JSC "Baltic International Bank"

2018 Annual Report

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The Bank's (Group's) Management Report

Dear clients and partners,

Year 2018 was a year of changes in banking landscape in Baltics, banking sector in Latvia and year of continued changes in Baltic International Bank. The Bank has significantly progressed in the new business model, announced in late 2016, and introduced necessary changes in income generation, product and service offering and service model as well as staffing in key positions and efficiency across the Bank.

Business model

During 2018 those banks in Latvia that were focused on servicing foreign clients faced necessity to review and often change its business models and experience significant decline in number of clients, deposit and business volumes, as well as necessity to reapprove its business models with FCMC (Regulator). Baltic International Bank has reviewed its new business model, especially focusing on client base, products and services, in order to comply to regulatory expectations as well as with aspects of market niche where Bank operates. Increase in number of local clients, review of prioritized customer groups, termination of relationships that did not fit into new risk approach – all that has been the response by Bank. Also, market changes have provided an opportunity for the Bank to be more active in explaining its business model to society and clients, formulate stronger positioning and define clearer targets.

Investment-based new business model, through an individual approach that Bank has been following historically, puts, client in the centre. Bank in fact is a player in the niche of privately-owned banks with the certain share, which is to be developed further. New business model is developed on risk-based approach in terms of risk policy and customer acceptance and prioritize Latvian clients, Baltic clients, foreign clients from European Economic Area and those foreign clients that have invested or intend to invest in Latvian economy.

Bank focuses on providing a selection of responsible and modern investment products and opportunities to existing and potential customers. A client, whose wealth is in securities and monetary values or in its business entity obtains asset management services, as well as personal or business-banking services, including daily banking, loans and guarantees and necessary service for international business. Additional important element of what Bank does is providing financing opportunities to Latvian entrepreneurs. During 2019 in cooperation with ALTUM programs that are available for Latvian entrepreneurs, Bank will continue to provide financing solutions to local businesses. The Bank within investment-based business model focuses on balance sheet quality as well assets in custody and under management as key volumes of clients' assets that clients hold with the bank either in deposits, custody accounts or as assets under management. During 2018 Bank has obtained necessary licence extensions to provide bond origination services to corporate clients, custodian services to licenced asset management firms.

Bank has developed (2018) and introduced (2019) a platform, where investment opportunities can be measured for each individual client (https://www.bib.eu/en/investment-opportunities) that combines both classic and alternative investment solutions that investors with short-term and long-term, conservative or more active risk strategy will find attractive. Launch of new line of debit and credit cards, including top card products that are available on Mastercard platform emphasizes the banking aspect of the individual approach and exclusivity for Bank's clients. Baltic International Bank became first bank in Latvia whose credit cards feature fragments of works by the famous Latvian artist and stage designer Ilmārs Blumbergs. All Banks cards are contactless-enabled.

New internet bank project, launched in 2018, with delivery target in 2019, will emphasize modern internet-banking solution to clients to oversee its investment portfolios, exchange information and documents with the Bank using a secure and modern channel as well deliver a modern user-friendly tool for every client to oversee its assets with the Bank.

Business model change and client base review is a process, where Bank has displayed progress; however, full implementation will also include overcoming of matters related to asset quality and strengthening of capital base of the Bank, mentioned in the Financial Statements.

AML/CFT/Sanctions risk management

Compliance remains absolute priority for the Bank and it involves constant improvements in AML, CTF, and other risk areas associated. Bank's approach focuses on Systems, People, Processes in developing its Internal Control Systems. Our task is to always be equipped with necessary and up-to-date IT software and solutions, as well as proper qualifications of responsible employees and key executives that follow processes and procedures aligned with all modern requirements in AML/CTF area. In March 2019 Sigma Ratings, a New York-based rating agency, assigned BBB+ financial crime compliance (FCC) rating to Baltic International Bank placing it among industry leaders. This was a process initiated in late 2018, with Bank seeking an external opinion and evaluation of its Internal Control System. Sigma's report also noted that the bank's outlook is positive. Sigma Ratings reviewed Baltic International Bank's inherent risk environment and control effectiveness around FCC. The review included FCC factors specific to AML, CFT, sanctions, and aspects of other non-credit risk issues such as geo-political risk and national-level regulatory proficiency.

Bank has conducted a revision of its clients' base according to risk-based approach and delivered a risk level reduction along all key metrics, according to new business model. Balance of risks of client base remains a focus area for Bank's management to secure a sustainable balance and build a model further based on client base that is both business criteria-compliant and risk criteria-compliant.

Assets

The Bank's assets (the Group-related financials are shown in parenthesis) reached EUR 286 million (EUR 286 million), down 4% compared with 2017. The Bank's loan portfolio totaled EUR 64.2 million (EUR 63.2 million) or 22.5% (22.1%) of the Bank's total assets as of 31 December 2018.

The structure of the Bank's financial assets is dominated high-quality liquid assets (assets carrying investment-grade rating and due from the Bank of Latvia) totaled EUR 157.1 million (EUR 157.1 million) or 55% (55%) of the total assets. Investments in government bonds totalled EUR 17.5 million (EUR 17.5 million) or 6.1% (6.1%) of the total assets.

During 2018, the total volume of customer funds reached EUR 301 million (EUR 301 million). By the end of 2018, assets under management reached EUR 74 million (EUR 74 million).

Focus remains on asset quality related matters. Overcoming of matters related to provisions of last years as well as 2018 is significant for full implementation of business model and Bank's capital position.

Income/ Costs and Net Result

Among key challenges for 2018 Bank's management has placed transformation of its income structure, replacing revenue streams present in the former business model with fee income improvements consistent with new model and target income structure.

The operating income (the Group-related financials are shown in parenthesis) totaled EUR 13.92 million (EUR 13.99 million). The structure of the Bank's operating income represented a new model implementation, with strong dominance of fee income, that included customer service fees, brokerage and custody fees. Net fees and commissions totaled EUR 8.45 million (8.45 EUR), or more than EUR 5 million more than 2017. The percentage of the net interest income in total operating income increased up to 60.9% (60.4%) compared to the same period last year when the income totaled 26.1% (26.1%).

Management of the Bank will deliver further reduction payment commissions share from foreign clients according to intended full implementation of the business model.

Significant de-risking exercises as well as focused attention to asset quality has driven Bank operational results in 2017 and 2018. Bank has significantly improved fee income generation, as well as delivered on cost efficiency targets, substantially decreasing 2017 experienced losses. Focusing on assets quality and provisioning remains a driver for Bank's net result.

Net financial result of 2018 were losses in amount of EUR 1.9 million, compared to losses of EUR 8.1 million in 2017. Losses will be covered from profit of further periods.

Liquidity

The Bank's liquidity ratios significantly exceed the regulatory thresholds. As of 31 December 2018, the Bank's liquidity ratio was 76.35%. The Bank maintains a well-diversified structure of liquid assets represented by bonds (12.6%), due from credit institutions (6.7%), due from the Bank of Latvia (79.7%) and cash (1%). The liquidity coverage ratio (LCR) totaled 210% (211%). The net stable funding ratio (NSFR), characterizing the availability of a stable funding profile in relation to the composition of assets and off-balance sheet activities, reached 154% (155%).

Capital

Bank's capital position is subject to a recapitalization plan, which means on top of share capital increase during 2018 on 2.1 million EUR, further share capital increase and improvements of capital adequacy are planned in 2019.

As of 31 December 2018, the Bank's own funds totaled EUR 22.75 million (EUR 22.82 million). The Bank's CET1 capital ratio was 8.79% (8.86%). The total capital ratio reached 12.90% (12.98%).

Capital position of the Bank will be strengthened during 2019, based on capital strengthening plan (Note 49, Going Concern) enabling further development of business model and customer service. This is fully supported by the bank's major shareholders.

2019 outlook and plans

The Bank remains committed to chosen business model and aims to deliver best quality service and products to its clients in 2019. New internet bank, investment menu tool, investment opportunities for clients with investment capacity is in the focus area of deliverables for 2019. Bank remains focused on all risk areas in order to secure full compliance to relevant regulations.

Sustainability

Baltic International Bank is one of the most long-standing supporters of the cultural processes, science and sustainable entrepreneurship in Latvia. In 2018 Bank has supported various and versatile initiatives – including ones in Latvian original literature, and Annual Latvian Literature Award. We have engaged in and supported projects of social nature, initiatives to preserve cultural and historical values, projects for creating original literature and encouraging people to read, family and tradition-oriented projects as well as initiatives for promoting healthy lifestyle.

LITERATURE

One of the current support projects initiated last year and implemented in cooperation with the Ministry of Culture is a unique, heraldic edition "Dzimtu ģerboņi mūsdienu Latvijā" (House Coats of Arms in Modern Latvia) that will be published in 2020. The Bank sponsored the publication of the book "Kā gūt panākumus Latvijā" (How to Prosper in Latvia) whose authors are Kārlis Ozols and Laura Vanaga – Mickeviča. The book tells the readers about 14 outstanding Latvians who have accomplished great things in their life and their success stories. Baltic International Bank also supported the Annual Latvian Literary Award ceremony to honour the most outstanding Latvian litterateurs.

In Autumn 2018 Baltic International Bank started a new, social initiative "Bibliotēka" (Library) that highlights the role of literature and books in the life of the person. Project allows the society to see the contents of the library of highly renowned persons and watch their video stories how their family library.

RESPONSIBILITY AND SUSTAINABILITY

The Chairperson of the Bank's Management Board Viktors Bolbats took up the post of a Co-chair of the Strategic Development Committee of the Finance Latvia Association. He is strongly determined to search and find effective mechanisms for repairing the reputation of Latvia's financial sector internationally and creating a new economic value added for the country.

For the second consecutive year largely due to its business model and string adherence to corporate governance principles, sustainable business principles and socially responsible initiatives, in 2018 Baltic International Bank received the Gold Award from the annual Sustainability Index and the Family-Friendly Company Status.

2018 was a year of Bank's 25th year anniversary since its inception in 1993. We wish to thank all our partners and clients, both who have been with us for many years, as well as clients and partners who joined us during 2018 and recently, as well as our shareholders for their support and commitment. Bank's management commitment is to deliver a service model that is based on Banks key values (Expertise, Reliability and Succession) and stands on fundamental approach – individual approach – in service model that we remain committed to since our inception.

Statement on Corporate Governance published on Bank's website www.bib.eu.

17 May 2019

Valeri Belokon
Chairperson of the Supervisory Council

Viktor Bolbat
Chairperson of the Board

Supervisory Council and Management Board

Supervisory Council (as of 31 December 2018)

Name	Position held	Appointed	Re-appointed
Valeri Belokon	Chairperson of the Supervisory Council	15/09/2010	27/04/2018
Ilona Gulchak	Deputy Chairperson of the Supervisory Council	26/01/2018	27/04/2018
Dr. Hans-Friedrich von Ploetz	Member of the Supervisory Council	30/03/2016	27/04/2018
Black Joseph Cofer	Member of the Supervisory Council	01/11/2016	27/04/2018

Management Board (as of 31 December 2018)

Name	Position held	Appointed	Re-appointed
Viktor Bolbat	Chairperson of the Board	23/04/2018	-
Alon Nodelman	Member of the Board	15/08/2003	13/08/2015
Bogdan Andrushchenko	Member of the Board	04/03/2016	-
Anda Saukane	Member of the Board	22/06/2017	-
Guntars Reidzans	Member of the Board	23/04/2018	-

During the year ended 31 December 2018 the following changes were made in the composition of JSC “Baltic International Bank” Supervisory Council and Management Board:

Supervisory Council:

Vlada Belokon and Andris Ozolinsh have withdrawn their membership in the Supervisory Council of JSC “Baltic International Bank”. According to the resolution of the extraordinary General Meeting of Shareholders held on 26 January 2018, Ilona Gulchak was elected as a new member of the Supervisory Council.

Management Board:

Ilona Gulchak has withdrawn her membership in the Management Board of JSC “Baltic International Bank”. According to the Council’s resolution of 23 April 2018, Viktor Bolbat was elected as a Chairperson of the Board and Guntars Reidzāns was elected as a member of the Board.

During the period from 1 January 2019 to the date of the approval of these financial statements the following changes were made in the composition of JSC “Baltic International Bank” Management Board:

Alon Nodelman has withdrawn his membership from the Management Board of JSC “Baltic International Bank”.

Statement of Management's Responsibility

Riga 17 May 2019

The management of JSC "Baltic International Bank" (the Bank) is responsible for the preparation of the consolidated financial statements of the Bank and its subsidiaries (the Group) as well as for the preparation of the separate financial statements of the Bank. The financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) on a going concern basis. Appropriate accounting policies have been applied on a consistent basis. Reasonable judgements and estimates have been made by the Management in the preparation of the financial statements.

The Financial Statements on pages 9 to 93 are prepared in accordance with the source documents and fairly present the financial position of the Group and Bank as at 31 December 2018 and the results of their performance and cash flows for the year ended 31 December 2018.

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

On behalf of the Management of the Bank and Group:

Valeri Belokon
Chairperson of the Supervisory Council

Viktor Bolbat
Chairperson of the Board

Separate and consolidated Financial Statements

GROUP CONSOLIDATED AND BANK SEPARATE STATEMENT OF OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2018

	Notes	Group 2018 EUR	Bank 2018 EUR	Group 2017 EUR	Bank 2017 EUR
Interest income	6	4 973 534	4 978 423	4 318 554	4 335 380
Interest expense	7	(2 199 587)	(2 199 737)	(2 091 844)	(2 091 778)
Net interest income		**2 773 947**	**2 778 686**	**2 226 710**	**2 243 602**
Fee and commission income	8	9 895 758	9 896 003	5 453 285	5 454 306
Fee and commission expense	9	(1 448 921)	(1 448 921)	(1 760 267)	(1 759 267)
Net fee and commission income		**8 446 837**	**8 447 082**	**3 693 018**	**3 695 039**
Dividend income		49 043	49 043	10 082	10 082
Net gain on financial instruments	10	906 570	906 570	6 232	6 232
Net foreign exchange income	10	1 433 986	1 433 986	8 058 653	8 058 653
Other operating income	11	383 529	309 419	173 068	142 337
Total operating income		**13 993 912**	**13 924 786**	**14 167 763**	**14 155 945**
Administrative expenses	12	(15 498 932)	(14 988 515)	(17 379 658)	(17 199 568)
Net impairment profit/ (loss)	13	(552 291)	(684 357)	(3 973 492)	(5 880 283)
Loss on revaluation of investment property	23	(37 803)	(154 013)	(1 551 324)	(206 600)
(Loss)/profit before income tax		**(2 095 114)**	**(1 902 099)**	**(8 736 711)**	**(9 130 506)**
Income tax benefit/ (expense)		(47 940)	(47 840)	1 036 607	1 036 657
Loss for the period		**(2 143 054)**	**(1 949 939)**	**(7 700 104)**	**(8 093 849)**
Other comprehensive loss					
Items that are or may be reclassified to profit or loss					
Property revaluation reserve		49 395	49 395	-	-
Available for sale financial assets – net change in fair value		(233 665)	(233 665)	245 287	245 287
Available for sale financial assets, reclassified to profit or loss	10	(2 529)	(2 529)	41 150	41 150
Total comprehensive loss for the period		**(2 329 853)**	**(2 136 738)**	**(7 413 667)**	**(7 807 412)**

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Viktor Bolbat
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Separate and consolidated Financial Statements

GROUP CONSOLIDATED AND BANK SEPARATE STATEMENT OF FINANCIAL POSITION

ASSETS	**Notes**	**Group 31.12.2018 EUR**	**Bank 31.12.2018 EUR**	**Group 31.12.2017 EUR**	**Bank 31.12.2017 EUR**
Cash and due on demand from central banks	14	119 858 040	119 858 040	105 915 335	105 915 335
Due on demand from credit institutions	16	11 878 397	11 878 397	24 323 327	24 323 327
Financial assets at fair value through profit or loss	17	5 488 936	5 488 936	4 650 675	4 650 675
Equity instruments		*5 483 612*	*5 483 612*	*11 873*	*11 873*
Debt instruments		-	-	*87 319*	*87 319*
Derivative financial instruments		*5 324*	*5 324*	*365*	*365*
Loans		-	-	*4 551 118*	*4 551 118*
Financial assets at fair value through other comprehensive income	18	8 599 279	8 599 279	42 191 618	42 191 618
Equity instruments		*206 663*	*206 663*	-	-
Debt instruments		*8 392 616*	*8 392 616*	*42 191 618*	*42 191 618*
Financial assets at amortised cost		95 185 230	96 203 183	80 677 656	81 526 290
Due from credit institutions	*19*	*801 449*	*801 449*	*2 497 313*	*2 497 313*
Debt instruments	*20*	*31 209 225*	*31 209 225*	*16 295 393*	*16 295 393*
Loans	*20*	*63 174 556*	*64 192 509*	*61 884 950*	*62 733 584*
Investments in equity accounted investees	21	858 410	858 410	1 144 547	1 144 547
Investments in subsidiaries	22	-	2 140 953	-	1 789 880
Investment property	23	9 840 555	6 918 674	7 186 581	4 656 734
Property and equipment	24	15 763 040	15 762 941	16 752 607	16 752 408
Intangible assets	25	4 180 835	4 180 835	4 184 320	4 184 320
Current income tax assets		-	-	14 299	14 299
Deferred expenses and accrued income	26	2 234 945	2 234 143	2 590 254	2 585 272
Other assets	27	11 719 607	11 489 837	8 405 772	8 212 518
Total assets		**285 607 274**	**285 613 628**	**298 036 991**	**297 947 223**

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Separate and consolidated Financial Statements

GROUP CONSOLIDATED AND BANK SEPARATE STATEMENT OF FINANCIAL POSITION

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	Group 31.12.2018 EUR	Bank 31.12.2018 EUR	Group 31.12.2017 EUR	Bank 31.12.2017 EUR
Liabilities					
Derivative financial instruments	17	15 909	15 909	461 641	461 641
Due to credit institutions	28	13 074 817	13 074 817	14 438 637	14 438 637
Deposits	29	229 456 944	229 601 930	237 953 299	238 120 657
Debt instruments in issue	30	-	-	1 668 612	1 668 612
Accrued expenses, provisions and deferred income	31	1 237 527	1 281 487	1 628 374	1 624 235
Corporate income tax liabilities		10 853	10 853	-	-
Other liabilities	32	4 882 494	4 770 560	2 805 126	2 728 908
Subordinated liabilities	33	13 635 997	13 635 997	14 638 255	14 638 255
Total liabilities		**262 314 541**	**262 391 553**	**273 593 944**	**273 680 945**
Shareholders' equity					
Share capital	34	33 626 395	33 626 395	31 496 395	31 496 395
Reserve capital	34	835 152	835 152	835 152	835 152
Property revaluation reserve	24	84 295	84 295	34 900	34 900
Accumulated result in other comprehensive income		(75 928)	(75 928)	160 266	160 266
Accumulated losses		(11 177 181)	(11 247 839)	(8 083 666)	(8 260 435)
Accumulated losses for the previous years		*(9 034 127)*	*(9 297 900)*	*(383 562)*	*(166 586)*
(Loss)/profit for the period		*(2 143 054)*	*(1 949 939)*	*(7 700 104)*	*(8 093 849)*
Total shareholders' equity		**23 292 733**	**23 222 075**	**24 443 047**	**24 266 278**
Total liabilities and shareholders' equity		**285 607 274**	**285 613 628**	**298 036 991**	**297 947 223**
Commitments and contingencies					
Sureties (guarantees)	35	913 977	913 977	210 102	210 102
Commitments to customers	35	4 239 575	4 353 597	6 292 907	6 378 065
Total commitments and contingencies		**5 153 552**	**5 267 574**	**6 503 009**	**6 588 167**

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Chairperson of the Supervisory Council

Viktor Bolbat
Chairperson of the Board

Separate and consolidated Financial Statements
GROUP CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AND RESERVES
for the year ended 31 December 2018

	Notes	Share capital EUR	Reserve capital EUR	Property revaluation reserve EUR	Accumulated result in other comprehensive income EUR	Retained earnings/ (accumulated losses) EUR	TOTAL EUR
Balance as of 31 December 2016		**31 496 395**	**835 152**	**34 900**	**(126 171)**	**(383 562)**	**31 856 714**
Total comprehensive loss							
Net profit for the period		-	-	-	-	(7 700 104)	(7 700 104)
Other comprehensive loss		-	-	-	286 437	-	286 437
Total comprehensive loss		**-**	**-**	**-**	**286 437**	**(7 700 104)**	**(7 413 667)**
Balance as of 31 December 2017		**31 496 395**	**835 152**	**34 900**	**160 266**	**(8 083 666)**	**24 443 047**
Total comprehensive loss							
Net loss for the period		-	-	-	-	(2 143 054)	(2 143 054)
Property revaluation		-	-	49 395	-	-	49 395
Other comprehensive loss		-	-	-	(236 194)	-	(236 194)
Total comprehensive loss		**-**	**-**	**49 395**	**(236 194)**	**(2 143 054)**	**(2 329 853)**
Transactions with owners, recorded directly in equity							
Increase in share capital	34	2 130 000	-	-	-	-	2 130 000
Total transactions with owners, recorded directly in equity		**2 130 000**	**-**	**-**	**-**	**-**	**2 130 000**
IFRS9 impact		-	-	-	-	(950 461)	(950 461)
Balance as of 31 December 2018		**33 626 395**	**835 152**	**84 295**	**(75 928)**	**(11 177 181)**	**23 292 733**

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Viktor Bolbat
Chairperson of the Board

Separate and consolidated Financial Statements
BANK SEPARATE STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AND RESERVES
for the year ended 31 December 2018

	Notes	Share capital EUR	Reserve capital EUR	Property revaluation reserve EUR	Accumulated result in other comprehensive income EUR	Retained earnings/ (accumulated losses) EUR	TOTAL EUR
Balance as of 31 December 2016		**31 496 395**	**835 152**	**34 900**	**(126 171)**	**(166 586)**	**32 073 690**
Total comprehensive loss							
Net profit for the period		-	-	-	-	(8 093 849)	(8 093 849)
Other comprehensive loss		-	-	-	286 437	-	286 437
Total comprehensive loss		**-**	**-**	**-**	**286 437**	**(8 093 849)**	**(7 807 412)**
Balance as of 31 December 2017		**31 496 395**	**835 152**	**34 900**	**160 266**	**(8 260 435)**	**24 266 278**
Total comprehensive loss							
Net loss for the period		-	-	-	-	(1 949 939)	(1 949 939)
Property revaluation		-	-	49 395	-	-	49 395
Other comprehensive loss		-	-	-	(236 194)	-	(236 194)
Total comprehensive loss		**-**	**-**	**49 395**	**(236 194)**	**(1 949 939)**	**(2 136 738)**
Transactions with owners, recorded directly in equity							
Increase in share capital	34	2 130 000	-	-	-	-	2 130 000
Total transactions with owners, recorded directly in equity		**2 130 000**	**-**	**-**	**-**	**-**	**2 130 000**
IFRS9 impact		-	-	-	-	(1 037 465)	(1 037 465)
Balance as of 31 December 2018		**33 626 395**	**835 152**	**84 295**	**(75 928)**	**(11 247 839)**	**23 222 075**

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Separate and consolidated Financial Statements
GROUP CONSOLIDATED AND BANK SEPARATE STATEMENT OF CASH FLOWS
for the year ended 31 December 2018

		Group 31.12.2018 EUR	Bank 31.12.2018 EUR	Group 31.12.2017 EUR	Bank 31.12.2017 EUR
Cash flows from operating activities					
Loss before income tax		(2 095 114)	(1 902 099)	(8 736 711)	(9 130 506)
Amortisation and depreciation	24, 25	1 428 640	1 428 540	1 525 345	1 525 246
Increase in impairment loss on financial assets	13	552 291	684 357	3 973 492	5 880 283
Unrealised loss on revaluation of investment property		37 803	154 013	1 551 324	206 600
Interest expense on issued bonds & subordinated liabilities		752 351	752 351	923 790	923 790
Foreign exchange differences on available for sale, held to maturity, issued debt securities and subordinated liabilities		167 943	167 943	1 643 466	1 643 466
(Profit)/loss on disposal of property and equipment and investment property		3 055	(345)	118 472	(14 377)
Increase in cash and cash equivalents from operating activities before changes in assets and liabilities		**846 969**	**1 284 760**	**999 178**	**1 034 502**
Decrease in loans		(4 083 536)	(4 046 268)	3 187 332	3 236 216
Decrease in due from credit institutions		1 694 731	1 694 731	2 757 172	2 757 172
Decrease in financial assets held-for-trading		-	-	529 153	529 153
(Increase)/decrease in financial assets classified as at fair value, as recorded in the statement of profit or loss		(1 270 114)	(1 270 114)	3 522 535	3 522 535
Increase in deferred expenses and accrued income		(362 921)	(375 559)	(165 156)	(157 177)
Increase in other assets		(3 629 222)	(3 569 869)	(389 203)	(138 144)
Decrease in due to credit institutions		(1 910 000)	(1 910 000)	-	-
(Decrease)/increase in deposits		(8 496 355)	(8 518 727)	9 001 958	9 034 103
Decrease in derivative liabilities		(440 773)	(440 773)	(87 317)	(87 317)
(Decrease)/ increase in accrued expenses, provisions and deferred income		(390 847)	(342 748)	14 927	11 564
Increase in other liabilities		2 124 413	1 946 485	279 886	255 446
(Decrease)/increase in cash and cash equivalents resulting from operating activities		**(15 917 655)**	**(15 548 082)**	**19 650 465**	**19 998 053**

The accompanying notes on pages 17 to 93 are an integral part of these Financial Statements.

