# RIETUMU BANKA AS

2019 Annual Report

## Contents

# Report of Council and Board of Directors

Dear Shareholders, Customers and Business Partners,

The results of year 2019 reflect the strengthened growth trend of Rietumu Banka AS (the Bank). New customers continue to come to the Bank, and every month we open accounts for several dozens of Latvian companies, including both promising developing enterprises and leaders in manufacturing, real estate development, logistics and other fields of economy. All of this confirms the correctness of the measures and plans that our bank has consistently put into practice over the last one and a half years, according to the new conditions and requirements implemented in Latvian financial sector, taking into account the position of regulatory bodies and international partners.

We reached a number of important goals defined in the updated bank strategy that had been previously developed. By consistently focusing on providing services to Latvian and European business customers, we built good business relations with many successful enterprises of the region. As a result, the amount of Bank's assets and deposits increased. The Bank maintains its stability and the high quality of its loan portfolio.

**Profitability**

The Group's after-tax profit attributable to the equity holders of the Bank for the year 2019 was EUR 21 million (2018: 21 million). The Group generated an after-tax return on equity of 5.78% (2018: 4.92%) and an after-tax return on assets of 1.41% (2018: 1.37%).

The Group's operating income was EUR 73 million (2018: EUR 104 million). Net fee and commission income was EUR 12 million (2018: EUR 37 million). The Group's cost to income ratio was 54% for the year ended 31 December 2019 (2018: 47%). The cumulative result of the above is that the Group reached a pre-tax profit margin of 34%.

**Assets**

As at 31 December 2019 the Group's total assets were EUR 1,704 million. This represents a increase for 9.7% compared to 2018. The Group follows a conservative approach to asset allocation and about 52% of the Group's assets invested in liquidity management portfolios. About 7% of the liquidity management portfolio is invested in short term money market placement with large mainly European banks. The tenure of these placements is up to 7 days. The bond portfolio primarily consists of corporate investment grade securities.

**Lending**

As a result of the uncertain environment in the region the Bank has substantially scaled down its commercial lending in the CIS countries and currently has become more active in lending of medium-large scale corporates in the Baltics. In addition, the Group focussed on reducing concentration risks of large lending projects. This resulted in the lending portfolio being diversified over a large group of medium sized loans rather than the portfolio being concentrated in a smaller group of larger loans. Volume of loan portfolio has stabilized in 2019. Loans and receivables to customers reached EUR 585 million showing only slight decrease compared to the balance of 2018 of EUR 618 million. This year the Bank plans moderate portfolio growth. The effective average interest rate for 2019 was 3.88%.

The Bank follows a very conservative lending policy while offering innovative and individually tailored products that suit the requirements of each individual customer the best. During 2019 the Group continued to focus on both commercial and residential real estate projects, production, agriculture, trade, loan portfolio finance businesses.

**Group Companies**

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

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

The Group's Belorussian leasing business focuses on industrial equipment leasing which contributed to the Group's profit before income tax in the amount of EUR 1,3 million for the year ended 31 December 2019. The Bank partly owns and finances a consumer lending company named InCredit Group SIA which is registered and operates in Latvia. As of 31 December 2019, the net leasing portfolio of InCredit Group SIA was EUR 53 million and it contributed to the net profit before tax of the Group in the amount of EUR 4 million.

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

**Funding, Equity and Expand Capital Base**

The Group's current accounts and deposits due to customers in amount of EUR 1,320 million increased by 29% compared to 2018. Current accounts represented EUR 703 million or 53% of total current accounts and customer deposits. Term deposits amounted to EUR 617 million as at 31 December 2019 including EUR 65 million of subordinated deposits. The Bank managed to attract deposits from a new funding source, on-line platforms for individuals from EU. This new funding source has strengthened Bank's resource base in medium term. The average remaining tenor of term deposits as at 31 December 2019 was 1.4 years with the average effective interest rate of 1.41%. The average effective interest rate for subordinated deposits in 2019 was 5.18%.

Group total shareholders' equity reached EUR 324 million as of 31 December 2019. Group Tier I and total capital adequacy ratios were 20.34% (2018: 27.46% %) and 22.48% (2018: 36.01%) respectively.

**2020 and Beyond**

The results that the Bank and the Group has reached provide an excellent basis for the further development of the Bank and the Group. They reflect the appropriateness of the chosen course and the presence of key conditions for its implementation: financial and intellectual resources, a solid capital base and modern technologies.

We owe our success to our customers and business partners and the trust that they have placed in us. We would like to thank our customers and business partners for their support and we are looking forward to continue developing the Bank and the Group successfully in 2020 and beyond.

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

## Financial results of the Group

| | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|
| **At year end (EUR'000)** | | | | |
| Total assets | 1,703,706 | 1,552,981 | 3,009,558 | 3,473,590 |
| Loans and receivables due from customers | 585,291 | 617,899 | 832,340 | 1,044,920 |
| Current accounts and deposits due to customers | 1,319,833 | 1,019,696 | 2,340,512 | 2,742,726 |
| Total shareholder's equity | 324,443 | 471,461 | 478,755 | 493,874 |
| **For the year (EUR'000)** | | | | |
| Net profit before tax | 24,510 | 24,848 | 40,678 | 88,748 |
| Net profit after tax | 23,000 | 23,461 | 33,494 | 82,337 |
| Operating income | 72,822 | 104,458 | 136,611 | 180,981 |
| **Ratios** | | | | |
| Earnings per share (EUR) – basic and diluted | | | | |
| After tax | 0.19 | 0.17 | 0.28 | 0.68 |
| Return on equity | | | | |
| Before tax | 6.16% | 5.21% | 8.36% | 18.67% |
| After tax | 5.78% | 4.92% | 6.89% | 17.32% |
| Return on assets | | | | |
| Before tax | 1.51% | 1.45% | 1.25% | 2.44% |
| After tax | 1.41% | 1.37% | 1.03% | 2.27% |
| Capital adequacy ratio | 22.48% | 36.01% | 24.08% | 22.36% |
| Profit margin | 33.66% | 23.79% | 29.78% | 49.04% |
| Loan portfolio to total assets ratio | 34.35% | 39.79% | 27.66% | 30.08% |
| Number of employees | 701 | 856 | 1,070 | 1,078 |

## Financial results of the Bank

| | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|
| **At year end (EUR'000)** | | | | |
| Total assets | 1,718,724 | 1,542,405 | 2,998,620 | 3,465,604 |
| Loans and receivables due from customers | 638,523 | 695,343 | 916,987 | 1,116,873 |
| Current accounts and deposits due to customers | 1,332,529 | 1,033,539 | 2,359,214 | 2,767,739 |
| Total shareholder's equity | 307,770 | 457,510 | 459,614 | 471,546 |
| | | | | |
| **For the year (EUR'000)** | | | | |
| Net profit before tax | 19,105 | 22,480 | 41,008 | 86,509 |
| Net profit after tax | 18,431 | 21,483 | 33,034 | 80,300 |
| Operating income | 53,144 | 88,027 | 122,444 | 170,212 |
| | | | | |
| **Ratios** | | | | |
| Earnings per share (EUR) - basic and diluted | | | | |
| After tax | 0.17 | 0.18 | 0.26 | 0.73 |
| Before tax | 0.17 | 0.19 | 0.33 | 0.79 |
| | | | | |
| Return on equity | | | | |
| Before tax | 4.93% | 4.83% | 8.81% | 19.13% |
| After tax | 4.76% | 4.62% | 7.02% | 17.76% |
| | | | | |
| Return on assets | | | | |
| Before tax | 1.14% | 1.19% | 1.27% | 2.39% |
| After tax | 1.10% | 1.14% | 1.03% | 2.21% |
| | | | | |
| Capital adequacy ratio | 21.96% | 36.62% | 24.36% | 22.61% |
| Profit margin | 35.95% | 25.54% | 33.49% | 50.82% |
| Loan portfolio to total assets ratio | 37.15% | 45.08% | 30.58% | 32.23% |
| Number of employees | 429 | 567 | 765 | 782 |

## STATEMENTS OF MANAGEMENT RESPONSIBILITY

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

The separate and consolidated financial statements on pages 15 to 117 are prepared in accordance with source documents and present fairly the financial position of the Bank and the Group as of 31 December 2019 and the results of their operations and cash flows for the year ended 31 December 2019.

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

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

On behalf of the Management of Rietumu Banka AS:

Chairman of the Executive Board
Rolf Paul Fuls

Deputy Chairman of the Executive Board
Ruslans Stecjuks

27 March 2020

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

## The Council of Rietumu Banka

**1 January 2019 – 31 December 2019**

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

## The Executive Board

**1 January 2019 – 31 December 2019**

| *Name* | *Position* | *Date of appointment and current term* |
|---|---|---|
| Rolf Paul Fuls | Chairman of the Executive Board | 23/09/19-23/09/22 |
| Ruslans Stecjuks | Member of the Executive Board, Deputy Chairman | 23/09/19-23/09/22 |
| Ilja Suharenko | Member of the Executive Board, Deputy Chairman | 23/09/19-23/09/22 |
| Jelena Buraja | Member of the Executive Board | 23/09/19-23/09/22 |

Tel: +371 66777800
Fakss: +371 67222236
www.bdo.lv

Kalku iela 15-3B
Riga, LV-1050
Latvia

# INDEPENDENT AUDITOR'S REPORT

## To the shareholders of AS "Rietumu Banka"

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

**Our Opinion on the Separate and Consolidated Financial Statements**

We have audited the accompanying separate financial statements of AS "Rietumu Banka" ("the Bank") and accompanying consolidated financial statements of the Bank and its subsidiaries ("the Group") set out on pages 15 to 117 of the accompanying separate and consolidated Annual Report, which comprise:

- the separate and consolidated statement of financial position as at 31 December 2019;
- the separate and consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the separate and consolidated statement of changes in equity for the year then ended;
- the separate and consolidated statement of cash flows for the year then ended;
- notes to the separate and consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate and consolidated financial statements give a true and fair view of the separate and consolidated financial position of the Bank and the Group as at 31 December 2019, and of its separate and consolidated financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

**Basis for Opinion**

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

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

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

**Emphasis of Matter**

On 6 July 2017 a French Court ruled in its first-instance judgment that the Bank was guilty of aggravated money laundering and was ordered to pay a criminal fine of EUR 80,000 thousand, and damages, jointly and severally with other defendants, of EUR 10,113 thousand to the Republic of France. The court ruling was appealed both by the Bank and by the French prosecutors. The next hearings are expected to take place on 18, 19 and 20 May 2020. The Bank and the Group believe that the amount of the provision (EUR 34,000 thousands) recognized in these separate and consolidated financial statements represent their best estimate of the expenditure to be ultimately required to settle the obligation, however, the Bank and the Group also recognize that, due to the inherent uncertainty associated with the proceedings is of such nature, that the actual expenditure required to settle the claim could be lower or substantially higher than the amount of provisions made.

