset is initially measured at cost i.e. the same amount as the initial measurement of the lease liability plus certain other costs, for example lease payments made at or before commencement date. The RoU asset is thereafter depreciated over the lease term. Lease payments are discounted using the incremental borrowing rate. The Bank applies a single discount rate to a portfolio of leases with reasonably similar characteristics.

The Group as lessor

When acting as a lessor all leases shall be classified as either an operating lease or a finance lease. Operating leases are those leases where the lessor bears the economic risks and benefits. No major changes in accounting occured after adoption IFRS 16.

Before 1 January 2019:

Classification

Only risks and rewards incidental to ownership of the leased asset during the lease period should be considered in determining the classification of lease. Relevant risks include the possibility of losses from idle capacity or technological obsolescence and from decreases in the value of the asset; relevant rewards may include the gain from the increase in value of the asset or realization of the residual value at the end of the lease. The classification of a lease is determined at the inception of the lease and is not revised unless the lease agreement is modified.

Finance lease

A finance lease is lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

When assets are leased out under finance lease terms, the net investment in finance lease is recognised as a receivable. The net investment in finance lease represents the difference between the gross receivable and the unearned finance income.

Operating lease

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 net of accumulated depreciation. They are depreciated over their expected useful lives on a basis consistent with similar owned property and equipment.

Provisions

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

Dividends

The Group and the Bank receive dividends from the equity instruments that are recorded to income when the right to receive payment is established.

Proposed dividends are recognised in the financial statements only when approved by the shareholders.

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 contributions to the State Social Insurance Fund on behalf of its employees during the employment period in accordance with local legal requirements and the Group and Bank will have no obligations to pay further contributions relating to employee services in respect to pension of retired employees.

Notes to the Bank’s separate and Group’s consolidated financial statements

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Adoption of new and/or amended IFRSs and IFRIC interpretations

The following amended standards became effective from 1 January 2019, but did not have any material impact on the Group:

- IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019).
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 28 “Long-term Interests in Associates and Joint Ventures” (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Annual Improvements to IFRSs 2015-2017 cycle – amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement” (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).

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

4 RISK MANAGEMENT

The Board of the Group and the Bank has developed a system for the identification, supervision and management of the key financial risks. The Bank's Council has approved this risk management system. This system is being constantly updated to take into account market conditions and the development of the Bank's and the Group's main operations. The following policies have been approved in order to achieve the Bank's and the Group's objectives related to capital adequacy, credit risk, market risk, operational risk management, reputation risk, conflict of interest prevention activities, personal data protection and processing activities and anti-money laundering and counter-terrorism and proliferation financing and sanctions risk management:

1. Liquidity risk management policy;
2. Credit policy;
3. Credit risk management policy and strategy;
4. Risk transactions and risk control policy for large transactions;
5. Currency risk management policy;
6. Country risk management policy;
7. Interest rate risk management policy;
8. Anti-money laundering and counter-terrorism and proliferation financing and sanctions risk management policy
9. Operational compliance risk management policy;
10. Capital and liquidity adequacy assessment policy;
11. Operational risk management policy;
12. Conflicts of interest prevention policy;
13. Reputation risk management policy;
14. Personal data protection and processing policy.

The Board of the Bank is responsible for the implementation of the risk management policy approved by the Council of the Bank.

Comprehensive management of the risk control functions at the Bank is ensured by Chief Risk Officer (CRO). The CRO ensures that the following functions are performed:

- Set-up, supervision and timely improvement of the Bank's risk management system;
- Providing, on a regular basis, to the Bank's Council, Board and heads of relevant units comprehensive and clear information on the Bank's overall risk profile, all key risks to the Bank and compliance with the risk strategy;
- Advising and supporting the Bank's Council and Board in the development of risk strategies and in making other decisions related to the Bank's risks.

To promote independence, the CRO's duties exclude such functions that are connected with the performance of the activities to be controlled.

Liquidity risk

Liquidity risk is defined as the risk that the Group and the Bank may be unable to sustain its current and future cash flows and secure borrowings to prevent threats to the Bank's daily operations or overall financial position of the Bank (liquidity risk of financing) and risk that the Group and the Bank may be unable to sell its financial assets in the desired term without material losses due to a market collapse or insufficient market depth (market liquidity risk).

The Group and Bank maintains adequate amounts of liquid assets to ensure compliance with liquidity ratio required by the normative acts of the Republic of Latvia. According to the requirement set by the Financial and Capital Market Commission, during 2019 the Bank was required to maintain an individual liquidity ratio 50% starting with 1 January 2019 till 25 February 2019 and 40% starting with 26 February 2019 till 31 December 2019. The Bank is in compliance with this requirement. The Bank's liquidity ratio as at 31 December 2019 is 73,70% and that as at 31 December 2018 was 74,32%.

Regulations (EC) No.575/2013 introduced the concept of liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) as measurements of the Bank's and the Group's liquidity position. Since 1 October 2016, LCR is calculated according to the Commission Delegated Regulation (EU) 2015/61. The minimum liquidity coverage ratio requirement is being introduced gradually. The minimum requirements to be complied with in the years 2016, 2017 and 2018 are accordingly as follows: 70%, 80% and 100%. The European Union's regulations on NSFR have not yet been finalised.

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

4 RISK MANAGEMENT (continued)

EUR'000	2019 Group	2019 Bank	2018 Group	2018 Bank
Liquidity reserve	82 518	82 518	86 110	86 110
Net cash outflows	15 619	15 621	13 476	13 489
Liquidity coverage ratio, %	**528**	**528**	**639**	**638**

The Group and Bank have approved internal limits for liquidity net position of the term structures of assets and liabilities in all currencies, EUR and USD. Internal limits for liquidity are used for risk analysis and control of liquidity and desirable structure of financing sources. An early warning system was developed in order to help identify exposure of the Bank's and the Group's liquidity position and necessity to attract additional sources. On the basis of data from early notification indices the Group and the Bank identify adverse trends impacting liquidity and analyse these trends and assess whether any hedging measures are required for liquidity risk. The Bank's Treasure Division organises and manages the daily process of resource management in order to ensure solvency, liquidity and profitability of the Bank. The Risk Management Division of the Bank evaluates and plans the term structure of assets and liabilities on a regular basis and carries out control over liquidity risk management, incl. monitors compliance with the required liquidity norms and internal limits defined by the Group and the Bank. Liquidity stress testing is performed using 6 scenarios. Scenarios include both internal and external factors. Stress testing is performed to the following stress levels: internal and typical to the Bank unfavourable events, changes of general market conditions, banking crisis and general market crisis at the same time. The impact of various shock scenarios on the liquidity ratio and the Bank's income is analysed. The reversre stress testing is also carried out. The Board Bank develops and the Council approves a Business Continuity Plan for liquidity crises that specifies: preventive measures for the reduction of the likelihood of liquidity crisis, methods and activities of timely identification of liquidity crisis and risk assessment, measures that have to be taken immediately in order to overcome liquidity crisis. The plan is tested on a regular basis. For maturity analysis of assets and liabilities refer to Note 36.

Credit risk

Credit risk is the risk that a counterparty, or borrower, fails or refuses to meet contractual obligations to the Group and the Bank.

The main objective of the Group's and the Bank's credit risk management is to ensure an optimal level of profit, financial stability of the Group and the Bank by adhering to the limits of tolerable credit risk across various categories, ensuring effective credit risk identification, measurement, monitoring and evaluation system, risk forecasting, estimation of it's probable volumes and consequences, identifying, developing and implementing risk mitigation measures.

The Group and the Bank have developed appropriate credit risk management strategy, policies and procedures to manage the credit risk. The Credit Policy of the Group and the Bank sets out the basic principles for the management of credit exposures, credit risk diversification instruments, various permitted concentration levels and limits, basic principles for assessing the creditworthiness of borrowers and the document governing the decision on granting loans and changing credit conditions. The Group's and the Bank's credit risk management policies and strategies set out basic methods for credit risk management, identification, measurement and monitoring (ongoing supervision), control and mitigation, credit monitoring policies and quality evaluation criteria. The credit risk evaluation system includes:

- risk assessment to make a decision on granting a loan;
- monitoring and management of credit risk;
- profit adjustment representing risk;
- risk analysis of credit portfolios;
- capital adequacy and capital distribution assessment;
- regular credit risk stress testing by the use of different scenarios.

The Group and the Bank apply various credit risk minimisation methods:

- limits and other restrictions, including limits on the total amount of loans granted to a single borrower or group of related persons, compliance with which is regularly monitored;
- diversification of the loan portfolio;
- assessing the creditworthiness of borrowers and guarantors;
- taking security and regular revaluation;
- setting special and / or additional conditions for loan issue;
- loan monitoring and supervision, including through the Early Warning Indicator System;
- regular loan quality assessment, etc.

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

4 RISK MANAGEMENT (continued)

The Group's and the Bank's credit risk is managed by Council, Board and Credit Committee. The established Asset Valuation Committee regularly monitors Group's and Bank's credit risk.

Credit risk control at the Group and the Bank is carried out by a dedicated unit – Credit Risk Management Unit. The Group and the Bank continuously monitor the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank. The current market value of security is regularly determined by either independent appraisal companies or the Bank's specialists, the changes in real estate prices are analysed.

The Group and the Bank's maximum exposure to credit risk in the statement of financial position is generally reflected in the carrying amount of financial assets. The impact of possible netting of assets and liabilities to reduce potential credit risk exposure is not significant.

The Group and the Bank determine concentration limits and monitor credit risk concentration by industry/sector, geographic location, type of loan, country of residence, loan currency and type of collateral. Overall, concentration of the loan portfolio is verified across seven positions. For the analysis of concentration of credit risk in respect of loans and advances to customers refer to Note 11 "Loans" and Note 38 "Maximum credit risk". In order to meet the requirements defined in the Risk transactions and Large risk transactions control policy, the Group and the Bank perform an assessment and control of risks associated with all assets and liabilities, including contingent liabilities of the Group and the Bank on a regular basis. Limits are regarded as the main tool for the control of risk transactions.

Capital management

Regulation No 575/2013 requires credit institutions to maintain Common Equity Tier 1 capital ratio of 4.5%, Tier 1 capital ratio of 6% and total capital ratio of 8%. Capital ratios are calculated by the Bank as follows: Common Equity Tier 1 capital ratio is Tier 1 equity of the Bank expressed as a percentage against total exposures; Tier 1 capital ratio is Tier 1 capital expressed as a percentage against total exposures; and total capital ratio is equity expressed as a percentage against total exposures. Total exposures are the sum of notional risk weighted assets and contingent liabilities are determined as the sum of capital requirements of risks multiplied by 12,5. According to the requirement set by the Financial and Capital Market Commission, until 25 February 2019 the Bank was required to maintain an individual capital adequacy ratio of 13,50% and starting from 26 February 2020 – 12,45%. In addition, according to the Credit Institutions Law the Bank is required to maintain a sufficient level of Tier 1 capital to cover the total capital buffer requirement which consists of a capital buffer of 2.5% of total exposures and the specific countercyclical capital buffer determined as the total value of exposures multiplied by the countercyclical capital buffer rate specific for the particular credit institution.

Weighted average value of assets is estimated in accordance with pre-defined risk grades, determining risks in accordance with the amount of capital, necessary to maintain these assets. Weighted average value of guarantees and potential liabilities is estimated in accordance with lending risk adjustment grades and risk grades defined for liabilities of partners. The following risk grades are applied: 0%, 20%, 35%, 50%, 100%, 150%.

Capital management is carried out at the Bank according to the Capital and Liquidity Adequacy Assessment Policy. The process of capital adequacy assessment is organised at the Bank by CRO and implemented by the Risk Management Division.

An integral part of the capital adequacy assessment process at the Bank is the calculation, planning and maintenance of capital adequacy. The Bank's objectives when managing capital, which complies with the term "equity" in the statement of financial position, are:

- To comply with the capital regulatory requirements.
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders.
- To maintain the sufficient capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored by the Bank's management on a regular basis, employing techniques based on the guidelines developed by the Basel Committee and the European Union directives, as implemented by the Financial and Capital Market Commission.

For the calculation of capital adequacy refer to Note 37 and for the impact on the ability of the Group and the Bank to continue as a going concern to Note 41.

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

4 RISK MANAGEMENT (continued)

Capital adequacy calculation of the Group and the Bank in accordance with the FCMC regulations implies several transitional adjustments as implemented by the EU and FCMC. Some of the transitional adjustments are expected to have a favourable impact for a number of future years which will then gradually reduce over time. The transitional adjustments are applicable to 2018 and later periods. For the purpose of capital adequacy calculation the Group and the Bank use the 5 year transition period provided under Regulation (EU) 2017/2395 (of 12 December 2017) concerning the impact of IFRS 9 on equity (CET1). In planning their future operations, the Group and the Bank take account of the implementation impact of IFRS 9 and foresee measures to be taken to reduce the negative impact as described in Note 41. The Group's and the Bank's long-term capital position for regulatory purposes is planned and managed in line with expected regulatory requirements.

Currency risk

Currency risk represents the potential losses from revaluation of balance sheet and off-balance-sheet items denominated in foreign currencies due to movements in foreign exchange rates. Gold is regarded as foreign currency. The objective of currency risk management is to mitigate the impact of adverse changes in exchange rates by minimising open positions in foreign currencies. The Bank does not use foreign currency open positions to generate income from speculative operations. The Group and the Bank performes daily controls of compliance with limits defined in Currency risk management policy, for transactions with foreign currency. The Group and the Bank are subject to the Credit Institutions Law which requires that the open position in an individual currency should not exceed 10% of the Bank's capital and the total open foreign currency position should not exceed 20% of the Bank's capital applicable to limiting large exposures according to Regulation No 575/2013. In accordance with the Currency Risk Management Policy, structural units of the Group and Bank are cooperating with the Risk Management Division in evaluation of the currency risk component of the planned transactions and elaboration of risk hedging method for it. For currency analysis refer to Note 35.

Interest rate risk

Interest rate risk is represented by possible negative influence on the Group's and the Bank's income that can result from possible changes of interest rates. The GAP analysis is used for measurement of interest rates risk. Assets, liabilities, guarantees and contingent liabilities, subjected to interest rate risk, are divided in accordance with minimum period, left till possible repricing dates of interest rates. Basis risk is the likelihood to incur losses due to changes in interest rates on financial instruments with equal repricing dates but different base rates. Basis risk is managed by repricing loans (at floating interest rates) and deposits (with floating interest rates) to the same base rates. Repricing risk is the likelihood to incur losses due to changes in interest rates and different remaining maturities of assets, liabilities and contingent items. Yield curve risk is the likelihood to incur losses due to unexpected changes in the slope and shape of the yield curve. Repricing risk and yield curve risk are managed by matching interest rate sensitive assets and liabilities in each term interval (i.e. maintaining the net position of interest rate risk in each term interval within internal limits). Optionality risk is the likelihood to incur losses when the financial instrument directly (options) or indirectly (loans with early repayment option, demand deposits etc.) provides the customer with an option. Optionality risk is managed by setting sufficient commission fees for early withdrawal of a deposit and early repayment of a loan. The Group and Bank calculate the influence on yearly net interest income, with parallel increase of interest rates for 100 base points. In order to assess the impact of adverse changes in interest rates on profitability and economic value in market emergencies the Bank performs interest rate risk stress testing. In accordance with requirements of Interest rate risk management policy, interest rate risk has to be assessed whenever limits for financial instruments are determined. For the results of sensitivity analysis refer to Note 33.

Country risk

Country risk is represented by possible losses in cases, where a debtor of the Group and Bank, being non-resident, will not be able to meet its liabilities against the Group and Bank, due to political, social or economic circumstances of the country of residency of the debtor. Country risk is managed by the Board of the Bank. Based on analysis of economical, political and social conditions of each particular country, limits are determined for geographic concentration of assets, liabilities and off-balance sheet items, for the purpose of management of country risk. The evaluation provided by international rating agencies is considered when assessing country risk. Limitations have been approved for placement of assets in countries graded as non-OECD, as well as for limitations on residual balances of nostro accounts. Limits for partners and transaction types are determined based on evaluation of risks of country and partners. Compliance with the limits is ensured by the Risk Management Division via regular control. For geographical concentration refer to Note 31.