Separate and consolidated Financial Statements
GROUP CONSOLIDATED AND BANK SEPARATE STATEMENT OF CASH FLOWS
for the year ended 31 December 2018

	Group 31.12.2018 EUR	Bank 31.12.2018 EUR	Group 31.12.2017 EUR	Bank 31.12.2017 EUR
Interest paid on issued bonds and subordinated liabilities	(801 463)	(801 463)	(988 945)	(988 945)
(Decrease)/increase in cash and cash equivalents from operating activities	**(16 719 118)**	**(16 349 545)**	**18 661 520**	**19 009 108**
Cash flow from investing activities				
Acquisition of property and equipment, intangible assets and investment property	(435 588)	(435 588)	(1 902 337)	(1 104 876)
Proceeds from sale of property and equipment and investment property	87 736	69 236	334 775	14 377
Acquisition of shares in equity accounted investees	-	(351 073)	-	(824 651)
Purchase of financial assets at fair value through other comprehensive income	-	-	(41 929 859)	(41 929 859)
Redemption of financial assets at fair value through other comprehensive income	33 592 339	33 592 339	82 379 911	82 379 911
Purchase of financial assets at amortised cost	(14 913 832)	(14 913 832)	(5 727 700)	(5 727 700)
Redemption of financial assets at amortised cost	-	-	5 355 015	5 355 015
Increase in cash and cash equivalents as a result of investing activities	**18 330 655**	**17 961 082**	**38 509 805**	**38 162 217**

The accompanying notes on pages 17 to 93 are an integral part of these Financial Statements.

Separate and consolidated Financial Statements
GROUP CONSOLIDATED AND BANK SEPARATE STATEMENT OF CASH FLOWS
for the year ended 31 December 2018

	Notes	Group 31.12.2018 EUR	Bank 31.12.2018 EUR	Group 31.12.2017 EUR	Bank 31.12.2017 EUR
Cash flows from financing activities					
Issuance of shares		2 130 000	2 130 000	-	-
Subordinated liabilities	33	256 165	256 165	498 776	498 776
Cash paid out to repay subordinated debt	33	(1 312 464)	(1 312 464)	(1 131 120)	(1 131 120)
Buyback of debt securities	30	(1 733 402)	(1 733 402)	(7 655 450)	(7 655 450)
Decrease in cash and cash equivalents as a result of financing activities		**(659 701)**	**(659 701)**	**(8 287 794)**	**(8 287 794)**
Increase/ (decrease) in cash and cash equivalents		**951 836**	**951 836**	**48 883 531**	**48 883 531**
Cash and cash equivalents at the beginning of the period		129 959 571	129 959 571	81 076 040	81 076 040
Cash and cash equivalents at the end of the period	15	**130 911 407**	**130 911 407**	**129 959 571**	**129 959 571**

The accompanying notes on pages 17 to 93 are an integral part of these Financial Statements.

The Financial Statements on pages 9 to 93 have been authorised for issue by the Council and the Board on 17 May 2019, and signed on their behalf by:

Valeri Belokon
Chairperson of the Supervisory Council

Viktor Bolbat
Chairperson of the Board

Separate and consolidated Financial Statements

**Notes to the separate and consolidated Financial Statements
for the year ended 31 December 2018**

1 GENERAL INFORMATION

These are Separate and Consolidated Financial Statements comprise the financial statements of JSC „Baltic International Bank" (hereinafter referred to as the "Bank") and its subsidiaries (hereinafter together with the Bank referred to as the "Group"). The subsidiaries are as follows: real estate company "BIB Real Estate" LLC (acquired on 11 June 2009) that in turn owns several subsidiaries, „Claim Management" LLC acquired on 14 July 2016 and JSC „BIB Alternative Investment Management" (registered on 5 December 2016) which provides investment services.

JSC "Baltic International Bank" is a joint stock company registered in the Republic of Latvia. The registered office address is: Kalēju iela 43, Riga, LV-1050, Latvia. On 8 April 1993, the Bank of Latvia approved JSC "Baltic International Bank" as a credit institution and issued Banking Licence No. 103. The Bank of Latvia and the Financial and Capital Market Commission of the Republic of Latvia ("FCMC') regulate the activities of the Bank.

Established to cater to the needs of both individuals and corporate customers, JSC "Baltic International Bank" provides a comprehensive range of financial services: personal and corporate loans, acceptance of money deposits and other funds, funds transfers, treasury and capital market services carried out according to customer instructions and for the Bank's own trading purposes.

2 BASIS OF PREPARATION

Statement of Compliance

The Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and in accordance with the requirements of the Latvian Financial and Capital Market Commission ("FCMC") in force as at the reporting date. The local accounting legislation requires the preparation of the Group consolidated and Bank separate financial statements in accordance with IFRS as adopted by the European Union.

The Financial Statements were authorised for issue by the Management Board and by the Supervisory Council on 17 May 2019. The financial statements may be amended by the shareholders and re-issue of the statements may be required.

The Financial Statements for the years ended 31 December 2018 and 31 December 2017 are available at the Bank's website (www.bib.eu).

Functional and Presentation Currency

These Group consolidated and Bank separate financial statements are presented in euro. Subsidiaries of the Group and the Bank operate in the functional currency of euro.

Basis of measurement

The Financial Statements are prepared on the historical cost basis except for the following:
• financial assets designated at fair value through profit or loss and financial assets at fair value through other comprehensive income are stated at fair value;
• derivative instruments are stated at fair value;
• investment properties are periodically revalued and measured at fair value;
• part of property and equipment – motor vehicles – that is measured using a revaluation model.

Use of estimates and judgements

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

Separate and consolidated Financial Statements

Notes to the separate and consolidated Financial Statements
for the year ended 31 December 2018

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

Judgements:

Going concern

These financial statements have been prepared on a going concern basis. Uncertainty in relation to ability to continue as a going concern is disclosed in Note 49.

Key sources of estimation uncertainty

The key sources of estimation uncertainty are as follows: allowances for credit losses, impairment of financial instruments, valuation of investment property and measurement of fair values.

Allowances for credit losses for loans and receivables and other assets

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Loans and Documentary Operations Department, see also Notes 13, 14, 15, 16, 18, 20, 26, 27 and 31.

Valuation of investment property

Investment property is stated at its fair value with all changes in fair value recorded to profit or loss. When measuring the fair value of the investment property, the management relies on external valuations and assesses such valuations in light of the current market situation. Please refer to Note 23 for more detail.

Measurement of fair values

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

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:
Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities. When applicable, the Group measures the fair value of an instrument using quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.
Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

Separate and consolidated Financial Statements

**Notes to the separate and consolidated Financial Statements
for the year ended 31 December 2018**

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. For certain instruments no price quotes are available and the Group and the Bank resorts to valuation techniques like discounted cash flow and applying multiples to financial captions like revenue or EBITDA.

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

Where third-party information, such as broker quotes or pricing services, are used to measure fair value, Finance Director assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS as adopted by EU. This includes:
• Verifying that the broker or pricing service is approved by the Group for use in pricing the relevant type of financial or non-financial instrument;
• Understanding how the fair value has been arrived at and the extent to which it represents actual market transactions;
• When prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement;

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. Further information about fair value analysis is disclosed in note 47.

Further information about the assumptions made in measuring fair values see Notes 17, 18, 23, 47.

3 SIGNIFICANT ACCOUNTING POLICIES

Changes in accounting policies

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

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

IFRS 9: Financial instruments (effective for annual periods beginning on or after 1 January 2018)

In July 2014, the International Accounting Standard Board issued the final versions on IFRS 9 Financial Instruments.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018.

Classification and measurement

From classification and measurement perspective, the new standard requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the Group and the Bank’s business model for managing the assets and the instruments’ contractual cash flow characteristics.

The IAS 39 measurement categories will be replaced by:

Fair value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI), and amortised cost. IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortised cost or fair value through OCI instruments as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instrument that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement.

Separate and consolidated Financial Statements

Notes to the separate and consolidated Financial Statements
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The accounting for financial liabilities will largely be the same as the requirements of IAS 39.
The majority of loans and balances due from banks, loans and advances to customers, cash collateral for reverse repo agreements and balances with financial institutions are measured at amortised cost under IFRS 9.
The majority of the debt securities are measured at FVOCI. Some securities, however, will be classified as FVPL, either because of their contractual cash flow characteristics or the business model within which they are held.
Debt securities classified as held to maturity are measured at amortised cost.

Impairment of financial assets

IFRS 9 also fundamentally changes requirements for impairment recognition. The standard replaces IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. The Group and the Bank recognize allowances for expected credit losses for all loans and other debt financial assets not held at FVPL. Further ECL requirements are applied to loan commitments and financial guarantee contracts. The allowance is based on the expected credit loss associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset.

The Bank plans to establish a policy to perform an assessment at the end of each reporting period of the whether credit risk has increased significantly since initial recognition by considering the change in the risk of default occurring over the remaining life of the financial instrument.

In comparison to IAS 39, the impairment charge under IFRS 9 are more volatile than under IAS 39 and to result in an increase in the total level of current impairment allowances.

Loans are group into Stage 1, Stage 2 and Stage 3, based on the applied impairment methodology, as described below:
• Stage 1 – Performing loans: when loans are fist recognized, the Bank recognizes an allowance based on twelve months expected credit losses. The change increases the impairment allowance.
• Stage 2 – Loans with significant increase in credit risk: when a loan shows a significant increase in credit risk since initial recognition, the Bank records an allowance for the lifetime expected credit loss. Since this is a new concept compared to IAS 39, it results in substantial additional increase in the allowance as most such assets are not considered to be credit-impaired under IAS 39.
• Stage 3 – Impaired loans: Financial assets are recognized in Stage 3 when there is objective evidence that the loan is impaired. The Bank recognizes the lifetime expected credit losses for these loans and in addition, the Bank accrues interest income on the amortised cost of the loan net of allowances. The criteria of the objective evidence are the same as under the current IAS 39 methodology, and accordingly, the population is generally the same under both standards. The individual impairment allowance is calculated on the same basis as under IAS 39, and collateral values is adjusted to reflect the amounts that can be expected to be realized.

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

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

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Notes to the separate and consolidated Financial Statements
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The Bank use internal information coming from internal economic experts combine it with published external information from government and private economic forecasting services. Both the Risk and Finance management teams will need to approve the forward-looking assumptions before they are applied for different scenarios.

The Group and the Bank take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes.

Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018.

IFRS 15 Revenue from contracts with customers (Effective for annual periods beginning on or after 1 January 2018).

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

The adoption of IFRS 15 to have not a significant impact on the consolidated financial statements of the Group and the Bank.

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

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

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

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

The Group and the Bank have started an assessment of the impact on its consolidated and separate financial statements. The most significant impact identified is that the Group and the Bank will recognise new assets and liabilities for its operating leases of office premises. In addition, the nature of expenses related to those leases will now change because IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for ROU assets and interest expense on lease liabilities. The Group and the Bank have decided to use the optional exemptions.

Transition

The Group and the Bank currently plan to apply IFRS 16 initially on 1 January 2019. As a lessee, the Group and the Bank can either apply the standard using a:
- retrospective approach; or
- modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases. As a lessor, the Group is not required to make any adjustments for leases except where it is an intermediate lessor in a sub-lease.

The Group and the Bank are also in the process of assessing the impact on its CET1 ratio, particularly in respect of ROU assets in leases where the Group and the Bank are as lessees. For operating lease expenses and operating lease commitments please refer to Note 12.

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**Notes to the separate and consolidated Financial Statements
for the year ended 31 December 2018**

Supplements to IFRS 2: Classification and Measurement of Share-based Payment Transactions (Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively).

The amendments clarify share-based payment accounting on the following areas:
• the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
• share-based payment transactions with a net settlement feature for withholding tax obligations; and
• a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity settled.

The Group and the Bank expect that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements because the Group and the Bank do not enter into share-based payment transactions.

Amendments to IFRS 4 – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts.

Effective for annual periods beginning on or after 1 January 2018 to be applied prospectively. The amendments address concerns arising from implementing IFRS 9 before implementing the replacement standard that the IASB is developing for IFRS 4. The amendments introduce two optional solutions:
- one solution is a temporary exemption from IFRS 9, effectively deferring its application for some insurers;
- the other is an overlay approach to presentation to alleviate the volatility that may arise when applying IFRS 9 before the forthcoming insurance contracts standard.

The Group and the Bank expect that the amendments, will not have a material impact on the presentation of the financial statements because the Group and the Bank does not provide insurance services.

Supplements to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture (The effective date has not yet been determined by the IASB, however earlier adoption is permitted; not endorsed by EU).

The Amendments clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that:
• a full gain or loss is recognised when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets which constitute a business (whether it is housed in a subsidiary or not), while
• a partial gain or loss is recognised when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

The Group and the Bank do not expect that the amendments, when initially applied, will have material impact on the financial statements as the Group and the Bank do not have transactions involving sale or contribution of assets.

Supplements to IAS 40 Transfers of Investment Property (Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively)

The amendments reinforce the principle for transfers into, or out of, investment property in IAS 40 Investment Property to specify that such a transfer should only be made when there has been a change in use of the property. Based on the amendments a transfer is made when and only when there is an actual change in use – i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer.

The Group and the Bank do not expect that the amendments will have a material impact on the financial statements because the Group and the Bank transfer a property asset to, or from, investment property only when there is an actual change in use.

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Notes to the separate and consolidated Financial Statements
for the year ended 31 December 2018

IFRIC 22 Foreign Currency Transactions and Advance Consideration (Effective for annual periods beginning on or after 1 January 2018; not endorsed by EU)

The Interpretation clarifies how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. In such circumstances, the date of the transaction is the date on which the Group and the Bank initially recognise the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The Group and the Bank do not expect that the Interpretation, when initially applied, will have material impact on the financial statements as the Group and the Bank use the exchange rate on the transaction date for the initial recognition of the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

Annual Improvements to IFRSs

The Group is in the process of evaluating the potential effect if any of other changes from these new standards and interpretations.

Basis of Consolidation

Subsidiaries

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

Transactions eliminated on consolidation

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

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Related parties

Related parties represent both legal entities and private individuals related to the company in accordance with the following rules:
a) A person or a close member of that person's family is related to a reporting entity if that person:
i. has control or joint control over the reporting entity;
ii. has significant influence over the reporting entity; or
iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
b) An entity is related to a reporting entity if any of the following conditions applies:
i. the entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
ii. one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
iii. both entities are joint ventures of the same third party;
iv. one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
v. the entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity;
vi. the entity is controlled, or jointly controlled by a person identified in (a);
vii. a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Related party transaction - a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

Foreign currency translation

Transactions denominated in foreign currencies are translated into the functional currency (euro) at the European Central Bank's official exchange rate prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into euro at the European Central Bank's official exchange rate prevailing at the end of the period. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at cost and fair value are retranslated at the exchange rate at the date that the cost or fair value was determined. Foreign currency differences arising on retranslation are recognised in statement of comprehensive income.

Currency name			**31.12.2018**		**31.12.2017**
1 GBP	=	EUR	0.8945300	EUR	0.8872300
1 RUB	=	EUR	79.715300	EUR	69.3920000
1 USD	=	EUR	1.1450000	EUR	1.1993000

Income and expense recognition

With the exception of financial assets at fair value through profit or loss, interest income and expense are recognised in the profit or loss using the effective interest rate method. Interest income on financial assets at fair value through profit or loss comprises coupon interest received.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

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The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently. When calculating the effective interest rate, the Group and Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract, transaction costs and all other premiums or discounts that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

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 amortised to the interest income over the estimated life of the financial instrument using the effective interest rate method.

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

Dividend income is recognised in the profit or loss on the date that the dividend is declared.

Financial instruments

Securities acquired by the Bank are categorised into portfolios in accordance with the Bank's intent at the time of the acquisition of the securities and pursuant to the Bank's investment strategy. The Bank developed a security investment strategy and, reflecting the intent of the acquisition, allocated securities to “Financial assets at amortised cost”, "Financial assets at fair value through profit or loss (FVTPL)" and “Financial assets at fair value through other comprehensive income (FVOCI)”.

All financial instruments held by the Bank are recognised at trade date and are initially measured at fair value plus for instruments not at fair value through profit or loss any directly attributable transaction cost. The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that used only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Loans and receivables are recognised on drawdown. From the date of signing a contractual agreement till drawdown they are accounted for as loan commitments off balance sheet.

Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss include those that are classified as held-for-trading (including derivative financial instruments) and those that are originally designated in this category.

Held-for-trading instruments are securities and shares that the Bank principally holds for the purpose of reselling and generating a profit from short-term fluctuations in the prices of the instruments. Securities held-for-trading are subsequently re-measured to fair value based on market prices. Realised and unrealised gains or losses are recorded as net trading income or net trading loss, respectively.

Derivative financial instruments

Derivative financial instruments include swap, forward, futures, spot transactions and options in interest rate, foreign exchange, precious metals and stock markets, and any combinations of these instruments.

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

Changes in the fair value of derivatives are recognised immediately in the profit or loss.

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, and 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 recognised in the profit or loss. Derivatives embedded in financial assets or financial liabilities at fair value through profit or loss are not separated.

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

Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income are acquired to be held for an indefinite period of time. Securities, whose quoted market value is not determined in an active market and whose fair value cannot be reliably measured, are carried at acquisition cost. All other financial assets at fair value through other comprehensive income are carried at fair value. Gains or losses resulting from the change in fair value of financial assets at fair value through other comprehensive income, except for impairment losses, are recognised in other comprehensive income until the financial asset is derecognised; thereafter, the cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss. Financial assets at fair value through other comprehensive income are initially measured at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

Financial assets at amortised cost

Financial assets at amortised cost are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity. Financial assets at amortised cost include government securities and corporate bonds which after initial recognition at fair value plus transaction costs that are directly attributable to its acquisition, are recognised at amortised cost and are securities with respect to which the Bank has a positive intent and ability to hold to maturity. Financial assets at amortised cost are accounted at trade date. Subsequently the effective interest rate method is applied for amortising discounts over the term to maturity.

Loans and receivables

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than (a) those that the Bank intends to sell immediately or in the short-term, (b) those that the Bank upon initial recognition designates as at the fair value through profit or loss or as financial assets at fair value through other comprehensive income; or (c) those for which the holder may not recover substantially all of its initial investments, other than because of credit deterioration.

After initial recognition at fair value less transaction costs that are directly attributable to its acquisition, loans are measured at amortised cost using the effective interest rate method.

When a loan is considered to be uncollectible it is written off against the related allowance for credit losses; subsequent recoveries are credited to the impairment loss expense in the profit or loss.

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Due to credit institutions

Due to credit institutions comprise all liabilities resulting from transactions with domestic and foreign credit institutions as well as liabilities to the Bank of Latvia and other central banks, including vostro balances due to credit institutions, due to credit institutions for outstanding foreign exchange deals and interbank loans.

Due to credit institutions are initially measured at fair value and subsequently are carried at amortised cost using the effective interest rate method.

Deposits

Deposits are liabilities carried at amortised cost and include current accounts and deposits from customers and deposits.

Issued debt securities

The Group and the Bank recognise issued debt securities at the date when the respective funds are sold. After initial recognition when these financial liabilities are stated at fair value, including direct transaction costs, those are subsequently carried at amortised cost using the effective interest method. When issued debt securities are sold at a discount, the difference is amortised applying the effective interest method until the debt matures and charged to the profit or loss as interest expense.

Derecognition

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or when the Bank transfers substantially all of the risks and rewards of ownership of the financial asset. Any rights or obligations created or retained in the transfer are recognised separately as assets or liabilities. A financial liability is derecognised when it is extinguished.

The Bank also derecognises certain assets when it writes off balances pertaining to the assets deemed to be uncollectible.

Offsetting

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

Fair value measurement of financial assets and financial 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.

Due from credit institutions

The fair value of placements on demand, overnight deposits and floating rate placements is their carrying amount. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

Loans and receivables from customers

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

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Shares and other securities with non-fixed income

The fair value of shares and other securities with non-fixed income is determined by reference to their quoted bid price at the reporting date, if available. For non-listed shares, where disposal is limited, the assumption was made that the reliable estimate of fair value is not possible; such items are carried at cost less impairment.

Derivative financial instruments

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

Due to credit institutions and deposits

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

Impairment

Financial assets

At each reporting date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

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

All financial assets at fair value through other comprehensive income and financial assets at amortised cost are assessed for specific impairment. Accordingly, the Bank does not set aside a collective impairment allowance on financial assets at fair value through other comprehensive income and financial assets at amortised cost.

Loans and receivables are stated in the statement of financial position at amortised cost, less any allowances for credit losses. Impairment losses and recoveries are recognised monthly based on regular loan reviews. Allowances during the period are reflected in the profit or loss.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset’s original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables or held to maturity financial investments. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

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Impairment losses on financial assets at fair value through other comprehensive income are recognised by transferring the cumulative loss that has been recognised as other comprehensive income to profit or loss. The cumulative loss that is removed from equity and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in income statement.

If, in a subsequent period, the fair value of an impaired debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

Non-financial assets

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

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

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

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

Repossessed collateral

As part of the normal course of business the Group and the Bank occasionally take possession of property that originally was pledged as security for a loan. When the Group or the Bank acquires (i.e. gains a full title to) a property in this way, the property's classification follows the nature of its intended use by the Group or the Bank. When the Group or the Bank is uncertain of its intentions with respect to land and buildings that it has repossessed or the Group or Bank plans to hold the property to earn rentals or for capital appreciation, those properties are classified as investment property. Other types of repossessed collateral are classified as other assets and IAS 2 Inventories is applied to account for these assets.

Intangible assets

The Bank's intangible assets comprise software licences. The intangible assets are accounted for at their historical cost less amortisation and impairment, if any. The intangible asset's amortisation term of two to twenty years is determined by the Bank based on the intangible asset's useful life, if any; in the event that such a term is not stated, the Bank amortises the intangible asset over a period of 5 years. The Bank applies the straight-line method of amortisation of intangible assets.

Property and equipment

Property and equipment, exept for motor vehicles, are recorded in the Financial Statements at their historical cost less accumulated depreciation and impairment, if any.

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Depreciation periods for individual categories of assets are as follows:

Buildings	50 years
Machinery	5 years
Motor vehicles	5 years
Other tangible fixed assets	10 years
Computers	5 years

Land and assets under construction are not depreciated. Costs relating to the maintenance and repair of the Group`s and Bank's property and equipment are included in the profit or loss when they arise. Whenever a complete repair and renovation prolong the asset's useful life (change the value of the asset), then the repair and renovation expenditure amount is added to the fixed asset's carrying amount.

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

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

Motor vehicles are subject to revaluation on a regular basis, at least every 5 years. The frequency of revaluation depends upon the extent of the estimated movements in the fair values of the vehicles being revalued. A revaluation increase on a vehicle is recognised in other comprehensive income except to the extent that it reverses a previous revaluation decrease recognised in the income statement, in which case it is recognised in the income statement.

A revaluation decrease on a vehicle is recognised in the income statement except to the extent that it reverses a previous revaluation increase recognised in other comprehensive income, in which case it is recognised in other comprehensive income.

Fair value of vehicles is determined using the comparative method, which is based on recent market transactions with comparable vehicles. For valuation of selected vehicles, for which there are no observable data on recent market transactions, management relies on external valuations based on comparative valuation method and assesses the reliability of such valuation in light of the current market situation.

Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the supply of services or for administrative purposes. Some investment property has been acquired through the enforcement of security over loans and advances.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclasiffication becomes its deemed cost for subsequent accounting.

Investment property is initially recognised in the statement of financial position at its acquisition cost. Subsequently, the investment property is revalued and accounted for at its fair value based on its market price. Fair market value for land plots, buildings and other real property items is determined on the basis of annual property appraisals from certified appraisers. Gain or loss from the change in the value is recorded in the profit or loss and reported under the item "Gain or loss on revaluation of investment property".

Lease

Operating lease (The Group and the Bank as the lessees)
Operating lease payments are recognised in the income statement over the lease term on a straight-line basis.

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Income and expense

With the exception of financial assets at fair value through profit or loss, interest income and expense are recognised in the consolidated statement of income using the effective interest rate method. Interest income on financial assets at fair value through profit or loss comprises coupon interest only.

Accrued discounts and premiums on financial instruments at fair value through profit or loss are recognised in gains less losses from financial instruments at fair value through profit or loss, respectively.

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.

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

Dividend income is recognised in the consolidated statement of income on the date that the dividend is declared.

Interests in equity-accounted investees

The Group’s interests in equity-accounted investees comprise interests in associates and a joint ventures.

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

A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in associates and the joint venture are accounted for using the equity method. Investments in associates and joint ventures are initially recognized at cost, including transaction costs.

Subsequent to initial recognition, the consolidated financial statements include the Group’s share of the profit or loss and OCI of equity-accounted investees, until the date on which significant influence or joint control ceases. When the Group’s share of losses exceeds its interest in the equity accounted investees, that interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the equity accounted investees.