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 separate and consolidated financial statements of the current period. These matters were addressed in the context of our audit of the separate and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

**Impairment of the loans to customers (the Bank)**

| | |
|---|---|
| **Key audit matter** | 33% of gross amount of loans and receivables due from customers as at 31 December 2019 are classified as credit-impaired (more details are provided in the note 19.2 (b) of the separate and consolidated financial statements), and 60% of the net amount of loans to customers as at 31 December 2019 are due from customers based and operating outside Latvia (more details on geographical analysis of the loan portfolio are provided in the note 19.2 (d) of the separate and consolidated financial statements). We believe that these factors indicate presence of an increased audit risk related to the assessment of potential impairment of the value of loans and therefore considered this as a key audit matter. |
| **Our audit response** | We assessed whether the Bank's and the Group's accounting policies in relation to the impairment of loans to customers are in compliance with the IFRS.<br><br>We made detailed review of loan files covering 76% of the net amount of outstanding loans to customers as at 31 December 2019 (90% of loans classified as credit-impaired). As part of the review we assessed the customer financial situation and capacity to support sustainable debt service payments or, if this was not the case, management's exit plans and activities, as well as available sources of loan repayment. |

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

**Valuation of investment properties (the Group)**

| | |
|---|---|
| **Key audit matter** | The balance sheet value of the Group's investment property portfolio as at 31 December 2019 is EUR 90,059 thousand (more details on investment properties are provided in the note 26 while information on the measurement principles are provided in the note 3 (d)(ii) of the separate and consolidated financial statements). Significant part of these represent properties acquired through the foreclosure or restructuring of loans issued by the Bank. These properties have limited liquidity and represent significant challenges to determine their fair value at the reporting date. Considering the size of investment property portfolio and its potential impact on the financial results of the Group we defined this area as a key audit matter. |
| **Our audit response** | We involved our internal valuation experts to assess, on a sample basis (covering 60% of the total balance), independent valuation reports commissioned by the Bank or the Group's entities including matters such as selection of the valuation methods and key assumptions underlying value calculations - comparable market transactions, cash flow projections, discount rates, capitalisation rates. For a number of cases we did sensitivity analysis for certain assumptions within the valuation to assess the effect of their potential changes on the investment property fair values.<br><br>We assessed the adequacy of the Group's disclosures related to the assumptions and significant judgments used at estimating fair values of investment properties. |

**Reporting on Other Information**

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

- the Report of the Council and the Board of Directors, as set out on pages 3 to 6 of the accompanying Annual Report,
- the Statement on Management Responsibility, as set out on page 7 of the accompanying Annual Report,
- the composition of the Supervisory Council and the Management Board, 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 addition, in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Management Report, our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of the Financial and Capital Market Commission of the Republic of Latvia - regulation No 46 Regulations on the Preparation of the Annual Reports and Annual Consolidated Accounts for Banks, Investment Brokerage Firms and Investment Management Companies ("Regulation No 46").

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We were appointed by the shareholders' meeting on 8 May 2019 to audit the separate and consolidated financial statements of AS Rietumu Banka for the year ended 31 December 2019. Our total uninterrupted period of engagement is two years, covering the periods ending 31 December 2018 to 31 December 2019.

We confirm that:

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

For the period to which our statutory audit relates, we have not provided any other services to the Bank and the Group in addition to the audit, which have not been disclosed in the separate and consolidated financial statements of the Bank and the Group.

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

"BDO ASSURANCE" SIA
Licence No 182

Mārtiņš Zutis
Director
on behalf of SIA "BDO ASSURANCE"

Modrīte Johansone
Member of the Board
Responsible sworn auditor
Licence No 135

Riga, Latvia
27 March 2020

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

**For the year ended 31 December 2019**

| | Note | 2019 '000 EUR Group | 2019 '000 EUR Bank | 2018 '000 EUR Group | 2018 '000 EUR Bank |
|---|---|---|---|---|---|
| Interest income | 6 | 51,527 | 38,811 | 59,739 | 47,335 |
| Interest expense | 6 | (17,879) | (17,324) | (15,255) | (13,651) |
| **Net interest income** | | **33,648** | **21,487** | **44,484** | **33,684** |
| Fee and commission income | 7 | 18,400 | 17,719 | 47,060 | 46,384 |
| Fee and commission expense | 8 | (5,918) | (5,200) | (10,110) | (9,598) |
| **Net fee and commission income** | | **12,482** | **12,519** | **36,950** | **36,786** |
| Net gain/(loss) on financial assets at fair value through profit or loss | 9 | 611 | 675 | 940 | 803 |
| Net foreign exchange gain | 10 | 11,542 | 10,394 | 12,636 | 13,562 |
| Net realised gain/(loss) on financial assets at fair value through other comprehensive income | 11 | 1,562 | 1,562 | (585) | (585) |
| Net realised gain on debt instruments at amortised cost | | 153 | 153 | (1,090) | (1,090) |
| Share of income/(losses) of equity accounted investees (net of income tax) | | (28) | - | 20 | - |
| Other income | 12 | 12,852 | 6,354 | 11,103 | 4,867 |
| **Operating income** | | **72,822** | **53,144** | **104,458** | **88,027** |
| Impairment losses | 13 | (9,130) | (8,084) | (16,492) | (17,486) |
| Provisions charges | 35 | (31) | (16) | (13,912) | (13,931) |
| General and administrative expenses | 14 | (39,151) | (25,939) | (49,206) | (34,130) |
| **Profit before income tax** | | **24,510** | **19,105** | **24,848** | **22,480** |
| Income tax expense | 15 | (1,510) | (674) | (1,387) | (997) |
| **Profit for the period** | | **23,000** | **18,431** | **23,461** | **21,483** |
| **Attributable to:** | | | | | |
| **Equity holders of the Bank** | | **21,219** | | **21,293** | |
| **Non-controlling interest** | | **1,781** | | **2,168** | |

The separate and consolidated statements of profit or loss and other comprehensive income are to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 24 to 117.

Chairman of the Executive Board
Rolf Paul Fuls

Deputy Chairman of the Executive Board
Ruslans Stecjuks

27 March 2020

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

| **For the year ended 31 December 2019** | **2019 ’000 EUR Group** | **2019 ’000 EUR Bank** | **2018 ’000 EUR Group** | **2018 ’000 EUR Bank** |
|---|---|---|---|---|
| **Profit for the period** | **23,000** | **18,431** | **23,461** | **21,483** |
| **Other comprehensive income** | | | | |
| ***Items that are or may be reclassified to profit or loss*** | | | | |
| Foreign currency translation differences for foreign operations | 4 | - | (405) | - |
| Other reserves - net change | (66) | - | 1 | - |
| Financial assets at fair value through other comprehensive income – net change in fair value | 5,824 | 5,824 | (3,714) | (3,714) |
| **Other comprehensive income for the period** | **5,762** | **5,824** | **(4,118)** | **(3,714)** |
| **Total comprehensive income for the period** | **28,762** | **24,255** | **19,343** | **17,769** |
| **Attributable to:** | | | | |
| **Equity holders of the Group** | **26,981** | | **17,175** | |
| **Non-controlling interest** | **1,781** | | **2,168** | |

The separate and consolidated statements of profit or loss and other comprehensive income are to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 24 to 117.

Chairman of the Executive Board
Rolf Paul Fuls

Deputy Chairman of the Executive Board
Ruslans Stecjuks

27 March 2020

## SEPARATE AND CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| As at 31 December 2019 | Note | 31 Dec 2019 ’000 EUR Group | 31 Dec 2019 ’000 EUR Bank | 31 Dec 2018 ’000 EUR Group | 31 Dec 2018 ’000 EUR Bank |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and balances due from the Bank of Latvia | 16 | 503,089 | 503,072 | 466,490 | 466,444 |
| Loans and receivables due from banks | 17 | 81,493 | 80,911 | 92,443 | 91,828 |
| Financial assets at fair value through profit or loss | 18 | 10,155 | 10,049 | 11,815 | 11,671 |
| Financial assets at amortised cost | 19 | | | | |
| Debt securities | 19.1 | 60,536 | 60,536 | 35,537 | 35,537 |
| Loans and receivables due from customers | 19.2 | 585,291 | 638,523 | 617,899 | 695,343 |
| Financial assets at fair value through other comprehensive income | 20 | 290,490 | 290,490 | 159,405 | 159,405 |
| Non-current assets held for sale | | 763 | 596 | 1,792 | - |
| Investments in subsidiaries | 21 | - | 29,466 | - | 32,809 |
| Equity accounted investees | 22 | 4 | - | 32 | - |
| Property and equipment | 23 | 38,424 | 34,654 | 42,872 | 8,386 |
| Intangible assets | 24 | 2,092 | 2,074 | 2,839 | 2,498 |
| Investment property | 26 | 90,059 | 35,114 | 84,373 | 9,343 |
| Current tax asset | | 317 | 174 | 3,264 | 2,836 |
| Deferred tax asset | 32 | 107 | - | 173 | - |
| Other assets | 27 | 40,886 | 33,065 | 34,047 | 26,305 |
| **Total Assets** | | **1,703,706** | **1,718,724** | **1,552,981** | **1,542,405** |

The separate and consolidated statements of financial position are to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 24 to 117.