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

4 RISK MANAGEMENT (continued)

Anti-money laundering and counter-terrorism and proliferation financing and risk sanctions management

The Bank's objective in anti-money laundering and counter-terrorism and proliferation financing (hereinafter referred to as - AML/CTF/CPF) and sanctions risk management is to safeguard the Bank's reputation and stability in relationships with customers and in the society as a whole, to cooperate and provide financial services to trustworthy customers and business partners, the business activity of which is understandable to the Bank, so that to prevent, to the extent possible, the Bank from being involved in money laundering, terrorism and proliferation financing and in breach of sanctions, so that to prevent losses related to loss of customers and trust.

Improvement of the ML/TF/PF risk and sanctions risk management process is one of the priorities of the Bank's strategy and business plan and during the reporting period the Bank actively continued to improve the ML/TF/PF and sanctions risk management system, by establishing an internal control system for the ML/TF/PF risk management in line with the specific business activities of the Bank based on an assessment of the level of ML/TF/PF risk characteristics for its customers, operational geographies, services and products, and delivery channels that impact the Bank's exposure to the ML/TF/PF risk.

In order to manage the ML/TF/PF risk, a risk control approach is used to assess the ML/TF/PF risk, by controlling the maximum permitted risk exposure against the those set in the ML/TF/PF risk management strategy. The Bank regularly identifies, assesses and analyses the Bank's ML/TF/PF risk exposures, preventing any significant increase in ML/TF/PF risks.

Within the framework of the ML/TF/PF risk and sanctions risk management, the adequacy of the Bank's resources to manage the ML/TF/PF risk and the sanctions risk is also determined, as well as the amount of capital required to cover the risks related to the Bank's operations is taken into account. It is consistently assessed and controlled by the Bank by the help of a comprehensive capital adequacy assessment which results in a capital adequacy report based on the analysis of the risk profile of the Bank (including its Lithuanian branch).

The Bank ensures the management of the ML/TF/PF risk and sanctions risk in compliance with:

- the laws and regulations of the countries in which the Bank operates;
- the Bank's business development strategy, an important part of which is the management of the ML/TF/PF risk and sanctions risk;
- the ML/TF risk management strategy, which details the framework for the ML/TF risk management and the internal control system for AML/CTF, measures restricting and reducing the ML/TF risk and the permissible exposure to the ML/TF risk for each year;
- the ML/TF/PF risk and sanctions risk management policy, which specifies measures for implementing the ML/TF/PF risk management strategy and the responsibilities and accountability of organizational units and employees in managing the ML/CF/PF risk and sanctions risk;
- the internal regulatory requirements governing the field of the Bank's ML/TF/PF risk and sanctions risk management.

Under the impact of the volatile regulatory environment, in 2019 the Bank paid particular attention to the development of ML/TF/PF risk and sanctions risk management methods in a most efficient manner to achieve high ML/TF/PF risk and sanctions risk prevention standards, in full compliance with regulatory requirements, and by making timely improvements and investments both in human resources and technologies.

During the reporting period, the Bank's main activities in managing the ML/TF/PF risk and sanctions risk were as follows:

- improvement of the ML/TF/PF and sanctions risk management system in line with the new regulation and technical capabilities;
- the Bank has improved ML/TF/PF and sanctions risk management and controls, including by very widely using ACCUITY data bases, which are being constantly updated, on sanctioned persons, companies, ships, regions, dual use goods, the reputation of persons (EDD), politically exposed persons (PEPs), in order to prevent servicing sanctioned transactions or individuals, and to minimize, to the extent possible, the potential ML/TF/PF risk that may arise from customer transactions;
- the Bank has actively used and improved the multi-tier customer acceptance system, Customer risk scoring system, which are provided by the internationally renowned company FICO Tonbeller (SIRON);
- the Bank has been actively using and improving automated systems for supervision and monitoring of customer transactions, which are developed by FICO Tonbeller (SIRON), and has integrated them with the Bank's systems, and adjusted them to the Bank's operational processes and risk management;

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

4 RISK MANAGEMENT (continued)

- the Bank has been actively using and improved the automated screening system, developed by the internationally renowned company, - ACCUITY system for pre-execution control of transactions and integrated it with other systems of the Bank;
- the Bank has made significant additions to the capacity of the organisational structure for ML/TF/PF risk and sanctions risk management. The qualifications of the employees are being evaluated according to the principles laid down in the ML/TF/PF risk and sanctions risk management procedure in order to establish the level of qualification and to measure the adequacy of resources to manage the ML/TF/PF risk and sanctions risk under the Strategy. Active work is carried out by the Control Committee, which is a collegial body that assesses the major ML/TF/PF risks and sanctions risks and decides on the implementation of risk mitigation measures. Employees of the Bank improved their knowledge in external training, with the participation of foreign experts in the field of ML/TF/PF risk and sanctions risk management, including in trainings organized by the international association ACAMS. Overall, in 2019 the Bank's employees, including Board members, attended 71 training courses on AML/CTF/CPF;
- the Bank has ensured an independent review of the ML/TF/PF risk management system and has fully implemented the recommendations given by the independent auditor company Deloitte to raise the efficiency of the internal control system for ML/TF/PF risk management.

The Bank continued changing its business strategy and significantly reduced its reliance on services provided to foreign customers, significantly reduced the volume of payments in US dollars and the number of foreign high-risk customers and their business volumes.

The Bank's measures have been evaluated also by the Financial and Capital Market Commission, which conducted an anti-money laundering review of the Bank's activity in previous periods and gave recommendations to the Bank to improve the Bank's internal control system, which the Bank continued to realize and implement in 2018 and 2019. In 2018, following the results of a review by the Financial and Capital Market Commission, there was concluded an administrative agreement between the Financial and Capital Market Commission and the Bank. In 2019, the provisions of the administrative agreement concluded between the FCMC and the Bank were fully fulfilled. Pursuant to this agreement, the Bank undertook to ensure the following independent reviews of its internal control system for ML/FT/PF risk and sanctions risk management:

1) on the compliance of the risk classification of customer base;
2) on the compliance of information technologies that are being used in the management of ML/TF/PF risk;
3) on the compliance of the Bank's internal control system for ML/FT/PF risk management.

The first two independent reviews from the certified auditor commercial company Deloitte were obtained in the middle of 2018, along with receipt of the assessment and recommendations for the improvement of the respective area. By the end of 2018, the Bank had implemented all suggestions and recommendations resulting from the independent review, improved the technical functions of ML/TF/PF risk management information technologies facilities, implemented additional functionality, as well as registered in detail the functionality of customer risk-scoring system.

In February 2019, an overall independent assessment of the Bank's internal control system for AML/CTF/CPF was conducted by the sworn auditor commercial company Deloitte. In March 2019, the Bank received a satisfactory opinion from the sworn auditors' commercial company Deloitte; and implemented all the recommendations in the year 2019.

In line with the administrative agreement, in 2019 the Bank actively continued to improve its internal control system according to the planned measures approved by the Bank regarding the improvement of internal control system in the area of ML/TF/PF risk management. The most significant part of the measures was carried out in 2019 by introducing amendments and additions to AML/CTF/CPF regulations, and by improving the functionality, scenarios and reports of the automated system for customer transaction monitoring, thus making the Banks internal control system for AML/CTF/CPF more efficient and reducing risks. By the end of 2019, the Bank has performed compliance review of all customers that are subject to due diligence, purposefully reducing the number of customers that could expose the Bank to an increased ML/FT/PF risk or sanctions risk.

In the next period, the Bank intends to continue reducing the Bank's ML/TF/PF risk exposure, by eliminating higher risk customers, conducting an effective monitoring of transactions and not allowing the conduct of suspicious transactions.

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

4 RISK MANAGEMENT (continued)

Operational risk

Operational risk is the risk of losses resulting from inadequate or improper internal processes, human and systems error, or the impact of external events, including legal risk but excluding strategic and reputational risk. Aiming to set up a system for the management of operational risk that would reduce the frequency of risk occurrences and the amount of loss to a level acceptable to the Bank and to safeguard the Bank's assets and capital, the Council has approved an appropriate policy. In order to implement this policy, the Board has approved a procedure that specifies the methods for identification, assessment, regular monitoring, control and mitigation of operational risk. Operational risk is managed by the Bank employing the following approaches: reporting of operational risk events; maintaining a data base of operational risk; establishing and controlling operational risk indicators any changes in which may indicate an increased likelihood of risk; self-assessing operational risk; and stress testing using both internal data and information on external operational risk events. The Bank uses insurance to reduce risk. Operational risk is managed by Risk Management Division.

To support the Bank's business continuity and to decrease operational losses due to *force majeure* circumstances the Board drafts and the Council approves and improves the business continuity plan and the information system recovery plan.

Operational compliance risk

Operational compliance risk is the risk that the Bank may incur losses or legal obligations, be subject to sanctions or suffer impairment of reputation as a result of a failure to comply or a breach of compliance laws, regulations and standards. Operational compliance risk is inherent in all operations of the Bank. Management of operational compliance risk involves control, due identification, documentation, assessment, classification and efficient prevention of this risk or decreasing it to a level that the Bank finds acceptable, and follow-up of the risk. The operational compliance control is directed at the existing Bank's operations and due planning and execution of measures to prevent or decrease operational compliance risk with regard to new products and services of the Bank or other lines of business. Management of operational compliance risk is effected according to a policy approved by the Council using the following measures and approaches: systemic compliance reviews of the Bank's structural units, policies, internal procedures, other normative and informative materials; assessment of innovations; identification of operational compliance risks caused by external conditions; analysis of the reports of the Bank's structural units; analysis of statistical and analytical performance data; experts' questioning technique; analysis of reports of internal and external auditors and regulator or other parties; maintenance of an operational compliance risk data base and control over due prevention of identified risks or decreasing such risks to an acceptable level. Operational compliance risk is managed by the Compliance Control Division who reports to the management on a regular basis.

5 ESTIMATES AND JUDGMENTS

The preparation of financial statements in conformity with IFRS as adopted by the EU requires management to make judgments, estimates and assumption that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. 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 recognised in the period, in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty:

Going concern

These consolidated and separate financial statements are prepared on a going concern basis. The application of the going concern basis requires management to make a number of considerations and exercise judgment. Refer to Note 41.

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

5 ESTIMATES AND JUDGMENTS (continued)

Impairment of financial assets at amortised cost

Information about estimates resulting from the application of accounting policies that have the greatest effect on the amounts presented in the consolidated and separate financial statements is disclosed in the following notes: Note 3, Financial Instruments: classification of financial assets, evaluation of the business model assets, and the contractual terms of a financial asset, in accordance with the 'principal and interest payments only' principle. Note 3, "Impairment losses: criteria for determining a significant increase in the credit risk of a financial asset from initial recognition, including Forward-Looking Information in the Estimation of expected credit loss and models used to calculate expected credit loss.

Fair value measurement of financial instruments

Financial instruments measured at fair value are based on their market values. The fair value of financial instruments measured at amortized cost is the present value of estimated future cash flows discounted at the market rate of interest. The fair value of short term financial assets and liabilities approximates their amortized cost.

Fair value of investment property

In assessing the fair value of investment property, management relies on external experts, independent property valuers who have appropriate and recognised professional qualifications and recent experience in valuing the same category of property in the same place. External evaluations use the income measurement method or the comparative method (or both). The income method is based on the discounted estimated future cash flows of the property. The comparative method is based on recent transactions with similar properties.

Correction of prior period errors:

In 2019, an error was identified in Group's consolidated statement of financial position line items:

- Loans and advances to customers;
- Retained earnings.

The error relates to allowances for expected credit losses on loans issued by subsidiary to third parties which were recognised in the Bank's statement of financial position as at 31 December 2018 but were omitted in the Gourp's consolidated statement of financial position.

In order to correct this error, restatement of comparative information was performed in accordance with requirements of IAS 8. The Group has not presented third balance sheet as there is no impact of the restatement on the opening balances at 1 January 2018.

Detailed information on correction of error is as follows:

- The Group's consolidated statement of financial position line items Loans and advances to customers and the Group's Accumulated loss were overstated by EUR 672 thousand. The Group's consolidated Cash flows from operating activities for the year ended 31 December 2018 were overstated by EUR 672 thousand.

Quantitative impact on financial statements:

The Group, 2018

Adjustment made to the statement of comprehensive income	Comment	2018 before adjustments (thousand EUR)	Adjustment (thousand EUR)	2018 adjusted (thousand EUR)
Loans and advances to customers	Allowance for expected credit losses	(2,539)	(672)	(3,211)
Loss before tax		**43**	**(672)**	**(629)**
Loss for the year		**42**	**(672)**	**(630)**

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

5 ESTIMATES AND JUDGMENTS (continued)

The Group, 2018

Adjustments made to the statement of financial position	Comment	2018 before adjustments (thousand EUR)	Adjustment (thousand EUR)	2018 adjusted (thousand EUR)
Accumulated loss	Allowance for expected credit losses	(12,450)	(672)	(13,122)
Equity		**8,704**	**(672)**	**8,032**
Loans and advances to customers		62,139	(672)	61,467
Total assets		**183,406**	**(672)**	**182,734**

The Group, 2018

Adjustments made to the cash flow statement	Comment	2018 before adjustments (thousand EUR)	Adjustment (thousand EUR)	2018 adjusted (thousand EUR)
Loss before tax	Allowance for expected credit losses	43	(672)	(629)
Allowances for expected credit losses on loans and advances to customers	Allowance for expected credit losses	(2,603)	(672)	(3,275)

6 CASH AND DUE FROM THE BANK OF LATVIA

EUR'000	2019 Group	2019 Bank	2018 Group	2018 Bank
Cash	2,882	2,882	3,025	3,025
Cash in branch	3,803	3,803	3,514	3,514
Due from the Bank of Latvia (including obligatory reserve)	72,330	72,330	80,020	80,020
Total	**79,015**	**79,015**	**86,559**	**86,559**

Due from the Bank of Latvia represents the EUR nominated balance on the correspondent account with the Bank of Latvia.

According to the regulations of the European Central Bank, the Bank is required to maintain obligatory reserves with the Bank of Latvia equal to 1% of the closing monthly balances due of deposits with agreed maturity or period of notice up to 2 years and debt securities issued with initial maturity up to 2 years. For all other liabilities included in the reserve calculation the applicable rate is 0%.

The compulsory reserve is compared to the Bank's average monthly balance on the correspondent account with the Bank of Latvia. The Bank's average cash and correspondent account balance should exceed the compulsory reserve requirement.

As at 31 December 2019 and 31 December 2018 the Bank was in compliance with the above requirements.

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

7 DEMAND DEPOSITS WITH CREDIT INSTITUTIONS

(a) Geographical segments

EUR'000	2019 Group	2019 Bank	2018 Group	2018 Bank
Credit institutions of OECD countries	2,029	2,029	4,797	4,797
Credit institutions of Latvia	6	6	905	905
Credit institutions of non-OECD countries	334	334	1,365	1,365
	2,369	**2,369**	**7,067**	**7,067**

The Bank maintained relationship with 21 correspondent bank (2018: 25).

Placements with credit institutions decreased as a result of decrease in clients deposits.

(b) The main correspondent banks of the Group and the Bank:

EUR'000	2019	2018
Raiffeisen Bank International AG, Austria	1,587 (67,0%)	2,008 (28.4%)
Lietuvas Banka, Lithuania	213 (9,0%)	252 (3.6%)

(c) Credit rating structure (Standard&Poors)

When allocating financial resources to monetary financial institutions of the Republic of Latvia, external credit ratings assigned to financial institutions are assessed. For financial institutions with no individual rating, the rating of the parent bank as well as the assessment of financial and operational performance is considered. After commencement of business relations, the Group /the Bank monitors monetary financial institutions and controls the compliance of granted limits with credit risk assessment.