Repo operations (repos)

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

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

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

Cash and cash equivalents

Cash and cash equivalents comprises cash and deposits with the Bank of Latvia and other credit institutions with an original maturity of less than 3 months, less balances due to the Bank of Latvia and credit institutions with an original maturity of less than 3 months.

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Corporate income tax

Current year

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

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

Changes in tax legislation

According to the new Law on Enterprise Income Tax of the Republic of Latvia adopted on 28 July 2017, and effective as of 1 January 2018, the 20% rate (using coefficient 0.8) is applied to distributed or deemed distribution of profits, while the 0% rate is expected to be applied to retained earnings. Under IAS 12 Income taxes, deferred tax assets and liabilities should be recognised by applying a rate expected to be applied to retained earnings. Therefore, deferred tax assets and liabilities are recognisable as nil. This principle was applied in the Company's financial statements for the year ended 31 December 2017.

Deferred tax assets and liabilities were reversed and changes were charged to profit or loss in the reporting period.

Provisions

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

Short-term employee benefits

Short-term employee benefits like salaries, social benefit payments, bonuses and vacation pay are measured on an undiscounted basis and are expensed as the related service is provided in accordance with accrual principle.

A provision is recognised for the amount expected to be paid under short-term cash bonus of profit sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The provision for employee holiday pay is calculated for each Group and Bank employee based on the total number of holidays earned but not used, multiplied by the average daily remuneration expense for the preceding six months, to which the relevant social security expense is added.

Credit related commitments

In the normal course of business, the Bank enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

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

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably.

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

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Dividends

The ability of the Group to declare and pay dividends is subject to the rules and regulations of the Latvian legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

Presentation of segment information

Segment is the Group's or the Bank's identifiable component which
- can be identified by types of products offered or types of services provided (business segment), or by types of products offered or types of services provided in a specific economic environment (geographical segment) and
- is exposed to risks and derives benefits which are different from those peculiar to other segments.

Information about business segment is used as the basic format whereby the Bank and the Group present segment information.

The Bank's Board is the chief operating decision maker.

The Group and the Bank specify that, according to certain requirements of IFRS 8: Operating Segments, the Group's sole business segment is the entire Bank and its operating results are reviewed regularly by the Group's and the Bank's Board to make decisions about resources to be allocated to the segment and assess its performance. Any other level if itemisation does not meet the quantitative thresholds set out by IFRS (adopted in the EU).

4 RISK MANAGEMENT

All aspects related to the risk management objectives of the Group and the Bank are consistent with those presented in the consolidated and separate financial statements as at and for the year ended 31 December 2017 , except for the changes described below. Throughout 2018, the Group and the Bank had active cooperation with the Financial and Capital Market Commission to improve a number of internal control systems.

The Bank's activities expose it to a variety of financial and non-financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risks is core to the financial business, and these risks are an inevitable consequence of being in business. The Bank's strategic aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effect on the Bank's financial performance.

The risk management system, being an integral part of internal control system of the Bank, is based on the principal requirements of effective supervision of banks by Financial and the Capital Market Commission and the Basel Committee on Banking Supervision.

The most important types of risk are compliance and reputational risk, credit risk, liquidity risk, interest rate risk, foreign exchange risk and operational risk. The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

Risk management in the Bank is centralised and is carried out by the Management Board under policies approved by Supervisory Council. Risk management polices are subject to yearly review. There are three committees in the Bank responsible for risk management - the Credit Committee and Customer Due Diligence Committee. In addition, internal audit is responsible for the independent review of risk management and control environment.

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The Management Board of the Bank is responsible for monitoring and implementation of risk mitigation measures and making sure that the Bank operates within the established risk parameters. The Head of Risk Department of the Bank is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks.

The Bank's risk management policies are designed to identify, analyse, and measure significant risks, to set appropriate risk limits and controls, and to monitor the risk and adherence to limits by means of reliable and up-to-date management information system. Since 2015, the Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 has been applied on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms and the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms.

Compliance risk

The Bank is committed to maintaining a robust compliance-risk management framework, which makes it possible to
- prevent losses or imposition of legal obligations or legal/regulatory sanctions or deterioration of the Bank's reputation
- ensure that the Bank adheres to compliance laws, rules and standards.

The Bank regularly evaluates the level of compliance risk and ensures minimisation of the risk level by setting forth risk mitigation measures and taking preventive action to ensure compliance.

The Bank has formulated and approved its policy whose purpose is to establish an effective Bank-wide framework for managing compliance risk in order to prevent losses or imposition of legal obligations or legal/regulatory sanctions or deterioration of the Bank's reputation and to ensure that the Bank adheres to compliance laws, rules and standards.

The policy sets forth the basic principles of managing and monitoring compliance risk, establishes for the Bank's senior management and functional units clear lines of roles / responsibilities and authority for managing compliance risk, the core principles for identifying, measuring and assessing compliance risk, prescribes risk mitigation measures, provides for employee compliance training, and the manner for submitting relevant reports and information.

According to the requirements of the policy, the Bank draws up and regularly updates its internal regulatory documents required to ensure a proper management of compliance risk.

The Bank manages compliance risk in accordance with annual action plans approved by the Bank's Board. The action plans prescribe compliance risk management-specific measures: revision and improvement of the compliance-risk management framework to align it with the changes in the Bank's business activities and external conditions that affect the activities.

The Bank identifies compliance risk in order to measure the overall level of compliance risk, carries out the risk assessment and documentation and to ensure as follows: before launching new products and embarking on new activities, the Bank identifies compliance risk associated with a particular activity and evaluates whether the Bank will Bank adhere to compliance laws, rules and standards when carrying out the activity.

To be able to assess compliance risk and measure the overall level of compliance risk, the Bank has developed a technique used to assess compliance risk. Under the technique, the Bank regularly measures the level of compliance risk and submits reports which contain proposals on how to improve the Bank's work.

At least once every year, the Bank carries out the assessment of compliance risk associated with all areas of the Bank's business and lines of business. Depending on the results obtained, the Bank undertakes (if necessary) compliance risk mitigation-specific measures, such as improvement of the internal regulatory and guidance documents, establishing more stringent controls (random checks/spot audits), employee training, and other relevant activities.

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The Bank's money-laundering and terrorist financing risk (ML/TF risk)

The Bank has implemented and aims to adhere to the requirements and principles of the AML/CFT (Anti-Money-Laundering and Combating the Financing of Terrorism) regime, as set forth by:
- the applicable laws and regulations of the Republic of Latvia
- the Financial and Capital Market Commission's (FCMC) regulations and recommendations
- the international AML/CFT regulatory framework (legal instruments and recommendations)
- international best practices.

The Bank has formulated and adopted the AML/CFT Policy intended as an element of an effective and efficient ML/TF risk management system designed to prevent the Bank's involvement in money laundering and terrorist financing. The Policy sets forth the Bank's strategy, the tasks and responsibilities of the Bank's senior management and functional units while managing ML/TF risk, the process of identifying, evaluating and monitoring ML/TF risk, risk mitigation measures, training Bank's staff on AML/CFT matters, manner of submitting relevant reports and information, the basic principles and elements of the Bank's Internal Control System specifically intended to ensure the Bank's AML/CFT compliance.

To reduce ML/TF risk, the Bank has established the Internal Control System (ICS) whose purpose is to ensure the Bank's compliance with the AML / CFT laws and to document internal control review processes. The ICS specifically provides the requirements for and controls over:
- initial customer due diligence (CDD) before establishing a business relationship with a new customer
- identification of customers and their authorised representatives
- initial (primary) enhanced due diligence (EDD) applied to customers assessed as high risk
- assessment of customer's ML/TF risk profile
- enhanced due diligence (EDD) applied to customers during the course of the existing business relationship
- supervision and monitoring of customers' transactions
- identification (detection) of unusual and suspicious transactions
- discontinuance of the existing business relationship with a customer if the Bank cannot obtain the information required for enhanced due diligence (EDD)
- retaining of the information, documents and results obtained during customer identification, customer due diligence and supervision (monitoring) of customers' transactions
- the rights, duties and responsibilities of Bank's staff while fulfilling the requirements of the Bank's ICS.

Based on the above internal regulations, the Bank is precluded from entering into a business relationship with a non-identified customer, with a customer whose identity has not been verified and/or if customer due diligence has not been carried out in accordance with the applicable laws and the Bank's internal regulatory and guidance documents. The Bank is also precluded from opening anonymous or numbered accounts and/or establishing business relationships with customers whose economic (business) activity is not acceptable to the Bank and / or who pose excessively high reputational risk or compliance risk.

AML / CFT training is another important measure aimed at mitigating ML/TF risk. The Bank holds regular employee training sessions to ensure that its employees charged with preventing ML/TF risks have practical working knowledge of AML / CFT legislation, both at the national and international levels, and of all relevant documents and industry best practices and standards, and know how to carry customer due diligence, identify unusual and suspicious transactions, file SARs (Suspicious Activity Reports) or STRs (Suspicious Transaction Reports) and refrain from suspicious transactions.

Credit risk

The Bank takes on exposures to credit risk, which is the risk that counterparty will cause a financial loss for the Bank by failing to discharge a contractual obligation. Credit risk is the most significant risk for the Bank's business and therefore exposures to credit risk are subject to careful management.

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Sources of credit risk

Credit risk of the Bank arises principally from the placements with credit institutions as well as from lending and investment activities and transactions in derivative financial instruments. There is also credit risk in financial instruments such as letters of credit, guarantees and payment cards' overdraft commitments. There is a delivery risk in relation to foreign exchange transactions.

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

Management and control of credit exposures

The Bank manages, limits and controls concentrations of credit risk whenever they are identified, in particular, to individual counterparties and groups, and to industries and countries.

The Group and Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one counterparty, or group of counterparties, and to geographical and industry segments. Such limits are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary.

Exposures to credit risk are managed through regular analysis of the ability of the existing and potential borrowers and counterparties to meet interest and principal repayment obligations and by changing lending limits where appropriate. The financial analysis, the analysis of external ratings and analysis of business environment of borrowers and counterparties is taken into consideration for such decision-making.

According to regulations, any credit risk exposure to a non-related counterparty may not exceed 25% of the Bank's equity. Regulation states though that some exposures, such as due from credit institutions with maturity up to 1 year, are not considered to be credit risk exposures for regulatory requirements noted above.

The Group and Bank uses different credit risk management techniques for credit institutions and non-banks, but techniques are applied consistently to all financial instruments used, including sureties and commitments exposures with particular counterparty or group of related counterparties, as well as delivery risk in relation to foreign exchange transactions.

Limits on exposures to credit institutions are approved by the Management Board. Limits on exposures to non-banks are considered by Credit Committee and approved by the Management Board or Supervisory Council according to the approval authorities.

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

According to regulations, any credit risk exposure to a non-related counterparty may not exceed 25% of the Bank's equity. Regulation states though that some exposures, such as due from credit institutions with maturity up to 1 year, are not considered to be credit risk exposures for regulatory requirements noted above.

According to regulations the total credit risk exposures to parties related to Bank shall not exceed 15% of the Bank's equity.

Credit risk mitigation policies

The Bank employs a range of credit risk mitigation techniques. The most traditional of these is taking security for funds disbursements, which is common practice. The Bank implements guidelines on the criteria for specific classes of collateral taken.

The amount of collateral required may vary depending on the type of exposure but usually it is set at least to cover principal amount of the outstanding debt.

The Bank's exposures to credit institutions are usually unsecured.

Quantitative disclosures

Further quantitative disclosures in respect of credit risk are presented in Notes 16, 18, 19, 20, 45.

Liquidity risk

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

Liquidity risk management process

The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due.

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

The Bank’s liquidity policy is reviewed and approved by the Management Board. The policy states that the Bank is obliged to hold sufficient liquid assets reserve to meet its financial commitments, however not less than 60% of the Bank’s total current liabilities.

The Bank calculates the mandatory liquidity ratio on a daily basis in accordance with the requirements of the Financial and Capital Market Commission.

The Bank's liquidity ratio as at 31 December 2018 was 76.33%, compared to 92.28% as at 31 December 2017.

The liquidity management policy of the Bank requires:
• projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
• maintaining a diverse range of funding sources;
• managing the concentration and profile of debts;
• maintaining debt financing plans;
• maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow;
• maintaining liquidity and funding contingency plans;
• monitoring statement of financial position liquidity ratios against regulatory requirements.

Monitoring and reporting take the form of cash flow measurement and projections for the next day and month respectively, as these are key periods for liquidity management. The starting point for these projections is an analysis of the contractual maturity of the financial liabilities and the expected collection data of the financial assets.

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

Daily projections are based on assets and liabilities contractual maturities monitoring and analysis of information concerning customers’ incoming and outgoing payments. Monthly projections are based on assets and liabilities term structure analysis.

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

Quantitative disclosures

Further quantitative disclosures in respect of liquidity risk are presented in Notes 40 and 41.

Currency (foreign exchange) risk

Foreign exchange risk relates to the effects of fluctuations in the prevailing foreign currency exchange rates on the Bank's financial position and cash flows.

The Bank has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. For further information on the Bank's exposure to currency risk at year end refer to Note 42 and Note 43.

An analysis of sensitivity of the Bank's net income for the year and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2018 and 31 December 2017 and a simplified scenario of a 10% drop in the value of the euro versus other currencies is shown in Note 43.

Foreign exchange risk management process

Currency risk management policy determines and regulates risk control and regulatory principles related to the currency exchange transactions that help the Bank in controlling its foreign currency open positions.

Limits on open foreign currency positions in a single currency and aggregate open foreign currency position are set for both overnight and intra-day positions, which are monitored daily.

The Credit Institution Law states that the open position in each separate currency must not exceed 10% of the Bank's equity and the aggregate open position in all foreign currencies must not exceed 20% of the Bank's equity.

Quantitative disclosures

Further quantitative disclosures in respect of foreign exchange risk are presented in Note 42 and Note 43.

Interest rate risk

Interest rate risk represents the risk that there may be changes in the future cash flows connected with financial instruments (cash flow interest rate risk) or fair value of financial instruments (fair value interest rate risk) resulting from changes in the interest rates on the market. The period when interest rate of the financial instruments is constant determines how it is exposed to the interest rate risk.

Sources of interest rate risk

Interest rate risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period.

The Bank is exposed to the cash flow interest rate risk which represents the effect of changes in the interest rates on the Bank's net interest margin and the amount of net interest income due to an inadequate term structure of interest rate sensitive assets and liabilities. The Bank is not exposed to significant interest rate risk of the fair value of financial instruments.

Interest risk management process

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

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The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements arise.

Quantitative disclosures

An analysis of sensitivity of the net income for the year and equity as a result of changes in fair value of held-for-trading and financial assets available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2018 and 31 December 2017 and a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves is shown in Note 44.

Market risk

The Bank devotes close attention to managing and analysing market risk. Bank has adopted the Financial Instruments Portfolio Management Policy that sets forth:
• the objectives and targets of Financial Instruments Portfolio management;
• the core principles of Financial Instruments Portfolio management;
• procedure for conducting portfolio-level stress testing (to stress-test Financial Instruments Portfolio);
• authority and responsibility concerning the management of Financial Instruments Portfolio.

The Bank’s Securities Division is responsible for implementing the Financial Instruments Portfolio Management Policy. The Bank’s Internal Audit Function regularly verifies whether the Policy is followed daily. The Bank has adopted the Securities Portfolio Risk Management Procedure, which at sets forth the criteria for evaluating risks inherent in securities held in the portfolio, in order to prevent the adverse effects of market risk and credit risk on the Bank’s financial condition.

Price risk

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

An analysis of sensitivity of the Bank’s net profit/loss in the statement of comprehensive income for the year and equity to changes in securities prices based on positions existing as at 31 December 2018 and 31 December 2017 and a simplified scenario of a 5% change in all securities prices is as follows:

	Net income 31.12.2018 EUR	Equity 31.12.2018 EUR	Net income 31.12.2017 EUR	Equity 31.12.2017 EUR
5% increase in securities prices	274 181	10 333	594	230 455
5% decrease in securities prices	(274 181)	(10 333)	(594)	(230 455)

The sensitivity analyses of the Group’s and the Bank’s net profi/loss in the statements of comprehensive income for the year and equity to changes in securities prices do not vary significantly.

Operational risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events - various types of human (staff members) or technical (software and hardware failures) errors, contingencies, fire and other factors of this sort. To prevent losses caused by operational risk, the Bank has adopted internal guidance documents, such as the internal by-law, fire safety regulations, technical system and facility safety regulations, information classification rules and other rules, regulations and directives. The Bank’s Board has appointed a task force whose task is to ensure the implementation of the regulatory requirements set forth in the aforesaid internal guidance documents.

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5 CAPITAL MANAGEMENT

The Financial and Capital Market Commission sets and monitors capital requirements for the Bank and the Group.

The Bank defines as capital those items defined by statutory regulation as capital. Under the current capital requirements set by Financial and Capital Market Commission, banks have to maintain a ratio of capital to risk weighted assets ("statutory capital ratio") above the prescribed minimum level of 8%.

According to the specific requirement of the FCMC, the Bank is required to maintain a capital adequacy ratio above minimum level – 12.9% for the period starting from 1 December 2017 to 31 December 2018 (from 1 October 2016 till 30 September 2017: 10.2%). In addition to the minimum level which is set by the FCMC, the Bank has to comply with the requirement regarding capital buffers (is defined in Credit Institutions Law) which currently are equal to 2.5%. Capital buffers have to ensure by Common Equity Tier 1 capital. The Bank's risk based capital adequacy ratio, as at 31 December 2018, was 12.90% (31 December 2017: 13%).

The Bank's objectives when managing capital, which is a broader concept than the "equity" on the face of statement of financial position, are:
• to comply with the capital regulatory requirements;
• to safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders;
• to maintain the strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee and the European Community directives, as implemented by the Financial and Capital Market Commission. The required information is filed with the Financial and Capital Market Commission on a monthly basis.

The Credit Institution Law and regulations developed by the Financial and Capital Market Commission for the application of the norms of this law, require Latvian banks to maintain a capital adequacy ratio of 8%, i.e., the Bank's capital ratio against the risk weighted assets and memorandum items and the sum of notional risk weighted assets and memorandum items. The sum of notional risk weighted assets and memorandum items is determined as the sum of capital requirements of market risks, multiplied by 12.5.

The guidelines of the Financial and Capital Market Commission for calculation of capital adequacy agree with the recommendations under the Basel Capital Accord and amendments thereto. According to the Basel Capital Accord, the capital adequacy ratio should be at least 8%.

Quantitative disclosures

Further quantitative disclosures in respect of capital management are presented in Note 39.

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6 INTEREST INCOME

	Group 31.12.2018 EUR	Bank 31.12.2018 EUR	Group 31.12.2017 EUR	Bank 31.12.2017 EUR
Loans	3 503 978	3 523 002	3 041 938	3 061 978
Loans	*3 499 901*	*3 518 925*	*3 027 789*	*3 047 829*
Payment cards	*4 077*	*4 077*	*14 149*	*14 149*
Financial assets at amortised cost	845 887	845 887	510 419	510 419
Financial assets at fair value through other comprehensive income	332 637	332 637	543 082	543 082
Interest income for negative interest rate applied to current account balances	84 178	84 178	17 820	17 820
Due from credit institutions	43 223	43 223	128 005	128 005
Financial assets at fair value through profit or loss	69 437	69 437	17 790	17 790
Other interest income	94 194	80 059	59 500	56 286
	4 973 534	**4 978 423**	**4 318 554**	**4 335 380**

7 INTEREST EXPENSE

	Group 31.12.2018 EUR	Bank 31.12.2018 EUR	Group 31.12.2017 EUR	Bank 31.12.2017 EUR
Liabilities at amortised cost	1 370 896	1 371 046	1 422 216	1 422 241
Subordinated liabilities	*735 999*	*735 999*	*770 448*	*770 448*
Deposits	*613 826*	*613 976*	*492 461*	*492 486*
Debt securities	*16 352*	*16 352*	*153 342*	*153 342*
Due to credit institutions	*4 719*	*4 719*	*5 965*	*5 965*
Negative interest rate applied to correspondent account balances with other banks	470 863	470 863	266 079	266 079
Contributions to Deposit Guarantee Fund	192 084	192 084	184 878	184 878
Financial stability fee	153 994	153 994	104 536	104 536
Contributions to Single Resolution Fund	11 750	11 750	114 044	114 044
Other interest expense	-	-	91	-
	2 199 587	**2 199 737**	**2 091 844**	**2 091 778**

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8 FEE AND COMMISSION INCOME

	Group 31.12.2018 EUR	Bank 31.12.2018 EUR	Group 31.12.2017 EUR	Bank 31.12.2017 EUR
Accounts administration charges	5 878 606	5 878 851	2 165 708	2 166 729
Servicing of transactions	1 607 098	1 607 098	1 390 865	1 390 865
Securities accounts administration charges	739 717	739 717	477 690	477 690
Trust operations	734 957	734 957	704 622	704 622
Payment cards	462 216	462 216	478 793	478 793
Forex transactions	135 832	135 832	132 006	132 006
Letters of credit and guarantees	119 524	119 524	29 787	29 787
Fees and commissions from banks	102 144	102 144	48 087	48 087
Cash operations	11 192	11 192	8 273	8 273
Transactions in precious metals	8 277	8 277	7 331	7 331
Other	96 195	96 195	10 123	10 123
	9 895 758	**9 896 003**	**5 453 285**	**5 454 306**

9 FEE AND COMMISSION EXPENSE

	Group 31.12.2018 EUR	Bank 31.12.2018 EUR	Group 31.12.2017 EUR	Bank 31.12.2017 EUR
Payment cards	658 398	658 398	736 917	736 917
Services of agents and brokers	344 685	344 685	493 485	493 485
Services of correspondent banks	228 357	228 357	268 354	268 354
Securities-based transactions	217 473	217 473	261 494	260 494
Foreign exchange operations	8	8	17	17
	1 448 921	**1 448 921**	**1 760 267**	**1 759 267**

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10 NET FOREIGN EXCANGE INCOME AND GAIN ON FINANCIAL INSTRUMENTS

	Group 31.12.2018 EUR	Bank 31.12.2018 EUR	Group 31.12.2017 EUR	Bank 31.12.2017 EUR
Gain on foreign exchange operations	2 038 917	2 038 917	6 571 628	6 571 628
(Loss)/gain on revaluation of positions in foreign currency	(604 931)	(604 931)	1 487 025	1 487 025
	1 433 986	**1 433 986**	**8 058 653**	**8 058 653**
Gain from trading in financial assets at fair value through profit or loss	14 008	14 008	52 268	52 268
Loss from trading in financial assets at fair value through other comprehensive income	(27 051)	(27 051)	-	-
Transfer from financial assets at fair value through other comprehensive income revaluation reserve	2 529	2 529	(41 150)	(41 150)
Profit/(loss) on revaluation of financial assets at fair value through profit or loss	917 084	917 084	(4 886)	(4 886)
	906 570	**906 570**	**6 232**	**6 232**
	2 340 556	**2 340 556**	**8 064 885**	**8 064 885**

11 OTHER OPERATING INCOME

	Group 31.12.2018 EUR	Bank 31.12.2018 EUR	Group 31.12.2017 EUR	Bank 31.12.2017 EUR
Rent of premises	110 732	87 178	85 352	80 078
Gain on sale of property and equipment and investment property	80 393	69 236	31 410	14 377
Professional services	40 350	32 440	20 449	20 374
Penalty amounts received	29 177	29 177	122	122
Intermediary services	3 705	345	8 872	102
Profit from transactions in precious metals	3 273	3 273	-	-
Other	115 899	87 770	26 863	27 284
	383 529	**309 419**	**173 068**	**142 337**

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12 ADMINISTRATIVE EXPENSES

	Group 31.12.2018 EUR	Bank 31.12.2018 EUR	Group 31.12.2017 EUR	Bank 31.12.2017 EUR
Staff salaries	6 963 594	6 946 100	7 194 113	7 190 796
Social insurance payments and solidarity tax	1 620 537	1 616 323	1 594 018	1 593 232
Amortisation and depreciation (Notes 26, 27)	1 428 640	1 428 540	1 525 345	1 525 246
Professional services	1 314 480	1 313 304	1 949 721	1 948 196
Renovation and maintenance of property and equipment	1 005 286	997 222	983 392	972 009
Representation expenses	755 428	755 428	858 402	858 402
Taxes	647 300	647 300	138 407	138 407
Business trips	276 018	276 018	294 458	294 458
Communication	164 860	164 860	158 040	158 021
Association membership fees	143 877	143 877	125 018	125 018
Advertising and publicity	105 401	105 401	31 194	31 194
Motor vehicles	79 773	79 773	74 901	74 901
Stationary goods and household equipment	70 475	70 475	61 652	61 652
Event organisation	61 470	61 470	94 404	94 404
Sworn auditor statutory audit	58 200	58 200	65 508	65 508
Insurance	47 746	46 689	50 599	50 382
Security	39 686	39 686	39 627	39 627
Sworn auditor other audits un consultations	28 367	28 367	25 489	25 489
Charity and sponsorship	20 500	20 500	11 005	11 005
Services of agents and brokers	3 360	3 360	6 804	6 804
Other	663 934	185 622	2 097 561	1 934 817
	15 498 932	**14 988 515**	**17 379 658**	**17 199 568**

The Group and Bank leases a number of offices and land plots under operating leases. The leases typically run for a period of 1 year, with an option to renew the lease after that date. Lease payments are increased every two to five years to reflect market rentals. Some leases provide for additional rent payments that are based on changes in a local price index.

