Annual report
for year 2019

Expobank

Without change of content, the structure of report might differ from approved statements.

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REPORT OF THE BOARD OF DIRECTORS AND THE MANAGEMENT BOARD

Dear Customers and Business Partners,

For the past several years, the pace of Latvia's economic growth has been one of the steadiest within the European Union. According to the Ministry of Economics of the Republic of Latvia, the economic growth in 2019 is expected to be at the 2.5% mark, and it is anticipated to remain at a similar rate in the year 2020, which nevertheless is slower compared to 2017 and 2018 (3.8% and 4.6% respectively). This slowdown has been caused by various internal factors – European Union's (EU) investment funding has reached its maximum levels, the developments in the financial sector, etc., as well as the external ones – revisions of global trade agreements, Brexit, sluggish growth in the rest of the EU countries.

The world's leading organization in combating money laundering Financial Action Task Force (FATF) has come to a conclusion that Latvia has managed to create a solid and robust financial crime prevention mechanism, this avoiding to be subjected to enhanced surveillance or being included in the so-called "gray list". FATF's decision has positioned Latvia to be the first Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (Moneyval's) supervised member state that has successfully implemented all 40 of FATF's recommendations. Consequently, the vulnerability of Latvia's financial system is constrained.

Latvia's economic stability has also been validated by the global credit ratings assigned by distinguished international credit rating agencies. In 2019, Fitch (A-) and Moody's (A3), and S&P Global Ratings (S&P) (A) agencies kept the previously allocated assessment in the investment grade category, thereby reassuring a favorable investment (conditions) and decent borrowing choices. At the beginning of 2020, S&P upgraded Latvia's credit rating from level (A) to (A+) level maintaining a stable future outlook. This is historically the highest ever rating to be designated to Latvia since 1997 – a year when a country's credit rating for Latvia was determined for the first time.

It is expected that the above mentioned global key factors will contribute to Latvia's overall growth in 2020, and the consumption of industries focused on domestic demand will continue to exhibit a positive trend.

Since the prior Moneyval's assessment, Latvia has carried out a series of activities in order to improve and enhance the country's money laundering and terrorism and proliferation financing prevention system, and ensure a transparent, sustainable, and safe functioning of the financial sector in Latvia. The already approved amendments to the Law on the Financial and Capital Market Commission, Credit Institution Law, and the Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing, are regarded as one of the most ambitious financial sector reform programs to be undertaken in Europe thus far, and assert that Latvia is determined to ensure a stable and transparent financial sector which will serve as a solid foundation for a sustainable growth in the long run while alleviating risks in the banking sector.

AS Expobank (hereinafter – the Bank) is one of the oldest and financially-viable credit institutions in Latvia – established in 1991, the Bank has always maintained high capital adequacy and liquidity ratios. In 2019, the Bank's capital adequacy ratio was 90.3%, liquidity ratio of 191.4%, and the liquidity coverage ratio (LCR) of 754%.

Due to the changes in the financial services market that includes the alterations in the industry's legal and regulatory requirements, and the ever-increasing geopolitical and reputational risks, the Bank has revised its business model and a new business strategy has been approved re-orienting the activities on servicing legal entities and private individuals in Latvia and other EU member states.

In 2019, the Bank continued to operate within the framework of the new business model focusing on servicing medium and small enterprises - the customer base has changed, and the internal processes of providing services have undergone adjustments as well. Lending and loan origination services as well as the credit risk management competencies were reinforced, business continuity processes and security of the Bank's information systems related technologies have been ensured – all of which involved substantial investments. The Bank wrapped up the year 2019 with loses in the amount of EUR 757 thousand which was a result of a shifting revenue base in combination with a long term investments. The average number of employees at the Bank in 2019 was 63.

The Bank applies a firm and conservative risk management policy. The Bank exercises caution, takes a risk only if customers' economic activities and business fields are rational and clear to the Bank and disallowing excessive risks of any kind. The Bank also sets forth certain limitations or refuses to perform a transaction altogether if a possibility of a high-risk situation has been identified.

REPORT OF THE BOARD OF DIRECTORS AND THE MANAGEMENT BOARD

In 2019, the Bank maintained a moderate risk level in the management of ML/TPF and Sanctions risks. Recommendations that were put forth by an independent international auditing firm concerning ML/TPF risk management, inter control system and information systems and technologies (which ensure the ML/TPF risk control function) improvements were implemented throughout the year. The Bank continues to embark on risk mitigating measures as it relates to ML/TPF risk and Sanctions risk management, including the termination of business relationships with shell companies and other customers whose inherent ML/TPF risk had been assessed as unacceptable.

Considering the fact that consumers in Latvia and other EU member states are increasingly choosing to receive banking services in a digital environment, projects related to information technology development, that were already started at the Bank in 2019, will continue to be implemented and realized in the year 2020: during this year potential customers will be able to initiate and establish a business relationship and place a small term deposits at the Bank remotely by using a uniquely-designed digital platform. Furthermore, new digitalized solutions will be put into place for the purposes of automatization of internal processes and increasing efficiency while paying close attention to and ensuring information security and personal data protection as well as enhancing and boosting employee knowledge and skills as today's setting in which the Bank provides financial services is ever-changing. The Bank intends to augment its lending volume, innovate and develop new banking products and services incorporating digital solutions during the process thereof.

We would like to thank all of our customers and business partners, as well as our employees for their immense contribution for ensuring stability and continued growth at the Bank!

Chairman of the Board of Directors
Ilya Mitelman

Chairman of the Management Board
Rolands Legzdiņš

March 5, 2020

MEMBERS OF THE BOARD OF DIRECTORS AND THE MANAGEMENT BOARD

As at 31 December 2019, the Members of the Board of Directors of the Bank were as follows:

Name	Position	Date of first election
Ilya Mitelman	Chairman of the Board of Directors	01/11/2017
Kirill Nifontov	Deputy Chairman of the Board of Directors	09/02/2012
Igor Kim	Member of the Board of Directors	09/02/2012
Gints Čakāns	Member of the Board of Directors	15/07/2019

On 20 May 2019 the Board of Directors of the Bank approved Ingrida Bluma's resignation as a Member of the Board of Directors with effect as of 1 July 2019. Shareholder of the Bank on 20 May 2019 elected a new member of the Board of Directors - Gints Čakāns, who took position on 15 July 2019. By the decision of the shareholder of 20 May 2019, other members of the Bank's Board of Directors were re-elected to the Board of Directors of the Bank.

As at 31 December 2019, the Members of the Management Board of the Bank were as follows:

Name	Position	Date of first election
Rolands Legzdiņš	Chairman of the Management Board	05/04/2017
Evija Sloka	Deputy Chairperson of the Management Board	02/11/2012
Vasilijs Karpovs	Member of the Management Board	15/07/2019
Valda Knauere	Member of the Management Board	15/07/2019

On 20 May 2019 the Board of Directors of the Bank elected new members of the Management Board of the Bank - Vasilijs Karpovs and Valda Knauere who took position on 15 July 2019. By the decision of the Board of Directors of the Bank of 20 May 2019, Rolands Legzdiņš has been appointed as the Chairman of the Management Board of the Bank as of 15 July 2019.

REPORT OF THE BOARD OF DIRECTORS AND THE MANAGEMENT BOARD

Management of AS Expobank is responsible for the preparation of the financial statements of the Bank. The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, and comply with legislative requirements of the Republic of Latvia.

The financial statements on pages 13 to 70 are prepared in accordance with source data and present fairly the financial position of the Bank as at 31 December 2019 and the results of operations and cash flows of the Bank for the year ended 31 December 2019.

The aforementioned financial statements are prepared on a going concern basis, consistently applying accounting policies in conformity with International Financial Reporting Standards as adopted by the European Union, and relevant legislation of the Republic of Latvia. Prudent and reasonable judgments and estimates have been made by the management in the preparation of the financial statements.

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

On behalf of the Bank's management,

Chairman of the Management Board
Rolands Legzdiņš

Deputy Chairperson of the Management Board
Evija Sloka

Member of the Management Board
Vasilijs Karpovs

Member of the Management Board
Valda Knauere

March 5, 2020

Independent Auditor's Report

To the Shareholder of AS Expobank

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of AS "Expobank" (the Bank) as at 31 December 2019, and of the financial performance and the cash flows of the Bank for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union (IFRS).

Our opinion is consistent with our additional report to the Audit Committee dated 5 March 2020.

What we have audited

The Bank's financial statements comprise:

- the statement of financial position as at 31 December 2019;
- the statement of comprehensive income for the year then ended;
- the statement of cash flows for the year then ended;
- the statement of changes in shareholder's equity for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

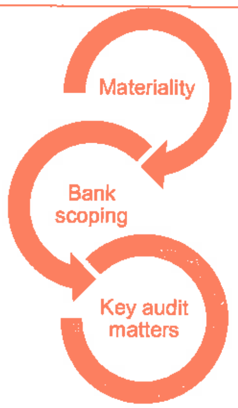
We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) and the ethical requirements of the Law on Audit Services that are relevant to our audit of the financial statements in the Republic of Latvia. We have fulfilled our other ethical responsibilities in accordance with 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 we have provided to the Bank and its related entities are in accordance with the applicable law and regulations in Latvia and that we have not provided non-audit 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, in the period from 1 January 2019 to 31 December 2019 are disclosed in the note 10 to the financial statements.

Our audit approach

Overview



Overall Bank materiality is 219 thousand EUR, which represents approximately 0.6% of net assets.

We conducted audit work in relation to stand alone financial information of the Bank.

Fee and commission income.

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 materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall materiality	Overall materiality applied to the Bank was EUR 219 thousand.
How we determined it	0.6% of net assets of the Bank.
Rationale for the materiality benchmark applied	We chose net assets as the base benchmark because, in our view, it is the benchmark which is of primary focus by the users of the financial statements and forms the basis for capital adequacy for regulatory purposes. We chose 0.6%, which is within the range of acceptable quantitative materiality thresholds for this benchmark.

* 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.

We agreed with the Audit Committee that we would report to them the misstatements identified during our audit above EUR 11 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.

Key audit matter	How our audit addressed the key audit matter
Fee and commission income Refer to Note 6 '*Fee and commission income*' of the financial statements. Fee and commission income is the main source of external revenue for the Bank, therefore verification of the occurrence and accuracy of fee and commission income was the main focus area of our audit. Although the commissions are based on the approved price lists, transactions also include some level of manual input.	We assessed whether the accounting policies of the Bank in relation to the fee and commission income are in compliance with IFRSs. We selected a sample of the transactions and verified that the commission fee was correctly applied based on the approved price list or the agreement with the customer. We also verified supporting documents to confirm the occurrence of the transaction or event which is subject to commission fee and that the commission was recorded in the correct service period. We verified the disclosures in the financial statements in respect of fee and commission income.

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

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

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

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

Our opinion on financial statements does not cover the other information, including the Report of Directors and the Management Board, Members of Directors and the Management Board, and Statement of Management's Responsibility.

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.

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With respect to the Report of the Board of Directors and the Management Board, we also performed the procedures required by Law on Audit Services. Those procedures include considering whether the 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 Report of the Board of Directors and the Management Board, Members of the Board of Directors and the Management Board, and the Statement of Management's Responsibility for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Report of the Board of Directors and the Management Board 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 of credit institutions, investment brokerage companies and investment management companies".

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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 6 October 2016. Our appointment has been renewed annually by shareholders' resolution representing a total period of uninterrupted engagement appointment of 4 years.

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

Ilandra Lejiņa
Certified auditor in charge
Certificate No. 168

Member of the Board

Riga, Latvia
5 March 2020

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STATEMENTOF COMPREHENSIVE INCOME

	Note	2019 EUR'000	2018 EUR'000
Interest income	5	1,004	1,102
Interest expense	5	(287)	(400)
Net interest income		**717**	**702**
Fee and commission income	6	2,527	4,161
Fee and commission expense	7	(101)	(164)
Net fee and commission income		**2,426**	**3,997**
Net income from transactions with financial instruments	8	168	930
Other income		156	348
Other expenses	9	(757)	(1,134)
Impairment or reversal of impairment on financial assets	15	(85)	5
General administrative expenses	10	(3,373)	(4,502)
(Losses)/Profit before income tax for the year		**(748)**	**346**
Income tax expense	11	(9)	(28)
(Losses)/Profit for the year		**(757)**	**318**
Items that may be reclassified subsequently to profit or loss			
Net gains (losses) on financial assets measured at FVOCI		473	(151)
Net loss on financial assets measured at FVOCI reclassified to profit or loss on disposal		(10)	(25)
Other comprehensive income/ (expenses) for the year		**463**	**(176)**
Total comprehensive (expenses)/ income for the year		**(294)**	**142**

The accompanying notes on pages 17 to 70 form an integral part of these financial statements.

The financial statements as set out on pages 13 to 70 were approved for issue by the Management Board on 5 March 2020.

Chairman of the Management Board
Rolands Legzdiņš

Deputy Chairperson of the Management Board
Evija Sloka

Member of the Management Board
Vasilijs Karpovs

Member of the Management Board
Valda Knauere

March 5, 2020

STATEMENT OF FINANCIAL POSITION

ASSETS	Note	31.12.2019 EUR'000	31.12.2018 EUR'000
Cash and demand deposits with the central banks	12	10,142	13,566
Due from financial institutions	14	15,815	33,198
Loans and advances due from customers	15	10,292	4
Financial assets measured at fair value through other comprehensive income	17	31,508	33,667
Property and equipment and right-of-use assets	18	927	381
Intangible assets	19	468	343
Overpaid current income tax		32	452
Other assets	20	504	639
Total Assets		**69,688**	**82,250**

STATEMENT OF FINANCIAL POSITION

ASSETS	Note	31.12.2019 EUR'000	31.12.2018 EUR'000
LIABILITIES AND SHAREHOLDER'S EQUITY			
Deposits and balances due to financial institutions	21	1	1
Current accounts and deposits due to customers	22	32,178	44,631
Accrued liabilities	23	107	110
Other tax payable		-	4
Other liabilities	24	42	516
Lease liabillity	25	666	-
Total Liabilities		**32,994**	**45,262**
Share capital		11,644	11,644
Share premium		6,360	6,360
Revaluation reserve		503	40
Other reserves		25	25
Retained earnings		18,162	18,919
Total Shareholder's Equity	**26**	**36,694**	**36,988**
Total Liabilities and Shareholder's Equity		**69,688**	**82,250**
Contingent liabilities and commitments	27	20	49
Funds under trust management	29	24,551	74,149

The accompanying notes on pages 17 to 70 form an integral part of these financial statements.