EUR'000	2019 Group	2019 Bank	2018 Group	2018 Bank
-rated from AAA to A-	23	23	27	27
-rated from BBB+ to BBB-	1,587	1,587	2,024	2,024
-rated from BB+ to B-	166	166	133	133
-not rated	593	593	4,883	4,883
	2,369	**2,369**	**7,067**	**7,067**

8 FINANCIAL ASSETS AT AMORTISED COST

(a) Latvian government bonds with fixed income

EUR'000	2019 Group	2019 Bank	2018 Group	2018 Bank
Latvian government bonds with fixed income (S&P – A, Moody's – A3)	2,680	2,680	1,629	1,629

(b) Other states government bonds with fixed income

EUR'000	2019 Group	2019 Bank	2018 Group	2018 Bank
Lithuanian government bonds with fixed income (S&P – A-, Moody's – Baa1)	5,407	5,407	2,371	2,371
Total financial assets at amortised cost	**8,087**	**8,087**	**4,000**	**4,000**

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

9 FINANCIAL ASSETS BY CATEGORY

EUR'000	2019 Group	2019 Bank	2018 Group	2018 Bank
Financial assets at amortised cost	8,087	8,087	4,000	4,000
Financial assets at fair value through profit or loss	890	890	344	344
	8,977	**8,977**	**4,344**	**4,344**

10 LOANS AND TERM DEPOSITS DUE FROM CREDIT INSTITUTIONS

EUR'000	2019 Group	2019 Bank	2018 Group	2018 Bank
Term deposits due from credit institutions	-	-	400	400
Total loans and term deposits	**-**	**-**	**400**	**400**

Amounts due from credit institutions (2018: EUR 400 thousand) serves as collaterals for the guarantees issued by the Bank.

Geographical classification:

EUR'000	2019 Group	2019 Bank	2018 Group	2018 Bank
Residents of Latvia	-	-	400	400
Total loans and term deposits	**-**	**-**	**400**	**400**

11 LOANS AND ADVANCES TO CUSTOMERS

(a) Loans by groups:

EUR'000	2019 Group	2019 Bank	2018 Group (adjusted)	2018 Bank
Individuals	8,427	7,673	11,552	10,309
Legal entities	68,038	90,427	76,695	97,254
Personnel of the Bank	97	97	283	283
Total loans, gross	**76,562**	**98,197**	**88,530**	**107,846**
Impairment allowance	(30,504)	(32,229)	(27,463)	(28,946)
Total loans, net	**46,058**	**65,968**	**61,067**	**78,900**

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

11 LOANS AND ADVANCES TO CUSTOMERS (continued)

(b) Loans by type:

EUR'000	2019 Group	2019 Bank	2018 Group (adjusted)	2018 Bank
Loans	75,211	86,414	85,796	94,321
Credit lines	1,302	11,734	2,442	13,233
Overdrafts	49	49	292	292
Loans, gross	**76,562**	**98,197**	**88,530**	**107,846**
Impairment allowance	(30,504)	(32,229)	(27,463)	(28,946)
Total loans, net	**46,058**	**65,968**	**61,067**	**78,900**

(c) Loans issued by industry, gross:

EUR'000	2019 Group	%	2019 Bank	%	2018 Group	%	2018 Bank	%
Legal entities								
Real estate property	26,063	38	26,063	29	30,499	39	30,499	31
Construction	3,537	5	3,537	4	2,437	3	2,437	2
Electricity	13,467	20	13,467	15	14,848	19	14,848	15
Wholesale and retail	7,385	11	7,385	8	8,408	11	8,408	8
Industrial markets	5,612	8	5,612	6	6,829	8	6,829	7
Transport, warehousing and communication	616	1	616	1	587	1	587	1
Loans issued to financial intermediaries	-	-	28,547	32	-	-	27,626	28
Finance lease	6,158	9	-	-	7,067	9	-	-
Others	5,200	8	5,200	5	6,020	10	6,020	8
Total	**68,038**	**100**	**90,427**	**100**	**76,695**	**100**	**97,254**	**100**
Individuals and personnel of the Bank								
Consumer loans	189	2	189	2	208	2	208	2
Credit cards	309	4	309	4	338	2	338	3
Mortgage loans	4,222	50	4,222	54	5,183	48	5,183	49
Finance lease	754	9	-	-	1,244	10	-	-
Business loans	2,822	33	2,822	36	4,621	37	4,621	44
Others	228	2	228	4	241	1	242	2
Total	**8,524**	**100**	**7,770**	**100**	**11,835**	**100**	**10,592**	**100**

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

11 LOANS AND ADVANCES TO CUSTOMERS (continued)

(d) Loans by geographical classification:

EUR'000	2019 Group	2019 Bank	2018 Group (adjusted)	2018 Bank
Residents of Latvia	75,152	96,787	86,021	105,337
Residents of OECD countries	688	688	1,609	1,609
Residents of non-OECD countries	722	722	900	900
Loans and advances to non-banking customers, gross	**76,562**	**98,197**	**88,530**	**107,846**
Impairment allowance	(30,504)	(32,229)	(27,463)	(28,946)
Loans and advances to customers, net	**46,058**	**65,968**	**61,067**	**78,900**

(e) Movements in the impairment allowance:

EUR'000	2019 Group	2019 Bank	2018 Group (adjusted)	2018 Bank
Balance at the beginning of the year	**27,463**	**28,946**	**22,363**	**24,508**
Increase in provisions for impairment of loans due to initial implementation of IFRS 9	-	-	*1,662*	*1,662*
Provisions to reduce credit risk concentration	-	-	2,350	2,350
Increase in provisions for impairment	4,169	5,298	2,161	1,499
Release of prior periods' loan loss provisions	(336)	(1,231)	(1,023)	(1,023)
Write-off of prior periods' loan loss provisions	(792)	(784)	(50)	(50)
Balance at the end of the reporting period	**30,504**	**32,229**	**27,463**	**28,946**

(f) Loans and accrued interest allocation, depending on delay of payments:

Group EUR'000		Loans not overdue	Overdue loans					
			Up to 30 days	30-60 days	61-90 days	91-180 days	181-360 days	More than 360 days
31 December 2019								
Gross loans	**76,562**	31,056	1,079	3,796	216	4,450	4,771	31,194
Impairment allowance	**(30,504)**	(5,427)	(361)	(3,013)	(126)	(2,371)	(4,317)	(14,889)
31 December 2018								
Gross loans	**88,530**	48,888	4,522	341	5,028	131	2,118	27,502
Impairment allowance	**(27,463)**	(12,308)	(935)	(25)	-	(45)	(1,247)	(12,903)

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

11 LOANS AND ADVANCES TO CUSTOMERS (continued)

Bank EUR'000		Loans not overdue	Overdue loans					
			Up to 30 days	30-60 days	61-90 days	91-180 days	181-360 days	More than 360 days
31 December 2019								
Gross loans and advances	**98,197**	52,691	1,079	3,796	216	4,450	4,771	31,194
Impairment allowance	**(32,229)**	(5,427)	(361)	(3,536)	(126)	(3,573)	(4,317)	(14,889)
31 December 2018								
Gross loans and advances	**107,846**	70,071	4,522	341	5,028	131	2,118	27,502
Impairment allowance	**(28,946)**	(14,465)	(935)	(24)	-	(45)	(1,247)	(12,230)

The amounts shown in the table represent the gross carrying amount of the loans by type of collateral and do not necessarily represent the fair value of the underlying security:

	2019 Group EUR'000	%	2019 Bank EUR'000	%	2018 Group EUR'000	%	2018 Bank EUR'000	%
Commercial buildings	38,556	50	38,556	39	48,438	54	48,438	44
Commercial assets pledge	7,031	9	7,031	7	7,177	8	7,177	7
Land mortgage	2,087	3	2,087	2	5,520	6	5,520	5
Mortgage on residential	15,600	20	15,600	16	15,350	17	15,350	14
Guarantee	1,907	3	1,907	2	1,442	1	1,442	1
Lease and other	7,247	9	335	1	8,995	10	684	1
No collateral	4,134	6	32,681	33	1,608	4	29,235	28
Total	**76,562**	**100**	**98,197**	**100**	**88,530**	**100**	**107,846**	**100**

Significant credit risk concentration

As at 31 December 2019 and 31 December 2018, the Bank had 29 and 21 borrowers or groups of related borrowers, respectively, whose total loan liabilities exceeded 10% of the Bank's capital as disclosded in Note 37. The gross amount of the above loans as at 31 December 2019 and 31 December 2018 was 58,406 thousand EUR and 57,944 thousand EUR, respectively. An impairment allowance was recognised for the above loans as at 31 December 2019 and 31 December 2018 in the amount of 24,789 thousand EUR and 20,455 thousand EUR, respectively.

According to regulatory requirements, the credit exposure to one client or a group of related clients cannot exceed more than 25% of the Bank's capital. The Bank exceeded this requirement in nine cases (from 27.20% to 81.32%) as at 31 December 2019 and in seven cases (25.05% till 46.06%) as at 31 December 2018. The respective risk was reduced by increasing the capital by EUR 7 million on 10 March 2020. Consequently, at the date of signing this report, the Bank exceeded the regulatory requirement in two cases.

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

11 LOANS AND ADVANCES TO CUSTOMERS (continued)

(g) Breakdown of the Group's/ the Bank's loans by their qualitative assessment after the adoption of IFRS 9:

EUR'000	31 December 2019		31 December 2018	
	Group	Bank	Group (adjusted)	Bank
Credit risk has not increased significantly (Stage 1)	13,674	12,462	16,459	14,626
Credit risk has increased significantly (Stage 2)	9,580	30,034	14,584	25,224
Loans, which have evidence of impairment (Stage 3)	53,308	55,701	57,487	67,996
Total gross loans	**76,562**	**98,197**	**88,530**	**107,846**
Impairment allowance	(30,504)	(32,229)	(27,463)	(28,946)
Total net loans	**46,058**	**65,968**	**61,067**	**78,900**

Group	Credit loss allowances				Gross carrying amount			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit-impaired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit-impaired)	Total
As at 31 December 2018	**776**	**686**	**26,001**	**27,463**	**16,446**	**14,585**	**57,499**	**88,530**
Movements between stages:								
to lifetime ECL (from Stage 1 to Stage 2)	(26)	252	-	**226**	(1,454)	1,410	-	**(44)**
to lifetime ECL with credit impairment (from Stage 1 and Stage 2 to Stage 3)	-	-	-	-	(9)	(7,260)	7,170	**(990)**
from lifetime ECL without credit impairment (from Stage 3 to Stage 2)	-	269	(554)	**(285)**	-	(4,009)	(4,166)	**(157)**
to 12-months ECL (from Stage 2 to Stage 1)	123	(153)	-	**(30)**	1,789	(1,978)	-	**(189)**
New originated or purchased	-	-	54	**54**	1	1	54	**56**
De-recognised	(117)	(20)	(59)	**(196)**	(2,479)	(815)	(946)	**(4,240)**
Total movements with impact on impairment allowance charge for the period	**(20)**	**348**	**(559)**	**(231)**	**(2,152)**	**(4,633)**	**2,112**	**(4,673)**
Movements without impact on impairment allowance charge for the period:								
Write-offs	-	-	(741)	**(741)**	-	-	(741)	**(741)**
Modification of contractual cash flows (no movements between stages)*	57	(20)	3,976	**4,013**	(620)	(372)	(5,562)	**(6,554)**
Total movements without impact on impairment allowance charge for the period	**57**	**(20)**	**3,235**	**3,272**	**(620)**	**(372)**	**(6,303)**	**(7,295)**
As at 31 December 2019	**813**	**1,014**	**28,677**	**30,504**	**13,674**	**9,580**	**53,308**	**76,562**

* Ordinary contractual cash flows from repayment of principal.

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

11 LOANS AND ADVANCES TO CUSTOMERS (continued)

Bank	Credit loss allowances				Gross carrying amount			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR	Stage 3 (lifetime ECL for credit-impaired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR	Stage 3 (lifetime ECL for credit-impaired)	Total
As at 31 December 2018	**776**	**686**	**27,484**	**28,946**	**14,625**	**25,224**	**67,997**	**107,846**
Movements between								
to lifetime ECL (from Stage 1 to Stage 2)	(26)	253	-	**227**	(1,040)	1,016	-	**(24)**
to lifetime ECL with credit impairment (from Stage 1 and Stage 2 to Stage 3)	-	-	202	**202**	(9)	(5,593)	(5,558)	**(44)**
from lifetime ECL without credit impairment (from Stage 3 to Stage 2)	-	269	(1,103)	**(834)**	-	(10,594)	(10,939)	**(345)**
to 12-months ECL (from Stage 2 to Stage 1)	123	(154)	-	**(31)**	1,789	(1,978)	-	**(189)**
New originated or purchased	-	-	54	**54**	1	2,423	54	**2,478**
De-recognised	(117)	(20)	(59)	**(196)**	(2,466)	(435)	(565)	**(3,466)**
Total movements with impact on impairment allowance charge for the period:	**(20)**	**348**	**(906)**	**(578)**	**(1,725)**	**6,027**	**(5,892)**	**(1,590)**
Movements without impact on impairment allowance charge for the period:								
Write-offs	-	-	(741)	(741)	-	-	(741)	**(741)**
Modification of contractual cash flows (no movements between stages)*	57	(20)	(4,565)	4,602	**(439)**	(1,216)	(5,663)	**(7,318)**
Total movements without impact on impairment allowance charge for the period	**57**	**(20)**	**3,824**	**3,861**	**(439)**	**(1,216)**	**(6,404)**	**(8,059)**
As at 31 December 2019	**813**	**1,014**	**30,402**	**32,229**	**12,461**	**30,035**	**55,701**	**98,197**

* Ordinary contractual cash flows from repayment of principal.