Audit and other fees paid to the independent auditor company, which has audited these financial statements, are presented within administrative expenses. Other audits and consultations included audit related services to fulfil regulatory requirements on custodian responsibilities and deposit guarantee fund contribution reporting, other advisory services related to IFRS 9 gap identifications, IT advsiory and regulatory reporting solutions. These services have not been provided by a statutory audit firm that has audited the Group's and the Bank's 2018 Financial Statements.

Increase in other administrative expenses in Group level is due to loss from sale of investment property. Please refer to note 23 for more details.

The amount of lease expenses is included within representation expenses and expenses associated with repairs and maintenance of fixed assets and motor vehicles.

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Operating lease payments recognised in the income statement during 2018:

	Group 31.12.2018 EUR	Bank 31.12.2018 EUR	Group 31.12.2017 EUR	Bank 31.12.2017 EUR
Operating lease expenses	206 795	206 795	218 535	218 535
	206 795	**206 795**	**218 535**	**218 535**

At 31 December 2018, the future minimum lease payments under non-cancellable operating leases were payable as follows:

	Group 31.12.2018 EUR	Bank 31.12.2018 EUR	Group 31.12.2017 EUR	Bank 31.12.2017 EUR
Less than one year	40 903	40 903	41 559	41 559
Between one and five years	97 822	97 822	162 203	162 203
More than five years	40 906	40 906	45 794	45 794
	179 631	**179 631**	**249 556**	**249 556**

13 ANALYSIS OF CHANGES IN IMPAIRMENT LOSS ALLOWANCE FOR ASSET EXPOSURES

Group

	Allowances for claims on the credit institutions EUR	Allowances for loans EUR	Allowances for financial assets at fair value through other comprehen-sive income EUR	Allowances for financial assets at amortised cost EUR	Allowances for investments in subsidiaries, accrued income and other assets EUR	Allowances for off-balance sheet exposures EUR	Total EUR
Allowances as of 31 December 2016	**-**	**17 574 419**	**3 274 235**	**-**	**351 251**	**-**	**21 199 905**
Increase in allowances	-	1 968 260	2 130 681	-	53 703	-	**4 152 644**
Reversal of allowances	-	(153 757)		-	(25 395)	-	**(179 152)**
Net impairment loss for the period	**-**	**1 814 503**	**2 130 681**	**-**	**28 308**	**-**	**3 973 492**
Amounts written-off	-	(28 701)	-	-	(30 547)	-	**(59 248)**
Difference due to fluctuations in foreign currency exchange rates	-	(992 586)	-	-	(1 978)	-	**(994 564)**
Allowances as of 31 December 2017	**-**	**18 367 635**	**5 404 916**	**-**	**347 034**	**-**	**24 119 585**
IFRS9 impact	49 120	1 164 079	2 820	21 228	-	89 886	**1 327 133**
Increase in allowances	6 304	1 913 123	-	1 196	1 024 583	363 976	**3 309 182**
Reversal of allowances	(52 572)	(2 246 990)	(2 148)	(17 009)	(30 441)	(407 731)	**(2 756 891)**
Net impairment loss for the period	**2 852**	**830 212**	**672**	**5 415**	**994 142**	**46 131**	**1 879 424**
Amounts written-off	-	(7 701 964)	(5 404 916)	-	-	-	**(13 106 880)**
Difference due to fluctuations in foreign currency exchange rates	4	233 521	180	912	50	457	**235 124**
Allowances as of 31 December 2018	**2 856**	**11 729 404**	**852**	**6 327**	**1 341 226**	**46 588**	**13 127 253**

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Bank

	Allowances for claims on the credit institutions EUR	Allowances for loans EUR	Allowances for financial assets at fair value through other comprehen-sive income EUR	Allowances for financial assets at amortised cost EUR	Allowances for investments in subsidiaries, accrued income and other assets EUR	Allowances for off-balance sheet exposures EUR	Total EUR
Allowances as of 31 December 2016	**-**	**18 356 823**	**3 274 235**	**-**	**233 082**	**-**	**21 864 140**
Increase in allowances	-	2 675 164	2 130 681	-	1 253 590	-	**6 059 435**
Reversal of allowances	-	(153 757)	-	-	(25 395)	-	**(179 152)**
Net impairment loss for the period	**-**	**2 521 407**	**2 130 681**	**-**	**1 228 195**	**-**	**5 880 283**
Amounts written-off	-	(28 701)	-	-	(30 547)	-	**(59 248)**
Difference due to fluctuations in foreign currency exchange rates	-	(992 586)	-	-	(1 978)	-	**(994 564)**
Allowances as of 31 December 2017	**-**	**19 856 943**	**5 404 916**	**-**	**1 428 752**	**-**	**26 690 611**
IFRS9 impact	49 120	836 530	2 820	21 228	-	127 767	**1 037 465**
Increase in allowances	6 304	2 034 085	-	1 196	1 024 583	375 131	**3 441 299**
Reversal of allowances	(52 572)	(2 246 990)	(2 148)	(17 009)	(30 492)	(407 731)	**(2 756 942)**
Net impairment loss for the period	**2 852**	**623 625**	**672**	**5 415**	**994 091**	**95 167**	**1 721 822**
Amounts written-off	-	(7 701 964)	(5 404 916)	-	-	-	**(13 106 880)**
Difference due to fluctuations in foreign currency exchange rates	4	233 521	180	912	50	457	**235 124**
Allowances as of 31 December 2018	**2 856**	**13 012 125**	**852**	**6 327**	**2 422 893**	**95 624**	**15 540 677**

In respect of both natural persons and companies, the Bank strictly adheres to its policy and internal regulatory documents relating to the evaluation of the allowances. The Bank also follows the relevant recommendations from the FCMC. The Bank therefore thoroughly analyses a borrower's income and expenses for the then-current period and the potential dynamics thereof as a whole. In addition, the Bank places an enhanced focus on evaluation and determination of the value of the property offered as the security. The Bank regularly re-evaluates the value to keep it up-to-date in accordance with the internal regulatory documents. This enables the Bank to track the dynamics of the value, adjust it where necessary, and make allowances.

14 CASH AND BALANCES WITH BANK OF LATVIA

	Group 31.12.2018 EUR	Bank 31.12.2018 EUR	Group 31.12.2017 EUR	Bank 31.12.2017 EUR
Cash	1 432 135	1 432 135	1 578 991	1 578 991
Balance with the Bank of Latvia	118 427 279	118 427 279	104 336 344	104 336 344
Allowances (Note 13)	(1 374)	(1 374)	-	-
	119 858 040	**119 858 040**	**105 915 335**	**105 915 335**

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15 CASH AND CASH EQUIVALENTS

	Group 31.12.2018 EUR	Bank 31.12.2018 EUR	Group 31.12.2017 EUR	Bank 31.12.2017 EUR
Cash	1 432 135	1 432 135	1 578 991	1 578 991
Balance with the Bank of Latvia	118 427 279	118 427 279	104 336 344	104 336 344
	119 859 414	**119 859 414**	**105 915 335**	**105 915 335**
Due from other credit institutions with up to 3 months original maturity	11 879 662	11 879 662	24 322 873	24 322 873
Due to other credit institutions with up to 3 months original maturity	(824 817)	(824 817)	(278 637)	(278 637)
	130 914 259	**130 914 259**	**129 959 571**	**129 959 571**
Allowances (Note 13)	(2 852)	(2 852)	-	-
	130 911 407	**130 911 407**	**129 959 571**	**129 959 571**

16 DUE ON DEMAND FROM CREDIT INSTITUTIONS

	Group and Bank 31.12.2018 EUR	Group and Bank 31.12.2017 EUR
Due from credit institutions incorporated in the Republic of Latvia (Moody's ratings):	800 910	462 021
rated Ba	-	-
not rated	*800 910*	*462 021*
Due from credit institutions incorporated in other EU countries (Moody's ratings):	7 447 809	11 554 162
rated A	*2 256 066*	*4 761 898*
not rated	*5 191 743*	*6 792 264*
Due from credit institutions incorporated in OECD countries outside the EU (Moody's ratings):	175	167
not rated	*175*	*167*
Due from credit institutions incorporated in other countries (Moody's ratings):	3 630 770	12 306 977
rated Ba	*2 099 952*	*7 431 967*
rated B	*909 018*	*4 767 917*
rated Caa	*1 183*	*70 275*
not rated	*620 617*	*36 818*
	11 879 664	**24 323 327**
Allowances (Note 13)	(1 267)	-
	11 878 397	**24 323 327**

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Concentration of placements with banks and other financial institutions

As at 31 December 2018 and 31 December 2017, the Group and the Bank had three and five banks and financial institutions, whose balances exceeded 10% of total placements with banks and other financial institutions. The gross value of these balances as of 31 December 2018 and 31 December 2017 were EUR 9 547 761 and EUR 23 256 162, respectively.

17 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(a) Equity instruments

	Group and Bank 31.12.2018 EUR	Group and Bank 31.12.2017 EUR
State-owned companies enterprises	3 002	4 717
Shares of private enterprises	31 900	7 156
Shares of financial auxiliaries	1 052 854	-
Investment certificates of investment funds, except for money market funds, and of alternative investment funds	827 718	-
Investment certificates	3 568 138	-
Total shares	**5 483 612**	**11 873**

The table below shows the geographical concentration of securities:

	Group and Bank 31.12.2018 EUR	Group and Bank 31.12.2017 EUR
Shares of entities registered in the Republic of Latvia	828 140	1 536
Shares of entities registered in other EU countries	3 591 330	-
Shares of entities registered in OECD countries	1 057 454	2 385
Shares of entities registered in CIS countries	6 688	7 952
Total shares	**5 483 612**	**11 873**

(b) Derivative financial instruments

The table below summarises the contractual amounts of the Group's and the Bank's forward foreign exchange contracts outstanding at 31 December 2018 and 31 December 2017. The foreign currency amounts presented below are translated at rates prevalent at the reporting date. The resultant unrealised gains and losses on these unmatured contracts, along with the amounts payable and receivable on the matured but unsettled contracts, have been recognised in the profit or loss.

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	31.12.2018 Assets EUR	Group and Bank 31.12.2018 Liabilities EUR	31.12.2017 Assets EUR	Group and Bank 31.12.2017 Liabilities EUR
Notional amount				
Currency SWAPS	4 224 729	4 230 157	40 729 983	41 186 880
Foreign currency FORWARD contracts	400 595	400 000	815 144	815 035
FUTURES contracts (gold)	-	144 227	239 716	-
	4 625 324	**4 774 384**	**41 784 843**	**42 001 915**
Fair value				
Currency SWAPS	4 729	10 157	132	457 029
Foreign currency FORWARD contracts	595	-	233	124
FUTURES contracts (gold)	-	5 752	-	4 488
	5 324	**15 909**	**365**	**461 641**

18 FINANCIAL ASSETS AT FAIR VALUE THROUG OTHER COMPREHENSIVE INCOME

	Group and Bank 31.12.2018 EUR	Group and Bank 31.12.2017 EUR
Debt securities of central governments	2 740 783	12 993 463
Debt securities of central governments rated Aaa	-	*1 614 473*
Debt securities of central governments rated A	*2 295 078*	*11 378 990*
Debt securities of central governments rated Baa	*445 705*	-
Debt securities of credit institutions	5 652 685	9 095 331
Debt securities of credit institutions rated Aaa	*4 428 326*	*8 242 779*
Debt securities of credit institutions rated Aaa	*874 437*	-
Debt securities of credit institutions rated Aaa	*349 922*	-
Debt securities of credit institutions rated Ba	-	*852 552*
Debt securities of financial institutions	-	14 158 627
Debt securities of financial institutions rated Aaa	-	*12 505 061*
Debt securities of financial institutions rated Aaa	-	*1 653 566*
Debt securities of public non-financial Corporations	-	1 335 091
Public non-financial Corporations rated Baa	-	*898 625*
Public non-financial Corporations rated Ba	-	*436 466*
Shares and other variable income securities	206 663	10 014 022
	8 600 131	**47 596 534**
Allowances (Note 13)	(852)	(5 404 916)
	8 599 279	**42 191 618**

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The table below shows the geographical concentration of financial assets at fair value through other comprehensive income:

	Group and Bank 31.12.2018 EUR	Group and Bank 31.12.2017 EUR
Debt securities registered in the Republic of Latvia	-	5 735 075
Debt securities of entities registered in EU countries	7 947 764	24 299 224
Debt securities of entities registered in OECD countries	-	5 797 035
Debt securities of entities registered in CIS countries	-	898 626
Debt securities of entities registered in other countries	445 704	852 552
Total debt securities	**8 393 468**	**37 582 512**
Shares of entities registered in the Republic of Latvia	180 863	615 837
Shares of entities registered in other EU countries	25 800	8 522 891
Shares of entities registered in OECD countries	-	875 295
Total shares	**206 663**	**4 609 106**
	8 600 131	**42 191 618**
Allowances (Note 13)	(852)	(5 404 916)
	8 599 279	**42 191 618**

19 DUE FROM CREDIT INSTITUTIONS

	Group and Bank 31.12.2018 EUR	Group and Bank 31.12.2017 EUR
Amounts with no stated maturity or serving as collateral and security deposits	801 664	2 073 825
Term deposits	-	423 488
	801 664	**2 497 313**
Allowances (Note 13)	(215)	-
	801 449	**2 497 313**

20 FINANCIAL ASSETS AT AMORTISED COST

DEBT INSTRUMENTS

	Group and Bank 31.12.2018 EUR	Group and Bank 31.12.2017 EUR
Government bonds	14 740 458	13 879 276
Bonds and other fixed-income securities	16 475 094	2 416 117
	31 215 552	**16 295 393**
Allowances (Note 13)	(6 327)	-
	31 209 225	**16 295 393**

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The following table shows the distribution of securities issuer profile:

	Group and Bank 31.12.2018 EUR	Group and Bank 31.12.2017 EUR
Debt securities of central governments (Moody's ratings)	14 740 459	13 879 276
Debt securities of central governments rated A	*12 874 531*	*11 598 560*
Debt securities of central governments rated Baa	*1 865 928*	*2 280 716*
Debt securities of credit institutions (Moody's ratings)	14 080 612	84 084
Debt securities of credit institutions rated Aaa	*9 558 354*	-
Debt securities of credit institutions rated Aa	*929 965*	-
Debt securities of credit institutions rated A	*2 709 784*	-
Debt securities of credit institutions rated Ba	*882 069*	*84 084*
Not rated debt securities of credit institutions	*440*	-
Debt securities of financial institutions (Moody's ratings)	1 735 881	-
Debt securities of financial institutions rated Aa	*1 735 881*	-
Public non-financial Corporations (Moody's ratings)	658 600	642 470
Public non-financial Corporations rated Baa	*658 600*	-
Public non-financial Corporations rated Ba	-	*642 470*
Debt securities of private enterprises (Moody's ratings)	-	1 689 563
Debt securities of private enterprises rated Ba	-	*1 689 563*
	31 215 552	**16 295 393**
Allowances (Note 13)	(6 327)	-
	31 209 225	**16 295 393**

The table below shows the geographical concentration of held-to-maturity securities:

	Group and Bank 31.12.2018 EUR	Group and Bank 31.12.2017 EUR
Debt securities of Republic of Latvia	4 659 819	5 243 407
Debt securities of entities registered in EU countries	23 493 741	10 615 972
Debt securities of entities registered in OECD countries	2 179 924	-
Debt securities of entities registered in other countries	882 068	436 014
	31 215 552	**16 295 393**
Allowances (Note 13)	(6 327)	-
	31 209 225	**16 295 393**

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LOANS AND RECEIVABLES

(a) Loans by type

	Group 31.12.2018 EUR	Bank 31.12.2018 EUR	Group 31.12.2017 EUR	Bank 31.12.2017 EUR
Commercial loans	37 663 495	38 038 308	34 486 914	34 836 797
Mortgage loans	11 951 820	13 666 188	16 899 628	18 647 278
Industrial loans	4 712 565	4 712 565	6 237 952	6 237 952
Overdrafts	4 162 349	4 373 842	2 671 409	2 911 818
Consumer loans	456 867	456 867	436 511	436 511
Payment cards	66 534	66 534	121 531	121 531
Other	13 050 928	13 050 928	16 827 214	16 827 214
	72 064 558	**74 365 232**	**77 681 159**	**80 019 101**
Reverse repos	2 839 402	2 839 402	2 571 426	2 571 426
	74 903 960	**77 204 634**	**80 252 585**	**82 590 527**
Allowances (Note 13)	(11 729 404)	(13 012 125)	(18 367 635)	(19 856 943)
	63 174 556	**64 192 509**	**61 884 950**	**62 733 584**

(b) Loan profile by country of risk

	Gross loans 31.12.2018 EUR	Allowances 31.12.2018 EUR	Group Net loans 31.12.2018 EUR
Republic of Latvia	23 473 991	(7 126 987)	16 347 004
Other EU countries	35 291 163	(1 703 417)	33 587 746
Non-EU OECD countries	6 414 341	(1 434 584)	4 979 757
Ukraine	6 158 710	(985 165)	5 173 545
Other CIS countries	3 537 647	(479 251)	3 058 396
Other countries	28 108	-	28 108
	74 903 960	**(11 729 404)**	**63 174 556**

	Gross loans 31.12.2018 EUR	Allowances 31.12.2018 EUR	Bank Net loans 31.12.2018 EUR
Republic of Latvia	25 774 665	(8 409 708)	17 364 957
Other EU countries	35 291 163	(1 703 417)	33 587 746
Non-EU OECD countries	6 414 341	(1 434 584)	4 979 757
Ukraine	6 158 710	(985 165)	5 173 545
Other CIS countries	3 537 647	(479 251)	3 058 396
Other countries	28 108	-	28 108
	77 204 634	**(13 012 125)**	**64 192 509**

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	Gross loans	Allowances	Group Net loans
	31.12.2017	**31.12.2017**	**31.12.2017**
	EUR	**EUR**	**EUR**
Republic of Latvia	31 971 152	(9 824 461)	22 146 691
Other EU countries	27 229 486	(3 060 895)	24 168 591
Non-EU OECD countries	7 602 161	(1 136 486)	6 465 675
Ukraine	8 454 257	(1 768 927)	6 685 330
Other CIS countries	4 535 965	(2 117 305)	2 418 660
Other countries	459 564	(459 561)	3
	80 252 585	**(18 367 635)**	**61 884 950**

	Gross loans	Allowances	Bank Net loans
	31.12.2017	**31.12.2017**	**31.12.2017**
	EUR	**EUR**	**EUR**
Republic of Latvia	34 309 094	(11 313 769)	22 995 325
Other EU countries	27 229 486	(3 060 895)	24 168 591
Non-EU OECD countries	7 602 161	(1 136 486)	6 465 675
Ukraine	8 454 257	(1 768 927)	6 685 330
Other CIS countries	4 535 965	(2 117 305)	2 418 660
Other countries	459 564	(459 561)	3
	82 590 527	**(19 856 943)**	**62 733 584**

(c) Loans by customer profile

	Group	Bank	Group	Bank
	31.12.2018	**31.12.2018**	**31.12.2017**	**31.12.2017**
	EUR	**EUR**	**EUR**	**EUR**
Loans to corporate clients	41 274 031	43 574 705	51 721 864	54 059 806
Loans to financial institutions	10 426 871	10 426 871	7 389 132	7 389 132
Loans to individuals	22 167 938	22 167 938	19 970 468	19 970 468
Loans to senior management and staff members of the Bank	1 035 120	1 035 120	1 171 121	1 171 121
	74 903 960	**77 204 634**	**80 252 585**	**82 590 527**
Allowances (Note 13)	(11 729 404)	(13 012 125)	(18 367 635)	(19 856 943)
	63 174 556	**64 192 509**	**61 884 950**	**62 733 584**

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(d) Industry analysis of the loan portfolio

			Group
	Gross loans	**Allowances**	**Net loans**
	31.12.2018	**31.12.2018**	**31.12.2018**
	EUR	**EUR**	**EUR**
Finance	23 054 582	(1 476 198)	21 578 384
Real estate	13 784 075	(5 508 774)	8 275 301
Trade	10 505 347	(4 033 368)	6 471 979
Manufacturing	2 066 670	(149 185)	1 917 485
Energy	511 728	-	511 728
Information and communication services	376 281	(31 572)	344 709
Other services	106 968	(52 391)	54 577
Other	1 295 251	-	1 295 251
Loans to individuals	23 203 058	(477 916)	22 725 142
	74 903 960	**(11 729 404)**	**63 174 556**

			Bank
	Gross loans	**Allowances**	**Net loans**
	31.12.2018	**31.12.2018**	**31.12.2018**
	EUR	**EUR**	**EUR**
Finance	23 054 582	(1 476 198)	21 578 384
Real estate	16 084 749	(6 791 495)	9 293 254
Trade	10 505 347	(4 033 368)	6 471 979
Manufacturing	2 066 670	(149 185)	1 917 485
Energy	511 728	-	511 728
Information and communication services	376 281	(31 572)	344 709
Other services	106 968	(52 391)	54 577
Other	1 295 251	-	1 295 251
Loans to individuals	23 203 058	(477 916)	22 725 142
	77 204 634	**(13 012 125)**	**64 192 509**

			Group
	Gross loans	**Allowances**	**Net loans**
	31.12.2017	**31.12.2017**	**31.12.2017**
	EUR	**EUR**	**EUR**
Real estate	17 926 383	(8 186 837)	9 739 546
Finance	14 961 717	(4 816 571)	10 145 146
Trade	10 450 979	(3 925 343)	6 525 636
Information and communication services	3 539 347	(34 302)	3 505 045
Manufacturing	1 995 553	-	1 995 553
Energy	1 003 152	-	1 003 152
Other services	7 661 298	(344)	7 660 954
Other	1 572 567	-	1 572 567
Loans to individuals	21 141 589	(1 404 238)	19 737 351
	80 252 585	**(18 367 635)**	**61 884 950**

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			Bank
	Gross loans	**Allowances**	**Net loans**
	31.12.2017	**31.12.2017**	**31.12.2017**
	EUR	**EUR**	**EUR**
Real estate	20 264 325	(9 676 145)	10 588 180
Finance	14 961 717	(4 816 571)	10 145 146
Trade	10 450 979	(3 925 343)	6 525 636
Information and communication services	3 539 347	(34 302)	3 505 045
Manufacturing	1 995 553	-	1 995 553
Energy	1 003 152	-	1 003 152
Other services	7 661 298	(344)	7 660 954
Other	1 572 567	-	1 572 567
Loans to individuals	21 141 589	(1 404 238)	19 737 351
	82 590 527	**(19 856 943)**	**62 733 584**

(e) Breakdown of loans by groups of delayed payments and non-delinquent loans

				Group
	Net loans	**Out of which impaired**	**Net loans**	**Out of which impaired**
	31.12.2018	**31.12.2018**	**31.12.2017**	**31.12.2017**
	EUR	**EUR**	**EUR**	**EUR**
Past due by the following terms:				
Up to 1 month (inclusive)	1 847 751	905 618	298 259	-
1 to 3 months	3 820 704	-	399 898	374 211
3 to 6 months	3 244 725	-	422 918	-
More than 6 months	13 480 820	819 733	13 222 711	7 265 361
	22 394 000	**1 725 351**	**14 343 786**	**7 639 572**
Not past due on the reporting date	40 780 556	1 003 893	47 541 164	3 138 134
	63 174 556	**2 729 244**	**61 884 950**	**10 777 706**

				Bank
	Net loans	**Out of which impaired**	**Net loans**	**Out of which impaired**
	31.12.2018	**31.12.2018**	**31.12.2017**	**31.12.2017**
	EUR	**EUR**	**EUR**	**EUR**
Past due by the following terms:				
Up to 1 month (inclusive)	1 847 751	905 618	298 259	-
1 to 3 months	3 820 704	-	399 898	374 211
3 to 6 months	3 244 725	2 547 060	422 918	-
More than 6 months	13 480 820	819 733	12 933 042	6 975 692
	22 394 000	**4 272 411**	**14 054 117**	**7 349 903**
Not past due on the reporting date	41 798 509	1 003 893	48 679 467	4 125 478
	64 192 509	**5 276 304**	**62 733 584**	**11 475 381**

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The following table provides information on the credit quality of the loan portfolio:

			Group
	Gross loans	**Allowances**	**Net loans**
	31.12.2018	**31.12.2018**	**31.12.2018**
	EUR	**EUR**	**EUR**
Non-delinquent loans	43 684 842	(2 904 286)	40 780 556
Up to 1 month (inclusive)	1 884 663	(36 913)	1 847 750
1 to 3 months	3 833 432	(12 727)	3 820 705
3 to 6 months	3 268 447	(23 722)	3 244 725
More than 6 months	22 232 576	(8 751 756)	13 480 820
	74 903 960	**(11 729 404)**	**63 174 556**

			Bank
	Gross loans	**Allowances**	**Net loans**
	31.12.2018	**31.12.2018**	**31.12.2018**
	EUR	**EUR**	**EUR**
Non-delinquent loans	45 985 516	(4 187 007)	41 798 509
Up to 1 month (inclusive)	1 884 663	(36 913)	1 847 750
1 to 3 months	3 833 432	(12 727)	3 820 705
3 to 6 months	3 268 447	(23 722)	3 244 725
More than 6 months	22 232 576	(8 751 756)	13 480 820
	77 204 634	**(13 012 125)**	**64 192 509**

			Group
	Gross loans	**Allowances**	**Net loans**
	31.12.2017	**31.12.2017**	**31.12.2017**
	EUR	**EUR**	**EUR**
Non-delinquent loans	52 853 885	(5 312 721)	47 541 164
Up to 1 month (inclusive)	298 259	-	298 259
1 to 3 months	740 112	(340 213)	399 899
3 to 6 months	423 161	(244)	422 917
More than 6 months	25 937 168	(12 714 457)	13 222 711
	80 252 585	**(18 367 635)**	**61 884 950**

			Bank
	Gross loans	**Allowances**	**Net loans**
	31.12.2017	**31.12.2017**	**31.12.2017**
	EUR	**EUR**	**EUR**
Non-delinquent loans	55 191 827	(6 512 360)	48 679 467
Up to 1 month (inclusive)	298 259	-	298 259
1 to 3 months	740 112	(340 213)	399 899
3 to 6 months	423 161	(244)	422 917
More than 6 months	25 937 168	(13 004 126)	12 933 042
	82 590 527	**(19 856 943)**	**62 733 584**

Movements in the loan impairment allowance for the years ended 31 December 2018 and 31 December 2017 are disclosed in Note 13.