The financial statements as set out on pages 13 to 70 were approved for issue by the Management Board on 5 March 2020.

Chairman of the Management Board
Rolands Legzdiņš

Deputy Chairperson of the Management Board
Evija Sloka

Member of the Management Board
Vasilijs Karpovs

Member of the Management Board
Valda Knauere

March 5, 2020

STATEMENT OF CASH FLOWS

	2019 EUR'000	2018 EUR'000
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss)/Profit before income tax	(748)	346
Amortisation and depreciation	251	332
Depreciation of right-of-use assets	168	-
Interest income	(1,004)	(1,102)
Interest expense	287	400
Disposal of fixed assets	1	64
Net increase/(decrease) in provisions	85	(5)
Rental costs recognized during the reporting period	(225)	-
(Increase)/ decrease in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations	**(1,185)**	**35**
Decrease/ (increase) in financial assets measured at fair value through other comprehensive income	2,542	(5,303)
(Increase)/ decrease in due from financial institutions	(10)	5
(Increase)/decrease in loans and advances	(10,250)	4
Decrease in other assets	135	822
Decrease in current accounts and deposits due to customers	(12,457)	(141,697)
Increase/(decrease) in other liabilities	325	(258)
Decrease in cash and cash equivalents from operating activities before corporate income tax	**(20,900)**	**(146,392)**
Interest received	1,056	780
Interest paid	(283)	(393)
Corporate income tax recovered/(paid)	411	(211)
Net cash and cash equivalents from operating activities	**(19,716)**	**(146,216)**

STATEMENT OF CASH FLOWS

	2019 EUR'000	2018 EUR'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment and intangible assets	(250)	(172)
Decrease in cash and cash equivalents from investing activities	**(250)**	**(172)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal elements of lease payments	(841)	
Decrease in cash and cash equivalents from financing activities	**(841)**	**-**
Net cash flows for the period	**(20,807)**	**(146,388)**
Cash and cash equivalents at the beginning of the year	**46,765**	**193,153**
Cash and cash equivalents at the end of the year	**25,958**	**46,765**

The accompanying notes on pages 17 to 70 form an integral part of these financial statements.

The financial statements as set out on pages 13 to 70 were approved for issue by the Management Board on 5 March 2020.

Chairman of the Management Board
Rolands Legzdiņš

Deputy Chairperson of the Management Board
Evija Sloka

Member of the Management Board
Vasilijs Karpovs

Member of the Management Board
Valda Knauere

March 5, 2020

STATEMENTOF CHANGES IN SHAREHOLDER'S EQUITY

	Note	Share capital	Share premium	Reva-luation reserve	Other reserves	Retained earnings	Total
Balance at 1 January 2018		**11,644**	**6,360**	**216**	**25**	**18,601**	**36,846**
Total comprehensive income							
Profit for the year		-	-	-	-	318	318
Other comprehensive expense		-	-	(176)	-	-	(176)
Balance at 31 December 2018		**11,644**	**6,360**	**40**	**25**	**18,919**	**36,988**
Balance at 1 January 2019		**11,644**	**6,360**	**40**	**25**	**18,919**	**36,988**
Total comprehensive income							
Losses for the year		-	-	-	-	(757)	(757)
Other comprehensive income		-	-	463	-	-	463
Balance at 31 December 2019		**11,644**	**6,360**	**503**	**25**	**18,162**	**36,694**

The accompanying notes on pages 17 to 70 form an integral part of these financial statements.

The financial statements as set out on pages 13 to 70 were approved for issue by the Management Board on 5 March 2020.

Chairman of the Management Board
Rolands Legzdiņš

Deputy Chairperson of the Management Board
Evija Sloka

Member of the Management Board
Vasilijs Karpovs

Member of the Management Board
Valda Knauere

March 5, 2020

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

1 Background

Information on the Bank

AS Expobank (hereinafter the "Bank") was established in the Republic of Latvia on 6 December 1991 as a closed joint stock company. The Bank operates under a credit institution license issued by the Financial and Capital Market Commission of the Republic of Latvia according to which the Bank is allowed to provide all financial services.

In 2019, the Bank continues its operations and development by offering Bank's services to corporate clients and private persons. The services offered by the Bank include current accounts, deposits, lending, local and international money transfers, remote banking, escrow accounts, currency exchange, documentary operations, transactions with securities, brokerage services and payment cards.

Information about the Bank:	AS Expobank
Address:	Valdemara street 19, Riga, LV-1010, Latvia

The Bank does not have any branch, representative office or subsidiary.

Shareholders

The sole shareholder of the Bank is Igor Kim.

Related party transactions are disclosed in Note 30.

2 Basis of preparation

(1) Statement of compliance

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

The financial statements were approved for issue by the Management Board on 5 March 2020.

The shareholder has the right to reject these financial statements and request that new financial statements are prepared.

(2) Basis of measurement

The accounting system of the Bank is organised in accordance with the legislation of the Republic of Latvia, including requirements applicable to credit institutions operating in Latvia. The financial year of the Bank coincide with the calendar year.

The financial statements have been prepared on a historical cost basis, except financial assets measured at fair value through other comprehensive income.

(3) Functional and Presentation Currency

The financial statements are presented in thousands of euro ('000 EUR), unless stated otherwise, being the functional currency of the Bank.

3 Significant accounting policies

The following significant accounting policies have been consistently applied in the preparation of the financial statements, apart from the accounting policy changes in accounting policies set out in section 3.

(1) Foreign currency

Transactions in foreign currencies are translated into the respective functional currency of the operation at exchange rates published by the European Central Bank at the dates of the transactions. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period.

Monetary assets and liabilities, including funds under trust management, contingent liabilities and commitments, denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. Foreign currency differences arising on translation are recognized in profit and loss, except for differences arising on the translation of financial assets measured at fair value through other comprehensive income.

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 when the fair value was determined.

Exchange rates as of 31 December 2019 and 31 December 2018 were as follows:

	31 December 2019	31 December 2018
EUR/USD	0,8902	0,8734
EUR/RUB	0,0143	0,0125
EUR/GBP	1,1754	1,1179

(2) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of their short-term commitments, and deposits and balances due to financial institutions with original maturity less than 3 months (See Note 13).

(3)Financial assets and financial liabilities

(a) Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument.

Regular way purchases and sales of financial assets are recognised on settlement date, the date on which the asset is delivered to or by the Bank.

At initial recognition, the Bank measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

3 Significant accounting policies, continued

(3)Financial assets and financial liabilities, continued

(a) Initial recognition and measurement, continued

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

(a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.

(b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

(b) Classification

Financial assets at initial recognition are classified in the following measurement categories:

Financial assets measured at amortised cost (AC), if the following conditions are met:

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

Financial assets measured at fair value through other comprehensive income (FVOCI), if the following conditions are met:

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

All financial assets that are not measured at amortized cost or at fair value through other comprehensive income are measured ***at fair value through profit or loss (FVPL)***.

The Bank may made an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income.

Financial liabilities carried at amortized cost represent financial liabilities of the Bank other than financial instruments designated at fair value through profit or loss. Deposits from financial institutions, customer deposits and other financial liabilities are included in this category.

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

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

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as cash and demand deposits with the central banks, due from financial institutions, loans and advances due from customers, government and corporate bonds, other assets.

The Bank classifies its debt instruments into the measurement category:

Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the asset's cash flow represents solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI).

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

3 Significant accounting policies, continued

Debt instruments, continued

Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instruments amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss. Interest income from these financial assets is included in "Interest income" using the effective interest method.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Bank subsequently measures all equity investments at fair value through profit or loss, except where the Bank's management has elected, at initial recognition, to irrevocably measure an equity investment at fair value through other comprehensive income. The Bank's policy is to designate equity investments at fair value

through other cmpomprehensive income when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investment and the right to receive payments is established, is recognised in profit or loss.

Financial assets measured at fair value through profit or loss (FVOCI)

Derivative financial instruments

Derivative financial instruments include currency swaps and forward contracts.

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

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

Derivatives may be embedded in another contractual arrangement (a "host contract"). An embedded derivative is separated from the host contract and it is accounted for as a derivative if, and only if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the combined instrument is not measured at fair value with changes in fair value recognized in the statement of comprehensive income. Derivatives embedded in financial assets or financial liabilities at fair value through profit or loss are not separated.

Although the Bank trades with derivative instruments for risk hedging purposes, the Bank does not adopt hedge accounting.

Financial assets and financial liabilities measured at amortized cost (AC)

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

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables that are measured at amortized cost using the effective interest rate method;

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortized cost. Amortized cost is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

3 Significant accounting policies, continued

Financial assets measured at amortised cost (AC)

Loans and advances

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

- they are held within a business model whose objective is achieved by collecting contractual cash flows ("Held to collect" business model);
- their contractual cash flows represent solely payments of principal and interest on principal amount outstanding
- the Bank does not designate them on initial recognition to fair value through profit or loss measurement option.

Financial assets meeting the aforementioned criteria are measured at amortised cost and are subject to IFRS 9 impairment model.

Financial liabilities measured at amortised cost

Loans and deposits

All financial liabilities (loans, deposits) initially are recognised at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs. After the initial recognition, the interest-bearing financial liabilities are recognised at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as net interest income in the statement of profit and loss.

(c) Amortised cost and effective interest rate

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees.

When the Bank revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

(d) 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. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of a financial instrument using quoted prices in an active market for that instrument. A market is regarded as 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 Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models.

The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is 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 Bank calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

3 Significant accounting policies, continued

(d) Fair value measurement principles, continued

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 in 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 recognized in statement of comprehensive income 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.

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

A number of the Bank's accounting policies and disclosures require the determination of fair value of financial assets and liabilities. The methods described below have been used for the determination of fair values. When applicable, further information about the assumptions made in determining fair values is disclosed in the respective notes.

Shares and other non-fixed income securities

The fair value of shares (S.W.I.F.T) and other non-fixed income securities is determined by reference to their quoted bid price at the reporting date, if available.

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

Loans

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

(e) Derecognition of financial assets and liabilities

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

- the rights to receive cash flows from the asset have expired; or
- the Bank has transferred the rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but have assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control of the asset.

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

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

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

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

3 Significant accounting policies, continued

(f) 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 recognized amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(4) Expected credit loss

(a) Measurement

Impairment is determined using the expected credit loss (ECL) model. It provides for monitoring of trends in deterioration or improvement of the credit quality of financial instruments.

Impairment requirements under IFRS 9 apply to the following financial instruments:

- financial asset measured at amortised cost:
- debt instruments measured at FVOCI,
- contractual obligations;
- loan commitments and financial guarantee contracts.

The Bank introduced a three stage model to estimate the expected credit losses.

Stage 1 – financial instruments with no significant increase in credit risk since initial recognition:

- no expected problems with counterparty's obligations in terms of cash flows, as current and future cash flows are sufficient to meet the liabilities;
- financial instruments with low credit risk; the credit risk of a financial instrument is considered low if the financial instrument has low default risk. If a financial instrument has an 'investment grade' (i.e. BBB- and better) external rating, it is considered to have low credit risk.

Stage 2- financial instruments with a significant increase in credit risk after initial recognition (unless they have low credit risk at the valuation date) but does not have objective evidence of impairment. Regardless of the Bank's assessesment whether the credit risk has increased significantly, if the payments of contractual cash flows are past due more than 30 days, the credit risk of the financial instrument is considered to have increased significantly.

Stage 3 – financial instruments that have objective evidence of impairment at the assessment date, i.e. the financial instrument is in default and/or is assigned a status of a non-performing financial instrument.

Defaults are deemed to have occurred, and the financial instrument is considered as non-performing, if:

- The exposure is past due more than 90 days;
- It is considered that the debtor is unlikely to be able to settle the credit obligations in full without collateral, irrespective of the existence of the overdue amounts and the number of days past due.

ECL for financial assets measured at amortised cost and for lease receivables are reflected as deductions from the book value of these assets, i.e. the gross carrying amount is reduced by the amount of these deductions. Furthermore, ECL for off-balance loan commitments and financial guarantee contracts is reflected as provisions, i.e. in the liabilities section of the balance sheet. Adjustments of provisions for credit loss due to changes in ECL are recognised in the profit and loss statement, in section "Asset impairment loss or reversal".

The credit risk is measured and ECL estimates are determined by objectively evaluating risks and taking into account all the available information about the measurement, including information about past events, current circumstances, as well as justified and supportable forecasts on future events and economic circumstances on the date of the report.

(b) Significant increase in credit risk

At each reporting date, the Bank evaluates whether the credit risk of the financial instrument has considerably increased since its initial recognition by analysing changes in the risk of default over the expected lifetime of the financial instrument. In order to carry out this evaluation, the Bank compares the risk of default of financial instrument liabilities on the reporting date with the risk of default of financial instrument liabilities at the time of its initial recognition, taking into account relevant and justified information, which is available without unreasonable costs or effort, which would evidence of a significant increase in credit risk since its initial recognition.

For the transactions the main indicator is changes in the probability of default (or PD) of lifecycle liabilities, which are determined by comparing the scenario providing the lifecycle PD set for the year on the reporting date with a scenario providing the lifecycle PD set for the year at the time of initial recognition.

3 Significant accounting policies, continued

(4) Expected credit loss, continued

(b) Significant increase in credit risk, continued

Regardless of the quantitative indicator, a significant increase in credit risk is caused by the following back-stop indicators:

- payments are more than 30 days, but less than 90 days past due; or
- financial assets which are classified as financial assets to be supervised; or
- reviewed financial assets (terms of the loan contract have been reviewed and relieves have been granted due to customer's financial difficulties).

Backstop indicators usually overlap with the quantitative indicator of a significant increase in credit risk.

If a credit risk has significantly increased since its initial recognition, provisions for lifecycle ECL are recognised and the financial instrument is moved to the second stage. The approach is symmetrical, i.e. if credit quality of the financial instrument in future reporting periods improves to the extent that a significant increase in credit risk since initial recognition disappears, the financial instrument is moved back to the first stage.