## SEPARATE AND CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| As at 31 December 2019 | Note | 31 Dec 2019 '000 EUR Group | 31 Dec 2019 '000 EUR Bank | 31 Dec 2018 '000 EUR Group | 31 Dec 2018 '000 EUR Bank |
|---|---|---|---|---|---|
| **Liabilities and Shareholders' Equity** | | | | | |
| Financial instruments at fair value through profit or loss | 18 | 94 | 94 | - | - |
| Deposits and balances due to banks | 28 | 2,920 | 2,920 | 2,403 | 2,348 |
| Current accounts and deposits due to customers | 29 | 1,319,833 | 1,332,529 | 1,019,696 | 1,033,539 |
| Issued debt securities | 30 | 712 | - | 62 | - |
| Provisions | 36 | 34,105 | 34,154 | 34,076 | 34,138 |
| Current tax liability | | 50 | - | 243 | - |
| Deferred tax liability | 32 | 99 | - | 46 | - |
| Other liabilities and accruals | 31 | 21,450 | 41,257 | 24,994 | 14,870 |
| **Total Liabilities** | | **1,379,263** | **1,410,954** | **1,081,520** | **1,084,895** |
| Share capital | 33 | 168,916 | 168,916 | 168,916 | 168,916 |
| Share premium | 33 | 52,543 | 52,543 | 52,543 | 52,543 |
| Revaluation reserve | 33 | 1,890 | - | 1,914 | - |
| Fair value reserve | 33 | 3,578 | 3,578 | (2,246) | (2,246) |
| Currency translation reserve | | (3,559) | - | (3,563) | - |
| Other reserves | 33 | 39 | 23 | 105 | 23 |
| Retained earnings | | 96,898 | 82,710 | 249,647 | 238,274 |
| **Total Equity Attributable to Equity Holders of the Bank** | | **320,305** | **307,770** | **467,316** | **457,510** |
| **Non-controlling Interest** | | **4,138** | **-** | **4,145** | **-** |
| **Total Shareholders' Equity** | | **324,443** | **307,770** | **471,461** | **457,510** |
| **Total Liabilities and Shareholders' Equity** | | **1,703,706** | **1,718,724** | **1,552,981** | **1,542,405** |

The separate and consolidated statements of financial position are to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 24 to 117.

Chairman of the Executive Board
Rolf Paul Fuls

Deputy Chairman of the Executive Board
Ruslans Stecjuks

27 March 2020

| **SEPARATE AND CONSOLIDATED STATEMENTS OF CASH FLOWS For the year ended 31 December 2019** | **Note** | **2019 ’000 EUR Group** | **2019 ’000 EUR Bank** | **2018 ’000 EUR Group** | **2018 ’000 EUR Bank** |
|---|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | | |
| Profit before income tax | | 24,510 | 19,105 | 24,848 | 22,480 |
| Amortisation and depreciation | 23,24 | 2,629 | 2,851 | 2,889 | 1,327 |
| (Gain)/loss from sale of investment property | | (76) | (307) | (1,774) | (325) |
| Revaluation of investment property | | (279) | 341 | 3,359 | 314 |
| Share of (income)/loss of equity accounted investees | | 28 | - | (20) | - |
| Increase of provisions | | 29 | 16 | 13,912 | 13,931 |
| Assets write off/(recovery of assets written off) | | 20 | (355) | (313) | (313) |
| (Gain)/loss on disposal of property and equipment | | 3 | (23) | (310) | - |
| (Gain)/loss on sale of subsidiaries | | (2,527) | - | (504) | (96) |
| Impairment losses | 13 | 9,130 | 8,084 | 16,492 | 17,486 |
| **Increase in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations** | | **33,467** | **29,712** | **58,579** | **54,804** |
| (Increase)/decrease in financial assets at fair value through profit or loss | | 1,660 | 1,622 | 3,742 | (11,226) |
| (Increase)/decrease in loans and receivables due from banks – term deposits | | - | - | 644 | 642 |
| (Increase)/decrease in loans and receivables from customers | | 24,847 | 26,669 | 197,713 | 198,426 |
| (Increase)/decrease in receivable under reverse repurchase agreements | | - | - | 40,825 | 40,825 |
| (Increase)/decrease in financial assets at fair value through other comprehensive income | | (125,756) | (125,756) | 166,125 | 183,216 |
| (Increase)/decrease in other assets | | (7,632) | (7,451) | 4,569 | 1,375 |
| Increase/(decrease) in derivative liabilities | | 94 | 94 | (30) | (30) |
| Increase/(decrease) in term deposits due to banks | | - | - | 994 | (569) |
| Increase/(decrease) in current accounts and deposits due to customers | | 298,936 | 298,990 | (1,320,816) | (1,325,675) |
| Decrease in amounts payable under repurchase agreements | | - | - | (120,000) | (120,000) |
| (Increase)/decrease in non-current assets held for sale | | 1,625 | - | (1,572) | - |
| Increase/(decrease) in other liabilities and accruals | | (3,081) | (3,787) | 2,942 | 2,452 |
| **Increase/(decrease) in cash and cash equivalents from operating activities before corporate income tax** | | **224,160** | **220,093** | **(966,285)** | **(975,760)** |
| Corporate income tax | | 1,281 | 1,988 | (4,661) | (4,149) |
| **Net cash and cash equivalents from operating activities** | | **225,441** | **222,081** | **(970,946)** | **(979,909)** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | | |
| Purchase of property and equipment and intangible assets | 23,24 | (1,171) | (972) | (2,395) | (1,857) |
| Proceeds from sale of property, plant and equipment and other assets | | 28 | 28 | 268 | 142 |
| Increase in equity investments in other entities and acquisition of subsidiaries | | - | - | (3) | (1,918) |
| (Increase)/decrease in investment property | 26 | (1,858) | 802 | (2,343) | 813 |
| Proceeds from sale of subsidiary | | 3,061 | 3,342 | 49 | - |
| (Increase)/decrease in debt securities at amortized cost | | (25,073) | (25,073) | 241,387 | 240,543 |
| (Acquisition)/sale of non-controlling interest | | (75) | - | (7,117) | - |
| **Cash and cash equivalents used in / from investing activities** | | **(25,088)** | **(21,873)** | **229,846** | **237,723** |

The separate and consolidated statements of cash flows are to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 24 to 117.

**SEPARATE AND CONSOLIDATED STATEMENTS OF CASH FLOWS**
**For the year ended 31 December 2019**

| | Note | 2019 '000 EUR Group | 2019 '000 EUR Bank | 2018 '000 EUR Group | 2018 '000 EUR Bank |
|---|---|---|---|---|---|
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | | |
| Increase/(decrease) in other reserves | | (66) | - | 1 | - |
| Issued debt securities | 30 | 650 | - | 62 | - |
| Dividends paid | 33 | (175,708) | (173,995) | (13,954) | (12,729) |
| Repayment of lease liability | | (152) | (1,074) | - | - |
| **Cash and cash equivalents used in/from financing activities** | | **(175,276)** | **(175,069)** | **(13,891)** | **(12,729)** |
| **Net cash flow for the period** | | **25,077** | **25,139** | **(754,991)** | **(754,915)** |
| **Cash and cash equivalents at the beginning of the year** | | **556,585** | **555,924** | **1,311,576** | **1,310,839** |
| **Cash and cash equivalents at the end of the year** | 34 | **581,662** | **581,063** | **556,585** | **555,924** |

The separate and consolidated statements of cash flows are to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 24 to 117.

Chairman of the Executive Board
Rolf Paul Fuls

Deputy Chairman of the Executive Board
Ruslans Stecjuks

27 March 2020

## GROUP CONSOLIDATED STATEMENTS OF CHANGES IN THE SHAREHOLDERS' EQUITY

**For the year ended 31 December 2018**

**Attributable to Equity Holders of the Bank**

| | Share capital '000 EUR | Share premium '000 EUR | Revaluation reserve '000 EUR | Fair value reserve '000 EUR | Foreign currency translation reserve '000 EUR | Other reserves '000 EUR | Retained earnings '000 EUR | Total '000 EUR | Non-controlling interest '000 EUR | Total Equity '000 EUR |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at 31 December 2017** | **168,916** | **52,543** | **1,381** | **3,409** | **(3,158)** | **104** | **245,294** | **468,489** | **10,266** | **478,755** |
| Effect from changed accounting policy – IFRS 9 | - | - | - | (1,941) | - | - | (4,238) | **(6,179)** | 53 | **(6,126)** |
| **Restarted balance at 1 Jan 2018** | **168,916** | **52,543** | **1,381** | **1,468** | **(3,158)** | **104** | **241,056** | **462,310** | **10,319** | **472,629** |
| ***Transactions with shareholders recorded directly in equity*** | | | | | | | | | | |
| Dividends paid (Note 33) | - | - | - | - | - | - | (12,729) | **(12,729)** | - | **(12,729)** |
| ***Transactions with non-controlling interest*** | | | | | | | | | | |
| Dividends paid to non-controlling interest shareholders | - | - | - | - | - | - | - | - | (1,225) | **(1,225)** |
| Transactions with third parties related to units of funds controlled by Group | - | - | - | - | - | - | - | - | 32 | **32** |
| Loss of control | - | - | - | - | - | - | - | - | (7,149) | **(7,149)** |
| ***Comprehensive income*** | | | | | | | | | | |
| Profit for the current year | - | - | - | - | - | - | 21,293 | **21,293** | 2,168 | **23,461** |
| Other comprehensive income | - | - | - | (3,714) | (405) | 1 | - | **(4,118)** | - | **(4,118)** |
| ***Other*** | | | | | | | | | | |
| Depreciation of revalued property | - | - | (27) | - | - | - | 27 | - | - | - |
| Revaluation of property and equipment | - | - | 86 | - | - | - | - | **86** | - | **86** |
| Transfer from Deferred tax | - | - | 474 | - | - | - | - | **474** | - | **474** |
| **Balance at 31 December 2018** | **168,916** | **52,543** | **1,914** | **(2,246)** | **(3,563)** | **105** | **249,647** | **467,316** | **4,145** | **471,461** |

The Group consolidated statements of changes in the shareholders' equity are to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 24 to 117.

## GROUP CONSOLIDATED STATEMENTS OF CHANGES IN THE SHAREHOLDERS' EQUITY
**For the year ended 31 December 2019**

| | Attributable to Equity Holders of the Bank | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital '000 EUR | Share premium '000 EUR | Revaluation reserve '000 EUR | Fair value reserve '000 EUR | Foreign currency translation reserve '000 EUR | Other reserves '000 EUR | Retained earnings '000 EUR | Total '000 EUR | Non-controlling interest '000 EUR | Total Equity '000 EUR |
| **Balance at 1 January 2019** | **168,916** | **52,543** | **1,914** | **(2,246)** | **(3,563)** | **105** | **249,647** | **467,316** | **4,145** | **471,461** |
| ***Transactions with shareholders recorded directly in equity*** | | | | | | | | | | |
| Dividends paid (Note 33) | - | - | - | - | - | - | (173,995) | (173,995) | - | **(173,995)** |
| ***Transactions with non-controlling interest*** | | | | | | | | | | |
| Loss of control | - | - | - | - | - | - | - | - | (47) | **(47)** |
| Dividends paid to non-controlling interest shareholders | - | - | - | - | - | - | - | - | (1,713) | **(1,713)** |
| Transactions with third parties related to units of funds controlled by Group | - | - | - | - | - | - | - | - | (28) | **(28)** |
| ***Comprehensive income*** | | | | | | | | | | |
| Profit for the current year | - | - | - | - | - | - | 21,219 | 21,219 | 1,781 | **23,000** |
| Other comprehensive income | - | - | - | 5,824 | 4 | (66) | - | 5,762 | - | **5,762** |
| ***Other*** | | | | | | | | | | |
| Depreciation of revalued property | - | - | (27) | - | - | - | 27 | - | - | - |
| Revaluation of property and equipment | - | - | 3 | - | - | - | - | 3 | - | **3** |
| **Balance at 31 December 2019** | **168,916** | **52,543** | **1,890** | **3,578** | **(3,559)** | **39** | **96,898** | **320,305** | **4,138** | **324,443** |

The Group consolidated statements of changes in the shareholders' equity are to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 24 to 117.