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(f) Analysis of collateral

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.

Mortgage loans are secured by underlying housing real estate. Payment cards overdrafts are secured by deposits and guarantees. Consumer loans are secured by other types of collateral.

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees.

Brokerage account balances and security deposits paid to the counterparties are classified as unsecured loans. The gross value of these balances as of 31 December 2018 and 31 December 2017 were EUR 5 663 648 and EUR 7 800 973, respectively.

During the year ended 31 December 2018, the Group and Bank has obtained ownership of the assets by taking over control of collateral accepted as security for commercial loans. Additions were EUR 2 261 442 and EUR 1 963 718, respectively. During the year ended 31 December 2017, additions were EUR 3 289 208 and EUR 2 508 261, respectively.

	Group	Bank	Group	Bank
	31.12.2018	**31.12.2018**	**31.12.2017**	**31.12.2017**
	EUR	**EUR**	**EUR**	**EUR**
Land plots	1 963 718	1 963 718	1 638 696	1 638 696
Office building	-	-	869 565	869 565
Apartments	297 724	-	780 947	-
	2 261 442	**1 963 718**	**3 289 208**	**2 508 261**

(g) Loan profile by stage

	Group	Bank
	31.12.2018	**31.12.2018**
	EUR	**EUR**
Stage 1	29 153 116	29 153 116
Stage 2	2 116 230	2 116 230
Stage 3	30 294 904	30 294 904
Loans whose cash flows do not meet the requirements of the IFRS 9	13 339 710	15 640 384
	74 903 960	**77 204 634**
	(11 729 404)	(13 012 125)
	63 174 556	**64 192 509**

(h) Loans with significant uncertainty of expected credit loss assessment

Below are credit exposure groups where expected credit loss assessment may change in near future as a result of specific external events.

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(i) Claims against Oyston family

The Bank has acquired direct and indirect claims rights against Oyston family (the United Kingdom) which are administrated by VB Football Assets SIA, a company controlled by the Bank's majority shareholders Mr. Valerijs Belokons and Mr. Vilorijs Belokons. The gross carrying value of these claims rights as at 31 December 2018 are 12.1 million euros (the amount of EUR 6.4 million is classified as "Other assets"; see Note 27). As a result of lengthy litigation, VB Football Assets SIA has achieved final court order confirming its claim to the debtors in the amount of 31.27 million pounds. 10 million pounds from this amount were paid in December 2017 but for the remaining part (25.36 million pounds including accrued interest) receivership process has been initiated against the Oyston family's assets. Bank's management expects that this process will be completed and claims held by the Bank repaid in full by the end of 2019.

On 31 December 2018, no expected credit losses (ECL) were identified for these claims. This estimate can be subject to change if the debt recovery process takes a longer period or results in lower cash receipts than projected as at the date of approval of these financial statements.

(ii) Claims where recovery depends on the outcome of legal proceedings

Two claims held by the Bank with net carrying value 10.5 million euros as at 31 December 2018 are involved in long lasting legal processes.

One of them (net carrying value 6.6 million euros) involve property which was forfeited by the Criminal court by its judgement (this order has still not been published) of the EU country where it is located, retaining first rank mortgage claim held by the Bank. Court hearing to decide whether to proceed with the sale of property is scheduled to take place in June 2019.

The second claim (net carrying value 3.9 million euros) is not secured and is raised against a bank registered in a European country and is related to violations in execution of an agreement. Based on advice received from its legal counsellors (in both cases it is represented by internationally recognised legal firms for the specific jurisdiction), Bank's management is certain about successful outcome of the legal processes and full recovery of claims within a period not exceeding three years after the approval of these financial statements. Management is currently negotiating sale of the unsecured claim to third parties for an amount which is not less than its net carrying value as at 31 December 2018.

Negative events in these legal proceedings, their extension or insolvency of debtors may have significant influence on the assessment of expected credit loss in the future reporting periods.

(iii) Loans where repayment depends on fund raising process

The Bank's loan portfolio comprises two mutually connected borrowers with net carrying of loans 8.5 million euros as at 31 December 2018. Loans were provided to finance acquisition of shares in a UK based e-commerce retail company. These shares form security for one of the loans. The second loan is secured by the undertakings provided by a Solicitor regulated by the UK's Solicitor Regulation Authority and confirming that loan repayment is secured by the funds received from the sale of shares. According to audited public financial statements, this company had negative equity of 5.46 million pounds as 30 November 2017 and business continuity is maintained by the shareholder loans. At present the company is running an active fund-raising process to finance further business expansion and Bank's loans will be repaid by the funds raised as a result of this process. Fund-raising process is based on valuation and investor return analysis from an internationally known investment bank (listed on Madrid's stock exchange) which supports business value significantly above the company's and its shareholders' debts to the Bank. Bank's management is expecting that fund-raising process will be completed and both loans fully repaid by the end of 2019.

Both debtors have other sources of finance to repay these loans but their realisation may take extended time period and may influence expected credit loss assessment in future reporting periods. No loan loss allowance was recognised for these loans as at 31 December 2018.

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(iv) Unsecured overdrafts

As at 31 December 2018 the Bank's loan portfolio includes four unsecured overdraft facilities provided to four legal entities with total net carrying value 2.43 million euros. By the end of 2018 these facilities were suspended and negotiation process on repayment terms for outstanding amounts initiated. Based on cash flow projections and information on financial position provided by the respective customers the Bank's management is convinced that the remaining amount of debt will be repaid by the end of 2019 and further loan loss allowance is not required.

It is likely that recovery of these amounts outside negotiated settlement will be complicated and will last for an extended time period. Therefore, if these clients will fail to make payments in line with the schedule as agreed with the Bank, it is likely that expected credit loss assessment may change significantly.

(v) Loans where recovery is linked to the real estate sales process outcome

Bank's balance sheet as at 31 December 2018 includes loans with net carrying value 7.86 million euros (including loans to the Bank's subsidiaries with net carrying value 0.97 million euros) which are classified as 3rd level loans and whose single source of recovery is the sale of real estate held by the borrowers. These properties have been placed for sale for long time period. Extension of sales process timing compared to the Bank's management estimates may reduce the net carrying value of these loans by 5-8% (between 0.36 and 0.6 million euros) while negative deviation of the ultimate sales proceeds by 10% from the management estimates may reduce the net carrying value of these loans by 10% or 0.78 million euros.

21 INVESTMENTS IN EQUITY ACCOUNTED INVESTEES

The Bank holds an investment in SIA "Komunikācijas un projekti", a Latvia based joint-venture that is a special purpose entity aimed at development of real estate project in Lapmežciems, Latvia. Property that is being developed is located in near-sea area surrounded by forest and dunes, along the sea line to western direction from Jurmala.

Project assumes development of a village of fourteen guest houses, with total area of 3.2 thousand square meters, potentially attractive to both local and foreign travellers that are exploring nicest views of Latvia. Project also assumes development of piers and boat docks, attracting toursits with sailing routes.

According to Bank's management, present value of the project future cash flows (including buy-out of land) is 1.2 million EUR. Bank holds 50% in equity of SIA "Komunikācijas un Projekti", however, shareholder agreement assumes profit sharing proportional to investments made. Bank has funded the project.

Present status of project is completed detail planning of the project territory, agreed with Engure county administration. Project is split into phases, approximatel 3 guest houses in each phase, timetables of aimed completion varying along 2021-2025. Further development steps will take place in 2019, with planning works scheduled for 2019-2020, with full completion scheduled for 2025.

	Ownership %	**Country of incorporation**	**Purpose**	**Group and Bank 31.12.2018 EUR**	**Group and Bank 31.12.2017 EUR**
SIA "Komunikācijas un projekti"	50	Latvia	Investments	1 144 547	1 144 547
				1 144 547	**1 144 547**
Allowances (Note 13)				(286 137)	-
				858 410	**-**

The management assessed future cash flows to be generated by the investee. Based on the assessment, the Bank set aside impairment allowances totalling EUR 286 137.

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	SIA "Komunikācijas un projekti"	
	31.12.2018	**31.12.2017**
	EUR	**EUR**
Group share in loss	**(8 197)**	**(7 784)**

22 INVESTMENTS IN SUBSIDIARIES

The subsidiaries of the Bank are as follows:

Name	Ownership	Carrying amount of investment	
		31.12.2018	**31.12.2017**
		EUR	**EUR**
SIA "BIB Real Estate"	100	3 075 952	1 624 879
SIA "Gaujas Īpašumi" (through BIB Real Estate)	100	-	-
SIA "Global Investments" (through BIB Real Estate)	100	-	-
SIA „Claim Management"	100	1	1
AS „BIB Alternative Investment Management"	100	165 000	165 000
		3 240 953	**1 789 880**
Allowances (Note 13)		(1 100 000)	-
		2 140 953	**1 789 880**

During 2018 the Bank increased the share capital of SIA "BIB Real Estate" by EUR 351 073.

23 INVESTMENT PROPERTY

For investment property, the Group and the Bank applies a fair-value-based accounting model. The fair value of the investment property item is based on the appraisals from independent appraisers who hold a recognised and relevant professional qualification and have recent experience in appraising similar property.The independent valuators provide the fair value of the Group's and the Banks' investment property portfolio every year.

Investment property	**Group**	**Bank**
	EUR	**EUR**
As of 31 December 2016	**5 885 430**	**2 355 073**
Additions	3 305 722	2 508 261
Revaluation	(1 551 324)	(206 600)
Sale	(320 398)	-
Loss from sale	(132 849)	-
As of 31 December 2017	**7 186 581**	**4 656 734**
Additions	2 261 442	1 963 718
Revaluation	(37 803)	(154 013)
Sale	(1 035 500)	(1 017 000)
Gain from sale	65 835	69 235
Reclassification from other assets	1 400 000	1 400 000
As of 31 December 2018	**9 840 555**	**6 918 674**

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During the year ended 31 December 2018, the Group and Bank has obtained ownership of the assets by taking over control of collateral accepted as security for commercial loans. Please refer to Note 20 for more detail.

During 2018, Group and Bank sold real estate property objects: plots of land in Riga and Latvia and building in Ukraine. The sale profit totalled EUR 65 835.

Amounts recognised in the profit or loss (apart from revaluation and disposal result):

	Group EUR	Bank EUR
Rental income earned on investment property	99 661	64 950
Direct operating expenses (including repairs and maintenance costs) incurred in connection with the investment property which has earned a rental income during the reporting year	(50 134)	(46 232)
Direct operating expenses (including repairs and maintenance costs) incurred in connection with the investment property which has not earned a rental income during the reporting year	(9 288)	(5 126)

External, independent property valuators, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued, determined the fair value of investment property. The independent valuators provide the fair value of the Group's investment property portfolio every year.

The investment property has been categorised as a Level 3 in the fair value hierarchy. Significant unobservable inputs include also the adjusted sales prices set out in the table below. These are assessed as unobservable inputs since the adjustments made to the sales prices is considered to be significant enough to require Level 3 designations. The following table shows the valuation technique used in measuring the fair value of investment property, as well as the significant unobservable inputs used:

Investment property:

Type		EUR	Valuation technique	Significant unobservable inputs: Input	31.12.2018	31.12.2017	Inter-relation between significant unobservable inputs and fair value measurement
Land plots in Riga (Taleru street project)*			Income approach	Sales price varies from EUR to EUR per m2	20	20	The estimated fair value would increase (decrease) if:
	2018:	580 000	-	Discount rate of %	6.4 - 11.2	6.4 - 11.2	• Sales price per m2 was higher (lower)
	2017:	600 000		Construction costs EUR per m2	700	700	• The discount rate was lower (higher)
				The final sale price EUR per m2	950 - 1050	950 - 1 050	• Construction costs per m2 would be less (greater)
							• The final sale price per m2 was higher (lower)
Land plots in Jurmala (Atbalss street)*			Comparable transaction method	Sales price varies from EUR to EUR per m2	90 - 150	-	The estimated fair value would increase (decrease) if:
	2018:	1 506 000	-				• Sales price per m2 was higher (lower)
	2017:	-					

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Type		EUR	Valuation technique	Significant unobservable inputs			Inter-relation between significant unobservable inputs and fair value measurement
				Input	31.12.2018	31.12.2017	
Land plots in Jurmala (Skudru street)			Comparable transaction method	Sales price varies from EUR to EUR per m2	16 - 23	16 - 24	The estimated fair value would increase (decrease) if:
	2018:	159 600					• Sales price per m2 was higher (lower)
	2017:	159 600					
Land plots in Latvia			Discounted cash flows technique: the model is based on discounted cash flows from rental income.	Sales price varies from EUR to EUR per m2	5	-	The estimated fair value would increase (decrease) if:
	2018:	539 000		Discount rate of %	5.12 - 10.12	5.12-10.12	• Sales price per m2 was higher (lower)
	2017:	454 000					• The discount rate was lower (higher)
Land plots in Latvia			Comparable transaction method	Sales price varies from EUR to EUR per m2	4 - 6	1-12	The estimated fair value would increase (decrease) if:
	2018:	75 200					• Sales price per m2 was higher (lower)
	2017:	139 200					-
Land plots in Ukraine *			Comparable transaction method	Sales price varies from EUR to EUR per m2	6 - 766	-	The estimated fair value would increase (decrease) if:
	2018:	2 096 414					• Sales price per m2 was higher (lower)
	2017:	1 638 696					
Construction objects and related land plots in Riga (Ieriķu street) *			Income approach	Rental income per m2 of EUR	1 - 7	1-7	The estimated fair value would increase (decrease) if:
	2018:	731 261	Discounted cash flows technique: the model is based on discounted cash flows from rental income.	Discount rate of %	7.62	5.62-7.62	• Rental income per m2 was higher (lower)
	2017:	869 200		Occupancy rate of %	90	90	• The discount rate was lower (higher)
							• The occupancy rate was higher (lower)

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Type	EUR	Valuation technique	Significant unobservable inputs: Input	31.12.2018	31.12.2017	Inter-relation between significant unobservable inputs and fair value measurement
Construction objects and related land plots in Riga (Kaleju street) *		Comparable transaction method	Sales price varies from EUR to EUR per m2	5042 - 5360	-	The estimated fair value would increase (decrease) if:
2018:	1 400 000					• Sales price per m2 was higher (lower)
2017:	-					
Construction objects and related land plots in Jurmala (Rītupes street)		Comparable transaction method	Sales price varies from EUR to EUR per m2	1050 - 1109	720	The estimated fair value would increase (decrease) if:
2018:	372 000					• Sales price per m2 was higher (lower)
2017:	372 000					-
Construction objects and related land plots in Belarus *		The sale price specified in the sale agreement	The final sale price EUR per m2	914	914	The estimated fair value would increase (decrease) if:
2018:	354 034					• Sales price per m2 was higher (lower)
2017:	354 034					
The attic and land plot in Riga (Tallinas street)		Income approach	Rental income per m2 of EUR	5 - 7	-	The estimated fair value would increase (decrease) if:
2018:	301 600	-	Discount rate of %	8 - 12	-	• The discount rate was lower (higher)
2017:	280 000		The final sale price EUR per m2	1 618	1 618	• Sales price per m2 was higher (lower)
Apartments in Riga (Merķeļa street)		Comparable transaction method	Sales price varies from EUR to EUR per m2	1117 - 2105	1571-2325	The estimated fair value would increase (decrease) if:
2018:	323 000					• Sales price per m2 was higher (lower)
2017:	322 200					
Apartments in Bulgaria		Comparable transaction method	Sales price varies from EUR to EUR per m2	1281 - 1900	1281-1900	The estimated fair value would increase (decrease) if:
2018:	1 151 481		Discount rate of %	1	1	• Sales price per m2 was higher (lower)
2017:	780 947					

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Type		EUR	Valuation technique	Significant unobservable inputs: Input	31.12.2018	31.12.2017	Inter-relation between significant unobservable inputs and fair value measurement
Premises in Belarus *			The sale price specified in the sale agreement	Sales price varies from EUR to EUR per m2	650	842	The estimated fair value would increase (decrease) if:
	2018:	250 965					• Sales price per m2 was higher (lower)
	2017:	325 239					

Investment property: EUR 9 840 555 - 2018

Investment property: EUR 7 186 581 - 2017

Bank's investment property is marked with *

24 PROPERTY AND EQUIPMENT

					Group
	Buildings and land (own use) EUR	**Motor vehicles EUR**	**Office equipment EUR**	**Construction in progress EUR**	**Total EUR**
Acquisition cost					
As of 31 December 2016	**17 006 394**	**351 460**	**4 477 407**	**145 404**	**21 980 665**
Additions	-	137 088	198 474	74 026	409 588
Disposals	-	(46 814)	(8 237)	-	(55 051)
As of 31 December 2017	**17 006 394**	**441 734**	**4 667 644**	**219 430**	**22 335 202**
Additions	-	-	776 741	436 427	1 213 168
Revaluation	49 395	-	-	-	49 395
Reclassification	(1 652 884)	-	-	-	(1 652 884)
As of 31 December 2018	**15 402 905**	**441 734**	**5 444 385**	**655 857**	**21 944 881**
Depreciation					
As of 31 December 2016	**(2 191 823)**	**(215 822)**	**(2 323 495)**	**-**	**(4 731 140)**
Depreciation	(295 088)	(56 091)	(547 084)	-	(898 263)
Disposals	-	42 420	4 388	-	46 808
As of 31 December 2017	**(2 486 911)**	**(229 493)**	**(2 866 191)**	**-**	**(5 582 595)**
Depreciation	(294 989)	(66 249)	(490 892)	-	(852 130)
Reclassification	252 884	-	-	-	252 884
As of 31 December 2018	**(2 529 016)**	**(295 742)**	**(3 357 083)**	**-**	**(6 181 841)**
Net book value					
As of 31 December 2016	**14 814 571**	**135 638**	**2 153 912**	**145 404**	**17 249 525**
As of 31 December 2017	**14 519 483**	**212 241**	**1 801 453**	**219 430**	**16 752 607**
As of 31 December 2018	**12 873 889**	**145 992**	**2 087 302**	**655 857**	**15 763 040**

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Bank

	Buildings and land (own use) EUR	Motor vehicles EUR	Office equipment EUR	Construction in progress EUR	Total EUR
Acquisition cost					
As of 31 December 2016	**17 006 394**	**351 460**	**4 474 584**	**145 404**	**21 977 842**
Additions	-	137 088	198 474	74 026	**409 588**
Disposals	-	(46 814)	(8 237)	-	**(55 051)**
As of 31 December 2017	**17 006 394**	**441 734**	**4 664 821**	**219 430**	**22 332 379**
Additions	-	-	776 741	436 427	**1 213 168**
Revaluation	49 395	-	-	-	**49 395**
Reclassification	(1 652 884)	-	-	-	**(1 652 884)**
As of 31 December 2018	**15 402 905**	**441 734**	**5 441 562**	**655 857**	**21 942 058**
Depreciation					
As of 31 December 2016	**(2 191 823)**	**(215 822)**	**(2 320 970)**	**-**	**(4 728 615)**
Depreciation	(294 989)	(56 091)	(547 084)	-	**(898 164)**
Disposals	-	42 420	4 388	-	**46 808**
As of 31 December 2017	**(2 486 812)**	**(229 493)**	**(2 863 666)**	**-**	**(5 579 971)**
Depreciation	(294 989)	(66 249)	(490 792)	-	**(852 030)**
Reclassification	252 884	-	-	-	**252 884**
As of 31 December 2018	**(2 528 917)**	**(295 742)**	**(3 354 458)**	**-**	**(6 179 117)**
Net book value					
As of 31 December 2016	**14 814 571**	**135 638**	**2 153 614**	**145 404**	**17 249 227**
As of 31 December 2017	**14 519 582**	**212 241**	**1 801 155**	**219 430**	**16 752 408**
As of 31 December 2018	**12 873 988**	**145 992**	**2 087 104**	**655 857**	**15 762 941**

As of 31 December 2018, the net carrying amount of motor vehicles includes ‘property revaluation reserve’ totalling EUR 34 900.

The fair value of motor vehicles was determined by an independent appraiser by using the comparable transaction method based on recent market transactions with similar vehicles between independent parties. The evaluation of motor vehicles was carried out in 2015.

The fair value of motor vehicles, taking into account their evaluation carried out in 2015 and the accumulated depreciation, is not significantly different from the carrying amount. The revaluated property and equipment fall within Level 3 of the fair value hierarchy. The management believes that any fair value sensitivity is not material to the financial statements.

Baltic International Bank has embarked on an ambitious project intended to renovate and refurbish five buildings in Riga at Kalēju street and Vecpilsētas street and build a publicly accessible quarter of the Old Riga. The hands-on exhibits and historic evidence will enable the visitors to understand how the urban areas developed over the past nine centuries.

Approximately five year ago, in 2014, the Bank’s senior management came forward with an initiative of refurbishing the quarter Kalēju Kvartāls. They decided to merge two important goals, namely, to build modern office spaces for the growing investment bank and preserve the cultural and historical testimony of the emergence and development of Riga.

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Notes to the separate and consolidated Financial Statements for the year ended 31 December 2018

Overall, the Kalēju Kvartāla project embraces five buildings and inner courtyard. To commence the construction works as soon as possible and convert the ideas into reality, we have decided to implement two standalone construction projects as follows:
1) „Refurbishment of buildings 004 and 005 in Riga at Kalēju street 43 / Vecpilsētas street 8": the commencement of the construction works is scheduled for autumn of 2018; in December 2019, we are planning to quit the old premises at Kalēju iela 43 (two buildings) and move to the new premises;
2) „Refurbishment of buildings 001, 002, 003 and inner courtyard in Riga at Kalēju iela 43 / Vecpilsētas iela 8": indicative period of commencement of the construction works is May 2020 (three buildings + inner courtyard).

The gross floor area of the buildings will increase up to 6200 m2 from 3932 m2, up 57%. The estimated budget earmarked for the refurbishment totals 9.4 million euros.

25 INTANGIBLE ASSETS

	Group and Bank Software EUR
Acquisition cost	
As of 31 December 2016	**6 642 491**
Additions	703 532
As of 31 December 2017	**7 346 023**
Additions	573 025
As of 31 December 2018	**7 919 048**
Amortisation	
As of 31 December 2016	**(2 534 621)**
Amortisation	(627 082)
As of 31 December 2017	**(3 161 703)**
Amortisation	(576 510)
As of 31 December 2018	**(3 738 213)**
Net book value	
As of 31 December 2016	**4 107 870**
As of 31 December 2017	**4 184 320**
As of 31 December 2018	**4 180 835**

Investments in Temenos T24, a packaged core banking software, total EUR 3 025 628.

26 DEFERRED EXPENSES AND ACCRUED INCOME

	Group 31.12.2018 EUR	**Bank 31.12.2018 EUR**	**Group 31.12.2017 EUR**	**Bank 31.12.2017 EUR**
Deferred expenses	1 481 192	1 480 210	1 516 206	1 515 453
Accrued income	1 489 770	1 494 179	1 087 606	1 083 377
	2 970 962	**2 974 389**	**2 603 812**	**2 598 830**
Allowances (Note 13)	(736 017)	(740 246)	(13 558)	(13 558)
	2 234 945	**2 234 143**	**2 590 254**	**2 585 272**

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27 OTHER ASSETS

	Group 31.12.2018 EUR	Bank 31.12.2018 EUR	Group 31.12.2017 EUR	Bank 31.12.2017 EUR
Financial assest				
Claim rights against Segesta	6 369 316	6 369 316	5 446 620	5 446 620
Accounts receivable	3 228 502	3 043 271	1 068 956	857 476
Funds placed in guarantee funds	185 037	185 037	177 539	177 539
Money in transit (replenishment of a correspondent account)	5 573	5 573	23 344	23 344
Unsettled spot forex transactions	907	907	57 258	57 258
Others	979 214	970 896	3 842	3 786
Non financial assest				
Precious metals	905 618	905 618	983 318	983 318
Prepaid taxes	204 036	145 253	401 394	401 394
Prepayments	160 476	160 476	576 977	576 977
	12 038 679	**11 786 347**	**8 739 248**	**8 527 712**
Allowances (Note 13)	(319 072)	(296 510)	(333 476)	(315 194)
	11 719 607	**11 489 837**	**8 405 772**	**8 212 518**

Precious metals are stated at fair value (level 1 of the fair value hierarchy).