(c) Definition of default

The financial instruments, which are defaulted, are included in the third stage. For accounting purposes, the Bank uses the definition of default included in the capital requirements regulation (Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, Article 178), i.e. the financial assets which are past due more than 90 days. It is considered that the credit value of all the financial assets on the third stage has reduced.

(d) Modelling

ECL is calculated taking into account the probability of default or PD, the exposure at default or EAD, the loss given default or LGD, as well as the time of loss. The methodology used by the Bank for measurement of ECL in accordance with IFRS 9 is based on internal creditworthiness measurement models.

PD reflects the probability that the loan will not be repaid and that it will be defaulted in the next 12 months or during its entire lifecycle. When evaluating ECL with regard to each individual instrument, the category of the customer and justified external historical information allowing to use supportable information on future economic circumstances are taken into account. The Bank uses the PD models defined in IFRS 9. They are adapted to the class of assets and the type of product. EAD means estimation of the credit risk at the time of default. With regard to off-balance liabilities, EAD means estimation of the additional amounts, which will be paid at the time of default. For the purposes of IFRS 9, EAD models are adjusted for 12 months or lifecycle.

LGD is the amount, which will not be recovered in case of default. For the purposes of LGD, the quality and amount of any held security, as well as the probability of its recovery are taken into account, i.e. that the borrower will repay all the outstanding liabilities for the loan or resume payments under the contract. The Bank uses justified external historical information on LGD.

When determining ECL, the maximum contract period, during which the Bank is at risk, is taken into account. When determining the maximum period, all terms of the contract, including the possibilities of early repayments, as well as the possibilities of extension or renewal of the contract are taken into account.

Credit loss is the difference between all the cash flows under the contract to be paid in accordance with the contract, and all the cash flows the Bank is planning to receive (i.e. all cash shortages), discounting using the initial effective interest rate (or the adjusted effective interest rate of the loan for financial assets purchased or issued with reduced credit value).

The Bank evaluates cash flows, taking into account all the contact terms of the financial instrument (for example, prepayment, extension of the contract, sale and similar possibilities) using the expected lifetime of this financial instrument. These cash flows include cash flows occurring from sale of securities or other credit quality improvements, which are an integral part of terms of the contract.

Expected credit loss is the weighted average indicator of credit loss with respective defaults as weights. Expected credit loss during lifetime of the asset is expected credit loss, which occurs due to all potential defaults over the expected lifetime of the financial instrument. 12-month expected credit loss is part of expected credit loss during lifetime of the asset, which reflects expected credit loss arising from events of default relating to the financial instrument, which are possible within 12 months of the reporting date.

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

3 Significant accounting policies, continued

(d) Modelling, continued

For a financial asset, whose credit value is reduced at the reporting date, but which is not a financial asset, which was already purchased with reduced credit value, the Bank evaluates expected credit loss as the difference between the gross carrying amount of the asset and the current value of the net expected future cash flow obtained by discounting future cash flows by the initial effective interest rate of the financial asset. Any adjustment is recognised in profit or loss as income or expenses from changes in the value of provisions.

Financial guarantees and loan commitments for issuing of a loam are also subject to measurement of expected credit loss. For loan commitments, the Bank takes into account changes in the credit risk of the loam, to which the loan commitments apply. For financial guarantee contract, the Bank takes into account the changes related to the risk that the specific debtor will default the contract.

Expected credit loss is broken down into stages:

	31.12.2019		
	Stage 1 EUR'000	**Stage 2 EUR'000**	**Stage 3 EUR'000**
Financial assets measured at FVOCI	5	-	-
Loans	83	-	-
Contingent liabilities and commitments	-	-	-
Expected credit loses , total	**88**	**-**	**-**

	31.12.2018		
	Stage 1 EUR'000	**Stage 2 EUR'000**	**Stage 3 EUR'000**
Financial assets measured at FVOCI	4	-	-
Loans	-	-	-
Contingent liabilities and commitments	-	-	-
Expected credit loses , total	**4**	**-**	**-**

(e) Assessment of impairment

Individual assessment of impairment

Loss events indicating objective evidence of impairment of individually assessed assets are when scheduled payments are past due by more than 90 days, or if the counterparty is expected to be in default or any other combination of events that are deemed so negative that there will be a probable payment default in the foreseeable future. The debt instrument is impaired if the cash flows including the value of the collateral does not cover outstanding exposure.

Collective assessment of impairment when assets are not individually impaired

Assets assessed for impairment on an individual basis and found not impaired are included in a collective assessed, of incurred but not identified, impairment. The collective assessment of incurred but not identified credit losses is based on the Bank counterpart rating scale.

Loans assessed on a portfolio basis

Loans with limited value and similar risk, homogenous groups, are assessed for impairment on a portfolio basis. In assessing collective impairment the Bank uses statistical models based on the probability of default and the amount of loss incurred, considering collaterals and recovery rates. The outcome is adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by the models. Default rates and loss rates are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

3 Significant accounting policies, continued

Recognition of impairment loss on financial assets carried at amortised cost

An impairment of an individually assessed financial asset in the category loans and receivables carried at amortised cost is calculated on the basis of the original effective interest rate of the financial instrument. The amount of the impairment is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows (recoverable amount). If the terms of an asset are restructured or otherwise modified due to financial difficulties on behalf of the borrower or issuer, impairment is measured using the original effective interest rate before modification of the terms and conditions. Cash flows relating to short-term receivables are not discounted if the effect of the discounting is immaterial. The entire outstanding amount of each loan for which a specific provision has been established is included in impaired loans, i.e. including the portion covered by collateral.

Key sources of estimation uncertainty:

Impairment of financial assets measured at fair value through other comprehensive income

The determination of impairment indication is based on comparison of the financial instrument's carrying value and fair value. For the purposes of impairment loss measurement, the Bank's management makes estimates of any expected changes in future cash flows from a specific financial instrument based on analysis of financial position of the issuer of the financial instrument.

(5) Property and equipment

Items of property and equipment are stated at cost, net of accumulated depreciation and impairment losses, if any.

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

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated.

The estimated useful lives are as follows:

Furniture and equipment	2 to 10 years
Computers and equipment	4 years
Software inseparable from equipment (OEM software)	4 years

Leasehold improvements are capitalised and depreciated over the remaining lease period on a straight-line basis. Leasehold improvements are not depreciated as long as the respective assets are not completed.

An item of property and equipment is derecognized upon disposal or when the asset is no longer in use and no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset calculated as the difference between the net disposal proceeds and the carrying amount of the item upon disposal is included in the statement of comprehensive income.

Depreciation methods, useful lives, and residual values are reviewed annually.

(6) Intangible assets

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

Intangible assets are stated at cost less accumulated amortisation and impairment losses and are amortized over the useful life of the asset. The useful life of each class of intangible assets is estimated, considering the

contractual conditions, and/or based on the estimated period over which the asset is expected to generate economic benefits.

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

3 Significant accounting policies, continued

The estimated useful lives are as follows:

Software	5 years
Mastercard licence	10 years
Other licences	5 years

Licences acquired by the Bank for a period up to one year are expensed as acquired.

Amortisation methods and useful lives are reviewed annually.

(7) Provisions

Provisions are recognised for present obligations arising as consequences of past events where it is more likely than not that a transfer of economic benefit will be necessary to settle the obligation, and it can be reliably estimated.

Provisions are determined by discounting the expected future cash flows at pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Provisions are made for undrawn loan commitments and similar facilities if it is probable that the facility will be drawn by a debtor in financial difficulties.

Provisions are evaluated at each balance sheet date and are adjusted as necessary.

(8) Leased assets and lease payments

(a) Leased assets and lease payments accounting policy applicable till 31 December 2018

Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any financial incentives received from the lessor) are charged to the profit and loss account on a straight-line basis over the period of the lease.

Finance lease

Until 31 December 2018, when the Bank was a lessee in lease and the Bank took over virtually all the risks and return characteristic for ownership, leased assets were capitalised into fixed assets or intangible assets at the lease start date at the lowest of the fair value of the leased assets or the minimum value of lease payments. Each lease payment is divided between the liability component and financial costs in order to reach a constant rate to residual liability. Residual lease liabilities, less future financial costs, are included in lease liabilities. Lease interest payments are included in the profit and loss statement for the period using the effective interest rate throughout the lease period. The assets purchased in financial lease, are depreciated over the period of their lease or a shorter period, if the Company is not convinced that it will take over ownership at the end of the lease period.

(b) Leased assets and lease payments applied from 1 January 2019

Lease

IFRS 16 replaces IAS 17 Leases as of January 1, 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less).

At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments).

The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

The Bank has chosen not to adjust comparative information. Therefore, comparative information is registered in accordance with previous Bank's accounting policies. The comparative indictors for the year before application of the standard have not been adjusted.

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

3 Significant accounting policies, continued

(b) Leased assets and lease payments applied from 1 January 2019, continued

Classification

When concluding a contract, the Bank evaluates whether the contract is a lease or contains a lease. A contract is a lease or contains a lease, if the contract conveys the right to control the use of an identifiable asset for a specific period of time in exchange for consideration. In order to evaluate whether the contract is a lease or contains a lease, the Bank evaluates, whether:

- The contract provides for the use of an identifiable asset – the asset can be specified directly or indirectly and it should be physically distinguishable or reflect the entire capacity of the asset from a physically separable asset. If the supplier has significant rights to replace the asset, the asset is not identifiable;
- The Bank is entitled to gain all economic benefits from the use of the identifiable asset throughout the period of its use;
- The Bank is entitled to determine the type of use of the identifiable asset. The Bank is entitled to determine the type of use, when it decides on how and for what purpose the asset will be used.

In the cases, when respective decisions on how and for what purpose the asset is used are pre-defined, the Bank should evaluate whether they have the right to handle the asset or designate handling of the asset in a certain way or the Bank has developed the asset in such a way that it is pre-determined how and for what purpose the asset will be used.

In initial measurement or repeated measurement of a contract containing a lease component or several lease components, the Bank applies a relative separate price to each lease component.

Lessee

Lease is recognised as the right to use an asset and respective lease liabilities on the date, when the asset is available to the Bank for use. The costs of the right to use an asset consist of:

- the amount of initial measurement of lease liabilities;
- any lease payments made at or before the start date, less received lease promotion payments;
- any initial direct costs.

The costs of renewal related to dismantling and renewal of fixed assets are classified separately as provisions and related assets.

The right to use an asset is depreciated using the straight-line method from the start date to the end of useful life of the underlying asset. Depreciation is calculated using the straight-line method from the lease start date to the end of lease unless there are plans to buy the asset. The right to use the asset is periodically reduced for asset impairment loss, if any, and adjusted taking into account revaluation of lease liabilities.

The assets and liabilities arising from lease on the date of their initial application are measured at the current value of residual lease payments discounted using the Bank's comparable interest rate. Lease liabilities include the current value of the following lease payments:

- fixed lease payments made (less essentially fixed lease payments), less lease promotion payments;
- variable lease payments, which depend on the index or rate;
- payments to be made by the lessee in accordance with residual value guarantees;
- price of using the possibility to buy, if there is sufficient reason to believe that the lessee will use this possibility, and
- penalty payment for termination of the lease, if the lease period does not reflect that the lessee uses the possibility to terminate the lease.

Lease liabilities are repeatedly measured, if future lease payments change, because the index or the rate used to determine these payments has changed, if Bank's estimates regarding the amount of expected payments change or if the Bank changes its evaluation of using the possibility to buy, extension or termination of the lease period. When lease liabilities are repeatedly measured, the respective adjustment is made to the carrying amount of the right-of-use asset or recognised in the profit and loss statement, if the carrying amount of the right-of-use asset reduces to zero.

Each lease payment is divided between lease liabilities and interest expenses for lease liabilities. Interest expenses of lease liabilities are recognised in the profit and loss statement in the lease period to form a constant periodical interest rate for the residual lease liability in each period.

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

3 Significant accounting policies, continued

Short-term lease and lease with underlying asset having low value

The lease payments related to short-term lease or lease with underlying asset having low value are recognised in the profit and loss statement as expenses using the straight-line method. Short-term lease is a lease with a lease period of 12 months or less at the start date.

(9) Taxation

Corporate income tax for the reporting period is included in the financial statements based on the management's calculations prepared in accordance with Latvian Republic tax legislation.

Legal entities are not required to pay income tax on earned profits starting from 1 January 2018 in accordance with the amendments made to the Corporate Income Tax Law of the Republic of Latvia. Corporate income tax is paid on distributed profits and deemed profit distributions. Starting from 1 January 2018, both distributed profits and deemed profit distributions are subject to the tax rate of 20 per cent of their gross amount, or 20/80 of net expense.

Corporate income tax on dividends is recognized in the statement of comprehensive income as expense in the reporting period when respective dividends are declared, whilst for other deemed profit items it is recognized at the time when expense is incurred.

The Bank calculates and pays corporate income tax also for the conditionally distributed profit (20/80 of calculated taxable base), which includes taxable objects in accordance with the Corporate Income Tax law, such as the expenditure not related to economic activity, the doubtful debts of debtors and the loans to the related parties, if they meet criteria provided in the Corporate Income Tax law, as well other expenses exceeding statutory limits for deduction. Corporate income tax for the conditionally distributed profit is recognized in the profit or loss statement in the year for which it is assessed.

Corporate income tax for the distributed profit and corporate income tax for the conditionally distributed profit is included in the profit and loss statement line item "Corporate income tax for the reporting year" and disclosed by the components in the notes to the financial statements.

(10) Income and expense recognition

All income and expense categories, including interest income and expense, are recognized on the accrual basis. Income is recognized only to the extent that an inflow of economic benefits to the Bank is possible and such income can be reasonably estimated. Impairment loss is recognized if the receipt of income becomes doubtful.

Interest income and expense are recognized in the income statement using the effective interest rate method. Payments made by the Bank to the deposit guarantee fund are disclosed under other interest expense.

Loan origination fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related direct costs, are deferred and amortized to interest income over the estimated life of the financial instrument using the effective interest rate method.

Commission and fee income and expense on non-recurring services are recognized on the transaction date on an accrual basis. Commission and fee income and expense on services provided or received in a certain period of time are accrued and charged to the income statement over the period of the services received/rendered.

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

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets.

(11) Employee benefits

Short-term employee benefits, including salaries and social security contributions and paid vacation benefits are included in Administrative expenses on an accrual basis.