Chairman of the Executive Board
Rolf Paul Fuls

Deputy Chairman of the Executive Board
Ruslans Stecjuks

27 March 2020

**BANK'S SEPARATE STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**
**For the year ended 31 December 2019**

| | Share capital '000 EUR | Share premium '000 EUR | Fair value reserve '000 EUR | Other reserves '000 EUR | Retained earnings '000 EUR | Total equity '000 EUR |
|---|---|---|---|---|---|---|
| **Balance at 31 December 2017** | **168,916** | **52,543** | **3,976** | **23** | **234,156** | **459,614** |
| Effect from changed accounting policy – IFRS 9 | - | - | (2,508) | - | (4,636) | **(7,144)** |
| **Restated balance at 1 January 2018** | **168,916** | **52,543** | **1,468** | **23** | **229,520** | **452,470** |
| ***Transactions with shareholders recorded directly in equity*** | | | | | | |
| Dividends paid | - | - | - | - | (12,729) | **(12,729)** |
| ***Comprehensive income*** | | | | | | |
| Profit for the period | - | - | - | - | 21,483 | **21,483** |
| Other comprehensive income | - | - | (3,714) | - | - | **(3,714)** |
| **Balance at 31 December 2018** | **168,916** | **52,543** | **(2,246)** | **23** | **238,274** | **457,510** |
| ***Transactions with shareholders recorded directly in equity*** | | | | | | |
| Dividends paid | - | - | - | - | (173,995) | **(173,995)** |
| ***Comprehensive income*** | | | | | | |
| Profit for the period | - | - | - | - | 18,431 | **18,431** |
| Other comprehensive income | - | - | 5,824 | - | - | **5,824** |
| **Balance at 31 December 2019** | **168,916** | **52,543** | **3,578** | **23** | **82,710** | **307,770** |

The Bank's separate statements of changes in shareholders' equity are to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 24 to 117.

Chairman of the Executive Board
Rolf Paul Fuls

Deputy Chairman of the Executive Board
Ruslans Stecjuks

27 March 2020

# 1 Background

## Principal activities

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

The Bank was established in the Republic of Latvia as a Joint Stock Company and was granted it's general banking license in 1992. The principal activities of the Bank are deposit taking and customer accounts maintenance, lending, issuing guarantees, cash and settlement operations and operations with securities and foreign exchange. The activities of the Bank are regulated by the Bank of Latvia and the Financial and Capital Market Commission ("FCMC") of the Republic of Latvia. The registered address of the Bank's head office is Vesetas street 7, Riga, Latvia. The average number of people employed by the Group during the year was 701 (2018: 856) and by the Bank 429 (2018: 567).

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

| Name | Country of incorporation | Principal activities | Ownership % | |
|---|---|---|---|---|
| | | | **31 Dec 2019** | **31 Dec 2018** |
| RB Investments SIA | Vesetas Str.7, Riga, Latvia | Investments | 100% | 100% |
| Rietumu Leasing Ltd | Odoevskogo Str.117, 6th floor, office 9, Minsk Belarus | Leasing company | 100% | 100% |
| Vesetas 7 SIA | Vesetas Str.7, Riga, Latvia | Real estate operating | 100% | 100% |
| Overseas Estates SIA | Vesetas Str.7, Riga, Latvia | Terminal | 100% | 100% |
| InCREDIT GROUP SIA | Krisjana Barona Str.130, Riga, Latvia | Customer lending | 51% | 51% |
| KI Nekustamie ipasumi SIA | Vesetas Str.7, Riga, Latvia | Real estate operating | 100% | 100% |
| KI 135 SIA | Vesetas Str.7, Riga, Latvia | Real estate operating | 100% | 100% |
| KI Invest Ltd | Nauchnij Str.19, Moscow, Russia | Real estate operating | 100% | 100% |
| U-10 SIA | Garozes Str. 25-1, Riga, Latvia | Real estate operating | 67% | 67% |
| Euro Textile Group SIA | Ganibu dambis 30, Riga, Latvia | Real estate operating | 100% | 100% |

# 2 Basis of preparation

## (a) Statements of compliance

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

The Board of Directors approved these separate and consolidated financial statements for issue on 27 March 2020.

## (b) Basis of measurement

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

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

## (c) Functional and Presentation Currency

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

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

| | |
|---|---|
| Rietumu Leasing Ltd | BYN (Belarussian Ruble) |
| KI Invest Ltd | RUB (Russian Rouble) |

# 3 Significant accounting policies

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

## (a) Foreign currency

### *(i) Foreign currency transactions*

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

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

### *(ii) Foreign operations*

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

### *(iii) Foreign exchange rates*

| | **31 Dec 2019** | **Average 2019** | **31 Dec 2018** | **Average 2018** |
|---|---:|---:|---:|---:|
| USD | 1.1234 | 1.1195 | 1.145 | 1.1810 |
| BYN | 2.3637 | 2.3415 | 2.4734 | 2.4055 |
| RUB | 69.9563 | 72.4553 | 79.7153 | 74.0416 |

# 3 Significant accounting policies, continued

## (b) Basis of consolidation

### *(i) Subsidiaries*

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

### *(ii) Equity accounted investees*

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

### *(iii) Transactions eliminated on consolidation*

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

### *(iv) Non – controlling interest*

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

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

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

### *(vi) Asset management*

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

## (c) Goodwill

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

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

# 3 Significant accounting policies, continued

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

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

## (d) Fair value measurement principles

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

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

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

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

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

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

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

### *(i) Financial assets and liabilities*

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

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

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

# 3 Significant accounting policies, continued

### *(ii) Investment property and owner occupied buildings*

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

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

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

### *(iii) Intangible assets*

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

## (e) Cash and cash equivalents

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

## (f) Financial instruments

### *(i) Classification*

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

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

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

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

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

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

# 3 Significant accounting policies, continued

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

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

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

All other financial assets are mandatorily measured at FVPL.

*Business model assessment*

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

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

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

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

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

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

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

### *(ii) Measurement*

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

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

# 3 Significant accounting policies, continued

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

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

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

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

### *(iii) Gains and losses on subsequent measurement*

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

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

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

### *(iv) Derecognition*

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

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

### *(v) Derivative financial instruments*

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

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

# 3 Significant accounting policies, continued

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

### *(vi) Offsetting*

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

## (g) Leases

***Policy applicable from 1 January 2019***

At inception of a contract, the Group and the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group and the Bank uses the definition of a lease in IFRS 16.

The *Bank and the Group as lessee*

At commencement or on modification of a contract that contains a lease component, the Group and the Bank allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

The Group and the Bank recognise a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group and the Bank by the end of the lease term or the cost of the right-of-use asset reflects that the Group and the Bank will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group uses the practical expedient of low-value items where any item generating cash outflows of less than EUR 5 thousand during the lease term is expensed as incurred with no right-of-use asset or lease liability recognition.

# 3 Significant accounting policies, continued

*The bank and the Group as lessor*

When the Group and the Bank acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group and the Bank makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease.

***Policy applicable before 1 January 2019***

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

*The bank and the Group as lessor*

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

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

*The Bank and the Group as lessee*

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

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

## (h) Property and equipment

### *(i) Owned assets*

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

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

### *(ii) Revaluation*

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

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

# 3 Significant accounting policies, continued

### *(iii) Depreciation*

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

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

### (i) Investment property

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

### (j) Repossessed collateral

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

### (k) Intangible assets

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

## (l) Measurement of expected credit losses on financial assets

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

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

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

# 3 Significant accounting policies, continued

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

Starting with 1 January 2018, the Bank and the Group group loans, financial guarantees and commitments, bonds measured at amortised cost or fair value through other comprehensive income into Stage 1, Stage 2 and Stage 3, based on the applied impairment methodology, as described below:

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

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

*Significant increase in credit risk*

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

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

For significant loans the Group and the Bank determines the expected credit losses individually.

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

*Credit risk grades*

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

Exposures of loans due from customers are allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures is subject to ongoing monitoring, which result

## 3 Significant accounting policies, continued

in an exposure being moved to a different credit risk grade. A, B, C, D and E are bank assigned rating classes based on internal rating approach. Rating classes are assigned according to the following rating scores: A∈(8;10], B∈(6;8], C∈(3;6], D∈(1;3], E∈[0;1].

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

*Measurement of ECLs*

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

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

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

These parameters are derived from historical data and internally approved statistical models. They are adjusted to reflect forward-looking information.

PD estimates are estimates at a certain date, which is calculated based on statistical rating models and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Credit risk grades and overdue periods are primary inputs into the determination of the term structure of PD for exposures. The Group and the Bank employ statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures.

The definition of default used in the measurement of expected credit losses and the assessment to determine movements between stages is consistent with the definition of default used for internal credit risk management purposes and is aligned with CRR. Hence, exposures which are considered to be in default for regulatory purposes will always be considered stage 3 under IFRS 9.

LGD is the magnitude of the likely loss if there is a default. The Group and the Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

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

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

*Modification*

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

*Presentation of allowance for ECL in the statement of financial position*

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

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

# 3 Significant accounting policies, continued

## (m) Impairment of non-financial assets

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

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

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

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

## (n) Provisions

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

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

## (o) Credit related commitments

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

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

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. From 1 January 2018: the Group and the Bank recognises a loss allowance – see note 3 (l).

## (p) Taxation

### *(i) Current tax*

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

# 3 Significant accounting policies, continued

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

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

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

### *(ii) Deferred tax for Group companies located in Latvia*

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

### *(iii) Deferred tax for other Group companies*

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects

neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future.