Notes to the Bank’s separate and Group’s consolidated financial statements

11 LOANS AND ADVANCES TO CUSTOMERS (continued)

(h) Finance lease receivables:

Loans and advances to customers include the following finance lease receivables for leases of certain fixed assets where the Group is a lessor:

EUR’000	2019	2018
Gross investment in finance leases, receivable with maturity:		
Less than one year	4,157	3,448
Between one and five years	1,877	4,268
More than 5 years	878	1,142
Total gross investment in finance leases, receivables	**6,912**	**8,858**
Impairment allowance	(725)	(547)
Net investment in finance lease	**6,187**	**8,311**
Net investments in finance leases with maturity:		
Less than one year	3,634	3,217
Between one and five years	1,675	4,039
More than 5 years	878	1,055
	6,187	**8,311**

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

12 PROPERTY AND EQUIPMENT AND RIGHT-OF-USE ASSETS

a) Property and equipment

Group EUR'000	Buildings	Vehicles	Office equipment	Leasehold improvements	Total
Cost					
As at 31 December 2017	**708**	**114**	**1,208**	**68**	**2,098**
Additions	-	-	147	2	149
Sales	-	-	4	(4)	-
Disposals	-	-	(238)	(57)	(295)
As at 31 December 2018	**708**	**114**	**1,121**	**9**	**1,952**
Additions	-	-	235	-	235
Sales	-	-	-	-	-
Disposals	(66)	(20)	-	(2)	(88)
31 December 2019	**642**	**94**	**1,356**	**7**	**2,099**
Accumulated depreciation					
As at 31 December 2017	**313**	**90**	**713**	**-**	**1,116**
Depreciation for the reporting year	35	7	268	-	310
Depreciation of disposed fixed assets	-	-	(238)	-	(238)
As at 31 December 2018	**348**	**97**	**743**	**-**	**1,188**
Depreciation for the reporting year	33	5	225	-	261
Depreciation of disposed fixed assets	(48)	(13)	-	-	(61)
31 December 2019	**333**	**89**	**968**	**-**	**1,390**
Balance					
As at 31 December 2017	**395**	**24**	**495**	**68**	**982**
As at 31 December 2018	**360**	**17**	**378**	**9**	**764**
31 December 2019	**309**	**5**	**388**	**7**	**709**

Notes to the Bank’s separate and Group’s consolidated financial statements

12 PROPERTY AND EQUIPMENT AND RIGHT-OF-USE ASSETS (continued)

Bank EUR’000	Buildings	Vehicles	Office equipment	Leasehold improvements	Total
Cost					
As at 31 December 2017	**708**	**22**	**1,208**	**68**	**2,006**
Additions	-	-	147	2	149
Reclassified	-	-	4	(4)	-
Disposals	-	-	(238)	(57)	(295)
As at 31 December 2018	**708**	**22**	**1,121**	**9**	**1,860**
Additions	-	-	235	-	235
Reclassified	-	-	-	-	-
Disposals	(66)	(20)	-	(2)	(88)
31 December 2019	**642**	**2**	**1,356**	**7**	**2,007**
Accumulated depreciation					
As at 31 December 2017	**313**	**6**	**713**	**-**	**1,032**
Depreciation for the reporting year	35	5	268	-	308
Depreciation of disposed fixed assets	-	-	(238)	-	(238)
As at 31 December 2018	**348**	**11**	**743**	**-**	**1,102**
Depreciation for the reporting year	33	3	225	-	261
Depreciation of disposed fixed assets	(48)	(13)	-	-	(61)
31 December 2019	**333**	**1**	**968**	**-**	**1,302**
Balance					
As at 31 December 2017	**395**	**16**	**495**	**68**	**974**
As at 31 December 2018	**360**	**11**	**378**	**9**	**758**
31 December 2019	**309**	**1**	**388**	**7**	**705**

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

12 PROPERTY AND EQUIPMENT AND RIGHT-OF-USE ASSETS (continued)

b) Right-of-use assets – lease contracts (IFRS 16)

Bank EUR'000	Right-of-use assets (IFRS 16)
Cost	
31 December 2018	**-**
Changes on initial application of IFRS 16	921
Disposals	-
Additions	-
31 December 2019	**921**
Depreciation	
31 December 2018	**-**
Depreciation	340
Disposals	-
31 December 2019	**340**
Net carrying amount	
31 December 2018	**-**
31 December 2019	**581**

Lease liability

31 December 2018	**-**
Changes on initial application of IFRS 16	921
Lease payments	(328)
Interest accrued	12
Interest paid	(12)
31 December 2019	**593**

Notes to the Bank’s separate and Group’s consolidated financial statements

13 INVESTMENT PROPERTY

Group EUR’000	Land	Buildings	Total
Cost			
At 31 December 2017	**6,347**	**10,530**	**16,877**
Disposed	-	(501)	(501)
Acquired	-	551	551
Reclassified	-	435	435
As at 31 December 2018	**6,347**	**11,015**	**17,362**
Disposed	-	(662)	(662)
Acquired	-	1,950	1,950
Reclassified	-	-	-
31 December 2019	**6,347**	**12,303**	**18,650**
Change in fair value			
As at 31 December 2017	**-**	**(1,681)**	**(1,681)**
Revaluation impact	-	126	126
As at 31 December 2018	**-**	**(1,555)**	**(1,555)**
Revaluation impact	-	(496)	(496)
31 December 2019	**-**	**(2,051)**	**(2,051)**
Balance			
At 31 December 2017	**6,347**	**8,849**	**15,196**
As at 31 December 2018	**6,347**	**9,460**	**15,807**
31 December 2019	**6,347**	**10,252**	**16,599**

Income from lease of investment property in 2019 amounted to EUR 413 thousand (2018: EUR 285 thousand) and related maintenance expenses in 2019 amounted to EUR 148 thousand (2018: EUR 140 thousand).

Investment property consists of land, residential properties and commercial properties.

The fair value measurement for investment property is categorised as Level 3 in the fair value hierarchy.

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

13 INVESTMENT PROPERTY (continued)

Group EUR'000	2019 Fair value	2018 Fair value	Key assumptions
Residential real estate, Salaspils region	2,776	1,690	Determined based on comparable market transactions method and income method (50% and 50% respectively). Discount rate 9%.
Sand and gravel deposit, Talsi region	3,700	4,225	Discount rate of 15.12%. Cash flow period of 10 years. Income based on sale of various quality of extracted sand and gravel.
Residential real estate, Riga	2,787	1,366	Land and building value determined based on comparable market transactions. Price set EUR 2,651 per m^2 .
Commercial real estate, Daugavpils	750	628	Discount rate of 11,32%. Cash flow period of 6 years. Occupancy rate of 80% to 95%. Rent ranging from EUR 2,5 to EUR 10,38 per m^2

14 OTHER ASSETS

Other assets are as follows:

EUR'000	2019 Group	2019 Bank	2018 Group	2018 Bank
Financial assets:				
Receivables	1,898	275	2,233	68
Credit card transactions in transit	214	214	331	331
Other financial assets	4,830	4,830	4,029	4,309
	6,942	**5,319**	**6,593**	**4,708**
Non-financial assets:				
Deferred expenses and accrued income	129	106	124	103
Other non-financial assets	1,331	163	-	-
	1,460	**269**	**124**	**103**
Total	**8,402**	**5,588**	**6,717**	**4,811**

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

15 DEPOSITS

EUR'000	2019 Group	2019 Bank	2018 Group	2018 Bank
Sector profile:				
Non-banking deposits				
Legal entities	53,291	53,291	58,859	58,863
Individuals	101,073	101,073	109,382	109,382
State institutions	2,012	2,012	313	313
Total non-banking deposits:	**156,376**	**156,376**	**168,554**	**168,558**
Total deposits	**156,376**	**156,376**	**168,554**	**168,558**
Geographical profile:				
Residents	83,191	83,191	80,454	80,458
Non-residents	73,185	73,185	88,100	88,100
Residents of OECD countries	*35,708*	*35,708*	*20,856*	*20,856*
Residents of non-OECD countries	*37,477*	*37,477*	*67,244*	*67,244*
Total deposits	**156,376**	**156,376**	**168,554**	**168,558**

EUR'000	2019 Group	2019 Bank	2018 Group	2018 Bank
Demand deposits				
Legal entities	49,411	49,411	54,457	54,461
Private individuals	67,196	67,196	73,448	73,448
State institutions	2,012	2,012	313	313
Total demand deposits	**118,619**	**118,619**	**128,218**	**128,222**
Term deposits				
Legal entities	3,881	3,881	4,402	4,402
Private individuals	33,876	33,876	35,934	35,934
Total term deposits	**37,757**	**37,757**	**40,336**	**40,336**
Total current accounts and deposits from non-banking customers	**156,376**	**156,376**	**168,554**	**168,558**

As at 31 December 2019, the customer deposit balances of EUR 152 thousand (2018: EUR 156 thousand) were blocked by the Bank as collateral for loans and other contingent liabilities granted by the Bank.

Concentrations of current accounts and customer deposits

As at 31 December 2019 and 31 December 2018 the Bank had no customers whose balances exceeded 10% of total customer deposits.

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

16 SUBORDINATED LIABILITIES

As at 31 December 2019 subordinated liabilities comprise loans received from 5 private individuals and 1 legal entity (31 December 2018: 5 private individuals and 2 legal entities).

EUR'000	Maturity	Interest rate	2019 Group	2019 Bank	2018 Group	2018 Bank
Loan No. 5	26.04.2025	4%	427	427	427	427
Loan No. 8*	22.03.2019	3.6%	-	-	1,500	1,500
Loan No. 13	05.04.2023	4%	280	280	280	280
Loan No. 14	02.09.2022	4%	427	427	427	427
Loan No. 15	01.09.2022	4%	285	285	285	285
Loan No. 16	31.03.2022	3.5%	280	280	280	280
Loan No. 18	28.08.2023	3.75%	199	199	199	199
Total			**1,898**	**1,898**	**3,398**	**3,398**

*Loan Nr.8 was fully repaid on 22 March 2019.

In case of liquidation of the Bank subordinated loans are to be satisfied after the claims of all other creditors of the Bank, but before claims of shareholders of the Bank.

17 OTHER LIABILITIES

Other liabilities are as follows:

EUR'000	2019 Group	2019 Bank	2018 Group	2018 Bank
Financial liabilities				
Cash in transit	1,022	1,022	933	933
Unmatched funds	16	16	42	42
Other financial liabilities, incl.	1,469	1,469	1,006	1,006
Lease liabilities (IFRS 16)	*593*	*593*	-	-
	2,507	**2,507**	**1,981**	**1,981**
Non-financial liabilities				
Accrued expenses and deferred income	501	353	716	501
	501	**353**	**716**	**501**
Total	**3,008**	**2,860**	**2,697**	**2,482**

Cash in transit includes amounts requested by customers for payment with a value date of 2 January 2019 and 2018 respectively.

Unmatched funds include amounts which are under investigation and are not yet attributed to the Bank's customer accounts. Unmatched funds are investigated within ten working days after they are received.

Other liabilities include provisions for unused vacations in amount of EUR 325 thousand for the Group and EUR 320 thousand for the Bank (2018: EUR 287 thousand and EUR 287 thousand, respectively).

Notes to the Bank’s separate and Group’s consolidated financial statements

18 SHARE CAPITAL

		2019		2018	
	Nominal value EUR	Number of shares	Share capital EUR’000	Number of shares	Share capital EUR’000
Ordinary shares	71.10	233,451	16,598	233,451	16,598

Shareholders

	2019		2018	
	Number of shares	%	Number of shares	%
Private individuals	130,365		193,531	82.90
Legal entities	103,086		39,920	17.10
Total	**233,451**	**100**	**233,451**	**100**

The Bank’s capital is registered and fully paid. Ordinary shares rank equally with respect to dividends, as may be declared, and entitle all holders to equal voting rights at the shareholders’ meeting. All shares rank equal with respect to residual assets. As at 31 December 2019, there were 7 shareholders – 3 legal entities and 4 private individuals (As at 31 December 2018: 7 – 2 legal entities and 5 individuals).

Upon privatization of the Bank in accordance with statutory requirements in force as at the date of privatization a reserve capital of EUR 149 thousand was created. In May 2014, the previous shareholder dispossessed the shares without remuneration and transferred to the Bank. In November 2014, the Bank sold these shares for EUR 4,006 thousand and starting from 31 December 2014 this investment is recognised as reserve capital.

The use of share premium is defined by applicable Latvian legislation.

19 INTEREST INCOME

EUR’000	2019 Group	2019 Bank	2018 Group	2018 Bank
Interest income calculated using effective interest rate:				
Interest income on assets at amortised cost:	1,335	1,548	1,982	2,243
Loans and receivables	*1,297*	*1,510*	*1,866*	*2,127*
Loans and receivables from banks	*38*	*38*	*116*	*116*
Interest income from financial assets at fair value through profit or loss	133	133	240	240
Other interest income	39 -	39 -	417	417
Interest income from finance lease	278	-	284	-
Total	**1,785**	**1,720**	**2,506**	**2,483**

20 INTEREST EXPENSE

EUR’000	2019 Group	2019 Bank	2018 Group	2018 Bank
Interest expenses on liabilities at amortised cost:				
Current accounts and deposits of customers	1,262	1,262	1,542	1,542
Total	**1,262**	**1,262**	**1,542**	**1,542**

Notes to the Bank’s separate and Group’s consolidated financial statements

21 FEE AND COMMISSION INCOME

EUR’000	2019 Group	2019 Bank	2018 Group	2018 Bank
Commissions from money transfers, cash operations and servicing accounts	5,231	5,231	7,580	7,580
Fees from cards services	1,999	1,999	2,010	2,010
Commissions from guarantees	79	79	56	56
Brokerage fees	13	13	97	97
Others	298	291	334	331
Total	**7,620**	**7,613**	**10,077**	**10,074**

22 FEE AND COMMISSION EXPENSE

EUR’000	2019 Group	2019 Bank	2018 Group	2018 Bank
Commissions paid to correspondent banks	154	154	245	245
Commissions for transactions with payment cards	1,581	1,581	1,531	1,531
Fees for operations with securities	34	34	97	97
Others	108	108	390	390
Total	**1,877**	**1,877**	**2,263**	**2,263**

23 GAIN ON TRADING WITH FINANCIAL INSTRUMENTS, NET

EUR’000	2019 Group	2019 Bank	2018 Group	2018 Bank
Profit from foreign currency transactions	1,009	1,009	2,521	2,879
Profit/(loss) from revaluation of foreign currencies	33	64	(315)	(317)
Profit/(loss) from transactions with financial instruments	1	1	(84)	(84)
Profit/(loss) from revaluation of financial assets at FVTPL	544	544	(2)	(2)
Total	**1,587**	**1,618**	**2,116**	**2,476**

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

24 ADMINISTRATIVE EXPENSES

Salaries represent the basic remuneration of the employees, social insurance contributions as well as other personnel expenses. As at 31 December 2019 the Group and the Bank employed on average 195 and 193 employees, respectively (2018: 181 and 181). Administrative expenses are as follows:

EUR'000	2019 Group	2019 Bank	2018 Group	2018 Bank
Salaries to members of the Council and the Board	668	559	329	329
Personnel salaries	3,845	3,772	3,964	3,930
State compulsory social insurance contributions	1,004	960	1,019	1,011
Professional services	908	884	1,104	1,089
Rent of premises and other maintenance expenses	269	269	636	636
Office supplies	14	14	24	24
Advertising and marketing	52	52	23	23
Others	1,131	962	1,009	909
Total	**7,891**	**7,472**	**8,108**	**7,951**

Total audit expenses are included in the professional services item:

EUR'000	2019 Group	2019 Bank	2018 Group	2018 Bank
Annual audit fees	149	145	149	145
Other payments for audit services and similar expenses	2	2	2	2

Total personnel expenses are included in the following profit or loss item:

EUR'000	2019 Group	2019 Bank	2018 Group	2018 Bank
Administrative expenses	5,517	5,291	5,312	5,270
Total	**5,517**	**5,291**	**5,312**	**5,270**

25 DEPRECIATION

Total depreciation of property and equipment and leasehold improvements consists of:

EUR'000	2019 Group	2019 Bank	2018 Group	2018 Bank
Depreciation of PPE	274	272	329	327
Depreciation of right-of-use assets	340	340	-	-
Total	**614**	**612**	**329**	**327**

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

26 TAXES

Corporate Income Tax

EUR'000	2019 Group	2019 Bank	2018 Group	2018 Bank
Corporate Income Tax	-	-	1	1
Corporate Income Tax	**-**	**-**	**1**	**1**

27 CASH AND CASH EQUIVALENTS

EUR'000	2019 Group	2019 Bank	2018 Group	2018 Bank
Cash	2,882	2,882	3,025	3,025
Current placements with the Bank of Latvia	72,330	72,330	80,020	80,020
Demand deposits and term deposits with other credit institutions with initial maturity of less than three months	2,369	2,369	7,067	7,067
Cash in branch	3,803	3,803	3,513	3,513
Total	**81,384**	**81,384**	**93,625**	**93,625**

28 INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries

	Investment %	
Investments in subsidiaries	**2019**	**2018**
AS MTB Finance *	100%	100%
EUR'000	**2019**	**2018**
Investments in subsidiaries	44	44
Impairment allowance	(44)	(44)
Investment in subsidiary, net	**-**	**-**

EUR'000	Current assets	Long-term assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Net assets
31 December 2019	6,899	18,653	25,552	22,976	6,312	29,288	(3,736)
31 December 2018	8,432	17,601	26,033	21,498	6,722	28,220	(2,187)

EUR'000	Income	Expenses	Net loss
31 December 2019	705	(1,508)	(873)
31 December 2018	847	(1,271)	(424)

* AS "MTB Finance" owns 100% shares of MULT YATIRIM VE DANISMANLIK EMLAK TURIZM INSAAT ITHALAT IHRACAT SANAYI TICARET LIMITED SIRKETI (registration No. 52424) in Turkey, Antalya district, Kumluca region, Karaoz micro region, Jenica village.