The Bank pay social security contributions to state pension insurance and to the state funded pension scheme in accordance with Latvian legislation. The social security contributions are accrued in the year in which the associated services are rendered by the employees of the Bank.

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

3 Significant accounting policies, continued

(12) Use of significant accounting estimates and judgments

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the 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 judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates.

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

(13) Trust operations

The trust operations policy of the Bank set forth the general guidelines on organisation and execution of trust operations, their control and monitoring. The Bank's policy for trust operations is reviewed annually. The

Bank provide trust services only to customers of the Bank.

Trust operations are accounted for separately from the Bank's own operations thus ensuring separate accounting in a separate trust sheet for assets of each customer, by customer and by type of assets under management. The Bank accept no risk for its trust operations; all risk is retained by its customers. The Bank earn fee income for administration of trust operations.

(14) New Standards and Interpretations

(a) Changes in accounting policies

First application of IFRS 16 in the reporting year

The Bank applied IFRS 16 "Leases" for the first time starting from 2019. The Bank has used the opportunity to simplify the initial application of IFRS 16 – cumulative effect, comparative indicators of previous years were not adjusted.

At the time of the first application of standards, the most important consequences are: increase in total assets related to exercising of the right to capitalise assets and recognise respective lease liabilities.

IFRS 16 is applied starting from 1 January 2019 with a permission to apply earlier for those companies, which applied also IFRS 15 on or before the day of initial application of this standard. The Bank has been applying IFRS 16 since 1 January 2019, and it has chosen not to adjust comparative information. Therefore, comparative information is on in accordance with previous Bank's accounting policies.

On the start date of application of IFRS 16, the Bank recognised the lease liabilities, which were previously classified as operating lease, when applying IAS 17. The Bank has chosen not to apply IFRS 16 to those contracts, which were previously not determined as those containing lease, when IAS 17 and IFRIC 4 "Determining Whether an Arrangement Contains a Lease". The Bank previously classified leases as finance lease based on an evaluation whether it takes over all the risks and return characteristic to ownership. In accordance with IFRS 16, lease liabilities are measured at the current value of residual lease payments discounted using the lessee's comparable interest rate 1 January 2019.

Each lease payment is divided between lease liabilities and interest expenses for lease liabilities. Interest expenses of lease liabilities are recognised in the profit and loss statement in the lease period to form a constant periodical interest rate for the residual lease liability in each period. The right-of-use asset is depreciated using the straight-line method from the start date to the end of useful life of the underlying asset.

The Bank has concluded only contracts for lease of premises. On 31 December 2018, the amount of one-month lease payment for the Bank amounted to EUR 17 thousand. The bank used a single discount rate, which is equal to 3.00%. As at 1 January 2019, total undiscounted lease liabilities of the Bank amounted to EUR 882 thousand.

The right to use an asset is evaluated in an amount equal to the lease liability and adjusted for the prepaid lease payments. The Bank uses previous events, when determining lease periods, if a contract included a possibility to extend the lease contract and if the management was reasonably convinced that they would exercise this option. Lease contracts are usually concluded for a certain period from 1 to 15 years, and they may include options to extend lease periods. When determining a lease period, the management takes into account the facts and circumstances, which may affect the lease period. The evaluation is reviewed, when a considerable event occurs or circumstances in the lessee's control change significantly.

3 Significant accounting policies, continued

(14)New Standards and Interpretations, continued

(a) Changes in accounting policies, continued

On 1 January 2019, the Bank recognised the right to use assets amounting to EUR 882 thousand and lease liabilities amounting to EUR 882 thousand, which were adjusted for advance lease payment amount of EUR 15 thousand until March 2019 and EUR 14 thousand later. Each lease payment is divided between lease liabilities and financial costs. Financial costs are included in the profit and loss statement and combined income statement over the lease period to obtain an invariable periodical interest rate for residual liabilities in each period. The right to use an asset are depreciated over the lease period using a straight-line method. In 2019, depreciation of the Bank's right-of-use asset amounted to EUR 168 thousand (Note 18).

(b) New standards and interpretations not yet adopted

Amendments to the Conceptual Framework for Financial Reporting (effective for annual periods beginning on or after 1 January 2020)

The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Definition of materiality – Amendments to IAS 1 and IAS 8 (effective for annual periods beginning on or after 1 January 2020)

The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest rate benchmark reform (effective for annual periods beginning on or after 1 January 2020)

These amendments provide certain reliefs in connection with interest rate benchmark reform. The reliefs relate to hedge accounting and have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement.

The Bank expects that the adoption of the new standards, amendments and interpretations will not have a material impact on the Bank's financial statements during the period of initial application.

4 Risk and capital management

The Bank's activities results in exposure to a variety of financial and non-financial risks. The Bank's strategic aim is to achieve an appropriate balance between risks assumed by the Bank and returns and minimize the potential adverse effect on the Bank's financial performance and operations.

The risk management system is integrated in the framework of the Bank's internal control based on the effective bank supervision requirements laid down by the Financial and Capital Market Commission and the Basel Committee on Banking Supervision to provide for a risk control function and operational compliance control function independent from business units. Risk measurement, assessment and control functions are separated from the business unit (risk acceptance) functions.

The Bank identifies all inherent significant risks and develop documents and implement appropriate policies for risk management, including measurement, assessment, control, mitigation, and risk reporting and disclosures. Policies are reviewed at least on an annual basis in line with changes in the Bank's operations and external factors impacting the Bank's activities.

In order to identify risks in due time and completely and assess the acceptable levels of risks prior to launching new products and services the Bank assess the potential inherent risks and approves internal normative documents related to risk management that include appropriate procedures, restrictions and limits, and hedging methods. The most important types of risk are credit risk, concentration risk, liquidity risk, interest rate risk, foreign currency and market prices risk, operational risk, money laundering and proliferation terrorism financing (further – AML) risk and business model risk.

4 Risk and capital management, continued

Concentration risk is closely related to different risks of the Bank and assessments are carried out as part of risk management of these risks. The Bank identifies and assesses strategy and business risk, reputational risk and compliance risk. The impact of these risks has been taken into account during strategic planning.

(1) Credit risk

Credit risk represents the Bank's exposure to potential loss in case a borrower (debtor) or a business partner fails or refuses to fulfil its contractual liabilities towards the Bank. The Bank is exposed to credit risk which is a significant inherent risk for the Bank. Therefore, credit risk management is performed with particular care.

Sources of credit risk

The basic source for credit risk of the Bank are in connection with lending operations, amounts due from credit institutions, investments in securities, letters of credit and warranties/guarantees.

For the Bank mostly as a payment bank, exposure to credit risk may interfere with liquidity management activities as the Bank should maintain sufficient funds on accounts with several principal correspondents to provide necessary customers' payments in relevant currencies, which sometimes causes also significant concentrations with particular counterparties.

Management and control of credit exposures

The Bank ensures ongoing monitoring of concentrations of credit risk especially to individual counterparties or groups of counterparties, borrower, industries, and type of collateral and to countries.

The Bank structures the levels of credit risk they undertake by placing limits on the amount of risk accepted in relation to one counterparty, or a group of counterparties, and to geographical and industry segments, and for a specific type of transaction or type of collateral. Such limits are subject at least once a year or more frequent review, taking into account changes in the Bank's operations or external circumstances that can affect the Bank's operations.

The credit risk monitoring system applied by the Bank comprises of regular review of the borrower's/ counterparty's credit standing as well as monitoring of the credit ratings granted by the international credit rating agencies, compliance with the contractual terms and conditions, fulfilment of the obligations, collateral control, as well as ongoing limit control.

The following techniques are used to manage credit risk:

- Early warning indicators of credit deterioration;
- Application of the internal rating system;
- Identification, management and recovery of substantially impaired loans;
- assessment of credit protection;
- Reporting on credit risk and stress test results;

Limits on exposures to operations with credit institutions and products are considered by the Assets and Liabilities Management Committee and approved by the Management Board. Limits on exposures to non-banks are considered by the Credit Committee and approved by the Management Board or the Board of Directors depending on the authorisation scope.

The Bank performs regular monitoring of the counterparty credit risk and in case a transaction is to be made with a member of a group of counterparties, the Bank would also assess the overall credit risk exposure of the group.

The Bank ensures regular monitoring of the quality of receivables from counterparties/borrowers and the assessment of credit risk is performed by reference to expected loss and the amount of capital required for addressing credit risk.

Exposures to related groups of counterparties and counterparties related to the Bank is also subject to regulatory requirements.

4 Risk and capital management, continued

Credit risk mitigation policies

The Bank employs a range of credit risk mitigation methods.

Credit risk arising from issued warranties/guarantees and credit limits attached to payment cards is primarily covered by a pledge of cash on the accounts opened with the Bank.

The funds derived from the sales of the collateral should generally cover the Bank’s expenses incurred in the sale of the collaterals (legal expenses, auctions etc.) and the entire amount of the client’s debt towards the Bank, including calculated interest (for the entire period of the loan in the event that the term of the loan is shorter than 12 months or for a period of 12 months in the event that the term of the loan exceeds 12 months). Credit risk arising from loans can be mitigated by mortgage or another collateral type. The Bank’s exposures to credit institutions and investment firms are usually unsecured.

Quantitative disclosures

Further quantitative disclosures in respect of credit risk are presented in Note 32.

(2) Foreign exchange risk

Foreign exchange risk represents potential loss from revaluation of items of financial position and contingent liabilities and commitments denominated in foreign currencies due to movements in foreign exchange rates.

Foreign exchange risk management process

The foreign exchange risk management policy determines and regulates the tasks to be performed by the Bank’s management and structural units and their responsibilities in managing foreign exchange risk, and foreign exchange risk control regulations and mitigation measures relevant for the Bank’s transactions in foreign currencies, as well as measurement, reporting and disclosure procedures.

Limits on the foreign exchange open position in a single currency and the total open position in foreign currencies are set both on open currency positions to be maintained during the business day and open positions at the end of the day which are monitored and controlled.

Quantitative disclosures

Further quantitative disclosures in respect of foreign exchange risk are presented in Note 33.

(3) Position (market price) risk

Position risk is the risk of losses of financial instrument position due to changes in the security’s price.

Position risk management process

The Bank by creation of securities portfolios is exposed to securities price fluctuations. Position risk management is addressed in Trading and Investment policies, as well as in the procedures and methodologies that set the limits and limitations. The Bank uses Value at Risk (Value-at-Risk) calculation to estimate maximal loss due to fair value change and assess risks by market stress scenarios. See Note 35.

(4) Liquidity risk

Liquidity risk represents the Bank’s exposure to significant loss in the event that Bank does not have a sufficient amount of liquid assets to meet legally substantiated claims or overcome unplanned changes in the Bank’s assets and/or market conditions on a timely basis.

Liquidity risk management process

The Bank’s liquidity risk management policy sets the key principles and processes of liquidity risk management, tasks of management and structural units and their responsibilities in liquidity management and maintenance, methods and conditions, asset and liability management procedure, measures for preventing and managing liquidity crisis, and reporting and disclosure procedure.

Liquidity risk management is performed by the Bank on the basis of the asset and liability management method ensuring a balanced asset and liability term structure and analysing funding concentration.. The Bank manages liquidity risk as an aggregate of market liquidity risk and financing liquidity risk. Where required, the Bank performs operational liquidity management by attracting funds on the interbank market and by entering into foreign exchange swaps (FX SWAP).

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

4 Risk and capital management, continued

(4) Liquidity risk, continued

The following techniques are used to manage liquidity:

- Assessment and regular analysis of early warning indicators that help identify adverse trends that may impact the Bank's liquidity;
- Cash flow planning;
- Maintenance of a sufficient amount of liquid assets representing at least level set by regulator (60% of the total amount the Bank's liabilities;
- Monitoring of Liquidity Coverage requirement (LCR) set by European Parliament and Council Regulation (EU) No. 575/2013 and Regulation No 2019/876 of the European Parliament and of the Council, collateral;
- Liquidity risk limits, restrictions (including finance concentration) and liquidity ratios monitoring;
- The Bank creates a liquidity reserve by maintaining a portfolio of available financial assets - financial assets acquired for the purpose of holding indefinitely and gaining interest income and / or profits from the increase in the price of a financial asset and may be sold for liquidity purposes;
- Balancing asset and liability (including contingent liability) term structure.

Once a year, the Bank submits to the regulator a report on the liquidity adequacy assessment process, which involves identifying, assessing, managing of the liquidity risk and assessing the adequacy of the amount of liquidity needed to ensure the Bank's operations.

The Bank calculates the capital requirement for liquidity risk by assessing possible expenses that may arise if additional financing is required to secure the Bank's liabilities.

Quantitative disclosures

Further quantitative disclosures in respect of liquidity risk are presented in Note 34.

(5) Interest rate risk

Interest rate risk represents the Bank's exposure in the event that changes in interest rates have an adverse impact on the Bank's income and expenses and result in a decrease of the Bank's equity.

Interest rate risk arises from:

- repricing risk;
- yield curve risk;
- basis risk;
- optionality risk - the possibility of incurring losses if a financial instrument directly (options) or indirectly (demand deposits, etc.) provides an option to choose.

When assessing interest rate risk, repricing risk and yield curve risk are assessed together as a single element – the maturity mismatch. The maturity mismatch is used as joint element for assessing repricing risk and yield curve risk as part of interest rate risk.

Interest rate risk management process

The interest rate risk management policy states risk management principles, tasks and responsibilities of the Bank's management and structural units in interest rate risk management, interest rate risk measurement, setting of limits, and control processes, stress testing, as well as reporting and disclosure procedures.

The Bank assesses the impact produced by changes in interest rates on the entire Bank's business, as well as transactions belonging to the Bank's trading and non-trading portfolios, and interest rate risk in each currency for which assets or liabilities exceed 5% of the total balance, and all currencies in total.

4 Risk and capital management, continued

Interest rate risk control and mitigation are performed through:

- Interest rate risk limits are determined: net annual interest income, interest rates changing in parallel by 1% (or 100 base points), decrease of economic value assuming that unexpected changes in interest rates represent 200 base points.
- Ensuring the structure of interest rate sensitive assets and liabilities is maintained within levels of interest rate risk that are acceptable to the Bank;
- Control of optionality in clients agreements;
- Constant monitoring of changes in the interest rates on the financial instrument and money markets;
- If necessary an interest rate hedge is applied and interest rate options of the Bank's products are limited.