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

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

## (q) Income and expense recognition

### *(i) Interest income and expense*

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

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

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

# 3 Significant accounting policies, continued

### *(ii) Fee and commission income and expense*

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

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

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

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

## (r) Dividends

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

## (s) Employee benefits

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

## (t) Non-current assets held for sale

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

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

## (u) Changes in accounting policies

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

The Group and the Bank have adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2019.

- *IFRS 16 Leases – (Effective for annual periods beginning on or after 1 January 2019.*

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use 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.

# 3 Significant accounting policies, continued

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.

At inception of a contract, the Group and the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asses for the period of time in exchange for consideration.

The Group and the Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost and subsequently depreciated using the straight-line method. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Group's and the Bank's incremental borrowing rate. The Group and the Bank presents right-of-use assets that do not meet definition of investment property in Property and equipment, lease liability in Other liabilities and accruals.

The Group and the Bank has applied IFRS 16 using the modified retrospective approach, the comparative information has not been restated.

The impact of implementation of IFRS 16:

| **The Group** | **31 December 2018 '000 EUR** | **IFRS 16 '000 EUR** | **1 January 2019 '000 EUR** |
|---|---|---|---|
| Property and equipment | 42,872 | 2,533 | 45,405 |
| Other liabilities and accruals | 24,994 | 2,533 | 27,527 |

| **The Bank** | **31 December 2018 '000 EUR** | **IFRS 16 '000 EUR** | **1 January 2019 '000 EUR** |
|---|---|---|---|
| Property and equipment | 8,386 | 32,015 | 40,401 |
| Other liabilities and accruals | 14,870 | 32,015 | 46,885 |

### (v) Changes in presentation

In 2019 in the note fee commission income Bank has showed net result from e-commerce as offsetting reflects the substance of the e-commerce transactions. Respective adjustment made to comparatives (31 December 2018).

# 4 Risk management

Risk management of the Group and the Bank is an integral part of management process. The Group and the Bank has developed a Risk profile which analyzes all risks and risk drivers to which the Group and the Bank is exposed, and which is consistent with the Group's and the Bank's business model. In accordance with Risk profile for the Group and the Bank, the most important risks for the Group and the Bank are credit risk, liquidity risk, market risk, money laundering and terrorism and proliferation financing risks, sanctions risk, operational risk.

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

### (a) Risk management policies and procedures

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

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

# 4 Risk management, continued

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

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

Risk Management Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

Credit risk is managed and controlled by Credit Committee; interest rate and liquidity risks by Asset and Liability Committee, Money Laundering and Terrorism and Proliferation Financing and sanctions risks levels are managed and controlled by Compliance Committee.

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

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

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

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

## (b) Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Bank and the Group. The Bank and the Group have developed policies and procedures to manage and control credit risk. The Group's and the Bank's credit policy, credit risk strategy and Risk management policy is reviewed and approved by the Council of the Bank.

The Credit Committee reviews all loan applications on the basis of submissions by the Lending Department and the Risk Management Department.

The Group and the Bank regularly review credit and securities portfolios in order to assess the structure, quality and concentration of the portfolio, as well as to monitor market trends and control credit risk levels.

The Bank's and the Group's acceptable levels of credit risk are described in the Strategic Development Plan and in the Credit Risk Management Strategy. The Risk Management Department monitors acceptable levels of credit risk on a regular basis.

For additional information see note 3 (l).

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

# 4 Risk management, continued

***Maximum credit risk exposure***

| | | Gross maximum credit exposure | | | |
|---|---|---|---|---|---|
| | **Notes** | **Group** | **Bank** | **Group** | **Bank** |
| **31 December** | | **2019** | **2019** | **2018** | **2018** |
| **EUR'000** | | | | | |
| Cash and balances with the Bank of Latvia | 16 | 503,089 | 503,072 | 466,490 | 466,444 |
| Loans and receivables due from banks, gross | 17 | 81,501 | 80,919 | 92,443 | 91,828 |
| Loans and receivables due from customers, gross | 19.2 | 599,782 | 668,721 | 689,507 | 782,014 |
| Financial assets at fair value through profit or loss | 18 | 444 | 444 | 2,418 | 815 |
| Financial assets at fair value through other comprehensive income | 20 | 290,490 | 290,490 | 159,405 | 159,405 |
| Debt securities at amortised cost, gross | 19.1 | 61,199 | 61,199 | 35,537 | 35,537 |
| **Total financial assets** | | **1,536,505** | **1,604,845** | **1,445,800** | **1,536,043** |
| Loan commitments | 35 | 36,385 | 45,398 | 8,726 | 17,500 |
| Financial guarantees | 35 | 13,833 | 13,833 | 4,275 | 4,275 |
| Other commitments | 35 | 107 | 107 | 171 | 171 |
| **Total guarantees and commitments** | | **50,325** | **59,338** | **13,172** | **21,946** |
| **Total maximum credit risk exposure** | | **1,586,830** | **1,664,183** | **1,458,972** | **1,557,989** |

The following table sets out information about the credit quality of loans and receivables due from customers, financial assets measured at amortised cost and debt investments at fair value through other comprehensive income. Explanation of the terms 'Stage 1', 'Stage 2' and 'Stage 3' and expected credit losses included in note 3 (l).

### Loans and receivables due from customers

### 31 December 2019

### The Group

| **EUR'000** | **Gross amount** | | | **Expected credit losses and provisions** | | | **Carrying amount** | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Stage 1** | **Stage 2** | **Stage 3** | **Stage 1** | **Stage 2** | **Stage 3** |
| **Past due period** | | | | | | | | | |
| Not past due and past due <= 30 days | 407,094 | 6,327 | 50,235 | (2,016) | (130) | (5,455) | **405,078** | **6,197** | **44,780** |
| Past due > 30 days <= 90 days | - | 975 | 33,598 | - | (144) | (428) | **-** | **831** | **33,170** |
| Past due > 90 days | - | - | 101,553 | - | - | (6,318) | **-** | **-** | **95,235** |
| **Total** | **407,094** | **7,302** | **185,386** | **(2,016)** | **(274)** | **(12,201)** | **405,078** | **7,028** | **173,185** |
| **Commitments and Guarantees** | **108,606** | **19** | **1,051** | **(105)** | **-** | **-** | **108,501** | **19** | **1,051** |

# 4 Risk management, continued

## The Bank

| EUR'000 | Gross amount | | | Expected credit losses and provisions | | | Carrying amount | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Stage 1** | **Stage 2** | **Stage 3** | **Stage 1** | **Stage 2** | **Stage 3** |
| **Past due period** | | | | | | | | | |
| Not past due and past due <= 30 days | 440,671 | 8,125 | 86,076 | (1,634) | (166) | (23,135) | **439,037** | **7,959** | **62,941** |
| Past due > 30 days <= 90 days | - | 550 | 33,453 | - | (11) | (395) | **-** | **539** | **33,058** |
| Past due > 90 days | - | - | 99,846 | - | - | (4,857) | **-** | **-** | **94,989** |
| **Total** | **440,671** | **8,675** | **219,375** | **(1,634)** | **(177)** | **(28,387)** | **439,037** | **8,498** | **190,988** |
| **Commitments and Guarantees** | **146,972** | **1,638** | **3,272** | **(122)** | **(32)** | **-** | **146,850** | **1,606** | **3,272** |

## 31 December 2018

## The Group

| EUR'000 | Gross amount | | | Expected credit loss and provisions | | | Carrying amount | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Stage 1** | **Stage 2** | **Stage 3** | **Stage 1** | **Stage 2** | **Stage 3** |
| **Past due period** | | | | | | | | | |
| Not past due and past due <= 30 days | 424,854 | 13,299 | 76,765 | (2,506) | (269) | (19,318) | **422,348** | **13,030** | **57,447** |
| Past due > 30 days <= 90 days | - | 13,132 | 521 | - | (352) | (58) | **-** | **12,780** | **463** |
| Past due > 90 days | - | - | 160,936 | - | - | (49,105) | **-** | **-** | **111,831** |
| **Total** | **424,854** | **26,431** | **238,222** | **(2,506)** | **(621)** | **(68,481)** | **422,348** | **25,810** | **169,741** |
| **Commitments and Guarantees** | 72,311 | 64 | 27,315 | (75) | (1) | - | **72,236** | **63** | **27,315** |

# 4 Risk management, continued

## The Bank

| EUR'000 | Gross amount | | | Expected credit loss and provisions | | | Carrying amount | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Stage 1** | **Stage 2** | **Stage 3** | **Stage 1** | **Stage 2** | **Stage 3** |
| **Past due period** | | | | | | | | | |
| Not past due and past due <= 30 days | 477,468 | 19,287 | 112,503 | (2,363) | (468) | (35,330) | **475,105** | **18,819** | **77,173** |
| Past due > 30 days <= 90 days | - | 12,668 | 302 | - | (211) | (26) | **-** | **12,457** | **276** |
| Past due > 90 days | - | - | 159,786 | - | - | (48,273) | **-** | **-** | **111,513** |
| **Total** | **477,468** | **31,955** | **272,591** | **(2,363)** | **(679)** | **(83,629** | **475,105** | **31,276** | **188,962** |
| **Commitments and Guarantees** | **101,154** | **336** | **48,350** | **(127)** | **(11)** | **-** | **101,027** | **325** | **48,350** |

## Debt securities at amortised cost

### 31 December 2019

**The Group and the Bank**

| EUR'000 | Gross amount | | | Expected credit losses | | | Carrying amount | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Stage 1** | **Stage 2** | **Stage 3** | **Stage 1** | **Stage 2** | **Stage 3** |
| **Composite credit rating** | | | | | | | | | |
| BB+ to B- | 60,028 | 976 | 195 | (617) | (38) | (8) | **59 411** | **938** | **187** |
| **Total** | **60,028** | **976** | **195** | **(617)** | **(38)** | **(8)** | **59 411** | **938** | **187** |

### 31 December 2018

**The Group and the Bank**

| EUR'000 | Gross amount | | | Expected credit loss | | | Carrying amount | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Stage 1** | **Stage 2** | **Stage 3** | **Stage 1** | **Stage 2** | **Stage 3** |
| **Composite credit rating** | | | | | | | | | |
| BB+ to B | 36,127 | - | - | (590) | - | - | **35,537** | **-** | **-** |
| **Total** | **36,127** | **-** | **-** | **(590)** | **-** | **-** | **35,537** | **-** | **-** |

# 4 Risk management, continued

## Financial assets at fair value though other comprehensive income

### 31 December 2019

**The Group and the Bank**

**EUR'000**

| | Gross amount | | | Expected credit losses | | | Carrying amount | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Stage 1** | **Stage 2** | **Stage 3** | **Stage 1** | **Stage 2** | **Stage 3** |
| **Composite credit rating** | | | | | | | | | |
| AAA to B- | 286 436 | 4 354 | - | (451) | (218) | - | **285 985** | **4 136** | **-** |
| CCC+ to CCC- | 308 | 56 | - | (37) | (19) | - | **271** | **37** | **-** |
| Not rated | - | - | 61 | - | - | - | **-** | **-** | **61** |
| **Total** | **286 744** | **4 410** | **61** | **(488)** | **(237)** | **0** | **286 256** | **4 173** | **61** |

### 31 December 2018

**The Group and the Bank**

**EUR'000**

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

## (c) Market risk

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

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

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

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

In addition, the Bank and the Group use a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Bank and the Group's overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. In order to identify the market risk of financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss, the Bank and the Group uses the following parameters:

- Changes in the SWAP and money market yield curve (based on ECB scenario) to measure the impact from interest rate risk;

# 4 Risk management, continued

- Changes in credit spreads by the type of borrower (based on ECB scenario) to measure the impact from credit risk;
- Market price depreciation to measure the impact from equity risk.