The impairment allowance was made for accounts receivable.

The additional information regarding claim rights against Segesta is disclosed in Note 20 (i) Claims against the Oyston family.

28 DUE TO CREDIT INSTITUTIONS

	Group and Bank 31.12.2018 EUR	Group and Bank 31.12.2017 EUR
Repayable on demand	824 817	278 637
Term balances	12 250 000	14 160 000
	13 074 817	**14 438 637**

The table below shows geographical concentration:

	Group and Bank 31.12.2018 EUR	Group and Bank 31.12.2017 EUR
Due to central bank	12 250 000	14 160 000
Credit institutions incorporated in the Republic of Latvia	44 201	277 790
Credit institutions incorporated in other EU countries	686 448	-
Credit institutions incorporated in other non-OECD countries	94 168	847
	13 074 817	**14 438 637**

As at 31 December 2018 and 31 December 2017 due to credit institutions did not include any deposits serving as collateral for the outstanding loans.

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Concentration of due to credit institutions

As at 31 December 2018 and 31 December 2017, the Group and Bank had balances with one credit institution, which exceeded 10% of total placements by credit institutions. The gross values of these balances as of 31 December 2018 and 31 December 2017 were EUR 12 250 000 and EUR 14 160 000.

29 DEPOSITS

	Group 31.12.2018	Bank 31.12.2018	Group 31.12.2017	Bank 31.12.2017
Repayable on demand	**EUR**	**EUR**	**EUR**	**EUR**
Corporate customers	130 077 648	130 222 634	116 034 510	116 201 868
Financial institutions	1 648 678	1 648 678	1 094 892	1 094 892
Public organisations	137 958	137 958	40	40
Individuals	50 753 552	50 753 552	41 422 195	41 422 195
	182 617 836	**182 762 822**	**158 551 637**	**158 718 995**
Term deposits				
Corporate customers	8 183 200	8 183 200	36 912 942	36 912 942
Financial institutions	1 675 951	1 675 951	2 155 423	2 155 423
Individuals	36 979 957	36 979 957	40 333 297	40 333 297
	46 839 108	**46 839 108**	**79 401 662**	**79 401 662**
Total deposits	**229 456 944**	**229 601 930**	**237 953 299**	**238 120 657**

30 DEBT SECURITIES IN ISSUE

During the year ended 31 December 2018, the issued debt securities of par value EUR 1 667 639 were redeemed.

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

	Group and Bank EUR
As of 31 December 2017	**1 668 612**
Change from financing cash flows	
Repayment of bonds issued	(1 733 402)
Total changes from financing cash flows	**(1 733 402)**
The effect of changes in foreign exchange rates	**66 740**
Liability – related	
Interest expense	16 352
Interest paid	(18 302)
Total liability-related other changes	(1 950)
As of 31 December 2018	**-**

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	Group and Bank
	EUR
As of 31 December 2016	**10 123 468**
Change from financing cash flows	
Repayment of bonds issued	(7 655 450)
Total changes from financing cash flows	**(7 655 450)**
The effect of changes in foreign exchange rates	**(764 037)**
Liability – related	
Interest expense	153 342
Interest paid	(188 711)
Total liability-related other changes	(35 369)
As of 31 December 2017	**1 668 612**

During the year ended 31 December 2018, an average annual interest rate of 2.1% was applied to the debt securities in issue. During the year ended 31 December 2017, an average annual interest rate of 2.1% was applied to the debt securities in issue. The securities issued in 2017 are publicly traded.

31 ACCRUED EXPENSES, PROVISIONS AND DEFERRED INCOME

	Group 31.12.2018 EUR	Bank 31.12.2018 EUR	Group 31.12.2017 EUR	Bank 31.12.2017 EUR
Accruals for other payments	716 430	716 373	1 055 371	1 055 306
Provision for unused vacation	288 383	288 383	292 781	292 670
Accrued payable to the Deposit Guarantee Scheme (DGS)	48 516	48 516	51 302	51 302
Allowance for off-balance sheet exposures (Note 13)	46 588	95 624	-	-
Other accrued expense	32 946	27 583	29 820	25 475
Deferred income	104 664	105 008	199 100	199 482
	1 237 527	**1 281 487**	**1 628 374**	**1 624 235**

32 OTHER LIABILITIES

	Group 31.12.2018 EUR	Bank 31.12.2018 EUR	Group 31.12.2017 EUR	Bank 31.12.2017 EUR
Money in Transit	4 105 618	4 105 618	2 105 253	2 105 253
Staff salaries	204 526	204 526	219 813	219 813
Collateral securing the obligations	40 587	40 587	3 494	3 494
Unsettled spot forex transactions	1 254	1 254	52 962	52 962
Other accounts payable	530 509	418 575	423 604	347 386
	4 882 494	**4 770 560**	**2 805 126**	**2 728 908**

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33 SUBORDINATED LIABILITIES

Subordinated liabilities do not have a fixed maturity date with the possibility of terminating the agreement by giving Bank a notice of termination at least 5 years and 2 weeks prior to the intended withdrawal date. Subordinated deposits are repayable before maturity only on winding up or bankruptcy of the Bank and rank before the shareholders' claims.

As at 31 December 2018, the Bank had one customer whose deposit exceeded 10% of the total volume of subordinated deposits.

							Group and Bank
Depositor	**Currency**	**Amount in currency**	**Interest rate**	**The date of conclusion of the loan agreement**	**Repayment date**	**Amount 31.12.2018 EUR**	**Amount 31.12.2017 EUR**
Diana Belokon	GBP	2 500 475	7.00%	30.04.2013	14.01.2023	2 795 307	2 818 854
Total						**2 795 307**	**2 818 854**

	Group and Bank 31.12.2018 EUR	Group and Bank 31.12.2017 EUR
Residents of the Republic of Latvia		
Individuals	*7 651 057*	*9 248 257*
Residents of other countries		
Corporate customers	*500 069*	*500 139*
Individuals	*5 484 871*	*4 889 859*
	13 635 997	**14 638 255**

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

	Group and Bank Subordinated liabilities EUR
As of 31 December 2017	**14 638 255**
Change from financing cash flows	
Subordinated liabilities	256 165
Cash paid out to repay subordinated debt	(1 312 464)
Total changes from financing cash flows	**(1 056 299)**
The effect of changes in foreign exchange rates	**101 203**
Liability – related	
Interest expense	735 999
Interest paid	(783 161)
Total liability-related other changes	**(47 162)**
As of 31 December 2018	**13 635 997**

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	Group and Bank Subordinated liabilities EUR
As of 31 December 2016	**16 026 412**
Change from financing cash flows	
Subordinated liabilities	498 776
Cash paid out to repay subordinated debt	(1 131 120)
Total changes from financing cash flows	**(632 344)**
The effect of changes in foreign exchange rates	**(726 027)**
Liability – related	
Interest expense	770 448
Interest paid	(800 234)
Total liability-related other changes	**(29 786)**
As of 31 December 2017	**14 638 255**

34 SHAREHOLDERS' EQUITY

The Bank's share capital totals EUR 33 626 395 and is divided into 4 736 112 ordinary shares carrying identical voting rights (on 31 December 2017: 31 496 395 and is divided into 4 436 112 ordinary shares carrying identical voting rights). The nominal value of one share is EUR 7.10.

All shares are registered. Each share carries the right to one vote at the meetings of shareholders, a right to receive dividends as declared from time to time and a right to residual assets. Of the Bank's 92 shareholders, 27 are legal entities and 65 are individuals.

Reserve capital in the amount of EUR 835 152 (31 December 2017: EUR 835 152) is formed from the contributions made by the Bank's shareholders. The Bank's General Meeting of Shareholders makes the decision concerning further usage of reserve capital. Reserve capital can be used to:
- cover losses;
- increase the share capital;
- pay dividends.

	Quantity	Amount EUR
Total paid-in share capital 31 December 2016	**4 436 112**	**31 496 395**
Total paid-in share capital 31 December 2017	**4 436 112**	**31 496 395**
Increase of paid-in share capital	300 000	2 130 000
Total paid-in share capital 31 December 2018	**4 736 112**	**33 626 395**

Listed below are the shareholders who control more than 10 percent of the shares in the shareholders' equity:

	31.12.2018	31.12.2017
Valeri Belokon	66.95%	69.90%
Vilori Belokon	33.00%	30.05%

35 SURETIES AND COMMITMENTS

Sureties and guarantees, which represent irrevocable assurances and promise that the Bank will make payments to the beneficiary (third party) in the event that the obligor (customer) fails to honor his/her obligations to third parties, carry the same credit risk as loans.

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Commitments to extend credit and liabilities for credit cards represent unused portions of authorisations to extend credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to the total unused commitments.

	Group 31.12.2018 EUR	Bank 31.12.2018 EUR	Group 31.12.2017 EUR	Bank 31.12.2017 EUR
Sureties and guarantees	**913 977**	**913 977**	**210 102**	**210 102**
Commitments to customers	**4 239 575**	**4 353 597**	**6 292 907**	**6 378 065**
Commitments to extend credit	641 952	755 974	1 328 000	1 413 158
Unused creditcard limits	351 418	351 418	346 095	346 095
Safe custody of gold bullion	1 186 221	1 186 221	1 046 218	1 046 218
Irrevocable futures contracts (to buy assets a	2 059 984	2 059 984	3 572 594	3 572 594
	5 153 552	**5 267 574**	**6 503 009**	**6 588 167**

(a) Contingent Liability

The FCMC conducted a limited-scope audit of the effectiveness of the Bank's anti-money laundering internal control system at the start of 2018. The Bank has not received final results of this audit by the date of approval of these financial statements and there is an ongoing discussion on the initial findings reported by the FCMC's auditors. It is probable that the final results of the audit may indicate incompliance with the requirements set-out in respective legislation.

According to the applicable Law on the prevention of money laundering and terrorism financing, FCMC has the right to impose a fine on the Bank in amount of up to a maximum of 10% of its annual unconsolidated turnover based on latest audited financial statements or up to EUR 5 000 thousand if 10% of the annual unconsolidated turnover is below EUR 5 000 thousand. Fines paid by other Latvian banks for incompliances in this area were in the range between EUR 1.2 and 2.2 million during 2017 and 2018.

Based on the status of communication process and information available so far FCMC, management has concluded that at the current stage it is not able to determine a reasonable estimate of potential outflow of economic benefits, if any, as a result of fines which could be ordered by the FCMC based on its audit results. Therefore, it has made no provisions related to this contingent liability in these financial statements.

36 TRUST AGREEMENTS

The Bank enters into trust agreements with individuals and legal entities, residents and non-residents of the Republic of Latvia. The Bank accepts no risk for its trust operations; all risks are retained by its clients. As of 31 December 2018, assets administered by the Bank totaled EUR 74 340 738. As of 31 December 2017, the Bank's administered assets stood at EUR 68 169 151.

37 LITIGATION

In the ordinary course of business, the Group and the Bank are exposed to litigation risks. The management believes that the ultimate loss, if any, arising in connection with litigation or complaints will not have a materially adverse effect on the Bank's financial position or results of future operations. No provisions were recognized as at 31 December 2018 and 2017. Additional information concerning litigation is disclosed in Note 20.

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38 RELATED PARTY TRANSACTIONS

The outstanding balances as of 31 December 2018 and related income statement amounts of transactions for the year ended 31 December 2018 with related parties are as follows:

					Group
31 December 2018	**Associate EUR**	**Share-holders, Members of the Supervi-sory Council and Manage-ment Board EUR**	**Other senior executi-ves**	**Related to share-holders and manage-ment EUR**	**Total EUR**
Assets					
Loans	40 301	438 286	-	1 235 841	**1 714 428**
Other assets	-	1 062 010	-	1 053	**1 063 063**
Liabilities					
Deposits	2 293	234 986	8 372	399 704	**645 355**
Subordinated liabilities	-	-	1 000 000	500 293	**1 500 293**
Income/expenses					
Interest income	9 654	13 770	-	172 460	**195 884**
Interest expense	-	2 227	-	303 014	**305 241**
Remuneration expense	-	1 091 740	-	-	**1 091 740**

Separate and consolidated Financial Statements

Notes to the separate and consolidated Financial Statements for the year ended 31 December 2018

Bank

31 December 2018	Subsidiary EUR	Associate EUR	Shareholders, Members of the Supervisory Council and Management Board EUR	Other senior executives EUR	Related to shareholders and management EUR	Total EUR
Assets						
Loans	1 017 953	40 301	438 286	-	1 235 841	**2 732 381**
Other assets	208 928	-	1 062 010	-	1 053	**1 271 991**
Liabilities						
Deposits	144 986	2 293	234 986	8 372	399 704	**790 341**
Subordinated liabilities	-	-	-	1 000 000	500 293	**1 500 293**
Income/expenses						
Interest income	19 174	9 654	13 770	-	172 460	**215 058**
Interest expense	150	-	2 227	-	303 014	**305 391**
Remuneration expense	-	-	1 091 740	-	-	**1 091 740**
Impairment loss	132 066	-	-	-	-	**132 066**

Group

31 December 2017	Associate EUR	Shareholders, Members of the Supervisory Council and Management Board EUR	Related to shareholders and management EUR	Total EUR
Assets				
Loans	124 422	439 856	3 547 580	**4 111 858**
Liabilities				
Deposits	1 656	74 093	6 155 074	**6 230 823**
Subordinated liabilities	-	-	4 317 759	**4 317 759**
Income/expenses				
Interest income	3 978	1 043	61 512	**66 533**
Interest expense	-	2 227	2 119	**4 346**
Fee and commission expense	-	-	326 156	**326 156**
Remuneration expense	-	1 041 030	-	**1 041 030**

Separate and consolidated Financial Statements

Notes to the separate and consolidated Financial Statements for the year ended 31 December 2017

					Bank
31 December 2017	**Subsidiary EUR**	**Associate EUR**	**Shareholders, Members of the Supervisory Council and Management Board EUR**	**Related to shareholders and management EUR**	**Total EUR**
Assets					
Loans	848 634	124 422	439 856	3 287 366	**4 700 278**
Other assets	101 207	-	-	-	**101 207**
Liabilities					
Deposits	167 358	1 656	74 093	6 155 074	**6 398 181**
Subordinated liabilities	-	-	-	4 317 759	**4 317 759**
Income/expenses					
Interest income	20 065	3 978	1 043	61 512	**86 598**
Interest expense	25	-	2 227	2 119	**4 371**
Remuneration expense	-	-	1 041 030	-	**1 041 030**
Impairment loss	1 906 791	-	-	-	**1 906 791**

All related party transactions are at arm’s length.

39 CAPITAL ADEQUACY CALCULATION

The Financial and Capital Market Commission sets forth capital requirements for the Bank as a whole and supervises the adherence to the requirements.

According to the specific requirement of the FCMC, the Bank ir required to maintain capital adequacy ratio above minimum level – 12.9% for the period starting from 1 December 2017 till 31 December 2018 (from 1 October 2016 till 30 September 2017: 10.2%). In addition to the minimum level which is set by the FCMC, the Bank has to comply with the requirement regarding capital buffers (is defined in Credit Instituution Law) which currenctly are equal to 2.5%. Capital buffers have to ensure by Common Equity Tier 1 capital. To ensure compliance with capital adequacy levels the Bank’s shareholders have commenced a process of increasing the share capital.

The Bank also monitors its capital adequacy levels calculated in accordance with the requirements of the New Basel Capital Accord, commonly known as Basel III.

Separate and consolidated Financial Statements

for the year ended 31 December 2018
Notes to the separate and consolidated Financial Statements

The following table shows the composition of the Bank's capital position calculated in accordance with the requirements of the Basle Accord, as at 31 December 2018:

Total equity capital	**Group EUR**	**Bank EUR**
Paid-in share capital	33 626 395	33 626 395
Reserve capital and other reserves	835 152	835 152
Accumulated losses for the previous years	(9 034 127)	(9 297 900)
Loss for the period	(2 143 054)	(1 949 939)
Intangible assets	(4 180 835)	(4 180 835)
Specific decline in Tier 1 capital, as stipulated by the applicable law	(4 013 969)	(4 013 969)
Available for sale instruments revaluation reserve	8 367	8 367
Value adjustment while applying prudent valuation	(29 308)	(29 308)
Other capital adjustments during the transitional period	505 950	505 950
Tier 1 Core Capital	**15 574 571**	**15 503 913**
Subordinated liabilities	7 249 585	7 249 585
Tier 2 Supplementary Capital	**7 249 585**	**7 249 585**
TOTAL CAPITAL	**22 824 156**	**22 753 498**
Capital charge for credit risk inherent in the Bank's book	11 279 211	11 326 380
The total capital charge for market risks	84 997	84 997
Capital charge for operational risk	2 700 365	2 695 768
The own funds requirement for credit valuation adjustment (CVA) risk	23	23
Total capital charge	**14 064 596**	**14 107 168**
CAPITAL ADEQUACY RATIOS		
Common Equity Tier 1 capital ratio	8.86%	8.79%
Tier 1 capital ratio	8.86%	8.79%
CAPITAL ADEQUACY RATIOS 31 December 2018	**12.98%**	**12.90%**
CAPITAL ADEQUACY RATIOS 31 December 2017	**13.14%**	**13.00%**

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for sureties and commitments, with some adjustments to reflect the more contingent nature of the potential losses.

The Bank is subject to minimum capital adequacy requirements calculated in accordance with the Basle Accord established by covenants under liabilities incurred by the Bank.

To calculate the required capital charge in accordance with the minimum regulatory capital requirements, Bank applies the following approaches:

- capital charge for credit risk – the Standardised Approach;
- capital charge for market risk –the Standardised Approach;
- capital charge for operational risk – the Basic Indicator Approach.

Separate and consolidated Financial Statements

**Notes to the separate and consolidated Financial Statements
for the year ended 31 December 2018**

40 TERM STRUCTURE OF ASSETS AND LIABILITIES

The following tables are based on regulatory instructions of the Financial and Capital Market Commission and show the term structure of assets and liabilities. This term structure will not necessarily coincide with discounted cash flows.

Group

As of 31 December 2018	**Demand**	**Less than 1 month**	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**1 to 5 years**	**5 years and more**	**With no stated maturity or pledged as collateral**	**TOTAL**
ASSETS	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**
Cash and due from central banks	119 858 040	-	-	-	-	-	-	-	**119 858 040**
Due on demand from credit institutions	10 025 911	-	-	-	-	-	-	1 852 486	**11 878 397**
Financial assets at fair value through profit or loss	-	39 804	-	-	-	-	5 449 132	-	**5 488 936**
Equity instruments	-	*34 480*	-	-	-	-	*5 449 132*	-	***5 483 612***
Derivative financial instruments	-	*5 324*	-	-	-	-	-	-	***5 324***
Financial assets at fair value through other comprehensive income	-	-	4 016 319	2 632	8 294	-	-	4 572 034	**8 599 279**
Equity instruments	-	-	-	-	-	-	-	*206 663*	***206 663***
Debt instruments	-	-	*4 016 319*	*2 632*	*8 294*	-	-	*4 365 371*	***8 392 616***
Financial assets at amortised cost	933 135	1 268 089	17 274 422	2 021 893	10 193 881	8 792 572	15 612 628	39 088 610	**95 185 230**
Debt instruments	-	-	*14 948 595*	*106 993*	*976 017*	*12 282*	-	*15 165 338*	***31 209 225***
Due from credit institutions	-	-	-	-	-	-	-	*801 449*	***801 449***
Loans	*933 135*	*1 268 089*	*2 325 827*	*1 914 900*	*9 217 864*	*8 780 290*	*15 612 628*	*23 121 823*	***63 174 556***
Other financial assets	1 116 102	166 040	625 715	228 013	7 620 934	51 260	-	5 004 898	**14 812 962**
Non-financial assets	-	-	-	-	-	-	-	29 784 430	**29 784 430**
Total assets	**131 933 188**	**1 473 933**	**21 916 456**	**2 252 538**	**17 823 109**	**8 843 832**	**21 061 760**	**80 302 458**	**285 607 274**
LIABILITIES AND SHAREHOLDERS' EQUITY									
Due to credit institutions	824 817	-	-	-	-	-	-	12 250 000	**13 074 817**
Deposits	183 095 749	1 353 774	11 964 560	4 603 705	22 425 362	4 041 723	264 985	1 707 086	**229 456 944**
Loans	-	15 909	-	-	-	-	-	-	**15 909**
Subordinated liabilities	-	341 481	896 356	2 514 579	1 730 170	4 858 647	3 294 764	-	**13 635 997**
Non-financial liabilities	5 607 798	438 930	474	1 113	16 589	65 970	-	-	**6 130 874**
Shareholders' equity	-	-	-	-	-	-	-	23 292 733	**23 292 733**
Total liabilities and shareholders' equity	**189 528 364**	**2 150 094**	**12 861 390**	**7 119 397**	**24 172 121**	**8 966 340**	**3 559 749**	**37 249 819**	**285 607 274**
Sureties and commitments *	2 952 165	-	-	-	-	-	-	-	**2 952 165**
Maturity gap	**(60 547 341)**	**(676 161)**	**9 055 066**	**(4 866 859)**	**(6 349 012)**	**(122 508)**	**17 502 011**	**x**	**x**

* Sureties and commitments are diminished by the amount of the issued guarantees and loans secured by the deposits placed with the Bank and totaling EUR 1 015 166. The value of vaulted gold is EUR 1 186 221.

As of 31 December 2017

Assets	148 405 189	6 634 472	4 456 317	6 149 336	9 526 396	43 539 567	5 554 701	73 771 013	**298 036 991**
Liabilities and equity	162 749 153	3 615 238	31 708 320	12 258 988	25 410 709	15 088 230	4 413 722	42 792 631	**298 036 991**
Sureties and commitments *	5 165 739	-	-	-	-	-	-	4 013	**5 169 752**
Maturity gap	**(19 509 703)**	**3 019 234**	**(27 252 003)**	**(6 109 652)**	**(15 884 313)**	**28 451 337**	**1 140 979**	**x**	**x**

* Sureties and commitments are diminished by the amount of the issued guarantees and loans secured by the deposits placed with the Bank and totaling EUR 287 039. The value of vaulted gold is EUR 1 046 218.

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Notes to the separate and consolidated Financial Statements for the year ended 31 December 2018

Bank

As of 31 December 2018	**Demand**	**Less than 1 month**	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**1 to 5 years**	**5 years and more**	**With no stated maturity or pledged as collateral**	**TOTAL**
ASSETS	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**
Cash and due from central banks	119 858 040	-	-	-	-	-	-	-	**119 858 040**
Due on demand from credit institutions	10 025 911	-	-	-	-	-	-	1 852 486	**11 878 397**
Financial assets at fair value through profit or loss	-	39 804	-	-	-	-	5 449 132	-	**5 488 936**
Equity instruments	-	*34 480*	-	-	-	-	*5 449 132*	-	***5 483 612***
Derivative financial instruments	-	*5 324*	-	-	-	-	-	-	***5 324***
Financial assets at fair value through other comprehensive income	-	-	4 016 319	2 632	8 294	-	-	4 572 034	**8 599 279**
Equity instruments	-	-	-	-	-	-	-	*206 663*	***206 663***
Debt instruments	-	-	*4 016 319*	*2 632*	*8 294*	-	-	*4 365 371*	***8 392 616***
Financial assets at amortised cost	933 135	1 676 253	17 274 422	2 138 053	10 530 539	8 949 543	15 612 628	39 088 610	**96 203 183**
Debt instruments	-	-	*14 948 595*	*106 993*	*976 017*	*12 282*	-	*15 165 338*	***31 209 225***
Due from credit institutions	-	-	-	-	-	-	-	*801 449*	***801 449***
Loans	*933 135*	*1 676 253*	*2 325 827*	*2 031 060*	*9 554 522*	*8 937 261*	*15 612 628*	*23 121 823*	***64 192 509***
Other financial assets	885 530	166 040	625 715	228 013	7 620 934	51 260	-	7 145 851	**16 723 343**
Non-financial assets	-	-	-	-	-	-	-	26 862 450	**26 862 450**
Total assets	**131 702 616**	**1 882 097**	**21 916 456**	**2 368 698**	**18 159 767**	**9 000 803**	**21 061 760**	**79 521 431**	**285 613 628**
LIABILITIES AND SHAREHOLDERS' EQUITY									
Due to credit institutions	824 817	-	-	-	-	-	-	12 250 000	**13 074 817**
Deposits	183 240 735	1 353 774	11 964 560	4 603 705	22 425 362	4 041 723	264 985	1 707 086	**229 601 930**
Loans	-	15 909	-	-	-	-	-	-	**15 909**
Subordinated liabilities	-	341 481	896 356	2 514 579	1 730 170	4 858 647	3 294 764	-	**13 635 997**
Non-financial liabilities	5 539 824	438 930	474	1 113	16 589	65 970	-	-	**6 062 900**
Shareholders' equity	-	-	-	-	-	-	-	23 222 075	**23 222 075**
Total liabilities and shareholders' equity	**189 605 376**	**2 150 094**	**12 861 390**	**7 119 397**	**24 172 121**	**8 966 340**	**3 559 749**	**37 179 161**	**285 613 628**
Sureties and commitments *	3 066 186	-	-	-	-	-	-	-	**3 066 187**
Maturity gap	**(60 968 946)**	**(267 997)**	**9 055 066**	**(4 750 699)**	**(6 012 354)**	**34 463**	**17 502 011**	**x**	**x**

* Sureties and commitments are diminished by the amount of the issued guarantees and loans secured by the deposits placed with the Bank and totaling EUR 1 015 166. The value of vaulted gold is EUR 1 186 221.