Quantitative disclosures

Further quantitative disclosures in respect of interest rate risk are presented in Note 35.

(6) Operational risk

Operational risk is the risk that the Bank may suffer loss as a result of noncompliant, unsuccessful or incomplete internal processes or due to staff activities and system operations, or due to external impacts, including risks connected with information technologies and legal risks but excluding reputational risk and strategy and business risk. In order to identify operational risk events promptly and to take appropriate and timely measures to minimize operational risk the Bank has developed and implemented a statistical data base for registering operational risk events on a regular basis. The Bank has implemented a procedure that all employees regardless of their position immediately make entries of operational risk events in the Event Database upon identifying any circumstances that have caused or may cause losses (irrespective of the type) to the Bank or may inflict damage to the Bank's reputation. If required, all operational risk events entered in the Event Database are checked according to the procedures specified in internal documents, and risk mitigation measures are developed and assigned to improve the internal controls.

Operational risk management process

The Operational Risk Management Policy details the tasks to be performed by the Bank's management and structural units and their responsibilities in the operational risk management, the basic principles of the operational risk management system and operational risk management processes, reporting and disclosures. Besides the above policy, operational risk management connected with the Bank's information systems is regulated by Information System Management Policy and Information System Security Management Policy and internal documents that govern the application thereof.

Operational risk management is performed in the Bank as a complex of systemic measures and it includes:

- identification and assessment of operational risks,
- control of operational risks,
- measures to mitigate operational risks,
- set duties, authorities and responsibilities,
- procedure for reporting and disclosures.

The operational risk management system is integrated in the Bank's internal control system and is aimed at effective management of operational risk. The Bank reviews and improves the operational risk management system on a regular basis to reflect changes in the Bank's operations and external circumstances that impact operations.

4 Risk and capital management, continued

(6) Operational risk, continued

The control over operational risks in the Bank is performed using the following control procedures:

- systematic assessment of the operational risk management system, including efficiency assessment;
- compliance reviews against normative documents regulating operational risk management;
- assessment of the results of operational risk assessment and stress testing and, if applicable, implementation of corrective measures in the risk management system;
- consistent control over restrictions and limits imposed by internal documents regulating the respective area;
- regular testing of business continuity plans;
- assessment of changes in the Bank's operations and external environment in order to determine the potential impact on the Bank and its business processes;
- providing the Bank's management with reports of various detail and information on operational risk management and non-compliance with procedures, restrictions and limits and key risk indicators (KRI).
- control over the development of new banking products or services and related internal documents in order to identify operational risks on a timely and complete basis, assess the acceptable level of operational risk and make a decision on risk management. Control over compliance with the Bank's procedures during implementation of new products and services.

(7) Money Laundering and Terrorism and Proliferation Financing risk

Money Laundering and Terrorism and Proliferation Financing risk (hereinafter – ML/TPF risk) - the potential impact on the Bank and the likelihood that the Bank could be used as means of money laundering, terrorism or proliferation financing.

ML/TPF Risk Management

The Bank's priorities concerning ML/TPF risk management are to ensure that the Bank's operations are regulated by and in compliance with the Bank's policies and procedures, in accordance with the best international standards and practices, and in line with the money laundering and terrorism and proliferation financing prevention guidelines set forth by the Finance Latvia Association (formerly – Association of Latvian Commercial Banks), to maintain an effective, independent and complex internal control system, verify its operational integrity and functionality on a regular basis, as well as to enhance employee qualification and competence.

The Bank's ML/TPF risk management strategy determines an acceptable ML/TPF risk level, defines qualitative and quantitative ML/TPF risk exposure indicators and their permissible maximum threshold limits which are based on the capacity to undertake the ML/TPF risk according to the Bank's business strategy and resources allocated for the ML/TPF risk management purposes. The Bank regularly controls the ML/TPF risk level, evaluates the effectiveness of ML/TPF risk management processes, and, if necessary, promptly implements the applicable risk-mitigating measures.

The Bank's Money Laundering and Terrorism and Proliferation Financing Risk Management Policy sets forth the tasks and responsibilities for the Bank's management team and its structural units, core principles of the ML/TPF risk management and internal control system - its elements and measures, risk identification mechanisms, assessment and control processes, risk-mitigating activities, employee training guidelines, instructions on submitting reports and documents, employee responsibility concerning the implementation of the requirements of ML/TPF risk management measures as well as the order in which notifications (including anonymous reporting/(whistleblowing)) of any violations regarding the ML/TPF prevention requirements at the Bank are carried out.

The Bank's ML/TPF risk management's internal control system is a comprehensive set of internal regulatory documents, measures, and processes which have been established according to the Bank's business model and activity, and considering the inherent client, rendered financial services, geographical location, and delivery channel ML/TPF risk degree and scope, as well as the personnel, financial and technological resources involved in the ML/TPF risk management, the interaction of the ML/TPF risk with other risks associated with the Bank's daily activities and other factors that may substantially impact the ML/TPF risk level at the Bank. It is geared towards the prevention of ML/TPF by fulfilling the regulatory requirements and measures and best international standards and practices while allocating appropriate resources and carrying out employee training. Throughout its day-to-day commercial activity the Bank and its employees abide by the finest corporate standards with zero-tolerance towards corrupt practices while observing political neutrality.

4 Risk and capital management, continued

(7) Money Laundering and Terrorism and Proliferation Financing risk, continued

The Bank according to the priorities of its predetermined new client acquisition strategy establishes a range of potential clients and the basic client acquisition principles, considering any given new client's country of registration (residency), client's reputation, industry (sector) and types of the client's economic activity, planned transactions, as well as the availability of information and documentation concerning the clients and their potential transactions.

For the purposes of ML/TPF risk mitigation, the Bank has defined and designated a specific group of individuals whose inherent risks are at an unacceptable level, and consequently, the Bank would not initiate, or would terminate certain business relationships altogether.

The Bank has established a particular set of criteria according to which a business relationship with a client would not be initiated, or it would be discontinued, setting that client aside because of an unacceptable risk level. The Bank will not render any banking services to clients whose industry and type of business has been recognized by the Bank as conveying excessive risk levels. The Bank does not possess adequate resources and competencies in order to handle such disproportionate risk levels.

The Bank does not enter into business relationships, or terminates cooperation with shell banks, and clients who portray features of a shell company, as well as financial institutions which the Financial Crimes Enforcement Network (FinCen) has included in the "Special Measures Financial Institutions of Primary Money Laundering Concern" list. The Bank does not provide any financial services to clients whose registration (domicile) country has been recognized by the Financial Action Task Force – FATF as high-risk jurisdictions, or such jurisdictions that would not cooperate in the ML/TPF prevention area (High-risk and Non-cooperative Jurisdictions). In order to minimize the overall risks, the Bank does not collaborate and will not enter into business relationships with payment institutions, electronic money institutions, and virtual currency service providers, as well as with high risk third country residents.

The Bank refrains from (or discontinues business activities altogether) with such business or client segments where the ML/TPF risk has been estimated as "high", unless specific risk mitigation measures have been implemented in order to downgrade the remaining risk to a "moderate" level.

For the purposes of ML/TPF risk mitigation the Bank applies various automated control systems for its customers and their transactions, including the control of the list of clients and countries that are "undesirable" to the Bank, client cash flow control, as well as automated client ML/TPF risk scoring and transaction monitoring measures.

The Bank ensures the evaluation of its internal control systems related to ML/TPF prevention on a regular basis, including the assessment of solutions provided by information technologies, and an independent evaluation of compliance and effectiveness processes at the Bank by hiring competent external auditors that hold the applicable competencies and experience in carrying out audits particularly in the ML/TPF risk management. Reports on ML/TPF risk management processes and the achievement of pre-set goals in the ML/TPF risk management strategy at the Bank are presented on a regular basis.

The Bank has also established an alarm raising (whistleblowing) system, and internal and external reporting has been ensured, including an anonymous reporting option relating to any breaches and infringements in the implementation of anti-money laundering, counter-terrorism and counter-proliferation financing requirements.

In the year 2019, Financial and Capital Market Commission (FCMC) initiated an inspection to assess the Bank's compliance with the requirements of the Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing, as well as the FCMC Regulatory Provisions No.3 "Regulatory provisions for credit institutions and licensed payment and electronic money institutions on enhanced customer due diligence" (hereinafter - Regulation No. 3) and other laws and regulations. The Bank's compliance with the requirements for international and national sanctions, requirements of legislation regulations were assessed during the inspection. As of the date of signing the report, the final results of the FCMC inspection have not been received.

Although the results of the aforesaid processes have not been received, thereby causing ambiguity about the further development of these processes, the management of the Bank confirms that the result will not affect the Bank's ability to fulfill its obligations towards the clients and partners of the Bank. The Bank strictly complies with the binding laws and regulations, including the Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing. The Bank is constantly developing and improving its internal control system, as well as strives to prevent any suspicious or unusual Customer transactions through the Bank.

4 Risk and capital management, continued

(8) Sanctions Risk

A sanctions risk is the impact or the likelihood that the Bank may be used in efforts to violate or circumvent sanctions.

Sanctions Risk Management

The Bank ensures the implementation of the requirements of national sanctions as well as sanctions imposed by international organizations, and applies best practices as it relates to an effective execution of its appropriate control measures when carrying out transactions on behalf of the Bank and when rendering financial services to its clients while refraining from activities where the goal or resulting consequences were intentional violation of sanctions imposed by the Cabinet of Ministers of the Republic of Latvia, Council of United Nations, European Union, Organization for Security and Cooperation in Europe, United States Department of the Treasury (Office of Foreign Assets Control) in order to prevent the use of the financial system for unlawful activities and which contradict and do not fulfil international legal practices and rights.

The Bank has a "zero tolerance" policy concerning intentional non-compliance of the sanctions requirements, and/or deficiencies in the Bank's regulatory documents relating to the implementation of requirements in the sanctions compliance area.

The Bank abstains from rendering financial services to clients against whom specific financial sanctions have been imposed upon. In addition, the Bank ensures that those individuals have no access to financial resources and instruments, and freezes any financial means and instruments belonging to such persons.

Bank does not take part in transactions encompassing civil law transactional dealings of any kind involving economic or financial resources or any other assets thereof which are owned by any given state or any of its associated parties that is under its jurisdiction, governance or holding, or over which effective controls are execute, if civil law restrictions have been introduced by the appropriate national legislation in that state.

While servicing its clients and performing customer transaction monitoring, the Bank applies a complex set of measures in order to insure that the financial services provided by the Bank would not be directly or indirectly used to avoid compliance or the fulfilment of any imposed sanctions. The Bank does not engage in and promptly ceases to do business with individuals and/or legal entities if there is evidence of potential violation of sanctions in their economic activity.

In order to comply with the requirements of any imposed sanctions and minimize the risk thereof, the Bank utilizes fully automated (information technology) IT systems and solutions which assist and enable to determine beneficial owners, representatives, authorized officers, and business partners of the Bank's clients as well as an ongoing screening and monitoring of payments.

The Bank's Sanctions Compliance Policy outlines the key principles of assessing the internal control system and the sanctions risk at the Bank. It also defines the tasks and responsibilities of the Bank's management team and structural units, employee rights, responsibilities and accountability as wells as employee professional qualification and the "fit and proper" standards according to specific job responsibilities and empowerments. Further, it sets forth the decision -making and -reporting processes at the Bank, employee training, instructions on how corporate reports and information disclosures are to be submitted in compliance with the fulfilment of sanctions requirements, including an arrangement that ensures anonymous reporting of any violations involving the fulfilment of sanctions requirements at the Bank (whistleblowing).

(9) Capital management

The strategic objective of the Bank's capital management is to maintain the adequate capital base that would promote attaining the strategic business goals set by the Bank, that is:

- comply with the regulatory requirements;
- be sufficient and optimal to support and further development of the Bank's business in terms of both volume and structure;
- ensure that the Bank's capital, which, based on the internal calculations, is required to cover risks and to establish the capital reserve, both existing and potential, inherent in the current and future business of the Bank, is sufficient to cover significant inherent risks and establish the capital reserve in terms of amount, components and proportion.

The Law on Credit Institutions and the regulations developed by the Financial and Capital Market Commission to apply the provisions of this Law require that the Bank maintain equity that at all times is equal to or exceeds the minimum regulatory capital requirement.

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

4 Risk and capital management, continued

(9) Capital management, continued

In order to calculate the statutory capital and capital requirement in 2018 and 2017 the Bank applied the rules laid down by REGULATION (EU) No 575/2013 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL and REGULATION (EU) No 2019/876 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on prudential requirements for credit institutions and investment firms.

The following table summarises the regulatory capital, capital requirements, and capital adequacy ratios of the Bank as at 31 December 2019 and as at 31 December 2018.

	31.12.2019 EUR'000	31.12.2018 EUR'000
Tier 1 capital		
Paid-in share capital	11,644	11,644
Share premium	6,360	6,360
Reserve capital	25	25
Retained earnings	18,919	18,601
Revaluation reserve	503	40
Foreign currency revaluation reserve	-	-
(Loss)/profit for the reporting year	(757)	318
Less: investments in non-financial subsidiaries	-	-
Less: value adjustments due to the requirements for prudent valuation	(32)	(34)
Less: intangible assets	(492)	(343)
Total Tier 1 capital	**36,170**	**36,611**
Subordinated capital (Tier 2)	-	25
Equity used for capital adequacy calculation	**36,170**	**36,636**
Summary of calculations		
Capital requirement for credit risk in the banking book:	(2,185)	(2,420)
Due from central governments and central banks	(294)	(386)
Due from and contingent liabilities to credit institutions	(265)	(394)
Due from and contingent liabilities to companies	(1,547)	(1,582)
Due from and contingent liabilities to retail	-	-
Other items of financial position and contingent liabilities	(79)	(58)
Total capital requirements for market risks, including:	-	-
Capital requirement for currency risk	-	-
Capital requirement for traded debt instruments	-	-
Capital requirement for operational risk	(1,019)	(1,598)
Total capital requirement	**(3,204)**	**(4,018)**
Surplus of available equity over capital requirement	**32,966**	**32,619**
Capital adequacy ratio	**90,31%**	**72,95%**

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

The Bank's Capital Management Policy lays down the principles of capital management, elements and definition of capital, tasks to be performed by the Bank's management and structural units and their responsibilities, capital management process and its control, reporting and disclosure requirements and actions to be taken by the Bank in emergency situations. The policy requires that the TSCR (the amount of capital needed to cover the risks inherent in the Bank's current and planned operations) ratio always is compliant. The methods used for its assessment of amount of TSCR are more prudent than those used for the calculation of capital as prescribed by law.