Moreover, Bank measures value at risk (VaR) and value at interest rate risk (VaIRR) to control the potential losses arising from financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss.

The VaR shows the potential loss amount for 1-day and 10-day periods with 99% confidence level.

| **The Group** | **2019** | | **2018** | |
|---|---|---|---|---|
| **’000 EUR** | **VaR 1d 99%** | **VaR 10d 99%** | **VaR 1d 99%** | **VaR 10d 99%** |
| Financial assets at fair value through other comprehensive income | (351) | (1,108) | (376) | (1,188) |
| Financial assets at fair value through profit or loss | (9) | (29) | (11) | (35) |

| **The Bank** | **2019** | | **2018** | |
|---|---|---|---|---|
| **’000 EUR** | **VaR 1d 99%** | **VaR 10d 99%** | **VaR 1d 99%** | **VaR 10d 99%** |
| Financial assets at fair value through other comprehensive income | (351) | (1,108) | (376) | (1,188) |
| Financial assets at fair value through profit or loss | (9) | (29) | (11) | (35) |

### *(i) Interest rate risk*

Interest rate risk is a possible unfavourable impact on the profit and the economic value of the Bank and the Group due to fluctuations of interest rates.

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

Starting from 30 June 2019, came in force EBA Guidelines on interest rate risk management from non-trading book activities (EBA/GL/2018/02) related to interest rate risk measurement and management. As a result, the Bank and the Group developed changes to its valuation and management system as well as in policies and procedures to manage interest rate risk in line with EBA Guidelines.

The main objective of the policy is to determine and take a set of measures to minimise the possible unfavourable impact of the interest rate fluctuations on earnings and economic value of the Bank and the Group.

The Bank and the Group uses the following quantitative risk assessment methods for interest rate risk assessment:

- GAP analysis (the volume of mismatches in different time bands);
- modified duration (change of economic value according to a scenario of interest rate fluctuations);
- stress testing (impact on earnings of the Bank and the Group according to a scenario of interest rate fluctuations and change of economic value according to a scenario of interest rate fluctuations).

For further analysis of interest repricing refer to Note 42 Interest rate risk analysis.

An analysis of sensitivity of the net income for the year to changes of market interest rate impacting the interest income on variable interest rate financial instrument and the fair value of fixed interest rate

# 4 Risk management, continued

financial instruments measured at fair value based on a scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves, all other variables remaining constant, is as follows:

| **Group** | **2019** | | **2018** | |
|---|---|---|---|---|
| **'000 EUR** | **Profit for the period** | **Other comprehensive income** | **Profit for the period** | **Other comprehensive income** |
| 100bp parallel increase | 6,559 | - | 1,780 | - |
| 100bp parallel decrease | (6,559) | - | (1,780) | - |

| **Bank** | **2019** | | **2018** | |
|---|---|---|---|---|
| **'000 EUR** | **Profit for the period** | **Other comprehensive income** | **Profit for the period** | **Other comprehensive income** |
| 100bp parallel increase | 6,398 | - | 2,491 | - |
| 100bp parallel decrease | (6,398) | - | (2,491) | - |

### *(ii) Currency risk*

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

An analysis of sensitivity of the Bank's and the Group's net income and other comprehensive income for the year to changes in the foreign currency exchange rates based on positions existing as at 31 December 2019 and 2018 and a scenario of a 5% change in USD to EUR exchange rates, while the other variable remain constant, is as follows:

| **Group** | **2019** | | **2018** | |
|---|---|---|---|---|
| **'000 EUR** | **Profit for the period** | **Other comprehensive income** | **Profit for the period** | **Other comprehensive income** |
| 5% appreciation of USD against EUR | (300) | - | 377 | - |
| 5% depreciation of USD against EUR | 300 | - | (377) | - |

| **Bank** | **2019** | | **2018** | |
|---|---|---|---|---|
| **'000 EUR** | **Profit for the period** | **Other comprehensive income** | **Profit for the period** | **Other comprehensive income** |
| 5% appreciation of USD against EUR | (41) | - | 15 | - |
| 5% depreciation of USD against EUR | 41 | - | (15) | - |

### *(iii) Price risk*

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

An analysis of sensitivity of the Bank's and the Group's price risk is included in the VaR model described in note 4 (c).

# 4 Risk management, continued

## (d) Liquidity risk

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

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

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

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

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

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

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

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

# 4 Risk management, continued

**The Group**

Analysis of financial liabilities' undiscounted cash flows based on effective maturity as at 31 December 2019:

| EUR'000 | Demand and less than 1 month | From 1 to 3 months | From 3 months to 1 year | From 1 year to 5 years | More than 5 years | Total gross amount outflow/ (inflow) | Carrying amount |
|---|---|---|---|---|---|---|---|
| **Non-derivative liabilities** | | | | | | | |
| Deposits and balances due to banks | 2,920 | - | - | - | - | **2,920** | **2,920** |
| Current accounts and deposits due to customers | 344,802 | 78,771 | 240,973 | 661,188 | 23,764 | **1,349,498** | **1,319,833** |
| Other borrowed funds-bonds-issued debt securities | - | - | - | 788 | - | **788** | **712** |
| Lease liability | 53 | 100 | 461 | 1,769 | 624 | **3,007** | **2,262** |
| Other financial liabilities | 1,693 | - | - | 3,545 | - | **5,238** | **5,238** |
| **Derivative liabilities** | | | | | | | |
| - Inflow | (79) | (11,165) | - | - | - | **(11,244)** | **-** |
| - Outflow | 80 | 11,258 | - | - | - | **11,338** | **94** |
| **Total** | **349,469** | **78,964** | **241,434** | **667,290** | **24,388** | **1,361,545** | **1,331,059** |
| **Guarantees (maximum credit risk exposure)** | **-** | **-** | **-** | **-** | **4,500** | **4,500** | **13,939** |
| **Credit related commitments (maximum credit risk exposure)** | **36,385** | **-** | **-** | **-** | **-** | **36,385** | **36,385** |

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

| EUR'000 | Demand and less than 1 month | From 1 to 3 months | From 3 months to 1 year | From 1 year to 5 years | More than 5 years | Total gross amount outflow/ (inflow) | Carrying amount |
|---|---|---|---|---|---|---|---|
| **Non-derivative liabilities** | | | | | | | |
| Deposits and balances due to banks | 2,403 | - | - | - | - | **2,403** | **2,403** |
| Current accounts and deposits due to customers | 239,508 | 63,766 | 203,283 | 517,020 | 23,462 | **1,047,039** | **1,019,696** |
| Issued debt securities | - | - | - | 72 | - | **72** | **62** |
| Other financial liabilities | 799 | - | - | 7,075 | - | **7,874** | **7,874** |
| **Total** | **242,710** | **63,766** | **203,283** | **524,167** | **23,462** | **1,057,388** | **1,030,035** |
| **Guarantees (maximum credit risk exposure)** | **372** | **490** | **3,328** | **220** | **-** | **4,410** | **4,446** |
| **Credit related commitments (maximum credit risk exposure)** | **8,726** | **-** | **-** | **-** | **-** | **8,726** | **8,726** |

# 4 Risk management, continued

## The Bank

Analysis of financial liabilities' undiscounted cash flows based on effective maturity as at 31 December 2019:

| EUR'000 | Demand and less than 1 month | From 1 to 3 months | From 3 months to 1 year | From 1 year to 5 years | More than 5 years | Total gross amount outflow/ (inflow) | Carrying amount |
|---|---|---|---|---|---|---|---|
| **Non-derivative liabilities** | | | | | | | |
| Deposits and balances due to banks | 2,920 | - | - | - | - | **2,920** | **2,920** |
| Current accounts and deposits due to customers | 360,233 | 78,772 | 238,523 | 660,731 | 23,765 | **1,362,024** | **1,332,529** |
| Lease liability | 199 | 400 | 1,799 | 11,597 | 28,618 | **42,613** | **30,840** |
| Other financial liabilities | 1,262 | - | - | 3,532 | - | **4,794** | **4,794** |
| **Derivative liabilities** | | | | | | | |
| - Inflow | (79) | (11,165) | - | - | - | **(11,244)** | **-** |
| - Outflow | 80 | 11,258 | - | - | - | **11,338** | **94** |
| **Total** | **364,615** | **79,265** | **240,322** | **675,860** | **52,383** | **1,412,445** | **1,371,177** |
| **Guarantees (maximum credit risk exposure)** | **-** | **-** | **-** | **-** | **4,500** | **4,500** | **13,939** |
| **Credit related commitments (maximum credit risk exposure)** | **45,398** | **-** | **-** | **-** | **-** | **45,398** | **45,398** |

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

| EUR'000 | Demand and less than 1 month | From 1 to 3 months | From 3 months to 1 year | From 1 year to 5 years | More than 5 years | Total gross amount outflow/ (inflow) | Carrying amount |
|---|---|---|---|---|---|---|---|
| **Non-derivative liabilities** | | | | | | | |
| Deposits and balances due to banks | 2,348 | - | - | - | - | **2,348** | **2,348** |
| Current accounts and deposits due to customers | 256,030 | 61,654 | 201,171 | 516,368 | 23,462 | **1,058,685** | **1,033,539** |
| Other financial liabilities | 773 | - | - | 7,071 | - | **7,844** | **7,844** |
| **Total** | **259,151** | **61,654** | **201,171** | **523,439** | **23,462** | **1,068,877** | **1,043,731** |
| **Guarantees (maximum credit risk exposure)** | **373** | **490** | **3,328** | **220** | **-** | **4,411** | **4,446** |
| **Credit related commitments (maximum credit risk exposure)** | **17,500** | **-** | **-** | **-** | **-** | **17,500** | **17,500** |