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

29 RELATED PARTY TRANSACTIONS

Related parties are defined as shareholders of the Bank who have a significant holding in the Bank and spouses, parents and children of the individual shareholders, members of the Council and the Board, head of the Internal Audit Service, CRO, compliance controller, the spouses, parents and children of these persons, and companies in which they have a controlling interest. In line with Section 43 of the Credit Institution Law, risk transactions with related parties must not exceed 15% of the Bank's equity, applicable to limiting large exposures according to Regulation No 575/2013. As at 31 December 2018 the Bank did not comply with requirement and risk transactions with related parties comprised 22% in total (taking into consideration provisions to drecrease credit risk, refer to Note 11). During the reporting year the Bank took actions to prevent this and as at 31 Decembrt 2019 the Bank complies with set requirement.

The transactions carried out with AS MTB Finance were as follows:

EUR'000	2019 Bank	Average weighted rate	2018 Bank	Average weighted rate
Loans issued to AS MTB Finance	28,547	2.5%	27,626	1.56%
Deposits from AS MTB Finance	-	-	4	-

The Bank's and the Group's assets and liabilities from transactions with related parties:

EUR'000	2019 Group	2019 Bank	2018 Group	2018 Bank
Credit exposures to other related parties, net				
Loans, net				
- Management	93	93	100	100
- Consolidated subsidiaries	-	26,098	-	25,471
- Companies related to the shareholders	-	-	1,564	1,564
Credit exposures to related parties, net	**93**	**26,191**	**1,664**	**27,135**

EUR'000	2019 Group	2019 Bank	2018 Group	2018 Bank
Liabilities to other related parties				
Deposits				
- Management	116	116	89	89
- Consolidated subsidiaries	-	-	-	4
- Others	-	-	102	102
Liabilities to related parties	**116**	**116**	**191**	**195**

The Bank's and the Group's operating income and expenses from transactions with related parties:

EUR'000	2019 Group	2019 Bank	2018 Group	2018 Bank
Interest income				
- Management and companies related to shareholders	-	-	163	163
- Consolidated subsidiaries	-	429	-	424

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

29 RELATED PARTY TRANSACTIONS (continued)

The total amount of related party loans and deposits at the year end:

EUR'000	2019 Bank	Weighted average rate	2018 Bank	Weighted average rate
Deposits from AS MTB Finance and other related parties	116	0,1%	195	0,1%
Loans to other related parties				
Opening balance	1,664		4,091	
Issued loans in current year	-		24	
Repaid loans in current year	-		(2,451)	
The relationship with the bank ended in the reporting year	(1,571)		-	
Loans to other related parties	**93**	**2.0%**	**1,664**	**2.32%**

Remuneration to the Council and the Board:

EUR'000	2019 Group	2019 Bank	2018 Group	2018 Bank
Remuneration to the Council and the Board	668	559	329	329
Total	**668**	**559**	**329**	**329**

Transactions with related parties:

EUR'000	2019 Group	2019 Bank	2018 Group	2018 Bank
Interest income	3	216	163	587
Interest expenses	-	-	-	-
Total	**3**	**216**	**163**	**587**

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

30 ASSETS AND LIABILITIES UNDER MANAGEMENT

Assets EUR'000	2019 Group	2019 Bank	2018 Group	2018 Bank
Fiduciary loan	1,000	1,000	2,084	2,084
Total	**1,000**	**1,000**	**2,084**	**2,084**

Liabilities EUR'000	2019 Group	2019 Bank	2018 Group	2018 Bank
Funds received from individuals	-	-	500	500
Funds received from corporate customers	1,000	1,000	1,584	1,584
Total	**1,000**	**1,000**	**2,084**	**2,084**

Liabilities under management consist of funds of non-resident clients in the total amount of EUR 1,000 thousand.

A fiduciary loan is a transaction whereby the Group and the Bank have attracted a fiduciary deposit that has been issued to a borrower specified by those depositors on behalf of the depositors and at the depositor's risk. The property owned by customers is managed separately from the property of the Group and the Bank and is kept in separate accounts at credit institutions through which the funds are invested. Assets under management often represent a securities portfolio separated from the Bank's and the Group's assets and is treated as a unified management object with its own structure, liquidity degree, sources of resources, yield and common risk. The Group and Bank is engaged in securities purchase and sales on behalf of their clients. Such securities are not recognised on statement of financial position of the Group and the Bank.

31 CONTINGENT LIABILITIES AND COMMITMENTS

At any time the Bank has outstanding commitments to extend credit. These commitments take the form of approved loans, 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 ten years. The Bank also provides guarantees by acting as settlement agent in transactions with securities.

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 exposure that would be recognised in the statement of comprehensive income if counterparties failed to honour their contracted liabilities to any extent.

EUR'000	2019 Group	2019 Bank	2018 Group	2018 Bank
Loans and credit line liabilities	210	246	1,299	1,299
Guarantees and letters of credit	96	96	1,590	1,590
Total	**306**	**342**	**2,889**	**2,889**

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

32 GEOGRAPHICAL CONCENTRATION OF ASSETS, LIABILITIES, EQUITY AND CONTINGENT LIABILITIES AND COMMITMENTS

The geographical segmentation of the Bank's and the Group's assets, liabilities and contingent liabilities and commitments as at 31 December 2019 was as follows:

Group Assets EUR'000	Latvia	OECD countries	CIS countries	Other countries	Total
Cash and balances due from the Bank of Latvia	74,890	4,125	-	-	79,015
Financial assets at amortised cost	2,680	5,407	-	-	8,087
Financial assets at fair value through profit or loss	-	890	-	-	890
Demand deposits with credit institutions	6	2,029	318	16	2,369
Loans and advances to customers	45,419	595	44	-	46,058
Property and equipment	703	-	-	6	709
Right-of-use assets	581	-	-	-	581
Investment properties	16,237	362	-	-	16,599
Other assets	4,583	3,766	-	53	8,402
Total assets	**145,099**	**17,174**	**362**	**75**	**162,710**

Group Liabilities EUR'000	Latvia	OECD countries	CIS countries	Other countries	Total
Deposits	83,191	35,281	16,912	19,094	154,478
Subordinated liabilities	-	427	991	480	1,898
Other liabilities	2,901	107	-	-	3,008
Capital and reserves	3,326	-	-	-	3,326
Total equity, reserves and liabilities	**89,418**	**35,815**	**17,903**	**19,574**	**162,710**
Contingent liabilities and commitments	**299**	**7**	**-**	**-**	**306**

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

32 GEOGRAPHICAL CONCENTRATION OF ASSETS, LIABILITIES, EQUITY AND CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Bank Assets EUR'000	Latvia	OECD countries	CIS countries	Other countries	Total
Cash and balances due from the Bank of Latvia	74,890	4,125	-	-	79,015
Financial assets at amortised cost	2,680	5,407	-	-	8,087
Financial assets at fair value through profit or loss	-	890	-	-	890
Demand deposits with credit institutions	6	2,029	318	16	2,369
Loans and advances to customers	65,329	595	44	-	65,968
Property and equipment	699	-	-	6	705
Right-of-use assets	581	-	-	-	581
Investment properties	53	-	-	-	53
Other assets	1,769	3,766	-	53	5,588
Total assets	**146,007**	**16,812**	**362**	**75**	**163,256**

Bank Liabilities EUR'000	Latvia	OECD countries	CIS countries	Other countries	Total
Deposits	83,191	35,281	16,912	19,094	154,478
Subordinated liabilities	-	427	991	480	1,898
Other liabilities	2,753	107	-	-	2,860
Capital and reserves	4,020	-	-	-	4,020
Total equity, reserves and liabilities	**89,964**	**35,815**	**17,903**	**19,754**	**163,256**
Contingent liabilities and commitments	**335**	**7**	**-**	**-**	**342**

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

32 GEOGRAPHICAL CONCENTRATION OF ASSETS, LIABILITIES, EQUITY AND CONTINGENT LIABILITIES AND COMMITMENTS (continued)

The geographical segmentation of the Bank's and the Group's assets, liabilities and contingent liabilities and commitments as at 31 December 2018 was as follows:

Group Assets EUR'000	Latvia	OECD countries	CIS countries	Other countries	Total
Cash and balances due from the Bank of Latvia	82,805	-	-	3,754	86,559
Financial assets at amortised cost	1,629	-	-	2,371	4,000
Financial assets at fair value through profit or loss	2	342	-	-	344
Demand deposits with credit institutions	905	4,797	1,091	274	7,067
Loans and term deposits due from credit institutions	400	-	-	-	400
Loans and advances to customers	60,085	190	131	661	61,067
Intangible assets	9	-	-	-	9
Property and equipment	755	-	-	9	764
Investment property	15,807	-	-	-	15,807
Other assets	2,702	4,001	1	13	6,717
Total assets	**165,099**	**9,330**	**1,223**	**7,082**	**182,734**

Group Liabilities EUR'000	Latvia	OECD countries	CIS countries	Other countries	Total
Deposits	80,454	20,856	12,762	54,482	168,554
Subordinated liabilities	1,500	427	991	480	3,398
Other liabilities	2,667	-	-	30	2,697
Provisions	53	-	-	-	53
Capital and reserves	8,032	-	-	-	8,032
Total equity, reserves and liabilities	**92,706**	**21,283**	**13,753**	**54,992**	**182,734**
Contingent liabilities and commitments	**2,882**	**-**	**-**	**7**	**2,889**

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

32 GEOGRAPHICAL CONCENTRATION OF ASSETS, LIABILITIES, EQUITY AND CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Bank **Assets** **EUR'000**	**Latvia**	**OECD countries**	**CIS countries**	**Other countries**	**Total**
Cash and balances due from the Bank of Latvia	82,805	-	-	3,754	86,559
Financial assets at amortised cost	1,629	-	-	2,371	4,000
Financial assets at fair value through profit or loss	2	342	-	-	344
Demand deposits with credit institutions	905	4,797	1,091	274	7,067
Loans and term deposits due from credit institutions	400	-	-	-	400
Loans and advances to customers	77,917	191	131	661	78,900
Intangible assets	9	-	-	-	9
Property and equipment	749	-	-	9	758
Other assets	796	4,001	1	13	4,811
Total assets	**165,212**	**9,331**	**1,223**	**7,082**	**182,848**

Bank **Liabilities** **EUR'000**	**Latvia**	**OECD countries**	**CIS countries**	**Other countries**	**Total**
Deposits	80,458	20,856	12,762	54,482	168,558
Subordinated liabilities	1,500	427	991	480	3,398
Other liabilities	2,452	-	-	30	2,482
Provisions	53	-	-	-	53
Capital and reserves	8,357	-	-	-	8,357
Total equity, reserves and liabilities	**92,820**	**21,283**	**13,753**	**54,992**	**182,848**
Contingent liabilities and commitments	**2,882**	**-**	**-**	**7**	**2,889**

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

33 INTEREST RATE REPRICING ANALYSIS

The interest rate repricing analysis of the Bank's and the Group's assets and liabilities as at 31 December 2019 was as follows:

Group EUR'000	Less than 1 month	1 – 3 months	3 – 6 months	6 – 12 months	1 – 5 years	Over 5 years	Not sensitive to changes in interest rates	Total
Assets								
Cash and balances due from the Bank of Latvia	72,330	-	-	-	-	-	6,685	79,015
Demand deposits with credit institutions	2,369	-	-	-	-	-	-	2,369
Financial assets at amortised cost	-	2,292	-	-	1,645	4,150	-	8,087
Financial assets at fair value through profit or loss	-	-	-	-	-	-	890	890
Loans and advances to customers	18,113	1,131	15,020	5,189	5,775	830	-	46,058
Property and equipment	-	-	-	-	-	-	709	709
Right-of-use assets	-	-	-	581	-	-	-	581
Investment property	-	-	-	-	-	-	16,599	16,599
Other assets	-	-	-	-	-	-	8,402	8,402
Total assets	**92,812**	**3,423**	**15,020**	**5,770**	**7,420**	**4,980**	**33,285**	**162,710**
Liabilities								
Deposits	123,889	3,787	6,376	11,886	8,403	137	-	154,478
Subordinated liabilities	-	-	-	-	1,471	427	-	1,898
Other liabilities	-	-	-	-	-	-	3,008	3,008
Total liabilities	**123,889**	**3,787**	**6,376**	**11,886**	**9,874**	**564**	**3,008**	**159,384**
Capital and reserves	-	-	-	-	-	-	3,326	3,326
Total liabilities, capital and reserves	**123,889**	**3,787**	**6,376**	**11,886**	**9,874**	**564**	**6,334**	**162,710**
Interest rate risk	**(31,077)**	**(364)**	**8,644**	**(6,116)**	**(2,454)**	**4,416**	**26,951**	**-**

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

33 INTEREST RATE REPRICING ANALYSIS (continued)

Bank EUR'000	Less than 1 month	1 – 3 months	3 – 6 months	6 – 12 months	1 – 5 years	Over 5 years	Not sensitive to changes in interest rates	Total
Assets								
Cash and balances due from the Bank of Latvia	72,330	-	-	-	-	-	6,685	79,015
Demand deposits with credit institutions	2,369	-	-	-	-	-	-	2,369
Financial assets at amortised cost	-	2,292	-	-	1,645	4,150	-	8,087
Financial assets at fair value through profit or loss	-	-	-	-	-	-	890	890
Loans and advances to customers	19,365	1,392	14,857	20,343	7,387	2,624	-	65,968
Property and equipment	-	-	-	-	-	-	705	705
Right-of-use assets				581				581
Investment property	-	-	-	-	-	-	53	53
Other assets	-	-	-	-	-	-	5,588	5,588
Total assets	**94,064**	**3,684**	**14,857**	**20,924**	**9,032**	**6,774**	**13,921**	**163,256**
Liabilities								
Deposits	123,889	3,787	6,376	11,886	8,403	137	-	154,478
Subordinated liabilities	-	-	-	-	1,471	427	-	1,898
Other financial liabilities	-	-	-	-	-	-	2,860	2,860
Total financial liabilities	**123,889**	**3,787**	**6,376**	**11,886**	**9,874**	**564**	**2,860**	**159,236**
Capital and reserves	-	-	-	-	-	-	4,020	4,020
Total liabilities, capital and reserves	**123,889**	**3,787**	**6,376**	**11,886**	**9,874**	**564**	**6,880**	**163,256**
Interest rate risk	**(29,825)**	**(103)**	**8,481**	**9,038**	**(842)**	**6,210**	**7,041**	**-**

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

33 INTEREST RATE REPRICING ANALYSIS (continued)

The interest rate repricing analysis of the Group's and the Bank's assets and liabilities as at 31 December 2018 was as follows:

Group EUR'000	Less than 1 month	1 – 3 months	3 – 6 months	6 – 12 months	1 – 5 years	Over 5 years	Not sensitive to changes in interest rates	Total
Assets								
Cash and balances due from the Bank of Latvia	80,020	-	-	-	-	-	6,539	86,559
Demand deposits with credit institutions	7,067	-	-	-	-	-	-	7,067
Financial assets at amortised cost	-	-	-	-	4,000	-	-	4,000
Financial assets at fair value through profit or loss	-	-	-	-	-	-	344	344
Loans and advances to customers	23,393	1,852	13,966	9,601	10,929	1,326	-	61,067
Loans and term deposits due from credit institutions	-	400	-	-	-	-	-	400
Intangible assets	-	-	-	-	-	-	9	9
Property and equipment	-	-	-	-	-	-	764	764
Investment property	-	-	-	-	-	-	15,807	15,807
Other assets	-	-	-	-	-	-	6,717	6,717
Total assets	**110,480**	**2,252**	**13,966**	**9,601**	**14,929**	**1,326**	**30,180**	**182,734**
Liabilities								
Deposits	134,714	4,842	6,895	12,074	10,029	-	-	168,554
Subordinated liabilities	-	1,500	-	-	1,471	427	-	3,398
Other financial liabilities	-	-	-	-	-	-	2,750	2,750
Total financial liabilities	**134,714**	**6,342**	**6,895**	**12,074**	**11,500**	**427**	**2,750**	**174,702**
Capital and reserves	-	-	-	-	-	-	8,032	8,032
Total liabilities, capital and reserves	**134,714**	**6,342**	**6,895**	**12,074**	**11,500**	**427**	**11,454**	**182,734**
Interest rate risk	**(24,234)**	**(4,090)**	**7,071**	**(2,473)**	**3,429**	**899**	**18,759**	**-**

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

33 INTEREST RATE REPRICING ANALYSIS (continued)

Bank EUR'000	Less than 1 month	1 – 3 months	3 – 6 months	6 – 12 months	1 – 5 years	Over 5 years	Not sensitive to changes in interest rates	Total
Assets								
Cash and balances due from the Bank of Latvia	80,020	-	-	-	-	-	6,539	86,559
Demand deposits with credit institutions	7,067	-	-	-	-	-	-	7,067
Financial assets at amortised cost	-	-	-	-	4,000	-	-	4,000
Financial assets at fair value through profit or loss	-	-	-	-	-	-	344	344
Loans and advances to customers	23,588	1,935	14,842	26,581	9,881	2,073	-	78,900
Loans and term deposits due from credit institutions	-	400	-	-	-	-	-	400
Intangible assets	-	-	-	-	-	-	9	9
Property and equipment	-	-	-	-	-	-	758	758
Other assets	-	-	-	-	-	-	4,811	4,811
Total assets	**110,675**	**2,335**	**14,842**	**26,581**	**13,881**	**2,073**	**12,461**	**182,848**
Deposits	134,718	4,842	6,895	12,074	10,029	-	-	168,558
Subordinated liabilities	-	1,500	-	-	1,471	427	-	3,398
Other liabilities	-	-	-	-	-	-	2,535	2,535
Total liabilities	**134,718**	**6,342**	**6,895**	**12,074**	**11,500**	**427**	**2,535**	**174,491**
Capital and reserves	-	-	-	-	-	-	8,357	8,357
Total liabilities, capital and reserves	**134,718**	**6,342**	**6,895**	**12,074**	**11,500**	**427**	**10,892**	**182,848**
Interest rate risk	**(24,043)**	**(4,007)**	**7,947**	**14,507**	**2,381**	**1,646**	**1,569**	**-**

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

33 INTEREST RATE REPRICING ANALYSIS (continued)

Sensitivity analysis

The following table disclosed the sensitivity to reasonably possible changes in interest rates of the Bank's statement of comprehensive income. The analysis assumes that all other variables, in particular foreign currency rates, remain constant.