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

4 Risk and capital management, continued

(9) Capital management, continued

Under the current capital requirements provided by the FCMC banks have to maintain a ratio of capital to risk weighted assets (“statutory capital ratio”) above the prescribed minimum level. Although the minimum requirement as at 31 December 2019 was 8%, in accordance with a special requirement of the FCMC the Bank had to ensure the capital adequacy above the minimum OCR (the amount of TSCR, the amount of the total recommended capital reserve requirement calculated in Chapter IV of the Credit Institutions Law and the total amount of the recommended recommended capital buffer) ratio level, starting from 1 March 2019– 16.8%.

The Bank manages capital by setting the target range for the capital adequacy and OCR ratios, which is treated as a measure of whether the strategic objectives set in capital management have been attained.

The goal of capital management control is to maintain the adequate capital to cover significant risks and keep the reserve on an ongoing basis as well as to comply with the capital adequacy targets set by the Bank. The Bank performs control of the capital management process as a set of systematic measures, defining the relevant control procedures.

5 Net interest income

	2019 EUR’000	2018 EUR’000
Interest income		
Interest income from financial assets at amortised cost:		
Due from financial institutions	514	414
Loans and advances due from customers	205	3
Financial assets at fair value through other comprehensive income	285	685
	1,004	**1,102**
Interest expense		
Current accounts and deposits due to customers	203	99
Deposits due to financial institutions	47	146
Lease obligations	25	-
Other interest expense	12	155
	287	**400**

6 Fee and commission income

	2019 EUR’000	2018 EUR’000
Money transfers	342	1,054
Trust account servicing	808	1,183
Current account servicing	894	1,456
Payment cards	16	106
Brokerage fees	332	357
Escrow account fees	121	-
Issuing of loan	8	-
Other	6	5
	2,527	**4,161**

During the reporting year, commission income from customer money transfers and current account servicing decreased significantly. The main reasons were the introduction of ML/TPF requirements for international clients in 2017, that resulted in a sharp decline in customers and transactions.

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

7 Fee and commission expense

	2019 EUR'000	2018 EUR'000
Money transfers	19	51
Payment cards	34	56
Brokerage	37	45
Other	11	12
	101	**164**

8 Net income from transactions with financial instruments

	2019 EUR'000	2018 EUR'000
Gain on currency exchange transactions	160	882
Gain/ (loss) on translation of balances denominated in foreign currencies	1	(11)
Unrealized (loss)/ gain on currency exchange transactions	(2)	16
Gain on financial instruments trading	9	43
	168	**930**

9 Other expenses

	2019 EUR'000	2018 EUR'000
Association membership fees	69	146
Information services fees	495	513
Professional services	186	145
Other expense	7	330
	757	**1,134**

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

10 General administrative expenses

	2019 EUR'000	2018 EUR'000
Remuneration to staff	1,402	1,730
Remuneration to the Management Board and Board of Directors members	596	612
Statutory social insurance contributions	462	517
Taxes	15	2
Professional services	65	212
Depreciation and amortisation	251	332
Depreciation of the right-to-use assets	169	-
Rent expenses (till 31.12.2018)	-	282
Security	49	51
Telecommunications	90	71
Transport	1	1
Repairs and maintenance of premises	73	82
Business trips	34	132
Representations	20	1
Other expense	97	434
Audit fee	41	41
Other audit services	8	2
	3,373	**4,502**

The average number of the Bank's employees in 2019 was 63 (2018 - 65).

Other audit services:

During the reporting year the sworn auditor's company provided the following non-audit services to the Bank: - limited assurance engagements on compliance with the requirements of the Financial Instruments Market Law on the separate maintenance of financial instruments and monetary resources of the Bank and its clients and the requirements of the Deposit Guarantee Law on preparation of the report on guaranteed deposits and payments into deposit guarantee fund;

- other non-audit services in accordance with applicable law and regulations in Latvia and that is in line with Article 37.6 of Law on Audit Services of the Republic of Latvia.

11 Income tax expense

(a) Income tax charge

The components of income tax expense for the years ended 31 December 2019 and 2018 were as follows:

	2019 EUR'000	2018 EUR'000
Current income tax expense	9	28
Total	**9**	**28**

12 Cash and deposits with the central banks

	31.12.2019 EUR'000	31.12.2018 EUR'000
Cash	85	57
Demand deposits with the Central Bank	10,057	13,509
Total cash and deposits with Central banks	**10,142**	**13,566**

Since the beginning of 2014 Latvia is a member of European Monetary Union (EMU) and Latvian commercial banks should fulfil all requirements set by the European Central Bank (ECB). In particular ECB set reserve requirement ratio meaning that financial institutions should maintain certain amount of cash with its local Central Bank - in case of AS Expobank with the Bank of Latvia. The Bank's average correspondent account balance should exceed the minimum reserve requirement. The Bank was in compliance with reserve requirement ratio during the reporting year.

13 Cash and cash equivalents

	31.12.2019 EUR'000	31.12.2018 EUR'000
Cash and demand deposits with the Central bank	10,142	13,566
Due from financial institutions with original maturity less than 3 months	15,815	33,198
Deposits and balances due to financial institutions with original maturity less than 3 months	(1)	(1)
	25,956	**46,763**

14 Due from financial institutions

	31.12.2019 EUR'000	31.12.2018 EUR'000
Nostro accounts		
Latvian commercial banks	75	35
OECD banks	214	5,935
Non-OECD banks	366	1,339
Total nostro accounts	**655**	**7,309**
Deposits		
OECD banks	14,244	16,599
Non-OECD banks	916	9,290
Total deposits	15,160	25,889
Total due from financial institutions	**15,815**	**33,198**

15 Loans and advances due from customers

The breakdown of loans due from customers is as follows:

a) by customer types

	31.12.2019 EUR'000	31.12.2018 EUR'000
Corporate clients	10,370	-
Households	5	4
Loans total, gross	**10,375**	**4**
Less: impairment allowance	(83)	-
Loans total, net	**10,292**	**4**

(b) by the term of agreement

	31.12.2019 EUR'000	31.12.2018 EUR'000
Up to one year	5	4
More then one year	10,370	-
Gross loans and advances due from customers	**10,375**	**4**
Less: impairment allowance	(83)	-
Net loans and advances due from customers	**10,292**	**4**

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

15 Loans and advances due from customers, continued

(c) by product

	31.12.2019 EUR'000	31.12.2018 EUR'000
Commercial credit	519	-
Investment	9,851	-
Credit cards	5	4
Gross loans and advances due from customers	**10,375**	**4**
Less: impairment allowance	(83)	-
Net loans and advances due from customers	**10,292**	**4**

The table below shows the gross amount of loans and receivables and the amount of credit losses at 31 December 2019

	Gross EUR'000	Impairment allowance for loans EUR'000
Commercial credit	519	2
Investment	9,851	81
Credit cards	5	-
Total	**10,375**	**83**

(d) by geographical region

	31.12.2019 EUR'000	31.12.2018 EUR'000
Latvia	10,374	4
Non-OECD	1	-
Gross loans and advances due from customers	**10,375**	**4**
Less: impairment allowance	(83)	
Net loans and advances due from customers	**10,292**	**4**

Credit quality of commercial loan portfolio and loans to individuals

In the Bank's financial statements no impairment loss has been recognized for commercial loans and loans to individuals as at 31 December 2019 and 31 December 2018. None of the loans were overdue as at 31 December 2019 and 31 December 2018 and all are classified in Stage 1.

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

(e) by type of collateral

	31.12.2019 EUR'000	31.12.2018 EUR'000
Without collateral	5	4
Mortgage	10,302	-
Commercial pledge	68	-
Gross loans and advances due from customers	**10,375**	**4**
Less: impairment allowance	(83)	-
Net loans and advances due from customers	**10,292**	**4**

The amounts shown in the table above represent the carrying value of the loans, and do not necessarily represent the fair value of the collateral.

16 Impairment of other assets

	2019 EUR`000
Provisions at the beginning of the reporting period total	4
Increase in provisions for other assets	1
As at 31 December 2019	**5**

17 Financial instruments

	31.12.2019. EUR'000	31.12.2018. EUR'000
Central governments issued debt securities, including	**20,919**	**21,556**
from AAA till A-	18,551	19,086
from BBB+ till BBB-	2,368	2,470
Corporate debt securities, including	**10,527**	**12,049**
from AAA till A-	2,028	3,563
from BBB+ till BBB-	8,499	4,955
from BB+ till BB-	-	3,531
Private corporations shares	**62**	**62**
Total	**31,508**	**33,667**

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

17 Financial instruments, continued

	31.12.2019. EUR'000	31.12.2018. EUR'000
Net gain on financial assets measured at FVOCI, including:	**473**	**(151)**
Central governments issued debt securities	110	(5)
Corporate debt securities	363	(146)
Net loss on financial assets measured at FVOCI reclassified to profit or loss on disposal, including:	**(10)**	**(25)**
Central governments issued debt securities	-	-
Corporate debt securities	(10)	(25)
Total comprehensive (expense)/ income for the year	**463**	**(176)**

18 Property and equipment

EUR'000	Leasehold improvements	Other assets	The right to use assets	Total
Historical cost				
As at 1 January 2019	137	1,187	-	1,324
Result of initial application of IFRS 16			882	882
Additions	-	12	-	12
Disposals	-	(24)	-	(24)
Changes in agreement	-	-	(41)	(41)
As at 31 December 2019	**137**	**1,175**	**841**	**2,153**
Accumulated depreciation				
As at 1 January 2019	137	806	-	943
Depreciation charge	-	138	168	306
Disposals	-	(23)	-	(23)
As at 31 December 2019	**137**	**921**	**168**	**1,226**
Net carrying amount				
As at 1 January 2019	**-**	**381**	**-**	**381**
As at 31 December 2019	**-**	**254**	**673**	**927**

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

18 Property and equipment, continued

EUR'000	Leasehold improvements	Other assets	Total
Historical cost			
As at 1 January 2018	153	1,202	1,355
Additions	-	143	143
Disposals	(16)	(158)	(174)
As at 31 December 2018	**137**	**1,187**	**1,324**
Accumulated depreciation			
As at 1 January 2018	131	722	853
Depreciation charge	22	177	199
Disposals	(16)	(93)	(109)
As at 31 December 2018	**137**	**806**	**943**
Net carrying amount			
As at 1 January 2018	**22**	**480**	**502**
As at 31 December 2018	**-**	**381**	**381**

All tangible assets are used in the operating activities of the Bank.

19 Intangible assets

EUR'000	Software and licences	
	2019	**2018**
Historical cost		
As at 1 January	1,696	1,672
Additions	238	29
Disposals	(145)	(5)
As at 31 December	**1,789**	**1,696**
Accumulated amortisation		
As at 1 January	1,353	1,226
Amortisation charge	113	133
Disposals	(145)	(6)
As at 31 December	**1,321**	**1,353**
Net carrying amount		
As at 1 January	**343**	**446**
As at 31 December	**468**	**343**

All intangible assets including software are used in the operating activities of the Bank.

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

20 Other assets

	31.12.2019 EUR'000	31.12.2018 EUR'000
Other financial assets		
Credit cards guarantee deposit	180	176
Due from broker accounts	53	56
	233	**232**
Other non-financial assets		
Prepaid expense	156	138
Accrued income	76	195
Other non-financial assets	44	74
Other assets, gross	509	407
Less: impairment allowance	(5)	-
Other assets, net	**504**	**639**

In 2019, security deposits of EUR 181 thousand (2018: EUR 176 thousand) were reserved for potential transactions connected with Mastercard Europe system.

21 Deposits and balances due to financial institutions

	31.12.2019 EUR'000	31.12.2018 EUR'000
Vostro accounts	1	1
	1	**1**

22 Current accounts and deposits due to customers

As at 31 December 2019, the largest deposit from one customer with the Bank amounted to EUR 10,531 thousand or 33% of the total deposits respectively (2018: EUR 15,928 thousand or 36%), while the deposit from one group of related customers with the Bank amounted to EUR 20,996 thousand or 65% respectively of the total deposits (2018: EUR 16,129 thousand or 36%).

The breakdown of current accounts and deposits due to customers is as follows:

(a) by the term of the agreement

	31.12.2019 EUR'000	31.12.2018 EUR'000
Current accounts, including accrued interest	13,028	26,766
Deposits:		
up to six months	16,131	17,419
from six months to one year	741	100
more than one year	2,271	346
Accrued interest	7	10
Total current accounts and deposits due to customers	**32,178**	**44,641**

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

22 Current accounts and deposits due to customers, continued

(b) by geographical region

	31.12.2019 EUR'000	31.12.2018 EUR'000
Residents of Latvia	5,193	1,309
Non-residents:		
Residents of OECD countries	3,926	18,753
Residents of other countries	23,059	24,569
Total current accounts and deposits due to customers	**32,178**	**44,631**

(c) by depositor

	31.12.2019 EUR'000	31.12.2018 EUR'000
Current accounts		
Residents:		
Private enterprises	970	794
Private individuals	891	512
Bank employees	1	1
	1,862	**1,307**
Non-residents:		
Financial institutions	57	885
Private enterprises	6,538	10,904
Insurance companies	2	-
Private individuals	4,569	13,634
Bank employees	-	36
	11,166	**25,459**
Total current accounts	**13,028**	**26,766**
Deposits		
Residents:		
Private enterprises	736	2
Private individuals	2,588	-
Bank employees	7	-
	3,331	**2**
Non-residents:		
Private enterprises	15,317	17,439
Private individuals	500	421
Financial institutions	2	3
	15,819	**17,863**
Total deposits	**19,150**	**17,863**
Total current accounts and deposits due to customers	**32,178**	**44,631**

Interest rates applied to deposits of the Bank's employees do not differ from interest rates on deposits from other customers.