# 4 Risk management, continued

## The Group

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

Analysis of financial liabilities' contractual undiscounted cash flows as at 31 December 2019:

| EUR'000 | Demand and less than 1 month | From 1 to 3 months | From 3 months to 1 year | From 1 year to 5 years | More than 5 years | Total gross amount outflow/ (inflow) | Carrying amount |
|---|---|---|---|---|---|---|---|
| **Non-derivative liabilities** | | | | | | | |
| Deposits and balances due to banks | 2,920 | - | - | - | - | **2,920** | **2,920** |
| Current accounts and deposits due to customers | 717,536 | 53,867 | 196,566 | 357,765 | 23,764 | **1,349,498** | **1,319,833** |
| Other borrowed funds-bonds-issued debt securities | - | - | - | 788 | - | **788** | **712** |
| Lease liability | 53 | 100 | 461 | 1,769 | 624 | **3,007** | **2,262** |
| Other financial liabilities | 1,693 | - | - | 3,545 | - | **5,238** | **5,238** |
| **Derivative liabilities** | | | | | | | |
| - Inflow | (79) | (11,165) | - | - | - | **(11,244)** | **-** |
| - Outflow | 80 | 11,258 | - | - | - | **11,338** | **94** |
| **Total** | **722,203** | **54,060** | **197,027** | **363,867** | **24,388** | **1,361,545** | **1,331,059** |
| **Guarantees (maximum credit risk exposure)** | **-** | **-** | **-** | **-** | **4,500** | **4,500** | **13,939** |
| **Credit related commitments (maximum credit risk exposure)** | **36,385** | **-** | **-** | **-** | **-** | **36,385** | **36,385** |

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

| EUR'000 | Demand and less than 1 month | From 1 to 3 months | From 3 months to 1 year | From 1 year to 5 years | More than 5 years | Total gross amount outflow/ (inflow) | Carrying amount |
|---|---|---|---|---|---|---|---|
| **Non-derivative liabilities** | | | | | | | |
| Deposits and balances due to banks | 2,403 | - | - | - | - | **2,403** | **2,403** |
| Current accounts and deposits due to customers | 587,587 | 16,624 | 146,729 | 272,888 | 23,462 | **1,047,290** | **1,019,696** |
| Issued debt securities | - | - | - | 72 | - | **72** | **62** |
| Other financial liabilities | 799 | - | - | 7,075 | - | **7,874** | **7,874** |
| **Total** | **590,789** | **16,624** | **146,729** | **280,035** | **23,462** | **1,057,639** | **1,030,035** |
| **Guarantees (maximum credit risk exposure)** | **372** | **490** | **3,328** | **220** | **-** | **4,410** | **4,446** |
| **Credit related commitments (maximum credit risk exposure)** | **8,726** | **-** | **-** | **-** | **-** | **8,726** | **8,726** |

# 4 Risk management, continued

**The Bank**

Analysis of financial liabilities' contractual undiscounted cash flows as at 31 December 2019:

| EUR'000 | Demand and less than 1 month | From 1 to 3 months | From 3 months to 1 year | From 1 year to 5 years | More than 5 years | Total gross amount outflow/ (inflow) | Carrying amount |
|---|---|---|---|---|---|---|---|
| **Non-derivative liabilities** | | | | | | | |
| Deposits and balances due to banks | 2,920 | - | - | - | - | **2,920** | **2,920** |
| Current accounts and deposits due to customers | 732,967 | 53,868 | 194,116 | 357,308 | 23,765 | **1,362,024** | **1,332,529** |
| Lease liability | 199 | 400 | 1,799 | 11,597 | 28,618 | **42,613** | **30,840** |
| Other financial liabilities | 1,262 | - | - | 3,532 | - | **4,794** | **4,794** |
| **Derivative liabilities** | | | | | | | |
| - Inflow | (79) | (11,165) | - | - | - | **(11,244)** | **-** |
| - Outflow | 80 | 11,258 | - | - | - | **11,338** | **94** |
| **Total** | **737,349** | **54,361** | **195,915** | **372,437** | **52,383** | **1,412,445** | **1,371,177** |
| **Guarantees (maximum credit risk exposure)** | **-** | **-** | **-** | **-** | **4,500** | **4,500** | **13,939** |
| **Credit related commitments (maximum credit risk exposure)** | **45,398** | **-** | **-** | **-** | **-** | **45,398** | **45,398** |

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

| EUR'000 | Demand and less than 1 month | From 1 to 3 months | From 3 months to 1 year | From 1 year to 5 years | More than 5 years | Total gross amount outflow/ (inflow) | Carrying amount |
|---|---|---|---|---|---|---|---|
| **Non-derivative liabilities** | | | | | | | |
| Deposits and balances due to banks | 2,348 | - | - | - | - | **2,348** | **2,348** |
| Current accounts and deposits due to customers | 604,109 | 14,387 | 144,492 | 272,235 | 23,462 | **1,058,685** | **1,033,539** |
| Other financial liabilities | 773 | - | - | 7,071 | - | **7,844** | **7,844** |
| **Total** | **607,230** | **14,387** | **144,492** | **279,306** | **23,462** | **1,068,877** | **1,043,731** |
| **Guarantees (maximum exposure)** | **373** | **490** | **3,328** | **220** | **-** | **4,411** | **4,446** |
| **Credit related commitments** | **17,500** | **-** | **-** | **-** | **-** | **17,500** | **17,500** |

# 4 Risk management, continued

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

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

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

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

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

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

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

The Bank has formed the Compliance Committee - a collegial body aimed to make significant, long-term decisions on the measures to be taken to ensure the compliance of business activity of the Bank with the AML/CTPF legislation and the observance of the applicable sanctions regimes, as well as to protect the Bank from its involvement into malicious illegal activities, thus compromising the good reputation of the Bank and as a result to prevent from losses arising from above said.

To ensure making effective decisions on the measures to be taken to secure the Bank against the risk to get involved in possible ML/TPF transactions and breaches of the applicable national and international sanctions regimes, the Bank has formed the Customer Policy Compliance Committee - a collegial body established with the aim to ensure the assessment of the Bank's customer transactions and that the cooperation between the Bank and the customer meets the legislation regulating AML/CTPF, and the observance of the national and international sanctions.

# 4 Risk management, continued

The Bank has formed a structural unit for AML/CTPF and the applicable national and international sanctions monitoring – the Internal Control Department. The main purpose of the structural unit is daily implementation of actions aimed at AML/CTPF, prevention of the breach of the applicable national and international sanctions regimes, the customer identification and due diligence, monitoring of customer transactions, detection of suspicious transactions and reporting relevant data to the authorized bodies/supervision authorities.

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

The following international and national sanctions are binding to the Bank – those of the United Nations (UN), the European Union (EU), the Republic of Latvia and the Office of Foreign Assets Control (OFAC) of the US Department of the Treasury.

Sanctions Policy of the Bank sets out the key principles and requirements that govern the Bank’s approach to sanctions of the UN, the EU, the Republic of Latvia and the OFAC.

The Bank prohibits business activity, including prohibitions on commencing or continuing relationship with a customer or provision of products or services or facilitation of transactions that the Bank believes may violate the applicable sanctions legislation or the Sanctions Policy.

There is an allocated Sanctions Officer, who oversees, improves and develops the internal regulations according to legislative requirements of the EU and the Republic of Latvia and ensures the best practice and efficiency in sanctions monitoring by ensuring integrity and compliance with the internal requirements.

The Bank’s main AML/sanctions policy principles are as follows:

The Bank according to its activity type by assessing and understanding ML/TPF risk and the risk of breaching applicable national and international sanction restrictions, associated with its activity and customers, develops AML/CTPF internal control system, which includes drafting respective policies and procedures.

The Bank allocates and contributes sufficient financial, material and intellectual resources to ensure due activity, to monitor its customers’ activity and to implement the Bank’s policy.

The Bank ensures that the employees in charge with identification, registration, servicing, monitoring and due diligence of the Bank’s customers understand and acknowledge risks associated with ML/TPF and breach of sanctions regimes, AML/CTPF legislation and organises regular personnel training to improve their skills to meet requirements of the internal control system, raise their qualification and quality of work.

The Bank at least once in 18 calendar months ensures that an independent examination of the ML/TPF and sanctions breach risk management internal control system, including the information technology solutions used, is carried out and where required takes measures to improve the efficiency of the internal control system.

The Bank, in compliance with the requirements of the legislation and legal empowerment of the participant of civil law relations of the private law, ensures the activity of the internal control system that allows to know its customers’ business activities according to the specific character of the customers’ business, and monitors and conducts due diligence of transactions by documenting such activities to secure itself against the risk to get involved in possible ML/TPF transactions and breaches of the national and international sanctions restrictions.

The Bank cooperates or starts to cooperate only with foreign banks, which have AML/CTPF legislation in effect in its country, and the foreign banks observe this legislation. The Bank does not cooperate with foreign shell banks, banks located in jurisdictions with low “Know Your Customer” standards or recognised as banks not cooperating in combating ML/TPF.

# 4 Risk management, continued

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

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

FCMC regularly performs reviews/audits of the Bank's compliance with the Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing.

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

The latest comprehesive external AML audit was conducted from November 2017 to April 2018 (a comprehensive AML audit for compliance with the requirements of the Latvian legislation and best international practice performed by KPMG Baltics AS). Based on the audit results, the Bank developed an action plan for the implementation of recommendations aimed at specific improvements in the internal control system, which were approved by the Bank's Management Board. The Bank regularly reported to the local Regulator (FCMC) on the implementation of the mentioned audit recommendations. Relevant Progress Reports were approved at the meetings of the Bank's Management Board. As of April 2019, the Bank implemented the planned improvements to the internal control system based on the audit recommendations received, which was reported to the Latvian Regulator.

Besides, in 2019 the Bank has assigned KPMG Baltics AS to perfom the gap analysis of the findings set out by the Navigant audit for compliance with US legislation and requirements that was conducted earlier (in 2016). The aim of this gap analysis was to compare the Bank's implemented actions as outlined in the Action Plan and audit's recommendations to cover the identified gaps with the US regulatory requirements and industry better practice. No observations have been assessed as "significant" or "critical".

In addition Internal Audit Service performs internal audits of the Bank's AML risks management system on a regular basis.