The sensitivity of statement of comprehensive income is the effect of the assumed changes in the interest rates on the net interest income for one year, following the reporting period end date, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2019 and 31 December 2018.

Sensitivity of the Group's profit and loss to changes in interest rates is not disclosed separately as it does not differ significantly from that of the Bank.

An increase and decrease of interest rates by 100 basis points would result in the following change to the statement of comprehensive income and equity:

EUR'000	2019		2018	
	Profit or loss	Shareholders' equity	Profit or loss	Shareholders' equity
Increase in interest rates	(211)	0	(158)	0
Decrease in interest rates	211	0	158	0
Increase in USD interest rates	(65)	0	(68)	0
Decrease in USD interest rates	65	0	68	0

34 FINANCIAL ASSETS AND LIABILITIES BY CATEGORIES

31 December 2019

Group EUR'000	Financial assets at amortised cost	Financial assets and liabilities at fair value through profit or loss	Financial assets and liabilities at fair value through other comprehensive income	Loans and advances to customers	Liabilities at amortised cost	Total
Financial assets						
Cash and balances due from the Bank of Latvia	-	-	-	79,015	-	79,015
Demand deposits with credit institutions	-	-	-	2,369	-	2,369
Financial assets at amortised cost	8,087	-	-	-	-	8,087
Financial assets at fair value through profit or loss	-	890	-	-	-	890
Loans and advances to customers	-	-	-	46,058		46,058
Other financial assets	-	-	-	6,942	-	6,942
Total financial assets	**8,087**	**890**	**-**	**134,384**	**-**	**143,361**
Financial liabilities						
Deposits	-	-	-	-	154,478	154,478
Subordinated liabilities	-	-	-	-	1,898	1,898
Other financial liabilities	-	-	-	-	2,507	2,507
Total financial liabilities	**-**	**-**	**-**	**-**	**158,883**	**158,883**

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

34 FINANCIAL ASSETS AND LIABILITIES BY TYPES (continued)

31 December 2019

Bank EUR'000	Financial assets at amortised cost	Financial assets and liabilities designated at fair value through profit or loss	Financial assets and liabilities designated at fair value through other comprehensive income	Loans and advances to customers	Liabilities at amortised cost	Total
Financial assets						
Cash and balances due from the Bank of Latvia	-	-	-	79,015	-	79,015
Demand deposits with credit institutions	-	-	-	2,369	-	2,369
Financial assets at amortised cost	8,087	-	-	-	-	8,087
Financial assets at fair value through profit or loss	-	890	-	-	-	890
Loans and advances to customers	-	-	-	65,968		65,968
Other financial assets	-	-	-	5,319		5,319
Total financial assets	**8,087**	**890**	**-**	**152,671**		**161,648**
Financial liabilities						
Deposits	-	-	-	-	154,478	154,478
Subordinated liabilities	-	-	-	-	1,898	1,898
Other financial liabilities	-	-	-	-	2,507	2,507
Total financial liabilities	**-**	**-**	**-**	**-**	**158,883**	**158,883**

31 December 2018

Group EUR'000	Held-to-maturity investments	Financial assets and liabilities designated at fair value through profit or loss	Financial assets and liabilities designated at fair value through other comprehensive income	Loans and advances to customers	Liabilities at amortised cost	Total
Financial assets						
Cash and balances due from the Bank of Latvia	-	-	-	86,559	-	86,559
Demand deposits with credit institutions	-	-	-	7,067	-	7,067
Financial assets at amortised cost	4,000	-	-	-	-	4,000
Financial assets at fair value through profit or loss	-	344	-	-	-	344
Loans and advances to customers	-	-	-	61,467		61,467
Other financial assets	-	-	-	6,593	-	6,593
Total financial assets	**4,000**	**344**	**-**	**161,686**	**-**	**166,030**
Financial liabilities						
Deposits	-	-	-	-	168,554	168,554
Subordinated liabilities	-	-	-	-	3,398	3,398
Other financial liabilities	-	-	-	-	1,981	1,981
Total financial liabilities	**-**	**-**	**-**	**-**	**173,933**	**173,933**

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

34 FINANCIAL ASSETS AND LIABILITIES BY TYPES (CONTINUED)

31 December 2018

Bank EUR'000	Held-to-maturity investments	Financial assets and liabilities designated at fair value through profit or loss	Financial assets and liabilities designated at fair value through other comprehensive income	Loans and advances to customers	Liabilities at amortised cost	Total
Financial assets						
Cash and balances due from the Bank of Latvia	-	-	-	86,559	-	86,559
Demand deposits with credit institutions	-	-	-	7,067	-	7,067
Financial assets at amortised cost	4,000	-	-	-	-	4,000
Financial assets at fair value through profit or loss	-	344	-	-	-	344
Loans and advances to customers	-	-	-	79,300		79,300
Other financial assets	-	-	-	4,708	-	4,708
Total financial assets	**4,000**	**344**	**-**	**177,633**	**-**	**181,977**
Financial liabilities						
Deposits	-	-	-	-	168,554	168,554
Subordinated liabilities	-	-	-	-	3,398	3,398
Other financial liabilities	-	-	-	-	1,981	1,981
Total financial liabilities	**-**	**-**	**-**	**-**	**173,933**	**173,933**

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

35 CURRENCY ANALYSIS

The Group and the Bank actively controls foreign exchange open positions. The Bank operates based on the Law on Credit Institutions stating that the open position in any currency should not exceed 10% of shareholders' equity and that the total open position should not exceed 20% of the shareholders' equity.

The currency analysis of the Group's and the Bank's expected and contingent liabilities of the financial position as at 31 December 2019 was as follows:

Group EUR'000	EUR	USD	Other	Total
Assets				
Cash and balances due from the Bank of Latvia	77,133	1,551	331	79,015
Demand deposits with credit institutions	736	414	1,219	2,369
Financial assets at amortised cost	4,903	3,184	-	8,087
Financial assets at fair value through profit or loss	-	890	-	890
Loans and advances to customers	44,871	1,187	-	46,058
Property and equipment	709	-	-	709
Right-of-use assets	581	-	-	581
Investment property	16,599	-	-	16,599
Other assets	4,938	3,229	236	8,402
Total assets	**150,471**	**10,455**	**1,784**	**162,710**
Liabilities				
Deposits	139,165	12,650	2,663	154,478
Subordinated liabilities	1,898	-	-	1,898
Other financial liabilities	2,966	42	-	3,008
Total liabilities	**144,029**	**12,692**	**2,663**	**159,384**
Capital and reserves	3,033	293	-	3,326
Total liabilities, capital and reserves	**147,062**	**12,985**	**2,663**	**162,710**
Net open position in the statement of financial position	3,409	(2,530)	(879)	-
Net position arising from currency exchange transactions	(4,300)	2,860	1,400	-
Total net open position	**(891)**	**330**	**521**	**-**

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

35 CURRENCY ANALYSIS (continued)

Bank EUR'000	EUR	USD	Other	Total
Assets				
Cash and balances due from the Bank of Latvia	77,133	1,551	331	79,015
Demand deposits with credit institutions	736	414	1,219	2,369
Financial assets at amortised cost	4,903	3,184	-	8,087
Financial assets at fair value through profit or loss	-	890	-	890
Loans and advances to customers	64,703	1,265	-	65,968
Property and equipment	652	-	53	705
Right-of-use assets	581	-	-	581
Investment property	53	-	-	53
Other assets	2,177	3,229	183	5,588
Total assets	**150,939**	**10,533**	**1,784**	**163,256**
Liabilities				
Deposits	139,165	12,650	2,663	154,478
Subordinated liabilities	1,898	-	-	1,898
Other liabilities	2,818	42	-	2,860
Total liabilities	**143,881**	**12,692**	**2,663**	**159,236**
Capital and reserves	3,727	293	-	4,020
Total liabilities, capital and reserves	**147,608**	**12,985**	**2,663**	**163,256**
Net open position in the statement of financial position	3,331	(2,452)	(879)	-
Net position arising from currency exchange transactions	(4,300)	2,860	1,400	-
Total net open position	**(969)**	**408**	**521**	**-**

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

35 CURRENCY ANALYSIS (continued)

The currency analysis of the Group's and the Bank's expected and contingent liabilities as at 31 December 2018 was as follows:

Group EUR'000	EUR	USD	Other	Total
Assets				
Cash and balances due from the Bank of Latvia	85,113	1150	296	86,559
Demand deposits with credit institutions	1,454	3,745	1,868	7,067
Financial assets at amortised cost	754	3,246	-	4,000
Financial assets at fair value through profit or loss	2	342	-	344
Loans and advances to customers	59,347	1,720	-	61,067
Loans and term deposits due from credit institutions	400	-	-	400
Intangible assets	9	-	-	9
Property and equipment	764	-	-	764
Investment property	15,807	-	-	15,807
Other assets	3,904	2,801	12	6,717
Total assets	**167,554**	**13,004**	**2,176**	**182,734**
Liabilities				
Deposits	143,193	21,368	3,993	168,554
Subordinated liabilities	3,398	-	-	3,398
Other financial liabilities	2,588	103	6	2,697
Provisions	53	-	-	53
Total liabilities	**149,232**	**21,471**	**3,999**	**174,702**
Capital and reserves	7,891	141	-	8,032
Total liabilities, capital and reserves	**157,123**	**21,612**	**3,999**	**182,735**
Net open position in the statement of financial position	10,431	(8,608)	(1,823)	-
Net position arising from currency exchange transactions	(10,300)	8,299	2,001	-
Total net open position	**131**	**(309)**	**178**	**-**

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

35 CURRENCY ANALYSIS (continued)

Bank EUR'000	EUR	USD	Other	Total
Assets				
Cash and balances due from the Bank of Latvia	85,113	1,149	296	86,558
Demand deposits with credit institutions	1,454	3,745	1,868	7,067
Financial assets at amortised cost	754	3,246	-	4,000
Financial assets at fair value through profit or loss	2	342	-	344
Loans and advances to customers	76,765	2,135	-	78,900
Loans and term deposits due from credit institutions	400	-	-	400
Intangible assets	9	-	-	9
Property and equipment	758	-	-	758
Other financial assets	1,996	2,804	12	4,812
Total financial assets	**167,251**	**13,421**	**2,176**	**182,848**
Liabilities				
Deposits	143,197	21,368	3,993	168,558
Subordinated liabilities	3,398	-	-	3,398
Other liabilities	2,373	103	6	2,482
Provisions	53	-	-	53
Total financial liabilities	**149,021**	**21,471**	**3,999**	**174,491**
Capital and reserves	8,216	141	0	8,357
Total liabilities, capital and reserves	**157,237**	**21,612**	**3,999**	**182,848**
Net open position in the statement of financial position	10,039	(8,216)	(1,823)	-
Net position arising from currency exchange transactions	(10,300)	8,299	2,001	-
Total net open position	**(261)**	**83**	**178**	**-**

An analysis of sensitivity of the Group's and Bank's net income for the year and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2019 and 2018 and a simplified scenario of a 10% change in USD to EUR exchange rates is as follows:

Group EUR'000	2019 Net profit	2018 Net profit
10% appreciation of USD against EUR	33	(31)
10% depreciation of USD against EUR	(33)	31

Bank EUR'000	2019 Net profit	2018 Net profit
10% appreciation of USD against EUR	41	8
10% depreciation of USD against EUR	(41)	(8)

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

36 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The amounts below represent the assets and liabilities grouped by residual maturity.

In line with liquidity management policy the liquidity risk is managed by Treasury Division. All units whose operations affect the liquidity of the Group and the Bank are involved in liquidity management. The structure of assets/liabilities and the difference between them are calculated in order to carry out liquidity control. Liquidity is managed by using monetary instruments.

The Bank is active in managing its net liquidity position by means of:

- reducing maturities of assets, including by maintaining large balances on correspondent accounts or interbank overnight deposits and by investing funds in highly liquid debt securities in the available-for-sale portfolio or in highly liquid debt securities in the held-to-maturity portfolio, which are accepted as collateral by the ECB or other market players.
- increasing maturities of liabilities by attracting term deposits.

The Bank approves limits on net liquidity positions in general, as well as in EUR and USD.

As at 31 December 2019 and 31 December 2018 the individual liquidity coverage ratio for the Bank was 528% and 638%, respectively, and for the Group it was 528% and 639%, respectively.