As of 31 December 2017									
Assets	148 302 615	6 746 790	4 456 317	6 149 336	9 666 305	44 425 642	5 554 701	72 645 517	**297 947 223**
Liabilities and equity	162 840 001	3 615 238	31 708 320	12 258 988	25 410 709	15 088 230	4 413 722	42 612 015	**297 947 223**
Sureties and commitments *	5 250 897	-	-	-	-	-	-	4 013	**5 254 910**
Maturity gap	**(19 788 283)**	**3 131 552**	**(27 252 003)**	**(6 109 652)**	**(15 744 404)**	**29 337 412**	**1 140 979**	**x**	**x**

* Sureties and commitments are diminished by the amount of the issued guarantees and loans secured by the deposits placed with the Bank and totaling EUR 287 039. The value of vaulted gold is EUR 1 046 218.

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Notes to the separate and consolidated Financial Statements
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41 CONTRACTUAL CASH FLOWS

Analysis of the Bank's financial liabilities' contractual undiscounted cash flows:

As of 31 December 2018	Demand and less than 1 month EUR	1 to 3 months EUR	3 to 6 months EUR	6 to 12 months EUR	More than 1 year EUR	Total gross amount outflow/ (inflow) EUR	Carrying amount EUR
Non-derivative liabilities							
Deposits and balances due to financial institutions	824 817	-	-	-	12 250 000	13 074 817	**13 074 817**
Current accounts and deposits due to customers	186 301 985	11 971 797	4 636 360	22 603 157	4 480 152	229 993 451	**229 601 930**
Other borrowed funds	341 729	904 913	2 559 205	1 783 762	9 505 092	15 094 701	**13 635 997**
Derivative liabilities							
- Inflow	(4 625 324)	-	-	-	-	(4 625 324)	**10 585**
- Outflow	4 630 157	-	-	-	-	4 630 157	**-**
Total	**187 473 364**	**12 876 710**	**7 195 565**	**24 386 919**	**26 235 244**	**258 167 802**	**256 323 329**
Credit related commitments	5 267 574	-	-	-	-	-	**-**

As of 31 December 2017	Demand and less than 1 month EUR	1 to 3 months EUR	3 to 6 months EUR	6 to 12 months EUR	More than 1 year EUR	Total gross amount outflow/ (inflow) EUR	Carrying amount EUR
Non-derivative liabilities							
Deposits and balances due to financial institutions	278 315	-	-	-	14 160 000	14 438 315	**14 438 637**
Current accounts and deposits due to customers	166 670 873	31 723 993	9 968 553	25 123 007	6 180 287	239 666 713	**238 120 657**
Other borrowed funds	1 679	-	2 365 150	512 104	15 992 773	18 871 706	**16 306 867**
Derivative liabilities							
- Inflow	(41 545 127)	-	-	-	-	(41 545 127)	**461 276**
- Outflow	42 001 915	-	-	-	-	42 001 915	**-**
Total	**167 407 655**	**31 723 993**	**12 333 703**	**25 635 111**	**36 333 060**	**273 433 522**	**269 327 437**
Credit related commitments	6 588 167	-	-	-	-	-	**-**

The analyses of contractual undiscounted cash flows on the Group's and the Bank's financial liabilties do not vary significantly.

Separate and consolidated Financial Statements

Notes to the separate and consolidated Financial Statements
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42 ANALYSIS OF ASSETS AND LIABILITIES BY CURRENCY PROFILE

As of 31 December 2018							**Group**
ASSETS	**EUR**	**USD**	**GBP**	**RUB**	**CHF**	**Other currencies**	**TOTAL EUR**
Cash and due on demand from central banks	119 425 845	424 059	509	-	1 979	5 648	**119 858 040**
Due on demand from credit institutions	2 489 817	6 935 304	658 729	210 935	1 252 387	331 225	**11 878 397**
Financial assets at fair value through profit or loss	3 838 420	1 064 142	586 374	-	-	-	**5 488 936**
Equity instruments	*3 833 096*	1 064 142	*586 374*	-	-	-	***5 483 612***
Derivative financial instruments	*5 324*	-	-	-	-	-	***5 324***
Financial assets at fair value through other comprehensive income	206 663	8 392 616	-	-	-	-	**8 599 279**
Equity instruments	*206 663*	-	-	-	-	-	***206 663***
Debt instruments	-	8 392 616	-	-	-	-	***8 392 616***
Financial assets at amortised cost	32 016 445	49 124 203	14 040 861	3 717	4	-	**95 185 230**
Debt instruments	*1 638 535*	29 570 690	-	-	-	-	***31 209 225***
Due from credit institutions	*374 781*	426 668	-	-	-	-	***801 449***
Loans	*30 003 129*	19 126 845	*14 040 861*	*3 717*	4	-	***63 174 556***
Other financial assets	3 072 806	1 459 718	9 373 413	-	-	907 025	**14 812 962**
Non-financial assets	29 784 430	-	-	-	-	-	**29 784 430**
Total assets	**190 834 426**	**67 400 042**	**24 659 886**	**214 652**	**1 254 370**	**1 243 898**	**285 607 274**
LIABILITIES AND SHAREHOLDERS' EQUITY							
Due to credit institutions	13 036 857	37 960	-	-	-	-	**13 074 817**
Deposits	140 347 222	66 967 316	19 080 525	555 912	1 431 584	1 074 385	**229 456 944**
Derivative financial instruments	15 909	-	-	-	-	-	**15 909**
Subordinated liabilities	7 647 078	2 856 449	3 132 470	-	-	-	**13 635 997**
Non-financial liabilities	4 520 879	1 382 805	181 322	35 272	-	10 596	**6 130 874**
Shareholders' equity	23 292 733	-	-	-	-	-	**23 292 733**
Total liabilities and shareholders' equity	**188 860 678**	**71 244 530**	**22 394 317**	**591 184**	**1 431 584**	**1 084 981**	**285 607 274**
GROSS POSITION	**1 973 748**	**(3 844 488)**	**2 265 569**	**(376 532)**	**(177 214)**	**158 917**	
Unsettled spot forex contracts	(394 761)	(157 343)	-	381 365	170 392	-	
Forward contracts	(2 180 000)	3 405 324	(1 230 157)	-	-	-	
NET POSITION	**(601 013)**	**(596 507)**	**1 035 412**	**4 833**	**(6 822)**	**158 917**	
Ratio to the shareholders' equity (%)*		-2.61%	4.54%	0.02%	-0.03%		
As of 31 December 2017							
Assets	191 229 385	75 268 319	29 860 544	70 233	493 103	1 115 407	**298 036 991**
Liabilities and equity	155 088 331	111 692 032	29 752 441	68 404	585 871	849 912	**298 036 991**
Gross position	**36 141 054**	**(36 423 713)**	**108 103**	**1 829**	**(92 768)**	**265 495**	
Net position	**(32 074 208)**	**3 392 428**	**628 347**	**17 759**	**(25 262)**	**206 379**	

* Regulatory capital (net worth) totalling EUR 22 824 156 as of 31 December 2018 (as of 31 December 2017: 25 014 022).

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As of 31 December 2018							Bank
ASSETS	**EUR**	**USD**	**GBP**	**RUB**	**CHF**	**Other currencies**	**TOTAL EUR**
Cash and due on demand from central banks	119 425 845	424 059	509	-	1 979	5 648	**119 858 040**
Due on demand from credit institutions	2 489 817	6 935 304	658 729	210 935	1 252 387	331 225	**11 878 397**
Financial assets at fair value through profit or loss	3 838 420	1 064 142	586 374	-	-	-	**5 488 936**
Debt instruments	-	-	-	-	-	-	**-**
Derivative financial instruments	*5 324*	-	-	-	-	-	***5 324***
Financial assets at fair value through other comprehensive income	206 663	8 392 616	-	-	-	-	**8 599 279**
Equity instruments	*206 663*	-	-	-	-	-	***206 663***
Debt instruments	-	*8 392 616*	-	-	-	-	***8 392 616***
Financial assets at amortised cost	33 034 398	49 124 203	14 040 861	3 717	4	-	**96 203 183**
Debt instruments	*1 638 535*	*29 570 690*	-	-	-	-	***31 209 225***
Due from credit institutions	*374 781*	*426 668*	-	-	-	-	***801 449***
Loans	*31 021 082*	*19 126 845*	*14 040 861*	*3 717*	*4*	-	***64 192 509***
Other financial assets	4 983 187	1 459 718	9 373 413	-	-	907 025	**16 723 343**
Non-financial assets	26 862 450	-	-	-	-	-	**26 862 450**
Total assets	**190 840 780**	**67 400 042**	**24 659 886**	**214 652**	**1 254 370**	**1 243 898**	**285 613 628**
LIABILITIES AND SHAREHOLDERS' EQUITY							
Due to credit institutions	13 036 857	37 960	-	-	-	-	**13 074 817**
Deposits	140 492 208	66 967 316	19 080 525	555 912	1 431 584	1 074 385	**229 601 930**
Derivative financial instruments	15 909	-	-	-	-	-	**15 909**
Subordinated liabilities	7 647 078	2 856 449	3 132 470	-	-	-	**13 635 997**
Non-financial liabilities	4 452 905	1 382 805	181 322	35 272	-	10 596	**6 062 900**
Shareholders' equity	23 222 075	-	-	-	-	-	**23 222 075**
Total liabilities and shareholders' equity	**188 867 032**	**71 244 530**	**22 394 317**	**591 184**	**1 431 584**	**1 084 981**	**285 613 628**
GROSS POSITION	**1 973 748**	**(3 844 488)**	**2 265 569**	**(376 532)**	**(177 214)**	**158 917**	
Unsettled spot forex contracts	(394 761)	(157 343)	-	381 365	170 392	-	
Forward contracts	(2 180 000)	3 405 324	(1 230 157)	-	-	-	
NET POSITION	**(601 013)**	**(596 507)**	**1 035 412**	**4 833**	**(6 822)**	**158 917**	
Ratio to the shareholders' equity (%)*		-2.62%	4.55%	0.02%	-0.03%		
As of 31 December 2017							
Assets	191 139 616	75 268 319	29 860 544	70 233	493 103	1 115 408	**297 947 223**
Liabilities and equity	154 998 563	111 692 032	29 752 441	68 404	585 871	849 912	**297 947 223**
Gross position	**36 141 053**	**(36 423 713)**	**108 103**	**1 829**	**(92 768)**	**265 496**	
Net position	**25 896**	**(978 451)**	**220 796**	**3 987**	**9 784**	**265 496**	

* Regulatory capital (net worth) totalling EUR 22 753 498 as of 31 December 2018 (as of 31 December 2017: 24 850 402).

43 SENSITIVITIES ANALYSIS

Currency (foreign exchange) risk

The sum of overall foreign exchange exposure and the net position in gold stood at 4.59% of the Group's and Bank's equity as of 31 December 2018 (as of 31 December 2017: 1.91%).

Figures show that a 10 percent strengthening of the euro against other currencies may have the following impact on the Group's and Bank's profit (in EUR):

	31.12.2018	**31.12.2018**	**31.12.2018**	**31.12.2017**	**31.12.2017**	**31.12.2017**
	USD	**GBP**	**RUB**	**USD**	**GBP**	**RUB**
rate valid:	1.145	0.89453	79.7153	1.0541	0.8562	64.3000
foreign currency position (in EUR):	(596 507)	1 035 412	4 833	3 392 428	628 347	17 759
profit/(loss) (in EUR):	(59 651)	103 541	483	339 243	62 835	1 776

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44 REPRICING MATURITIES OF ASSETS AND LIABILITIES

The following table shows the earlier of the interest rate contracted re-pricing dates or contractual maturity of financial assets and liabilities.

Group

As of 31 December 2018	Up to 1 month (inclusive) EUR	1 to 3 months EUR	3 to 6 months EUR	6 to 12 months EUR	One year and more EUR	Non interest bearing EUR	TOTAL EUR
ASSETS							
Cash and due from central banks	119 858 040	-	-	-	-	-	**119 858 040**
Due on demand from credit institutions	11 878 397	-	-	-	-	-	**11 878 397**
Financial assets at fair value through profit or loss	5 324	-	-	-	-	5 483 612	**5 488 936**
Equity instruments	-	-	-	-	-	*5 483 612*	***5 483 612***
Derivative financial instruments	*5 324*	-	-	-	-	-	***5 324***
Financial assets at fair value through other comprehensive income	4 365 371	-	442 302	3 446 879	-	344 727	**8 599 279**
Financial assets at fair value through other comprehensive income	-	-	-	-	-	*206 663*	***206 663***
Equity instruments	*4 365 371*	-	*442 302*	*3 446 879*	-	*138 064*	***8 392 616***
Financial assets at amortised cost	14 364 840	2 027 850	9 870 342	8 399 756	45 436 068	15 086 374	**95 185 230**
##	-	-	*873 019*	-	*30 028 104*	*308 102*	***31 209 225***
Financial assets at amortised cost	*801 449*	-	-	-	-	-	***801 449***
Debt instruments	*13 563 391*	*2 027 850*	*8 997 323*	*8 399 756*	*15 407 964*	*14 778 272*	***63 174 556***
Other financial assets	3 582 705	-	-	7 336 461	800 036	3 093 760	**14 812 962**
Non-financial assets	-	-	-	-	-	29 784 430	**29 784 430**
Total assets	**154 054 677**	**2 027 850**	**10 312 644**	**19 183 096**	**46 236 104**	**53 792 903**	**285 607 274**
LIABILITIES AND SHAREHOLDERS' EQUITY							
Due to credit institutions	824 817	-	-	-	12 250 000	-	**13 074 817**
Deposits	186 152 439	11 957 024	4 574 233	22 360 559	4 262 522	150 167	**229 456 944**
Loans	15 909	-	-	-	-	-	**15 909**
Subordinated liabilities	340 611	896 245	2 513 624	1 730 131	8 153 410	1 976	**13 635 997**
Non-financial liabilities	5 180 356	-	-	-	-	950 518	**6 130 874**
Shareholders' equity	-	-	-	-	-	23 292 733	**23 292 733**
Total liabilities and shareholders' equity	**192 514 132**	**12 853 269**	**7 087 857**	**24 090 690**	**24 665 932**	**24 395 394**	**285 607 274**
Net position sensitive to interest rate risk	**(38 459 455)**	**(10 825 419)**	**3 224 787**	**(4 907 594)**	**21 570 172**	**29 397 509**	
Effect on annual net interest income	**(368 570)**	**(90 212)**	**20 155**	**(12 269)**	**-**	**-**	**(450 896)**

A 100 basis point decrease/increase in interest rates is likely to have effect (decrease/increase) on the Group's annual net interest income to the amount of EUR 450 896 (as of 31 December 2017: EUR 48 195).

A 100 basis point decrease/increase in interest rates is likely to have effect (decrease/increase) on the Group's other comprehensive income to the amount of EUR 36 859 (as of 31 December 2016: EUR 413 958).

As of 31 December 2017	Up to 1 month (inclusive) EUR	1 to 3 months EUR	3 to 6 months EUR	6 to 12 months EUR	One year and more EUR	Non interest bearing EUR	TOTAL EUR
Assets	126 026 890	4 430 222	9 113 923	16 157 109	69 673 029	72 635 818	**298 036 991**
Liabilities and equity	92 885 553	31 675 838	12 221 490	25 333 215	33 501 406	102 419 489	**298 036 991**
Net position sensitive to interest rate risk	**33 141 337**	**(27 245 616)**	**(3 107 567)**	**(9 176 106)**	**36 171 623**	**(29 783 671)**	

Bank

As of 31 December 2018	Up to 1 month (inclusive) EUR	1 to 3 months EUR	3 to 6 months EUR	6 to 12 months EUR	One year and more EUR	Non interest bearing EUR	TOTAL EUR
ASSETS							
Cash and due from central banks	119 858 040	-	-	-	-	-	**119 858 040**
Due on demand from credit institutions	11 878 397	-	-	-	-	-	**11 878 397**
Financial assets at fair value through profit or loss	5 324	-	-	-	-	5 483 612	**5 488 936**
Equity instruments	-	-	-	-	-	*5 483 612*	***5 483 612***
Derivative financial instruments	*5 324*	-	-	-	-	-	***5 324***
Financial assets at fair value through other comprehensive income	4 365 371	-	442 302	3 446 879	-	344 727	**8 599 279**
Financial assets at fair value through other comprehensive income	-	-	-	-	-	*206 663*	***206 663***
Equity instruments	*4 365 371*	-	*442 302*	*3 446 879*	-	*138 064*	***8 392 616***
Financial assets at amortised cost	14 772 357	2 027 850	9 986 503	8 737 060	45 593 038	15 086 375	**96 203 183**
##	-	-	*873 019*	-	*30 028 104*	*308 102*	***31 209 225***
Financial assets at amortised cost	*801 449*	-	-	-	-	-	***801 449***
Debt instruments	*13 970 908*	*2 027 850*	*9 113 484*	*8 737 060*	*15 564 934*	*14 778 273*	***64 192 509***
Other financial assets	3 352 934	-	-	7 336 461	800 036	5 233 912	**16 723 343**
Non-financial assets	-	-	-	-	-	26 862 450	**26 862 450**
Total assets	**154 232 423**	**2 027 850**	**10 428 805**	**19 520 400**	**46 393 074**	**53 011 076**	**285 613 628**
LIABILITIES AND SHAREHOLDERS' EQUITY							
Due to credit institutions	824 817	-	-	-	12 250 000	-	**13 074 817**
Deposits	186 297 426	11 957 024	4 574 233	22 360 559	4 262 522	150 166	**229 601 930**
Loans	15 909	-	-	-	-	-	**15 909**
Subordinated liabilities	340 611	896 245	2 513 624	1 730 131	8 153 410	1 976	**13 635 997**
Non-financial liabilities	5 068 422	-	-	-	-	994 478	**6 062 900**
Shareholders' equity	-	-	-	-	-	23 222 075	**23 222 075**
Total liabilities and shareholders' equity	**192 547 185**	**12 853 269**	**7 087 857**	**24 090 690**	**24 665 932**	**24 368 695**	**285 613 628**
Net position sensitive to interest rate risk	**(38 314 762)**	**(10 825 419)**	**3 340 948**	**(4 570 290)**	**21 727 142**	**28 642 381**	
Effect on annual net interest income	**(367 183)**	**(90 212)**	**20 881**	**(11 426)**	**-**	**-**	**(447 940)**

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A 100 basis point decrease/increase in interest rates is likely to have effect (decrease/increase) on the Bank's annual net interest income to the amount of 447 940 EUR (as of 31 December 2017: EUR 49 038).

A 100 basis point decrease/increase in interest rates is likely to have effect (decrease/increase) on the Bank's other comprehensive income to the amount of EUR 36 859 (as of 31 December 2016: EUR 413 958).

As of 31 December 2017	**Up to 1 month (inclusive)**	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**One year and more**	**Non interest bearing**	**TOTAL**
	EUR	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**
Assets	126 139 207	4 430 222	9 113 923	16 396 819	70 528 577	71 338 475	**297 947 223**
Liabilities and equity	92 885 553	31 775 863	12 221 490	25 333 215	33 501 406	102 229 696	**297 947 223**
Net position sensitive to interest rate risk	**33 253 654**	**(27 345 641)**	**(3 107 567)**	**(8 936 396)**	**37 027 171**	**(30 891 221)**	

45 CREDIT RISK

The table below shows the Bank's maximum exposure to credit risk for the components of the statement of financial position, including derivatives. Exposures are based on net carrying amounts as reported in the statement of financial position.

The maximum credit exposures are shown both gross, i.e. without taking into account any collateral and other credit enhancement, and net, i.e. after taking into account any collateral and other credit enhancement. The details on the type and amounts of collateral held are disclosed in the respective notes.

		Bank
	Maximum credit risk exposure 31.12.2018	**Maximum credit risk exposure 31.12.2017**
	EUR	**EUR**
Cash and due from central banks	118 427 279	104 336 344
Due on demand from credit institutions	11 878 397	24 323 327
Financial assets at fair value through profit or loss	15 645 708	4 638 802
Debt instruments	-	*87 319*
Derivative financial instruments	*5 324*	*365*
Loans	*15 640 384*	*4 551 118*
Financial assets at fair value through other comprehensive income	8 392 616	37 582 512
Debt instruments	*8 392 616*	*37 582 512*
Financial assets at amortised cost	108 877 707	79 335 105
Debt instruments	*31 209 225*	*16 295 393*
Due from credit institutions	*801 449*	*2 497 313*
Loans	*76 867 033*	*60 542 399*
Other assets	10 584 219	6 250 829
Total financial assets	**273 805 926**	**256 466 919**
Sureties (guarantees)	-	166 764
Commitments to customers	4 257 972	6 320 381
Total commitments and contingencies	**4 257 972**	**6 487 145**
Total maximum credit risk exposure	**278 063 898**	**262 954 064**

The maximum exposures to credit risks for the components at the statement of financial position of the Group and the Bank do not vary significantly.

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46 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES AND COMPARISON WITH FAIR VALUE

The estimated fair values of financial instruments at fair value through profit or loss, quoted available-for-sale assets, held-to-maturity investments and other borrowed funds are based on quoted market prices at the reporting date without any deduction for transaction costs.

The estimated fair values of all other financial assets and liabilities, except as described below, are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the reporting date.

The estimated fair value of the Bank's financial assets and liabilities are as follows:

As of 31 December 2018	Financial assets/ liabilities at amortised cost	Financial assets/ liabilities at fair value through profit and loss	Financial assets/ liabilities at fair value through other comprehensive income	Total	Fair value
ASSETS	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**
Cash and due from central banks	119 858 040	-	-	**119 858 040**	**119 858 040**
Due on demand from credit institutions	11 878 397	-	-	**11 878 397**	**11 878 397**
Financial assets at fair value through profit or loss	-	5 488 936	-	**5 488 936**	**5 488 936**
Equity instruments	-	*5 483 612*	-	***5 483 612***	***5 483 612***
Derivative financial instruments	-	*5 324*	-	***5 324***	***5 324***
Financial assets at fair value through other comprehensive income	-	-	8 599 279	**8 599 279**	**8 599 279**
Equity instruments	-	-	*206 663*	***206 663***	***206 663***
Debt instruments	-	-	*8 392 616*	***8 392 616***	***8 392 616***
Financial assets at amortised cost	96 203 183	-	-	**96 203 183**	**92 833 573**
Debt instruments	*31 209 225*	-	-	***31 209 225***	***30 547 918***
Due from credit institutions	*801 449*	-	-	***801 449***	***801 668***
Loans	*64 192 509*	-	-	***64 192 509***	***61 483 987***
Other financial assets	16 723 343	-	-	**16 723 343**	**16 723 343**
Total financial assets	**244 662 963**	**5 488 936**	**8 599 279**	**258 751 178**	**255 381 568**
Due to credit institutions	13 074 817	-	-	**13 074 817**	**12 652 374**
Deposits	229 601 930	-	-	**229 601 930**	**229 673 442**
Derivative financial instruments	-	15 909	-	**15 909**	**15 909**
Subordinated liabilities	13 635 997	-	-	**13 635 997**	**13 931 538**
Non-financial liabilities	6 062 900	-	-	**6 062 900**	**6 062 900**
Total liabilities	**262 375 644**	**15 909**	**-**	**262 391 553**	**262 336 163**

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As of 31 December 2017	Financial assets/ liabilities at amortised cost	Financial assets/ liabilities at fair value through profit and loss	Financial assets/ liabilities at fair value through other comprehensive income	Total	Fair value
ASSETS	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**
Cash and due from central banks	105 915 335	-	-	**105 915 335**	**105 915 335**
Due on demand from credit institutions	24 323 327	-	-	**24 323 327**	**24 903 730**
Financial assets at fair value through profit or loss	-	4 650 675	-	**4 650 675**	**4 650 675**
Equity instruments	-	*11 873*	-	***11 873***	***11 873***
Debt instruments	-	*87 319*	-	***87 319***	***87 319***
Derivative financial instruments	-	*365*	-	***365***	***365***
Loans	-	*4 551 118*	-	***4 551 118***	***4 551 118***
Financial assets at fair value through other comprehensive income	-	42 191 618	-	**42 191 618**	**42 191 618**
Equity instruments	-	*4 609 106*	-	***4 609 106***	***4 609 106***
Debt instruments	-	*37 582 512*	-	***37 582 512***	***37 582 512***
Financial assets at amortised cost	65 230 897	16 295 393	-	**81 526 290**	**81 298 317**
Debt instruments	-	*16 295 393*	-	***16 295 393***	***16 157 749***
Due from credit institutions	*2 497 313*	-	-	***2 497 313***	***1 916 039***
Loans	*62 733 584*	-	-	***62 733 584***	***63 224 529***
Other financial assets	13 732 217	-	-	**13 732 217**	**13 732 217**
Total financial assets	**209 201 776**	**63 137 686**	**-**	**272 339 462**	**272 691 892**
Liabilities					
Due to credit institutions	14 438 637	-	-	**14 438 637**	**14 438 637**
Deposits	238 120 657	-	-	**238 120 657**	**238 014 683**
Debt instruments in issue	1 668 612	-	-	**1 668 612**	**1 684 142**
Subordinated liabilities	14 638 255	-	-	**14 638 255**	**14 961 711**
Non-financial liabilities	4 353 143	-	-	**4 353 143**	**4 353 143**
Total liabilities	**273 219 304**	**461 641**	**-**	**273 680 945**	**273 913 957**

47 FAIR VALUE HIERARCHY

(a) Financial instruments measured at fair value

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

Group and Bank

As of 31 December 2018

Financial assets	**Published price quotations (Level 1) EUR**	**Valuation techniques based on market observable inputs (Level 2) EUR**	**Valuation techniques not based on market observable inputs (Level 3) EUR**	**Total EUR**
Financial assets at fair value through other comprehensive income	8 393 468	-	206 663	**8 600 131**
Financial assets at fair value through profit or loss	574 892	1 076 046	3 832 674	**5 483 612**
Derivatives	-	5 324	-	**5 324**
	8 968 360	**1 081 370**	**4 039 337**	**14 089 067**
Financial liabilities				
Derivatives	-	15 909	-	**15 909**
	-	**15 909**	**-**	**15 909**

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As of 31 December 2017

Financial assets	Published price quotations (Level 1) EUR	Valuation techniques based on market observable inputs (Level 2) EUR	Valuation techniques not based on market observable inputs (Level 3) EUR	Total EUR
Financial assets at fair value through profit or loss	99 192	-	4 551 118	**4 650 310**
Financial assets at fair value through other comprehensive income	37 582 512	603 581	3 824 662	**42 010 755**
Derivatives	-	365	-	**365**
	37 681 704	**603 946**	**8 375 780**	**46 661 430**
Financial liabilities				
Derivatives	-	461 641	-	**461 641**
	-	**461 641**	**-**	**461 641**

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

Included in category "Valuation techniques based on market observable inputs" (Level 2) are financial assets and liabilities that are measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions in the same instrument or based on available market data. Main asset classes included in this category are financial assets for which pricing is obtained via pricing services but where prices have not been determined in an active market, financial assets with fair values based on broker quotes, investments in hedge funds private equity funds with fair value obtained via fund managers and assets that are valued using own models whereby the majority of assumptions are market observable.