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

22 Current accounts and deposits due to customers, continued

Subordinated liabilities

As at 31 December 2018, the Bank's subordinated liabilities of EUR 302 thousand comprised subordinated loan amounting to EUR 300 thousand concluded on 30 May 2014 with interest rate 1% per annum maturing on 29 May 2019. As at 31 December 2019, the Bank had no subordinated loan. The loan was repaid on May 29, 2019.

23 Accrued liabilities

EUR'000	**Employee unused holiday pay**
As at 31 December 2018	**110**
Increase in provisions	-
As at 31 December 2018	**110**
Decrease in provisions	(3)
As at 31 December 2019	**107**

Management is unaware of any significant actual, pending or threatened claims against the Bank.

24 Other liabilities

	31.12.2019 EUR'000	**31.12.2018 EUR'000**
Financial liabilities		
Cash in transit	-	7
Creditors	-	5
	-	**12**
Non-financial liabilities		
Accrued expense	42	504
	42	**504**
Total other liabilities	**42**	**516**

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

25 Lease liabilities

	31.12.2019 EUR'000
Undiscounted lease liabilities as at 1 January 2019	882
New contracts during the reporting period (including prepayments)	-
Less: Rental expenses recognized during the reporting period	(200)
Less: Amendments in agreements	(41)
Plus: Rental interest expense during the reporting period	25
Lease liabilities in the statement of financial position as at 31 December 2019	**666**

Short-term liabilities (up to 1 year)	199
Long-term liabilities (from 1 to 5 years)	467

The Bank has only concluded a premises lease agreement. As at 31 December 2018, the approximate monthly lease payment amount for the Bank was EUR 17 thousand. The contract was amended during the year, when the Bank made the respective recalculations. The Bank has used a single discount rate of 3.00%. As at 1 January 2019 the total undiscounted lease liabilities to the Bank amounted to EUR 882 thousand.

26 Shareholder's equity

Share capital

As at 31 December 2019, the fully paid-in share capital of the Bank was EUR 11 644 thousand, consisted of 820,000 voting ordinary registered shares with nominal value of EUR 14,20 each.

All shares rank equally with regard to the Bank's residual assets, to the right to dividends and to vote at meetings of the Bank. The sole shareholder owning 100% of paid-in share capital is Mr Igor Kim.

Share premium

In 2004, the Bank executed a share capital increase of EUR 4,240 thousand with a share premium of EUR 6,360 thousand.

Revaluation reserve

The revaluation reserve includes the revaluation result of financial assets measured at fair value through other comprehensive income.

Other reserves

Other reserves comprise the remaining portion of the statutory reserves made from the previous years' profits.

27 Contingent liabilities and commitments

	31.12.2019 EUR'000	31.12.2018 EUR'000
Commitments		
Credit cards commitments	20	49
	20	**49**
Total contingent liabilities and commitments	**20**	**49**

To meet the financial needs of customers, the Bank enters into various transactions resulting in contingent liabilities and commitments. Even though these financial liabilities are not recognized in the statement of financial position, they do contain credit risk and are therefore part of the overall risk assessment of the Bank.

27 Contingent liabilities and commitments, continued

Nevertheless, the potential credit loss is less than the total unused part of the liability since these are contingent upon customers maintaining specific standards. The Bank employs collateral mainly in the form of term deposits for mitigation of related credit risk.

Issued guarantees commit the Bank to make payments on behalf of the customers in the event of a specific act. Other commitments represent contractual obligations on payment cards' overdraft facilities. Since contingent liabilities and commitments may expire without being drawn on, the total contract amount do not necessarily represents future cash requirements.

28 Operating leases

The Bank is a lessee

Liquidity risk

	Less than one year	Between one and five years	More than five years
Balance at 31 December 2019			
Lease commitments	188	478	-
Total	**188**	**478**	**-**

Where the Bank is a lessee, the breakdown of the future minimum lease payments by periods until the maturity of operating leases effective as at 31 December 2018 are as follows:

EUR'000	Less than one year	Between one and five years	Total
Rent of premises	209	713	922

29 Funds under trust management

The Bank provides Assets under management services to individuals and institutions, where by it holds and manages assets or invests funds received in various financial instruments at the direction of the customer. The Bank receives fee income for providing these services. Assets under management are neither assets of the Bank nor recognised in the consolidated and separate statement of financial position. The Bank is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

	31.12.2019 EUR'000	31.12.2018 EUR'000
Assets under management		
Non-residents:		
Loans	24,551	74,149
	24,551	**74,149**
Liabilities under management		
Residents:		
Private individuals	-	-
Non-residents:		
Private enterprises	24,551	73,129
Private individuals	-	1,020
	24,551	**74,149**

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

30 Related party transactions

Related parties are defined as the shareholder who has control over the Bank, companies in which this shareholders has controlling interest, members of the Board of Directors and the Management Board, other key management personnel, their close relatives and companies in which they have a controlling interest, as well as associated companies. The Law on Credit Institutions defines significant investment as a shareholding of 10 or more per cent of the company's capital or voting shares, obtained directly or indirectly, or providing an opportunity to exercise significant influence over the company's activities.

The definition of related parties of the Law on Credit Institutions generally complies with the requirements of IAS 24 as applicable to the Bank which also specifies the requirements for disclosure of related party transactions in the financial statements. The Bank enters into transactions with related parties in the ordinary course of business. All the loans, advances and financing activities arranged with related parties are at market rates. For the year ended 31 December 2019, all assets are performing and free of any impairment for credit losses (2018: nil).

The Bank's financial statements comprise the following outstanding balances, contingent liabilities and commitments, and statement of comprehensive income items as a result of transactions with related parties:

The Bank's statement of financial position

	Key management personnel		Affiliated companies the Board of Directors and the Management Board	
	31.12.2019 EUR'000	**31.12.2018 EUR'000**	**31.12.2019 EUR'000**	**31.12.2018 EUR'000**
Assets				
Due from financial institutions	-	-	214	-
Loans and advances due from customers	-	1	-	-
	-	**1**	**214**	**-**
Liabilities				
Current accounts and deposits due to customers	748	1	189	609
	748	**1**	**189**	**609**

The Bank's contingent liabilities and commitments

	Key management personnel		Affiliated companies the Board of Directors and the Management Board	
	31.12.2019 EUR'000	**31.12.2018 EUR'000**	**31.12.2019 EUR'000**	**31.12.2018 EUR'000**
Other commitments	4	20	-	-

The Bank's statement of comprehensive income

	Key management personnel		Affiliated companies the Board of Directors and the Management Board	
	2019 EUR'000	**2018 EUR'000**	**2019 EUR'000**	**2018 EUR'000**
Interest income	-	-	-	2
Fee and commission income	-	1	9	24
	-	**1**	**9**	**26**

Detailed information about remuneration to the Management Board and Board of Directors members is disclosed in Note 10.

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

31 Fair value of financial assets and financial liabilities

Set out below is the comparison of the carrying amounts and fair values of the Bank's financial instruments that are recognized in the financial statements.

(a) Financial instruments measured at fair value

The table below analyses financial instruments of 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.

2019	Level 1 EUR'000	Level 2 EUR'000	Level 3 EUR'000	Total EUR'000
Financial assets				
Financial assets at fair value through other comprehensive income	31,446	-	62	31,508
	31,446	**-**	**62**	**31,508**
2018				
Financial assets				
Financial assets at fair value through other comprehensive income	33,605	-	62	33,667
	33,605	**-**	**62**	**33,667**

During 2019 there were no reclassification between fair value hierarchy levels.

(b) Financial instruments not measured at fair value

The table below analyses the fair values of the Bank's financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised:

31 December 2019	Level 1 EUR'000	Level 2 EUR'000	Level 3 EUR'000	Total fair values EUR'000	Total carrying amount EUR'000
Financial assets					
Cash and demand deposits with the central banks	-	-	10,142	10,142	10,142
Due from financial institutions	-	-	15,823	15,823	15,815
Loans and advances due from customers	-	-	9,630	9,630	10,292
Other financial assets	-	-	233	233	233
Financial liabilities					
Deposits and balances due to financial institutions	-	-	1	1	1
Current accounts and deposits due to customers	-	-	31,968	31,968	32,178
Other financial liabilities	-	-	-	-	-

Cash and demand deposits with the Central banks are various currency cash and deposits with the Bank of Latvia whose carrying amount represents the fair value.

Other financial assets consist of cash on broker and escrow accounts, credit card guarantee deposits and currency exchange transactions in progress; thus the carrying amount is equal to their fair value.

Other financial liabilities consist of cash on suspense account and currency exchange transactions in progress; thus the carrying amount is equal to their fair value.

31 Fair value of financial assets and financial liabilities, continued

Loans and advances due from customers are financial assets that are measured using a valuation technique based on assumptions that are supported by prices from observable currend market transactions in the same instrument or based on available market data.

The table below analyses the fair values of the Bank's of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised:

31 December 2018	Level 1 EUR'000	Level 2 EUR'000	Level 3 EUR'000	Total fair values EUR'000	Total carrying amount EUR'000
Financial assets					
Cash and demand deposits with the Central banks	-	-	13,566	13,566	13,566
Due from financial institutions	-	-	33,171	33,171	33,171
Loans and advances due from customers	-	-	4	4	4
Other financial assets	-	-	232	232	232
Financial liabilities					
Deposits and balances due to financial institutions	-	-	44,275	44,275	44,275
Current accounts and deposits due to customers	-	-	364	364	364
Other financial liabilities	-	-	12	12	12

The methodology for determining the fair value is disclosed in Note 3.

The following table presents interest rates used to discount estimated cash flows, where applicable, by the classes of financial assets and financial liabilities.

	31.12.2019	31.12.2018
Due from and due to financial institutions	-0.249-1.9963%	-0.117-3.005%
Loans and advances due from customers	0.00%-4.20%	0.00%-3.565%
Current accounts and deposits due to customers	0.06%-2.37%	0.03%-0.45%

For financial instruments whose fair value is estimated using valuation techniques with non-market observable inputs, net unrealized amount due to changes in the inputs was zero during the year 2019 (2018: nil).

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

32 Credit risk

Maximum credit risk exposure

The table below shows the Bank's maximum exposure to credit risk for the components of the statement of financial position.

The maximum credit exposures are shown both gross, i.e. without taking into account any collateral, provisions and other credit enhancements, and net, i.e. after taking into account any collateral and other credit enhancements.

	Note	Gross maximum credit exposure		Net maximum credit exposure	
		31.12.2019 EUR'000	31.12.2018 EUR'000	31.12.2019 EUR'000	31.12.2018 EUR'000
Cash and demand deposits with the Central banks	12	10,142	13,566	10,142	13,566
Due from financial institutions	14	15,815	33,199	15,815	33,198
Loans and advances due from customers	15	10,375	4	10,292	4
Financial assets at fair value through other comprehensive income	16	31,508	33,667	31,508	33,667
Other financial assets	19	234	235	233	232
Total financial assets		**68,074**	**80,671**	**67,990**	**80,667**
Credit cards commitments	27	20	49	20	49
Total contingent liabilities and commitments		**20**	**49**	**20**	**49**
Total maximum credit risk exposure		**68,094**	**80,720**	**68,010**	**80,716**

As it is shown above, 46% of the total gross maximum credit exposure is derived from balances due from credit institutions (2018: 41%).

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

32 Credit risk, continued

Concentrations of the maximum credit risk exposure

The following table breaks down the gross exposure related to the Bank's balances due from credit institutions by geographical regions and major counterparties or groups of related counterparties.

Latvia		**31.12.2018 EUR'000**	**31.12.2018 EUR'000**
AS „Swedbank"		75	35
Total Latvia		**75**	**35**
OECD countries			
Raiffeisen Zentralbank International AG	Austria	-	5,442
Norddeutsche Landesbank Luxembourg SA	Luxembourg	14,244	16,599
UBI Banka (Unione Di Banche Italiane) S.C.P.A	Italy	-	447
Euroclear Bank S.A.	Belgium	-	45
Expobank CZ a.s.	Czech Republic	214	-
Total OECD countries		**14,458**	**22,533**
Other countries			
OAO „Alfa-Bank"	Russia	947	6,903
OAO „Sberbank of Russia"	Russia	331	3,429
OAO Raiffeisenbank	Russia	-	280
Industrial and Commercial Bank of China (ASIA)	Hong Kong	2	3
Industrial and Commercial Bank of China	China	1	14
Bank of China (Russia)	China	1	1
Total other countries		**1,282**	**10,630**
Total balances due from credit institutions		**15,815**	**33,198**

For the Bank the gross maximum credit risk exposure to a single counterparty or a group of related counterparties as at 31 December 2019 comprised 90% and 90% of the total gross credit exposure attributable to balances due from credit institutions (2018: 50% and 21%).

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

32 Credit risk, continued

Credit quality per class of financial assets

Credit quality of financial assets is managed by the Bank by employing debtors' (borrowers') financial analysis techniques, analysis of the counterparty's reputation and historical cooperation with the counterparty, as well as using credit ratings granted by international rating agencies.

The transactions subject to credit risk are divided into four credit quality groups depending on the credit ratings published by international rating agencies. There are the following credit quality groups:

Group 1: AAA, AA (Standard& Poor's, Fitch) / Aaa, Aa (Moody's)

This group includes first class transaction partners who are considered to be low-risk investments. (2018: Euroclear Bank S.A).

Group 2: A, BBB (Standard& Poor's, Fitch) / A, Baa (Moody's)

This group includes transaction partners with a market position ranging from medium to good. The largest exposure included in this group relates to receivables from Swedb Raiffeisen Zentralbank International AG, OAO Raiffeisenbank, Norddeutsche Landesbank Luxembourg SA, Swedbank AS, OAO „Sberbank of Russia", Industrial and Commercial Bank of China LIMITED, Sumitomo Mitsui Banking Corporation, Industrial and Commercial Bank of China (Asia) (2018: Swedbank AS, Industrial and Commercial Bank of China LIMITED, Sumitomo Mitsui Banking Corporation, Industrial and Commercial Bank of China (Asia)).

Group 3: BB, B, CCC, CC, (Standard& Poor's, Fitch) / Ba, B, C (Moody's)

The largest credit risk exposure in this group relates to receivables from transaction partners below medium rating BB (Standard& Poor's, Fitch) / Ba (Moody's). Out of the above group, the most significant receivables are from OAO „Alfa-Bank" (2018: Raiffeisen Bank International AG, OAO Raiffeisenbank, Norddeutsche Landesbank Luxembourg SA

No rating

Transaction partners who have not been assigned an international credit rating are primarily daughter banks of credit institutions operating in the Republic of Latvia. In this group, the largest receivables are from Expobank Cz .