The maturity analysis of the the Group's and Bank's assets and liabilities as at 31 December 2019 was as follows:

Group EUR'000	Up to 1 month including	1 to 3 months	3 to 6 months	6 to 12 months	More than 1 year	Over 5 years or not determined	Total
Assets							
Cash and balances due from the Bank of Latvia	79,015	-	-	-	-	-	79,015
Demand deposits with credit institutions	2,369	-	-	-	-	-	2,369
Financial assets at amortised cost	-	2,293	-	-	1,646	4,148	8,087
Financial assets at fair value through profit or loss	-	-	-	-	-	890	890
Loans and advances to customers	1,014	1,035	1,287	6,089	15,697	20,936	46,058
Property and equipment	-	-	-	-	709	-	709
Right-of-use assets	-	-	-	581	-	-	581
Investment property	-	-	-	-	-	16,599	16,599
Other assets	3,595	910	-	1,376	617	1,904	8,402
Total assets	**85,993**	**4,238**	**1,287**	**8,046**	**19,559**	**43,587**	**162,710**
Liabilities							
Deposits	123,889	3,787	6,376	11,886	8,403	137	154,478
Subordinated liabilities	-	-	-	-	1,471	427	1,898
Other liabilities	2,693	41	1	18	88	167	3,008
Total liabilities	**126,582**	**3,828**	**6,377**	**11,904**	**9,962**	**731**	**159,384**
Capital and reserves	-	-	-	-	-	3,326	3,326
Total capital, liabilities and reserves	**126,582**	**3,828**	**6,377**	**11,904**	**9,962**	**4,057**	**162,710**
Liquidity risk	**(40,589)**	**410**	**(5,090)**	**(3,858)**	**9,597**	**39,530**	**-**

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

36 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

Bank EUR'000	Up to 1 month including	1 to 3 months	3 to 6 months	6 to 12 months	More than 1 year	Over 5 years or not determined	Total
Assets							
Cash and balances due from the Bank of Latvia	79,015	-	-	-	-	-	79,015
Demand deposits with credit institutions	2,369	-	-	-	-	-	2,369
Financial assets at amortised cost	-	2,293	-	-	1,646	4,148	8,087
Financial assets at fair value through profit or loss	-	-	-	-	-	890	890
Loans and advances to customers	2,266	1,296	1,124	21,243	17,309	22,730	65,968
Property and equipment					705		705
Right-of-use assets	-	-	-	581	-	-	581
Investment property	-	-	-	-	-	53	53
Other assets	3,595	-	-	1,376	617	-	5,588
Total assets	**87,245**	**3,589**	**1,124**	**23,200**	**21,167**	**26,931**	**163,256**
Liabilities							
Deposits	123,889	3,787	6,376	11,886	8,403	137	154,478
Subordinated liabilities	-	-	-	-	1,471	427	1,898
Other liabilities	2,693	41	1	18	88	19	2,860
Total liabilities	**126,582**	**3,828**	**6,377**	**11,904**	**9,962**	**583**	**159,236**
Capital and reserves	-	-	-	-	-	4,020	4,020
Total capital, liabilities and reserves	**126,582**	**3,828**	**6,377**	**11,904**	**9,962**	**4,603**	**163,256**
Liquidity risk	**(39,337)**	**(239)**	**(5,253)**	**11,296**	**11,205**	**22,328**	**-**

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

36 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

The maturity analysis of the Group's and Bank's assets and liabilities as at 31 December 2018 was as follows

Group EUR'000	Up to 1 month including	1 to 3 months	3 to 6 months	6 to 12 months	More than 1 year	Over 5 years or not determined	Total
Assets							
Cash and balances due from the Bank of Latvia	86,559	-	-	-	-	-	86,559
Demand deposits with credit institutions	7,067	-	-	-	-	-	7,067
Financial assets at amortised cost	-	-	-	-	4,000	-	4,000
Financial assets at fair value through profit or loss	-	-	-	-	-	344	344
Loans and term deposits due from credit institutions	-	400	-	-	-	-	400
Loans and advances to customers	5,146	1,198	1,904	9,316	18,996	24,507	61,067
Intangible assets	-	-	-	-	-	9	9
Property and equipment	-	-	-	-	-	764	764
Investment property	-	-	-	-	-	15,807	15,807
Other financial assets	6,717	-	-	-	-	-	6,717
Total assets	**105,489**	**1,598**	**1,904**	**9,316**	**22,996**	**41,431**	**182,734**
Liabilities							
Deposits	123,348	4,842	6,930	12,074	10,034	11,326	168,554
Subordinated liabilities	-	1,500	-	-	1,471	427	3,398
Other financial liabilities	2,750	-	-	-	-	-	2,750
Total financial liabilities	**126,098**	**6,342**	**6,930**	**12,074**	**11,505**	**11,753**	**174,702**
Capital and reserves	-	-	-	-	-	8,032	8,032
Total capital, liabilities and reserves	**126,098**	**6,342**	**6,930**	**12,074**	**11,505**	**19,785**	**182,734**
Liquidity risk	**(20,609)**	**(4,744)**	**(5,026)**	**(2,758)**	**11,491**	**21,646**	**-**

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

36 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

Bank EUR'000	Up to 1 month including	1 to 3 months	3 to 6 months	6 to 12 months	More than 1 year	Over 5 years or not determined	Total
Assets							
Cash and balances due from the Bank of Latvia	86,559	-	-	-	-	-	86,559
Demand deposits with credit institutions	7,067	-	-	-	-	-	7,067
Financial assets at amortised cost	-	-	-	-	4,000	-	4,000
Financial assets at fair value through profit or loss	-	-	-	-	-	344	344
Loans and term deposits due from credit institutions	-	400	-	-	-	-	400
Loans and advances to customers	5,341	1,281	2,780	26,784	17,639	25,075	78,900
Intangible assets	-	-	-	-	-	9	9
Property and equipment	-	-	-	-	-	758	758
Other assets	4,811	-	-	-	-	-	4,811
Total assets	**103,778**	**1,681**	**2,780**	**26,784**	**21,639**	**26,186**	**182,848**
Liabilities							
Deposits	123,352	4,842	6,930	12,074	10,034	11,326	168,558
Subordinated liabilities	-	1,500	-	-	1,471	427	3,398
Other liabilities	2,535	-	-	-	-	-	2,535
Total liabilities	**125,887**	**6,342**	**6,930**	**12,074**	**11,505**	**11,753**	**174,491**
Capital and reserves	-	-	-	-	-	8,357	8,357
Total capital, liabilities and reserves	**125,887**	**6,342**	**6,930**	**12,074**	**11,505**	**20,110**	**182,848**
Liquidity risk	**(22,109)**	**(4,661)**	**(4,150)**	**14,710**	**10,134**	**6,076**	**-**

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

36 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

The table below presents the cash flows payable by the Bank under both non-derivative and derivative financial liabilities by remaining contractual maturities as at 31 December 2019 and 31 December 2018.

The amounts disclosed in the table are the contractual undiscounted cash flows in comparison with carrying amounts of financial liabilities, comprising discounted cash flows as at the reporting date.

The Group analysis of financial liabilities' contractual undiscounted cash flows has not been presented as the differences to the Bank analysis are insignificant.

EUR'000 31 December 2019	Carrying amount	Gross nominal outflow	Less than 1 month	1 – 3 months	3 months to 1 year	1-5 years	Over 5 years
Deposits	154,478	159,980	117,671	5,018	15,477	21,814	-
Subordinated liabilities	1,898	2,547	-		79	1,917	551
Other financial liabilities	2,507	2,507	2,507	-	-	-	-
Total non-derivative financial liabilities	**158,883**	**165,034**	**120,178**	**5,018**	**15,556**	**23,731**	**551**
Loans and credit line liabilities	246	246	246	-	-	-	-
Guarantees and letters of credit	96	96	96	-	-	-	-
Total financial liabilities	**159,225**	**165,376**	**120,520**	**5,018**	**15,556**	**23,731**	**551**

EUR'000 31 December 2018	Carrying amount	Gross nominal outflow	Less than 1 month	1 – 3 months	3 months to 1 year	1-5 years	Over 5 years
Non-derivative financial liabilities							
Deposits	168,558	174,561	128,396	5,475	16,888	23,802	-
Subordinated liabilities	3,398	4,047	-	-	79	3,417	552
Other financial liabilities	1,981	1,981	1,981	-	-	-	-
Total non-derivative financial liabilities	**173,937**	**52,367**	**2,155**	**5,475**	**16,967**	**27,219**	**552**
Loans and credit line liabilities	1,299	1,299	1,299	-	-	-	-
Guarantees and letters of credit	1,590	1,590	40	-	1,544	6	-
Total financial liabilities	**176,826**	**55,256**	**3,464**	**5,475**	**18,511**	**27,225**	**552**

37 CAPITAL ADEQUACY

The capital requirement for the Group and the Bank is set and monitored by the Financial and Capital Market Commission.

Capital is defined by the Group and the Bank as items defined by statutory regulation as capital. Under the current capital requirements set by Financial and Capital Market Commission, banks must maintain a ratio of capital to risk weighted assets ("statutory capital ratio") above the prescribed minimum level. Furthermore, according to Section 35.25 of the Credit Institution Law, the Bank is required to ensure that its Tier 1 basic capital is sufficient to meet the total capital buffer requirement which given the provisions of Section 35.3(1) of the Credit Institution Law is comprised of a capital conservation buffer of 2.5% of total exposures calculated according to Article 92(3) of the Regulation and, as required in Section 35.4(1) of the Credit Institutions Law, of the specific countercyclical capital buffer (CCyB) calculated by multiplying the total value of exposures as required by Article 92(3) of the Regulation and the CCyB rate specific for the particular credit institution.

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

37 CAPITAL ADEQUACY (continued)

As at 31 December 2019 the individual minimum level is set 12.45% which is increased by the total capital buffer requirement of 2.5% calculated as the sum of the capital buffer and the countercyclical capital buffer specific for the particular credit institution (31 December 2018: 13.5% which is increased by the total capital buffer requirement of 2.5% calculated as the sum of the capital buffer and the countercyclical capital buffer specific for the particular credit institution).

The actual capital adequacy ratio of the Group and the Bank was below the individual capital adequacy ratio set by the FCMC in the reporting years ended 31 December 2019 and 31 December 2018.

In order to achieve compliance with the total capital reserve requirements the Bank takes measures to strenghthen the capital as described in Notes 41 and 42.

The following table shows the composition of the Group's capital position as at 31 December 2019 and 31 December 2018:

Group EUR'000	31 December 2019	31 December 2018
Tier 1		
Share capital	15,999	15,999
Share premium	260	260
Reserve capital	4,155	4,155
Retained earnings/(accumulated loss) carried forward from previous years	(12,981)	(12,493)
Profit/ (loss) for the reporting year	(4,706)	(630)
Revaluation reserve of financial assets at FVOCI	-	141
Additional value adjustment	(1)	-
Intangible assets	-	(9)
Other adjustments	(726)	-
Result of transition period conditions	1,608	1,799
Total Tier 1 capital	**3,608**	**9,222**
Tier 2 capital		
Subordinated capital (unamortised part)	1,261	1,630
Total Tier 2 capital	**1,261**	**1,630**
Statutory deductions from Tier 1 and Tier 2 capital	**(106)**	**(261)**
Total shareholders' equity	**4,763**	**10,591**
Risk weighted value of exposures to credit risk, counterparty credit risk, impairment of recoverable amounts and unpaid deliveries risk	82,464	99,576
Total exposure to position risk, foreign currency risk and commodity risk	431	614
Total exposure to operational risk	16,263	17,994
Total exposure to credit value adjustment risk	20	53
Total risk exposure	**99,178**	**118,237**
Total capital adequacy ratio	**4.80%**	**8.96%**
Minimum capital adequacy ratio set by the FCMC	**12.45%**	**13.50%**
Minimum capital adequacy ratio set by the FCMC including the total reserve requirement	**14.95%**	**16.00%**

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

37 CAPITAL ADEQUACY (continued)

The following table shows the composition of the Bank's capital position as at 31 December 2019 and 31 December 2018:

Bank EUR'000	31 December 2019	31 December 2018
Tier 1		
Share capital	15,999	15,999
Share premium	260	260
Reserve capital	4,155	4,155
Retained earnings of the previous years	(12,656)	(13,097)
Profit/ (loss) for the reporting year	(4,338)	300
Revaluation reserve of financial assets at FVOCI	-	141
Additional value adjustment	(1)	-
Intangible assets	-	(9)
Result of transition period conditions	1,609	1,798
Total Tier 1 capital	**5,028**	**9,547**
Tier 2 capital		
Subordinated capital (unamortised part)	1,261	1,630
Total Tier 2 capital	**1,261**	**1,630**
Statutory deductions from Tier 1 and Tier 2 capital	**(106)**	**(261)**
Total shareholders' equity	**6,183**	**10,916**
Risk weighted value of exposures to credit risk, counterparty credit risk, impairment of recoverable amounts and unpaid deliveries risk	82,179	99,384
Total exposure to position risk, foreign currency risk and commodity risk	1,059	387
Total exposure to operational risk	16,118	17,809
Total exposure to credit value adjustment risk	20	53
Total risk exposure	**99,376**	**117,634**
Total capital adequacy ratio	**6.22%**	**9.28%**
Minimum capital adequacy ratio set by the FCMC	**12.45%**	**13.50%**
Minimum capital adequacy ratio set by the FCMC including the total reserve requirement	**14.95%**	**16.00%**

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment with some adjustments is adopted for off-balance sheet exposure to reflect the more contingent nature of the potential losses. The additional value adjustment was calculated according to the simplified approach based on European Commission Delegated Regulation (EU) 2016/101.

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

37 CAPITAL ADEQUACY (continued)

Capital adequacy ratio of the Group and the Bank without applying transitional regulations:

31 December 2019 EUR'000	Bank	Group
Tier 1 capital	3,419	2,000
Tier 2 capital	1,261	1,261
Statutory deductions from Tier 1 and Tier 2 capital	(106)	(106)
Total capital, fully loaded	**4,574**	**3,155**
Total risk exposure amount, fully loaded	**97,522**	**97,407**
Capital adequacy ratio, fully loaded	**4,69%**	**3,24%**

The above information is based on the Bank's and the Group's internal reports that are submitted to the Bank's management.

38 MAXIMUM CREDIT RISK EXPOSURE

The table below shows the maximum credit risk for the components of the statement of the financial position, including derivatives. Credit risk exposure is disclosed based on subjected to credit risk net carrying amount of statement of financial position items less impairment provisions for loans and advances to customers.

The maximum credit exposures are shown gross, i.e. without taking into account any pledges and collaterals. Detailed information on the type and amount of collateral is presented in the Note 11.

EUR'000	Maximum credit exposure nof the Group	
	2019	**2018**
Balances with the Bank of Latvia	72,330	80,020
Demand deposits with credit institutions	2,369	7,067
Financial assets at amortised cost	8,087	4,000
Financial assets at fair value through profit or loss	890	344
Loans and term deposits due from credit institutions	-	400
Loans and advances to customers	46,058	61,067
Other financial assets	6,942	6,593
Total items of the statement of financial position subjected to credit risk	**136,676**	**159,491**
Loans and credit line liabilities	246	1,299
Guarantees and letters of credit	96	1,590
Contingent liabilities and commitments	**342**	**2,889**
Total maximum credit risk exposure	**137,018**	**163,052**

As disclosed above, 35 % from total gross maximum credit risk amount refers to loans and receivables (2018: 40%).

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

38 MAXIMUM CREDIT RISK EXPOSURE (continued)

EUR'000	Maximum credit exposure of the Bank	
	2019	2018
Balances with the Bank of Latvia	72,330	80,020
Demand deposits with credit institutions	2,369	7,067
Financial assets at amortised cost	8,087	4,000
Financial assets at fair value through profit or loss	890	344
Loans and term deposits due from credit institutions	-	400
Loans and advances to customers	65,968	78,900
Other financial assets	5,319	4,708
Total items of the statement of financial position subjected to credit risk	**154,963**	**175,439**
Loans and credit line liabilities	246	1,299
Guarantees and letters of credit	96	1,590
Contingent liabilities and commitments	**342**	**2,889**
Total maximum credit risk exposure	**155,305**	**178,328**

39 FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Financial instruments measured at fair value

The table below analyses the financial instruments of the Group and the Bank 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.