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

During the current year, there have not been transfers between fair value levels.

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The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

	Financial assets at fair value through other comprehensive income EUR	Financial assets at fair value through profit or loss EUR	Total EUR
As of 31 December 2017	**3 824 662**	**4 551 118**	**8 375 780**
Total comprehensive income:	(90 851)	-	**(90 851)**
in profit or loss	*(90 851)*	-	***(90 851)***
Purchases	-	1 897 700	**1 897 700**
Sale	(1 592 174)	-	**(1 592 174)**
Transfers out of Level 3	(1 934 974)	(2 616 144)	**(4 551 118)**
As of 31 December 2018	**206 663**	**3 832 674**	**4 039 337**

	Financial assets at fair value through other comprehensive income EUR	Financial assets at fair value through profit or loss EUR	Total EUR
As of 31 December 2016	**4 358 431**	**8 073 653**	**12 432 084**
Total comprehensive income:	(2 000 244)	(243 546)	**(2 243 790)**
in profit or loss	*(2 127 124)*	*(243 546)*	***(2 370 670)***
in OCI	*126 880*	-	***126 880***
Purchases	1 500 000	5 122 193	**6 622 193**
Sale	-	(572 924)	**(572 924)**
Settlements and resultant transfers to other assets	(33 525)	(7 828 258)	**(7 861 783)**
As of 31 December 2017	**3 824 662**	**4 551 118**	**8 375 780**

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

Type	Valuation technique	Significant unobservable inputs: Input	31.12.2018	31.12.2017	Inter-relation between significant unobservable inputs and fair value measurement
Assets at fair value through profit or loss (forward exchange contracts)	Market comparison technique: The fair values are based on broker quotes. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments.	Not applicable	Not applicable	Not applicable	Not applicable
Available for sale assets	Quotes from brokers	Illiquid securities bid prices	-	-	The estimated fair value would increase (decrease) if:
			-	-	Bid price quote increases
Available for sale assets (closed end funds)	Valuation is based on fund manager dislosed net	Net Asset value	-	-	The estimated fair value would increase (decrease) if:
			-	-	Net asset value increase (decrease)

For the fair values of equity securities under available for sale category, reasonably possible change at the reporting date to one of the significant unobservable inputs, holding other inputs constant, would have the following effects:

	Effect on other comprehensive income: Increase	(Decrease)
As of 31 December 2018	**EUR**	**EUR**
Net asset value quote (10% movement)	-	-
Bid price movements (10% movement)	(11 810)	11 810
	(11 810)	**11 810**

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	Effect on other comprehensive income	
	Increase	**(Decrease)**
As of 31 December 2017	**EUR**	**EUR**
Net asset value quote (10% movement)	43 497	(53 192)
Bid price movements (10% movement)	14 322	77 904
	57 819	**24 712**

(b) Financial instruments not measured at fair value

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

Bank

As of 31 December 2018	Level 1 EUR	Level 2 EUR	Level 3 EUR	Total EUR	Carrying amount EUR
Financial assets					
Due on demand from credit institutions	-	-	11 878 397	**11 878 397**	**11 878 397**
Financial assets at fair value through other comprehensive income	-	-	180 863	**180 863**	**-**
Equity instruments	-	-	*180 863*	***180 863***	**-**
Financial assets at amortised cost	96 203 183	-	-	**96 203 183**	**-**
Debt instruments	*96 203 183*	-	-	***96 203 183***	**-**
Loans	-	-	*64 192 509*	***64 192 509***	***64 192 509***
	192 406 366	**-**	**76 432 632**	**268 838 998**	**76 070 906**
Financial liabilities					
Due to credit institutions	-	13 074 817	-	**13 074 817**	**13 074 817**
Deposits	-	-	229 601 930	**229 601 930**	**229 601 930**
Subordinated liabilities	-	-	13 635 997	**13 635 997**	**13 635 997**
Other liabilities	-	-	6 078 809	**6 078 809**	**6 078 809**
	-	**13 074 817**	**249 316 736**	**262 391 553**	**262 391 553**

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As of 31 December 2017	Level 1 EUR	Level 2 EUR	Level 3 EUR	Total EUR	Carrying amount EUR
Financial assets					
Due on demand from credit institutions	-	-	24 903 730	**24 903 730**	**24 323 327**
Financial assets at fair value through other comprehensive income	-	-	180 863	**180 863**	**180 863**
Equity instruments	-	-	*180 863*	***180 863***	***180 863***
Financial assets at amortised cost	16 157 749	-	65 140 568	**81 298 317**	**81 526 290**
Debt instruments	*16 157 749*	-	-	***16 157 749***	***16 295 393***
Due from credit institutions	-	-	*1 916 039*	***1 916 039***	***2 497 313***
Loans	-	-	*63 224 529*	***63 224 529***	***62 733 584***
	16 157 749	**-**	**90 225 161**	**106 382 910**	**106 030 480**
Financial liabilities					
Due to credit institutions	-	14 438 637	-	**14 438 637**	**14 438 637**
Deposits	-	-	238 014 683	**238 014 683**	**238 120 657**
Debt instruments in issue	-	-	1 684 142	**1 684 142**	**1 668 612**
Subordinated liabilities	-	-	14 961 711	**14 961 711**	**14 638 255**
Other liabilities	-	-	4 814 784	**4 814 784**	**4 814 784**
	-	**14 438 637**	**259 475 320**	**273 913 957**	**273 680 945**

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

Type	Valuation technique	ificant unobservable inputs
Loans and advances due from financial institutions	Discounted cash flows	Discount rates
Loans and advances due from customers	Discounted cash flows	Discount rates, default rates
Deposits and balances due to financial institutions	Discounted cash flows	Discount rates
Deposits and balances due to customers	Discounted cash flows	Discount rates
Other borrowed funds	Discounted cash flows	Discount rates

48 EVENTS SUBSEQUENT TO THE REPORTING DATE

During the period from the last day of the reporting period to the date of signing these consolidated financial statements, no events have occurred, which
- would entail the necessity of making adjustments to these consolidated financial statements or
- ought to be explained in these consolidated financial statements.

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Notes to the separate and consolidated Financial Statements for the year ended 31 December 2018

49 GOING CONCERN

These separate and consolidated financial statements were prepared on going concern basis which presumes that the Bank's and the Group's management assumption that the Bank and the Group will be able to find solutions to the matters set-out below.

(a) Matters with significant influence on the Bank's and the Group's business continuity

(i) Insufficient capital

The Bank reported net loss of 1 950 thousand euros and the Group reported net loss of 2 143 thousand euros for the year ended 31 December 2018. As a result of the loss, the Bank's capital equals the minimum capital adequacy ratio against the total risk exposure amount as required by the Financial and capital market commission (hereinafter 'FCMC') – 12.9%. Apart from this requirement, the Bank is also required by the Credit institutions law to hold capital buffer of 2.65%. The Bank's actual capital adequacy ratio as at 31 December 2018 was 12.9%. To comply fully with combined buffer requirement, the Bank needs to raise capital totalling EUR 5.97 million euros. The Bank is in compliance with the minimum requirements as set-out in the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, Article 92, paragraph 1:
"Subject to Articles 93 and 94, institutions shall at all times satisfy the following own funds requirements:
(a) a Common Equity Tier 1 capital ratio of 4,5 %;
(b) a Tier 1 capital ratio of 6 %;
(c) a total capital ratio of 8 %."

The Bank has approved capital strenghtening measures aimed at restoring capital. The Bank expects to replenish its capital by EUR 9 million during 2019. FCMC closely monitors implementation of these measures and has introduced enhanced monitoring procedures over the Bank's operations.

(ii) Negative deviation from expected credit loss assessment

As described in note 20 (i), the Bank's balance as at 31 December 2018 comprises several credit exposure groups where expected credit loss assessment may change significantly as a result of specific future events. Negative impact from these events may result in significantly higher loss compared to expected credit loss assessment as approved by the Bank's management on 31 December 2018 and may result in significant reduction in the Bank's capital.

(iii) Negative deviation from recoverability assessment of investments in subsidiaries and associated company

The Bank has made investments in the shares of several subsidiaries and an associated company which are involved in the management and sale of own real estate. Total net carrying value of these investments in the Bank's balance sheet as at 31 December 2018 is 3 million euros. Recovery of these investments is dependent on successful sale of properties owned by these entities at a price which is not less than the carrying values of investment properties as disclosed in these financial statements as at 31 December 2018.

(iv) Client de-risking

The Bank aims to complete introduction of significant changes in its business model, including the reduction of share commission income from money transfer operations by non-resident clients in the total income and increasing the share of income from wealth management services.

Considering the ongoing change processes at present there is an uncertainty whether the Bank will succeed in further attraction of new clients in line with its strategy and increase revenue from new services if part of the existing income from customer services will not be available. This uncertainty is exacerbated by the compliance risks set out in section (a)(v) of this note which may influence the Bank's capability to continue cooperation with certain customer segments.

Separate and consolidated Financial Statements

**Notes to the separate and consolidated Financial Statements
for the year ended 31 December 2018**

(v) Compliance risks

FCMC conducted an audit of the effectiveness of the Bank's anti-money laundering internal control system at the start of 2018. By the date of approval of these financial statements final results of the audit were not confirmed and discussions are ongoing. Sanctions against the Bank as a result of this process cannot be excluded and these may influence its financial position or further operations. See also note [nn] on this matter.

(vi) Uncertain future development of the regulatory environment

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

• on 13 February 2018, the U.S. Department of the Treasury's Financial Crimes Enforcement Network ('FinCEN') issued a finding and notice of proposed rulemaking ('NPRM'), pursuant to Section 311 of the USA PATRIOT Act, against one of Latvia's largest banks, ABLV Banka.
On 19 February 2018, following an outflow of funds from that bank, the European Central Bank (ECB) instructed the local banking regulator to impose a moratorium on outgoing payments from that bank. On 24 February 2018, the process of effectively a wind up of the bank started;

• in response to these events, several amendments to Latvian legislation were adopted in 2018, which introduced significant restrictions on the risk profile of clients that banks may serve. Representatives of the Latvian government have publicly stated that the government's goal is to reduce the share of non-residents among the Latvian bank customers to 5%;

• on 23 August 2018, report on the 5th round of the Council of Europe's Moneyval Committee on Mutual Evaluation of Latvia was officially published, evaluating national measures to prevent money laundering and terrorist financing. Based on the outcome of Moneyval's evaluation procedures, Latvia has been subjected to enhanced supervision, and Latvia is required to submit a progress report within one year including an overview implementation status for the recommendations. Failure to implement these recommendations can lead to significant negative consequences for Latvia's access to international financial markets;

• in mid-2018 and early 2019, two large Scandinavian banks - Danske Bank and Swedbank - gained wide negative publicity in connection with suspected involvement in money laundering activities. Regulators in several countries have launched investigations into possible incompliances by Danske Bank in this area. On 19 February 2019, the Estonian Banking Supervision Institute, Finantsinspektsioon, issued an order to close the Danske Bank's branch in Estonia. On the same day, Danske Bank announced the closure of its branches in the Baltic States and the Russian Federation;

• Latvian Parliament has commenced processes for changes in legislation with an aim to change the principles for the governance and oversight of the Financial and Capital Market Commission's operations.

These events (and the resulting uncertainty about possible consequences) may influence the environment where the Bank operates, and as a result may create adverse impact on the financial position or performance of the Bank (such as loss of customers and associated revenue due to new restrictions on operations or reduced access to the international financial system).

(b) Bank's management going concern considerations

The Bank's management has made stress tests with respect to likely future scenarios including:

• analysis of potential loss as a result of negative events in loan recovery process,

• analysis of potential loss from negative events in the recovery of investments in subsidiaries and associated company,

• analysis of changes in revenue along with decrease in the number of clients or their activity and the Bank's capabilities to compensate loss of revenue with attraction of new clients or introduction of new services,

• assessment of potential sanctions related to alleged non-compliance with regulatory requirements and their impact on the Bank's capital position.

Separate and consolidated Financial Statements

**Notes to the separate and consolidated Financial Statements
for the year ended 31 December 2018**

Analysis was made in the context of capital strengthening plan. According to analysis conducted by Management, impact of last 2 scenarios can be fully covered by anticipated financial results for 2019. The first two events have been considered through the lens of implementation of Bank's medium-to-long strategy. Based on stress tests, Management has come to conclusion that Bank would be able to withstand negative outcome of extreme scenarios in a foreseen future.

Bank's management has designed capital strengthening plan, including an agreement with its major shareholders on the increase of share capital by 4 million euros and the sale of certain assets for 5 million euros which will be completed by the end of August 2019 and will enable increase of the Bank's capital as applied for the capital adequacy ratio calculation purposes by 9 million euros. Capital increase will be financed by funds received by the Bank's shareholders from a company under their control – VB Football Assets SIA (see also note 20 (i)). This agreement on capital strengthening will provide sufficient capital reserve to cover potential losses and secure stability of the Bank's operations. This plan will be expanded, if it will appear that the negative outcome from events described in the section (a)(ii) of this note exceeds management assessment and may result in negative influence on the Bank's compliance with the regulatory capital requirements.

Therefore, the Bank's and the Group's management has prepared these separate and consolidated financial statements on a going concern basis. Accordingly, the financial statements do not reflect the amendments that would be necessary if the Bank would not be able to continue as a going concern in the future. However, management recognizes that a material uncertainty exists in respect of future events, which affects the assumptions and estimates underlying 2018 financial statements and disclosed herein as well as used by the management while devising the financial plans for 2019 and subsequent years, and making decisions concerning the appropriateness of applying the going concern principle. The key sources of this uncertainty include:

• The ability of the Bank's and the Group's shareholders to make expected investments to strengthen the Bank's capital position,

• Potential extent of sanctions or restrictions on operations which could be determined as a result of FCMC audits and administrative proceedings with respect to capital inadequacy or non-compliance with other regulatory requirements,

• The Bank's capability to continue reshaping of customer and services portfolios to continue reduction in the current risk profile while maintaining necessary level of revenue and sustainable operating profitability,

• Potential loss which may crystalize as a result of loan recovery and investment property sales processes.

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Independent Auditor's Report

To the shareholders of AS "Baltic International Bank"

Report on the Audit of the Separate and Consolidated Financial Statements

Our Qualified Opinion on the Separate and Consolidated Financial Statements

We have audited the separate financial statements of AS "Baltic International Bank" ("the Bank") and the consolidated financial statements of the Bank and its subsidiaries ("the Group") set out on pages 9 to 93 of the accompanying separate and consolidated Annual Report, which comprise:

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

In our opinion, except for the possible effects of the matter described in the basis for qualified opinion section of our report, the accompanying separate and consolidated financial statements give a true and fair view of the separate and consolidated financial position of the Bank and the Group as at 31 December 2018, and of its separate and consolidated financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union ("IFRS").

Basis for Qualified Opinion

The Bank's investment in a Latvia based joint-venture is accounted for by the equity method, and carried at EUR 858 thousand on the separate and consolidated financial position as at 31 December 2018 and the Bank's share of this company's net loss, EUR 4 thousand, is included in the Bank's income for the year then ended (further information is provided in the note 21). We were unable to obtain sufficient appropriate audit evidence about the carrying amount of the Bank's investment in the joint-venture as at 31 December 2018 and the Bank's share of the joint-venture's net loss for the year then ended, because we were not provided with an independent fair value assessment of assets held by the joint venture and an independent feasibility assessment of real estate development project initiated by the joint venture . Therefore, we were not able to assess whether the Bank's investment in the joint venture is impaired.

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

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

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

Material Uncertainty Related to Going Concern

We draw attention to note 49 of the separate and consolidated financial statements, which describes challenges faced by the Bank with respect to capital adequacy requirements, potential negative deviations from the management's assessment of expected credit loss related to its loan portfolio as well as recoverability of investments made in the shares of subsidiaries and a joint venture, sustainability of revenue as a result of the client de-risking process, and ongoing regulatory audit process and associated risk of sanctions.

The potential impact from these challenges on the Bank and the Group is discussed in detail in the note 49 of the separate and consolidated financial statements and it primarily represents potential decrease of the Bank's shareholders' capital due to loss events and resulting sustained incompliance with the regulatory capital requirements. Forthcoming shareholder contribution to strengthen the Bank's capital for regulatory purposes in the amount sufficient to cover potential effect of negative events is the key assumption made by the management in their judgment about the Bank's and the Group's ability to continue as a going concern.

As stated in note 49, these events or conditions, along with other matters as set forth in note 49, indicate that a material uncertainty exists that may cast significant doubt on the Bank's and the Group's ability to continue as a going concern. Our opinion is not further modified in respect of this matter.

Emphasis of Matter

We draw attention to note 20(h) to the financial statements. The Bank's loan portfolio as at 31 December 2018 comprises several significant credit exposure groups where expected credit loss assessment and associated necessary loan loss allowance is dependent on specific external events in near future. Our opinion is not modified in respect of this matter.

Key Audit Matters

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

In addition to the matters described in the *Basis for Qualified Opinion*, *Material Uncertainty Related to Going Concern* section and *Emphasis of Matter* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Impairment in the value of loans to customers (the Bank)

Key audit matter	The loans and receivables due from customers comprise EUR 76 768 thousand at gross carrying value as at 31 December 2018 with total impairment allowances of EUR 12 575 thousand as at 31 December 2018 (more details are provided in the note 20 of the separate and consolidated financial statements and information about the measurement policies is provided the note 3). Identification of a significant increase in credit risk and assessment of lifetime expected credit loss requires the management to exercise subjective judgment and develop complex financial models and therefore, we considered this as a key audit matter.
Our audit response	We assessed whether the accounting policies in relation to the impairment of loans to customers are in compliance with IFRS requirements especially the IFRS 9 which become effective on 1 January 2018. We assessed the Bank's expected credit loss assessment methodology for compliance with the new standard and challenged impairment allowances as at initial application and at 31 December 2018. We also have assessed that definition of default and the staging criteria have been defined in line with IFRS 9 requirements and were consistently applied. We tested control processes related to risk monitoring, identification of loss events and calculation of the impairment allowances. We made detailed inspection of loan files covering 93% of outstanding loans to customers by the net carrying value as at 31 December 2018. As part of the procedure we assessed the customer financial situation and capacity to support debt repayments or, if this was not the case, management's exit plans and activities, as well as available sources of loan repayment. Where key source of repayment is real estate provided as a security for the loan, we involved our internal valuation specialists who performed detailed assessment of assumptions and information sources used in valuation reports provided by independent valuation specialists. For two significant credit risk exposures where either claim or collateral are involved in legal proceedings (further information provided in the note 20(h)) we obtained external legal advisor responses as to the current status of the process, expected outcome and time required to achieve final court decision and compared those with management assumptions used within the expected credit loss assessments.

For significant credit risk exposures with high level of uncertainty with respect to the forthcoming events and their impact on the expected credit loss assessment (also referred to in *Emphasis of Matter* section) we assessed whether disclosures in the note 20(h) provide sufficient clarity about the nature and risk profile of respective credit risk exposure.

Carrying values of investment properties (the Bank and the Group)

Key audit matter	The balance sheet value of investment property portfolio comprised EUR 6 919 thousand for the Bank and EUR 9 841 thousand for the Group as at 31 December 2018 (more details on investment properties are provided in the note 23 while information on the measurement principles are provided in the note 3 of the separate and consolidated financial statements). Majority of these properties were acquired through the foreclosure or restructuring of loans issued by the Bank. These properties have limited liquidity and represent significant challenges to determine their fair value at the reporting date. Considering the size of investment property portfolio and its potential impact on the financial results of the Bank and the Group we defined this area as a key audit matter.
Our audit response	We involved our internal valuation experts to assess, on a sample basis, independent valuation reports commissioned by the Bank including matters such as selection of the valuation methods and key assumptions underlying fair value calculations - cash flow projections such as occupancy rates, rates of rent, discount rates, capitalisation rates and comparable market transactions - were assessed against external market information sources. We performed sensitivity analysis for key assumptions to assess their impact on the investment properties fair values. We assessed the adequacy of the Bank's and the Group's disclosures related to the assumptions and significant judgments used at estimating fair values of investment properties.

Contingent liability associated with an ongoing regulatory audit process (the Bank)

Key audit matter	As described in the note 35 of the separate and consolidated financial statements, at present there is an ongoing regulatory audit process with respect to the effectiveness of the Bank's anti-money laundering ('AML') internal control system. We considered this as a key audit matter because the Bank has been sanctioned by the regulator for incompliance with the AML requirements in 2016 and a number of other Latvian banks have been fined by the regulator for similar incompliances during 2017 and 2018.
Our audit response	We reviewed the information available from the regulator in order to assess the current status of the audit process and initial findings reported by the auditors. We have reviewed management assessment of the situation and its expectations as to the probability of the outflow of economic benefits and whether a reliable estimate can be made of the amount of the potential obligation.

We also assessed completeness and accuracy of information about this contingent liability provided in the financial statements.

Other matter

AS "Baltic International Bank" separate and consolidated financial statements for the year ended 31 December 2017 were audited by another auditor who issued an unmodified opinion on 26 April 2018 on these financial statements with an emphasis on material uncertainty related to going concern.

Reporting on Other Information

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

- the Management Report, as set out on pages 3 to 6 of the accompanying Annual Report,
- the composition of the Supervisory Council and the Management Board, as set out on page 7 of the accompanying Annual Report,
- the Statement on Management Responsibility, as set out on page 8 of the accompanying Annual Report.

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

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

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

Other reporting responsibilities in accordance with the legislation of the Republic of Latvia related to other information

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

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

- the information given in the Management Report for the financial year for which the separate and consolidated financial statements are prepared is consistent with the separate and consolidated financial statements; and

- the Management Report has been prepared in accordance with the requirements of the Regulation 46.

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

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

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

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

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

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

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

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's and/or the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank and/or the Group to cease to continue as a going concern.

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

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

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

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

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

We were appointed by those charged with governance on 6 December 2018 to audit the separate and consolidated financial statements of AS "Baltic International Bank" for the year ended 31 December 2018. This is our first year of appointment.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Council of the Bank and the Group who executes Audit Committee function;
- as referred to in the paragraph 37.6 of the Law on Audit Services of the Republic of Latvia we have not provided to the Bank and the Group the prohibited non-audit services (NASs) referred to in the EU Regulation (EU) No 537/2014 Article 5 paragraph 1. We also remained independent of the audited Company and the Group in conducting the audit.

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

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

"BDO ASSURANCE" SIA
Licence No 182

Mārtiņš Zutis
Director
on behalf of SIA "BDO ASSURANCE"

Modrīte Johansone
Member of the Board
Certified auditor
Certificate No 135

Riga, Latvia
17 May 2019