The table below shows the credit quality by class of financial assets for the Bank as at 31 December 2019 based on international ratings.

EUR'000	Neither past due nor impaired				Total
	Group 1	Group 2	Group 3	No rating	
Cash and demand deposits with the Central banks	-	10,057	-	85	10,142
Due from financial institutions	-	3	14,575	1,237	15,815
Loans and advances due from customers	-	-	-	10,375	10,375
Financial assets at fair value through other comprehensive income	8,689	13,434	9,322	63	31,508
Other financial assets	-	-	-	234	234
Total financial assets, gross	**8,689**	**23,494**	**23,897**	**11,994**	**68,074**
Less: impairment allowance	-	-	-	(84)	(84)
Total financial assets, net	**8,689**	**23,494**	**23,897**	**11,910**	**67,990**

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

32 Credit risk, continued

The table below shows the credit quality by class of financial assets for the Bank as at 31 December 2018 based on international ratings.

EUR'000	Neither past due nor impaired				Total
	Group 1	Group 2	Group 3	No rating	
Demand deposits with the Central banks	-	13,480	29	57	13,566
Due from financial institutions	45	51	33,102	-	33,198
Loans and advances due from customers	-	-	-	4	4
Available-for-sale assets	9,323	13,326	10,955	63	33,667
Other financial assets	-	-	-	235	235
Total financial assets, gross	**9,368**	**26,857**	**44,086**	**359**	**80,670**
Less: impairment allowance	-	-	(1)	(3)	(4)
Total financial assets, net	**9,368**	**26,857**	**44,085**	**356**	**80,666**

33 Currency risk

Currency risk exposure

The Bank's currency analysis of financial assets and financial liabilities by currency profile as at 31 December 2019 was as follows:

EUR'000	USD	EUR	RUB	GBP	Other currencies	Total
Financial assets						
Cash and demand deposits with Central banks	21	10,116	2	3	-	10,142
Due from financial institutions	14,548	340	920	2	5	15,815
Loans and advances due from customers	-	10,292	-	-	-	10,292
Financial assets at fair value through other comprehensive income	6,956	24,552	-	-	-	31,508
Other financial assets	212	20	1	-	-	233
Total	**21,737**	**44,738**	**923**	**5**	**5**	**67,990**
Financial liabilities						
Deposits and balances due to financial institutions	1	-	-	-	-	1
Current accounts and deposits due to customers	21,643	9,575	956	3	1	32,178
Other financial liabilities	-	-	-	-	-	-
Total	**21,644**	**9,575**	**956**	**3**	**1**	**32,179**
Net position - on and off statement of financial position	**93**	**35,745**	**8 (33)**	**2**	**4**	
Spot transaction receivables	-	-	-	-	-	-
Spot transaction liabilities	-	-	-	-	-	-
Net open position	**93**	**35,745**	**(33)**	**2**	**4**	

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

33 Currency risk, continued

The Bank's currency analysis of financial assets and financial liabilities by currency profile as at 31 December 2018 was as follows:

EUR'000	USD	EUR	RUB	GBP	Other currencies	Total
Financial assets						
Cash and demand deposits with the Central banks	23	13,538	2	3	-	13,566
Due from financial institutions	17,504	5,987	9,636	50	21	33,198
Loans and advances due from customers	-	4	-	-	-	4
Financial assets at fair value through other comprehensive income	8,486	25,181	-	-	-	33,667
Other financial assets	201	28	3	-	-	232
Total	**26,214**	**44,738**	**9,641**	**53**	**21**	**80,667**
Financial liabilities						
Deposits and balances due to financial institutions	1	-	-	-	-	1
Current accounts and deposits due to customers	25,714	8,674	10,132	93	18	44,631
Other financial liabilities	-	7	-	5	-	12
Total	**25,715**	**8,681**	**10,132**	**98**	**18**	**44,644**
Net position - on and off statement of financial position	**499**	**36,057**	**8 (491)**	**(45)**	**3**	
Spot transaction receivables	-	-	478	-	-	478
Spot transaction liabilities	(476)	-	-	-	-	(476)
Net open position	**23**	**36,057**	**(13)**	**45**	**3**	

Sensitivity analysis

The scenario used for the analysis is based on reasonable volatility of exchange rates equal for all exposures of the Bank in foreign currencies assuming that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for both years.

13% of the RUB (2018:13%) and a 5% strengthening of the USD and other foreign currencies against the euro as at 31 December 2019 and 31 December 2018 respectively would have increased profit by the amounts shown below:

	2019 EUR'000	2018 EUR'000
RUB	(4)	(2)
USD	5	1
Other currencies	-	(2)
Total	**1**	**(3)**

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

34 Liquidity risk

Maturity analysis

The table below reflects the maturity analysis of the Bank's financial assets and financial liabilities based on the term from the reporting date until the maturity dates of the respective assets and liabilities. The maturity analysis of the Bank's financial items of financial position and contingent liabilities and commitments as at 31 December 2019 was as follows:

EUR'000	On demand	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Longer than 5 years	No maturity	Total
Financial assets									
Cash and demand deposits with the central banks	10,142	-	-	-	-	-	-	-	10,142
Due from financial institutions	656	15,159	-	-	-	-	-	-	15,815
Loans and advances due from customers	1	1	-	-	2	10,288	-	-	10,292
Financial assets at fair value through other comprehensive income	31,446	-	-	-	-	-	62	-	31,508
Other financial assets	-	57	-	-	-	-	-	176	233
Total	**42,245**	**15,217**	**-**	**-**	**2**	**10,288**	**62**	**176**	**67,990**
Financial liabilities									
Deposits and balances due to financial institutions	1	-	-	-	-	-	-	-	1
Current accounts and deposits due to customers	28,340	820	-	-	743	2,275	-	-	32,178
Lease liabilities	-	17	50	50	82	467	-	-	666
Other financial liabilities	-	-	-	-	-	-	-	-	-
Total	**28,341**	**837**	**50**	**50**	**825**	**2,242**	**-**	**-**	**32,845**
Contingent liabilities and commitments	20	-	-	-	-	-	-	-	20
Net liquidity position	**13,924**	**14,380**	**(50)**	**(50)**	**(823)**	**8,046**	**62**	**176**	

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

34 Liquidity risk, continued

Amounts due from credit institutions repayable, according to contracts, by prior notice of withdrawal are included in the category "On demand". Other financial assets and financial liabilities are disclosed in accordance with their remaining contractual maturities.

The maturity analysis of the Bank's financial items of financial position and contingent liabilities and commitments as at 31 December 2018 was as follows:

EUR'000	On demand	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Longer than 5 years	No maturity	Total
Financial assets									
Cash and demand deposits with the Central banks	13,566	-	-	-	-	-	-	-	13,566
Due from financial institutions	7,309	25,889	-	-	-	-	-	-	33,198
Loans and advances due from customers	-	1	-	-	2	1	-	-	4
Financial assets at fair value through other comprehensive income	33,605	-	-	-	-	-	62	-	33,667
Other financial assets	-	56	-	-	-	-	-	176	232
Total	**54,480**	**25,946**	**-**	**-**	**2**	**1**	**62**	**176**	**80,667**
Financial liabilities									
Deposits and balances due to financial institutions	1	-	-	-	-	-	-	-	1
Current accounts and deposits due to customers	42,680	-	-	1,491	100	346	-	14	44,631
Other financial liabilities	12	-	-	-	-	-	-	-	12
Total	**42,693**	**-**	**-**	**1,491**	**100**	**346**	**-**	**14**	**44,644**
Contingent liabilities and commitments	49	-	-	-	-	-	-	-	49
Net liquidity position	**11,836**	**25,946**	**-**	**(1,491)**	**(98)**	**(345)**	**62**	**162**	

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

34 Liquidity risk, continued

Analysis of financial liabilities' contractual undiscounted cash flows

The tables below presents the cash flows payable by the Bank under contractual financial liabilities, including derivative financial liabilities, by remaining contractual maturities as at the reporting date.

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

The analysis of financial liabilities' contractual undiscounted cash flows of the Bank as at 31 December 2019 was as follows:

EUR'000	Carrying amount	Contractual cash flows	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Longer than 5 years
Non-derivative financial instruments							
Deposits and balances due to financial institutions	1	(1)	-	-	-	-	-
Current accounts and deposits due to customers	32,178	(32,178)	(29,160)	(1)	(956)	(2,061)	-
Leases on rights-to-use an asset	666	(666)	(17)	(50)	(132)	(467)	-
Other financial liabilities	-	-	-	-	-	-	-
Total	**32,845**	**(32,845)**	**(29,177)**	**(51)**	**(1,088)**	**(2,528)**	**-**

The analysis of financial liabilities' contractual undiscounted cash flows of the Bank as at 31 December 2018 was as follows:

EUR'000	Carrying amount	Contractual cash flows	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Longer than 5 years
Non-derivative financial instruments							
Deposits and balances due to financial institutions	1	(1)	-	-	-	-	-
Current accounts and deposits due to customers	44,631	(44,631)	(42,689)	(3)	(1,908)	(31)	-
Other financial liabilities	12	(12)	(12)	-	-	-	-
Total	**44,644**	**(44,644)**	**(42,701)**	**(3)**	**(1,908)**	**(31)**	**-**

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

35 Interest rate risk

Exposure to interest rate risk

The Bank's exposure to interest rate risk is characterised by the maturity of financial assets and financial liabilities subject to interest rate risk based on the shorter of the remaining maturity dates of financial instruments subject to interest rate risk and the interest rate review dates.

The repricing maturity analysis of financial assets and financial liabilities for the Bank as at 31 December 2019 was as follows:

EUR'000	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Longer than 5 years	Interest free	Total
Financial assets								
Cash and demand deposits with the Central banks	10,057	-	-	-	-	-	85	10,142
Due from financial institutions	15,194	-	-	-	-	-	621	15,815
Loans and advances due from customers	7,075	3,211	1	1	4	-	-	10,292
Financial assets at fair value through other comprehensive income	215	107	5,378	3	25,743	-	62	31,508
Other financial assets	176	-	-	-	-	-	57	233
Total	**32,717**	**3,318**	**5,379**	**4**	**25,747**	**-**	**825**	**67,990**
Financial liabilities								
Deposits and balances due to financial institutions	-	-	-	-	-	-	1	1
Current accounts and deposits due to customers	27,696	1	6	949	2,056	-	1,470	32,178
Lease liabilities	-	-	-	666	-	-	-	666
Other financial liabilities	-	-	-	-	-	-	-	-
Total	**27,696**	**1**	**6**	**1,615**	**2,056**	**-**	**1,471**	**32,845**
Interest rate risk	**5,021**	**3,317**	**5,373**	**(1,611)**	**23,691**	**-**	**(646)**	

35 Interest rate risk, continued

The repricing maturity analysis of financial assets and financial liabilities for the Bank as at 31 December 2018 was as follows:

EUR'000	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Longer than 5 years	Interest free	Total
Financial assets								
Cash and demand deposits with the Central banks	13,480	-	-	-	-	-	86	13,566
Due from financial institutions	26,381	-	-	-	-	-	6,817	33,198
Loans and advances due from customers	-	1	-	2	1	-	-	4
Financial assets at fair value through other comprehensive income	322	1,780	6,977	3	24,523	-	62	33,667
Other financial assets	177	-	-	-	-	-	55	232
Total	**40,360**	**1,781**	**6,977**	**5**	**24,524**	**-**	**7,020**	**80,667**
Financial liabilities								
Deposits and balances due to financial institutions	-	-	-	-	-	-	1	1
Current accounts and deposits due to customers	15,925	3	1,488	112	26	-	27,077	44,631
Other financial liabilities	-	-	-	-	-	-	12	12
Total	**15,925**	**3**	**1,488**	**112**	**26**	**-**	**27,090**	**44,644**
Interest rate risk	**24,435**	**1,778**	**5,489**	**(107)**	**24,498**	**-**	**(20,070)**	

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

35 Interest rate risk, continued

Average weighted effective interest rates

The table below shows the Bank's interest rate sensitive assets and liabilities as at 31 December 2019 and 2018 and the corresponding average weighted effective interest rates in 2019 and 2018.

	Carrying amount 31.12.2019 EUR'000	2019 average weighted effective interest rate	Carrying amount 31.12.2018 EUR'000	2018 average weighted effective interest rate
Interest rate sensitive assets				
Due from financial institutions	15,815	1.63%	26,381	0.46%
Financial assets at fair value through other comprehensive income	31,508	0.96%	33,667	1,75%
Loans and advances due from customers	10,376	4.40%	4	1,18%
Total	**57,699**		**60,052**	
Interest rate sensitive liabilities				
Deposits and balances due to financial insti-tutions	-	-	1	0.29%
Current accounts and deposits due to customers	19,150	0.69%	17,554	0.13%
Lease liabilities	666	3.00%	-	-
Total	**19,816**		**17,555**	

Sensitivity analysis

The following table demonstrates the sensitivity to reasonably possible changes in interest rates of the Bank's net interest income. The analysis assumes that all other variables remain constant.

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

	Increase in basis points	Sensitivity of net interest income EUR'000	Decrease in basis points	Sensitivity of net interest income EUR'000
As at 31 December 2019				
	+100	1,014	-100	(1,014)
Total effect		**1,014**		**(1,014)**
As at 31 December 2018	**+100**	**1,112**	**-100**	**(1,112)**
Total effect	**+100**	**1,112**	**-100**	**(1,112)**

35 Interest rate risk, continued

To assess risks in securities portfolio Bank uses Value at Risk (Value-at-Risk) calculation to estimate maximal loss due to prices change. Bank defines Value at Risk (VaR) as possible adverse loss that will not be exceeded with a 99% confidence level, over period 1 day.

	31.12.2019	
	Held for trading instruments	**Financial assets at fair value through other comprehensive income**
Value of portfolio (000’ EUR)	-	31,471
1 day VaR (000’ EUR)	-	19

36 Events subsequent to the reporting date

No significant subsequent events have occurred in the period from the year-end to the date of these financial statements that would need to be disclosed in these consolidated and separate financial statements, or would require adjustments to be made to these consolidated and separate financial statements and disclosures added to the notes thereto.

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