31 December 2019 EUR'000	Level 1:	Level 2:	Level 3:	Total
Financial assets at fair value through profit or loss	-	890	-	890
Total	**-**	**890**	**-**	**890**
31 December 2018				
Financial assets at fair value through profit or loss	-	344	-	344
Total	**-**	**344**	**-**	**344**

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

39 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(b) Financial instruments not measured at fair value

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

31 December 2019 Group EUR'000	Level 1:	Level 2:	Level 3:	Total fair value	Total carrying amount
Financial assets					
Cash and due from central banks	-	-	-	79,015	79,015
Demand deposits with credit institutions	-	-	2,369	2,369	2,369
Loans and advances to customers	-	-	46,058	46,058	46,058
Financial assets at amortised cost	-	8,087	-	8,087	8,087
Other financial assets	-	-	6,942	6,942	6,942
Financial liabilities					
Deposits	-	-	154,478	154,478	154,478
Other loans	-	-	1,898	1,898	1,898
Other liabilities	-	-	2,507	2,507	2,507

31 December 2018 Group EUR'000	Level 1:	Level 2:	Level 3:	Total fair value	Total carrying amount
Financial assets					
Cash and due from central banks	-	-	-	86,559	86,559
Demand deposits with credit institutions	-	-	7,067	7,067	7,067
Loans and advances to customers	-	-	61,467	61,467	61,467
Financial assets at amortised cost	-	4,000	-	4,000	4,000
Other financial assets	-	-	6,593	6,593	6,593
Financial liabilities					
Deposits	-	-	168,558	168,558	168,558
Other loans	-	-	3,398	3,398	3,398
Other liabilities	-	-	1,981	1,981	1,981

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

39 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

31 December 2019 Bank EUR'000	Level 1:	Level 2:	Level 3:	Total fair value	Total carrying amount
Financial assets					
Cash and due from central banks	-	-	-	79,015	79,015
Demand deposits with credit institutions	-	-	7,067	2,369	2,369
Loans and advances to customers	-	-	65,968	65,968	65,968
Financial assets at amortised cost	-	8,087	-	8,087	8,087
Other financial assets	-	-	5,319	5,319	5,319
Financial liabilities					
Deposits	-	-	154,478	154,478	154,478
Other loans	-	-	1,898	1,898	1,898
Other liabilities	-	-	2,507	2,507	2,507

31 December 2018 Bank EUR'000	Level 1:	Level 2:	Level 3:	Total fair value	Total carrying amount
Financial assets					
Cash and due from central banks	-	-	-	86,559	86,559
Demand deposits with credit institutions	-	-	7,067	7,067	7,067
Loans and advances to customers	-	-	79,300	79,300	79,300
Financial assets at amortised cost	-	4,000	-	4,000	4,000
Other financial assets	-	-	4,708	4,708	4,708
Financial liabilities					
Deposits	-	-	168,558	168,558	168,558
Other loans	-	-	3,398	3,398	3,398
Other liabilities	-	-	1,981	1,981	1,981

40 LITIGATIONS

In the ordinary course of business the Bank and the Group are subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints, will not have a material adverse effect on the financial conditions of the results of future operations of the Group or the Bank.

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

41 GOING CONCERN

As disclosed in Note 37, in the year ended 31 December 2019, the Group and the Bank were not in compliance with the total individual capital adequacy requirement as set by the regulator and below minimum capital requirements set by EU banking regulator.

However on 10 March 2020 the Bank's shareholders completed first phase of capital strengthening measures by investing EUR 7 million in the Bank's share capital. Thus the shareholders of the Bank have ensured equity requirements set out in Regulation (EU) No 575/2013 and have compensated for the losses incurred as a result of provisions made during the reporting year. After the capital increase the total capital adequacy ratios reached 12,87% and 11,94% for the Bank and the Group respectively. Total capital adequacy ratio set for the Bank and the Group by the regulator is 14,95%.

The Bank's shareholders submitted to the regulator the plan envisaging further capital strengthening measures which shall ensure full compliance with the total individual capital adequacy requirement as set by the regulator until 30 June 2020.

In the beginning of 2019 the Bank developed new strategy and worked out detailed business plan for the three years' period until 2021. The strategy includes the change of business model with the following directions:

- The Bank's transformation into mainly residents serving credit institution during 2019;
- Actively resume conventional banking operations primarily focusing on new lending to SME in Latvia and Lithuania;
- Strengthening the Bank's position as a niche merchant banking services provider for SME in Latvia and Lithuania.

The plan envisages activities to be carried out in the following work-streams:

- Strengthening of capital base;
- Strengthening the corporate governance and management team;
- Cost-cutting measures;
- Continued de-risking of client base;
- Non-performing assets recovery;
- Resume active banking operation and marketing activities.

During 2019 the changes in business model and overall transformation process of the Bank's operations took place, paying particular attention to de-risking activities, transformation of the client's base from non-resident to resident, resolution of historical non-performing loan portfolio and accelerating realization of historical investment properties portfolio. The significant work was carried out to prepare and ensure solid platform for the Bank's future growth and attraction of new investor(s).

During 2020 the Bank's capital base was strengthened by investing EUR 7 million into Bank's capital. The contributions to the Bank's capital were made by two investors - SIA *J.A. Investment Holdings*, the beneficiary of which is Jurijs Adamovičs, who has provided 64 percent of the seven million euro investment, and by newly attracted investor - SIA *HPI 2*, the beneficiaries of which are Ralfs Kļaviņš and Andis Kļaviņš, who have paid in 36 percent of the investment.

After attraction of the new investor, a thorough review of the existing strategy and business plan is currently taking place which shall result in approval of the revised strategy and business plan in the nearest future. However, the focus of revised strategy remains the same – niche Bank for local businesses funded by local capital.

Strengthening of the corporate governance starting with the top level of corporate governance in the Bank will be continued during 2020. The number of Council members will be increased and will consist of 4 members. The process of formation of new Council has started by electing two new candidates for the role of Council members – Andis Kļaviņš and Guntars Reidzāns. The newly elected Council members shall undertake their duties once the regulator has approved their candidates.

The transformation phase of the Bank was executed and completed as envisaged during 2019. Following the strengthening of the capital base, the Bank has entered the next phase in Bank's life cycle – active business development stage, which will be reflected by respective changes in the top management level – the existing CEO Solvita Deglava is leaving the position as of 4 April 2020 and new CEO Raivis Kakānis is undertaking the duties of CEO in the nearest future after the approval is received from the regulator. These changes will be followed by expanding number of Management Board members from three to four.

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

41 GOING CONCERN (continued)

As a part of Internal Capital Adequacy Assessement Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) the stress testing of Bank's liquidity portfolio is carried out semi-annually. Both short-term and long-term testing results confirm that the Bank has sufficient short-term and middle-term liquid assets to ensure its liquidity requirements. As at 31 December 2019 and 31 December 2018 the Bank's liquidity ratio was 73,70% and 74,32% respectively and liquidity coverage ratio was 528% and 639% respectively. The Management of the Bank is confident that it could ensure the early repayment or partial sales of loan portfolio to obtain additional liquidity in a long-term, however that would result in discount applied to carrying value of the loan porfolio. The level of discount is dependent on respective market situation.

Based on above, the Management of the Group and the Bank conclude that the going concern principle is applicable to the preparation of these separate and consolidated financial statements. However, a material uncertainty still exists that may cast doubt on the Group's and the Bank's ability to continue as a going concern. The key sources of uncertainty include:

1) As at 31 December 2019 the Group and the Bank did not comply with large risk exposure limits as well as still do not comply with individual total capital adequacy requirement set by the regulator. There is a risk that the regulator might apply regulatory sanctions for these breaches. Due this this it is necessary to continue with capital strengthening measures;
2) The Bank's ability to recover non-performing assets;
3) The Bank's ability to implement and execute the strategy and business plan which are being reviewed after attraction of the new shareholder.

The Group's and Bank's consolidated and separate financial statements are prepared on a going concern basis and no adjustments, including revaluation of assets and liabilties, if such would be necessary, are made to these financial statements should these financial statemements not be prepared on a going concern basis.

42 SUBSEQUENT EVENTS

On 10 March 2020 the Bank's shareholders completed first phase of capital strengthening measures by investing EUR 7 million in the Bank's share capital. Thus the shareholders of the Bank have ensured equity requirements set out in Regulation (EU) No 575/2013 and have compensated for the losses incurred as a result of provisions made during the reporting year. After the capital increase the total capital adequacy ratios reached 12,87% and 11,94% for the Bank and the Group respectively.

The Bank's shareholders submitted to the regulator the plan envisaging further capital strengthening measures which shall ensure full compliance with the total individual capital adequacy requirement as set by the regulator until 30 June 2020.

The existing CEO Solvita Deglava is leaving the position as of 4 April 2020 and new CEO Raivis Kakānis is undertaking the duties of CEO in the nearest future after the approval is received from the regulator.

At the beginning of 2020 the spreading of virus Covid-19 throughout the world, including Latvia, was acknowledged thus disturbing entrepreneurship and economical development. Due to uncertain and quickly developing situation the Management of the Bank and Group considers that it is not possible to give an estimate for the effect of the virus spreading on the Bank and Group at this stage. As at the time of signing these financial statements there has been no actual restructurings and/or postponements of loan principal and interest payments approved by the Bank and at this stage it is not possible to estimate the number and volume of such restructurings and/or payment postponements in future, no effect on future loan loss provisioning levels as required by IFRS 9 can be estimated at his stage.

Except for the above, there have been no events that would have to be reflected in these financial statements for the period since the end of the reporting year.

Independent Auditor's Report

To the Shareholders of AS Industra Bank

Report on the audit of the separate and consolidated financial statements

Our qualified opinion

In our opinion, except for the possible effects of the matter described in the *Basis for qualified opinion* section of our report, the separate and consolidated financial statements give a true and fair view of the separate and consolidated financial position of AS Industra Bank ("the Bank") and its subsidiaries (together – "the Group") as at 31 December 2019, 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 (IFRS).

Our opinion is consistent with our additional report to the Audit Committee dated 3 April 2020.

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 Bank's Separate and the Group's Consolidated Statements of Financial Position as at 31 December 2019
- the Bank's Separate and the Group's Consolidated Statements of Profit or Loss and Other Comprehensive Income for the year then ended;
- the Bank's Separate and the Group's Consolidated Statements of Changes in Shareholders' Equity for the year then ended;
- the Bank's Separate and the Group's Consolidated 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 qualified opinion

As at 31 December 2019 the Bank's statement of financial position line item "Loans and receivables from customers" includes a loan due from a foreign subsidiary with a carrying value of EUR 247 thousand, which is collateralised by the real estate pledged to the Bank, and the Group's statement of financial position line item "Investment properties" includes investment property of a consolidated subsidiary at fair value of EUR 362 thousand. We were not able to obtain sufficient appropriate audit evidence on the appropriate level of the allocance for the expected credit losses of a loan issued to a foreign subsidiary and thus the carrying value of the loan at 31 December 2019 and any adjustment to the Bank's separate income statement line item "Net impairment allowance result" for the year ended 31 December 2019, and on the fair value of the investment property at 31 December 2019 and any adjustment to the Group's consolidated income statement line item "Revaluation of investment property" for the year ended 31 December 2019.

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 qualified 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.

To the best of our knowledge and belief, we declare that non-audit services that have provided to the Bank and the Group are in accordance with applicable law and regulations in the Republic of Latvia and that we have not provided services that are prohibited under Article 37.6 of Law on Audit Services of the Republic of Latvia.

The non-audit services that we have provided to the Bank and the Group, in the period from 1 January 2019 to 31 December 2019, are disclosed in Note 24 to the financial statements.

Material uncertainty related to going concern

We draw attention to "Going concern considerations" set out in Note 41 of the financial statements, which describes the Bank's and the Group's need to ensure their individually determined capital level, continue executing the capital strengthening plan and the revised strategy. This, along with other matters as described in Note 41, indicates that a material uncertainty exists that may cast significant doubt on the Bank's and the Group's ability to continue as a going concern. Our opinion is not further modified in respect of this matter.

Our audit approach

Overview

- Overall Bank and Group materiality is EUR 195 thousand, which represents approximately 5% of average of absolute amount of profit or loss before tax of the Group for the past three years.

- We have audited the separate financial statements of the Bank.
- We have performed audit of the Bank's subsidiary AS MTB Finance.
- Our audit scope covered almost 100% of the Group's revenues and 100% of the Group's total assets.

- Fair value of investment properties (the Group)
- Expected credit losses on loans (the Group and the Bank)

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

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 and the Group was EUR 195 thousand.
How we determined it	5% of average of absolute amount of profit or loss before tax of the Group for the past three years.
Rationale for the materiality benchmark applied	We chose labsolute amount of profit or loss before tax for the past three years as the benchmark because in our view, it is the benchmark which is of primary focus by the users of the financial statements. We chose the threshold of 5%, which is within the range of accepted quantitative materiality thresholds for this benchmark.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above EUR 19.5 thousand, as well as the misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

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. In addition to the matter described in the Basis for qualified

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opinion section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
Fair value of investment properties (the Group) Refer to Note 13 *'Investment property'* and *'Estimates and judgements'* of the consolidated financial statements. Investment property as per consolidated financial statements mainly comprise investment property held by the subsidiaries of the Bank. We focused on this area because the management makes subjective judgements when determining the fair value of investment properties, especially where the properties are of a type and location in which currently there is limited or no active market. Therefore, a variety of valuation techniques are used with inputs that are observable in the market and inputs that are not observable in the market. Management obtains reports from certified independent appraisers to assist them in determining the properties' fair values. Based on the type of investment property various valuation methods are used – market evidence of transaction prices for similar properties or income method. The most significant judgements made by the management in respect of fair valuation of investment properties are comparative market prices and discounted cash flows, including rent rates, expenses, growth rate etc.	We assessed that the Group's accounting policies in relation to the fair valuation of investment properties are based on IFRS requirements. We tested that upon consolidation the investment properties owned by the subsidiaries of the Bank have been recognised in the consolidated balance sheet as at 31 December 2019. For a selected sample of investment properties, we obtained the independent valuations the Group obtained in respect of the investment properties. We involved our valuation specialists in order to perform the assessment of independent valuations. Where comparative market data was used, we evaluated whether the location, condition and other relevant attributes of the property are similar to those of the comparable assets used by valuators. Where valuation models were used, we evaluated the reasonableness of inputs into the valuation models – future cash flows, growth rates, discount rates. We also performed our own search of comparable market data, as well as assessed the calculation of fair values using discounted future cash flow models where it was considered necessary. We tested the disclosures in the financial statements in respect of investment properties.
Expected credit losses on loans (the Group and the Bank) Refer to Note 11 *'Loans'* and *'Estimates and judgements'* to the consolidated and separate financial statements. We focused on this area because application of IFRS 9 "Financial instruments" expected credit loss (ECL) model for loans impairment losses	We assessed that the Group's and Bank's accounting policies in relation to the ECL of loans to customers are based on requirements of 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. Further, on a sample basis we performed testing for accuracy and completeness of loan data, including contract dates, interest rates, collateral

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requires 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 the expected credit losses are calculated using the ECL model, while for all exposures in Stage 3 expected credit losses are calculated on individual basis.

Net result for expected credit losses for the year ended 31 December 2019 amounted to the loss of EUR 3,778 thousand for the Group and EUR 4,014 thousand for the Bank.

values and types, performing/ non-performing status and other inputs used in ECL calculation.

For a sample of loans, we have assessed reasonableness of assumptions related to future expected cash flows and recoverability of loans as made by credit expert for individually assessed loans. We have verified the rationale of these assumptions and verified the reasonableness of the values of collateral used in the assessment.

On a sample basis, we tested the collectively assessed credit loss allowance for loans to customers. We analyzed PD, LGD and EAD used by the Bank. We recalculated the final credit loss allowance for loans and advances assessed on collective basis using the ECL model.

We tested the disclosures relating to loans and allowances for expected credit loss.

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 almost 100% of the Group's revenues and 100% of the Group's total assets. Additionally, we tested investments in associates thus increasing the share of total audited assets of the Group to almost 100%.

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 Management Report

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

- Management Report, as set out on pages 3 to 4 of the accompanying Annual Report;
- information on the Bank's Management, as set out on page 5 of the accompanying Annual Report; and
- Statement of Responsibility of the Bank's Management, as set out on page 6 of the accompanying Annual Report,

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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, including the Management Report, information on the Bank's Management and the Statement of Responsibility of the Bank's Management.

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 Management Report, we also performed the procedures required by Law on Audit Services. Those procedures include considering whether the Management Report 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 Management Report, information on the Bank's Management and the Statement of Responsibility of the Bank's Management for the financial year for which the financial statements are prepared is consistent with the financial statements;
- the Management Report has been prepared in accordance with the requirements of the Financial and Capital Market Commission Regulation No 46 "Regulation on preparation of the annual report and consolidated annual report of credit institutions, investment brokerage companies and investment management companies".

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 Management Report, information on the Bank's Management and the Statement of Responsibility of the Bank's Management 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

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aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's 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 first appointed as auditors by the Bank shareholders' resolution on 10 April 2019. Our appointment has been renewed annually by shareholders' resolution representing a total period of uninterrupted engagement appointment of 2 years.

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

Ilandra Lejiņa
Certified auditor in charge
Certificate No. 168

Member of the Board

Riga, Latvia
3 April 2020

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