The Financial and Capital Market Commission on 24 May 2019 initiated an administrative case against the Bank regarding the violation of the requirements specified in Clause 5.5 of the Cabinet of Ministers Regulations No. 674 "Regulations Regarding the List of Unusual Transaction Indicators and the Procedures for Submitting Reports on Unusual or Suspicious Transactions", dated 14.11.2017, (hereinafter – Regulations No. 674) regarding the submission of reports on unusual transactions where the client sends or receives cross-border payment in foreign currency the amount of which is equivalent to EUR 500 thousand or more. The Bank is in negotiation process with Financial and Capital Market Commission on conclusion of the Administrative agreement within administrative case. As at 31 December 2019 the Bank has not made any provisions for contingent liability as the management of the Bank is certain that if there would be a fine, the amount will not have any material effect on the financial statements.

## (f) Operational risk

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

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

To ensure conditions for effective disclosure of significant operational risk, as well as general evaluation of operational risk, the Risk Management Department maintains an analytical Bank's and Group's operational risk management database "RB Operational risk", which provides complete information regarding operational risk events, their types and scope in terms of activities directions, particular bank operations and other deals, conditions of their emergence and disclosure; and regarding losses, which

# 4 Risk management, continued

have occurred. The Board of Directors of the Bank in cooperation with the Risk Management Department informs the Council of the Bank on the key directions of concentration of operational risk, causes for its emergence and measures taken to decrease any possible operational losses.

## (g) Capital Management

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

The Bank and the Group define as capital those items defined by statutory regulation as capital. Under the current capital requirements set by Financial and Capital Market Commission, banks must maintain a ratio of capital to risk weighted assets ("capital ratio") above the prescribed minimum level. As at 31 December 2019, the individual minimum level for the Bank is 12.3% (2018: 12.1%). The Bank was in compliance with the statutory capital ratio during the years ended 31 December 2019 and 31 December 2018. As at 31 December 2019 required for the Bank TSCR (total capital requirement) ratio is 12.3%, OCR (overall capital requirement) ratio is 16.09% (2018: TSCR ratio 12.1%, OCR ratio 16.11%).

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

| | 2019<br>'000 EUR<br>Group | 2019<br>'000 EUR<br>Bank | 2018<br>'000 EUR<br>Group | 2018<br>'000 EUR<br>Bank |
|---|---|---|---|---|
| **Tier 1 capital** | | | | |
| Share capital | 168,916 | 168,916 | 142,287 | 142,287 |
| Share premium | 52,543 | 52,543 | 6,843 | 6,843 |
| Other reserves | 23 | 23 | 89 | 23 |
| Accumulated other comprehensive income | 2,609 | 3,578 | (3,211) | (2,246) |
| Other transitional adjustment to CET1 Capital | 5,630 | 6,375 | 6,292 | 7,125 |
| Value adjustments due to the requirements for prudent valuation | (301) | (300) | (171) | (171) |
| Retained earnings from prior years | 71,882 | 64,279 | 223,099 | 216,791 |
| Current year profit | 21,739 | 18,431 | 22,750 | 21,483 |
| Intangible assets | (2,092) | (2,074) | (2,499) | (2,498) |
| Deferred tax assets | (107) | - | (173) | - |
| Additional deductions of CET1 Capital due to Article 3 (CRR) | (42,782) | (41,673) | (41,097) | (36,322) |
| **Total tier 1 capital** | **278,060** | **270,098** | **354,209** | **353,315** |
| **Tier 2 capital** | | | | |
| Paid up capital instruments (preference shares) | - | - | 26,629 | 26,629 |
| Share premium (preference shares) | - | - | 45,700 | 45,700 |
| Long term deposits qualifying as regulatory capital | 29,307 | 29,307 | 37,944 | 37,944 |
| **Total tier 2 capital** | **29,307** | **29,307** | **110,273** | **110,273** |
| **Total capital** | **307,367** | **299,405** | **464,482** | **463,588** |
| **Total risk exposure amount** | **1,367,430** | **1,363,640** | **1,289,905** | **1,265,980** |
| **Total capital ratio** | **22.48%** | **21.96%** | **36.01%** | **36.62%** |

# 4 Risk management, continued

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

In June 2019, the Bank's Shareholders decided to terminate non-voting preference shares and replace them with B category dematerialized registered non-voting shares and to approve the Bank's Statutes in a new wording. In December 2019, the Bank received FCMC approval to include in CET1 capital a new type of equity instrument - non-voting shares (B category registered shares).

# 5 Use of estimates and judgements

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

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

***Key sources of estimation uncertainty and judgement:***

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

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

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

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

### *(ii) Determining fair value of financial instruments*

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

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

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

# 5 Use of estimates and judgments, continued

### *(iv) Impairment of assets shown under other assets*

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

### *(vi) Impairment of investments in subsidiaries*

Investments in subsidiaries are valued at cost less accumulated impairment losses in the Bank's separate financial statements. On a regular basis, the Bank compares the cost of investment with the carrying amount of net assets of a subsidiary to see whether any impairment indication exists. In addition, the management assessed future cash flows to be generated by the subsidiaries and as a result of this assessments concluded that there is no objective evidence of impairment of the investment. If impairment indication exists, the recoverable amount of the investment is calculated based on discounted estimated future cash flows of the subsidiary. Future cash flows are based on budgets and projections prepared by the subsidiary and assessed for reasonableness.

### *(vii) Useful lives of equipment*

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

### *(viii) Consolidation of investment funds*

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

### *(ix) Acquisition of new subsidiaries*

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

### *(x) Estimating provisions*

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

# 6 Net interest income

| | 2019 '000 EUR Group | 2019 '000 EUR Bank | 2018 '000 EUR Group | 2018 '000 EUR Bank |
|---|---|---|---|---|
| **Interest income** | | | | |
| Loans and receivables due from customers | 41,966 | 29,318 | 49,301 | 36,991 |
| Loans and receivables due from financial institutions | 1,325 | 1,318 | 4,082 | 4,008 |
| Financial assets at fair value through other comprehensive income | 4,033 | 4,033 | 1,532 | 1,532 |
| Financial assets at Amortised Cost | 4,115 | 4,113 | 4,477 | 4,457 |
| Amounts receivable under reverse repurchase agreements | - | - | 132 | 132 |
| Financial assets at fair value through profit or loss | 29 | 29 | 215 | 215 |
| Other interest income | 59 | - | - | - |
| | **51,527** | **38,811** | **59,739** | **47,335** |
| **Interest expense** | | | | |
| Current accounts and deposits due to customers | 10,664 | 10,498 | 7,127 | 7,082 |
| Deposits and balances due to financial institutions | 2,265 | 2,273 | 2,999 | 2,572 |
| Other interest expense | 4,950 | 4,553 | 5,129 | 3,997 |
| | **17,879** | **17,324** | **15,255** | **13,651** |

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

# 7 Fee and commission income

| | 2019 '000 EUR Group | 2019 '000 EUR Bank | 2018 '000 EUR Group | 2018 '000 EUR Bank |
|---|---|---|---|---|
| Commission from account servicing | 9,507 | 9,513 | 25,170 | 25,176 |
| Money transfers | 2,395 | 2,395 | 4,125 | 4,125 |
| Commission income from payment cards | 2,132 | 2,132 | 3,886 | 3,886 |
| Revenue from customer asset management and brokerage commissions | 1,992 | 1,406 | 4,859 | 4,273 |
| Commission from documentary operations | 113 | 113 | 195 | 195 |
| E-commerce | 150 | 150 | - | - |
| Cash withdrawals | 72 | 72 | 145 | 145 |
| Other | 2,039 | 1,938 | 8,680 | 8,584 |
| | **18,400** | **17,719** | **47,060** | **46,384** |

## 8 Fee and commission expense

| | 2019 '000 EUR Group | 2019 '000 EUR Bank | 2018 '000 EUR Group | 2018 '000 EUR Bank |
|---|---|---|---|---|
| Payment card expenses | 1,073 | 1,073 | 3,779 | 3,779 |
| Agent commissions | 2,357 | 1,846 | 2,649 | 2,147 |
| On correspondent accounts | 151 | 151 | 487 | 487 |
| Brokerage fees | 766 | 597 | 1,105 | 1,105 |
| E-commerce | - | - | 1,721 | 1,721 |
| Other | 1,571 | 1,533 | 369 | 359 |
| | **5,918** | **5,200** | **10,110** | **9,598** |

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

| | 2019 '000 EUR Group | 2019 '000 EUR Bank | 2018 '000 EUR Group | 2018 '000 EUR Bank |
|---|---|---|---|---|
| Equity instruments | 674 | 738 | 1,227 | 1,027 |
| Debt securities | 9 | 9 | (117) | (54) |
| Other | (72) | (72) | (170) | (170) |
| | **611** | **675** | **940** | **803** |

## 10 Net foreign exchange gain/(loss)

| | 2019 '000 EUR Group | 2019 '000 EUR Bank | 2018 '000 EUR Group | 2018 '000 EUR Bank |
|---|---|---|---|---|
| Gain/(loss) from revaluation of financial assets and liabilities | 1,218 | 25 | (533) | 378 |
| Gain on spot transactions and derivatives | 10,324 | 10,369 | 13,169 | 13,184 |
| | **11,542** | **10,394** | **12,636** | **13,562** |

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

| | 2019 '000 EUR Group | 2019 '000 EUR Bank | 2018 '000 EUR Group | 2018 '000 EUR Bank |
|---|---|---|---|---|
| Debt securities | 1,562 | 1,562 | (585) | (585) |
| | **1,562** | **1,562** | **(585)** | **(585)** |

# 12 Other income/(expense)

| | 2019 '000 EUR Group | 2019 '000 EUR Bank | 2018 '000 EUR Group | 2018 '000 EUR Bank |
|---|---|---|---|---|
| Rental income from operating leases | 3,631 | 214 | 5,045 | 747 |
| Fair value change of Investment property | 279 | (341) | (3,359) | (314) |
| Penalties received | 2,221 | 1,896 | 1,424 | 1,122 |
| (Written off )/Recovery of assets written off | (20) | 355 | 313 | 313 |
| Gain/(Loss) from sale of property and equipment | (3) | 23 | 310 | - |
| Gain /(Loss) from sale of Investment property | 76 | 307 | 1,774 | 325 |
| Dividends received | 148 | 3,254 | 101 | 2,036 |
| Gain/(Loss) from derecognition of subsidiary (note 44) | 2,527 | - | 504 | 96 |
| Negative goodwill write-off | 156 | - | - | - |
| Income from steel processing | 2,592 | - | 3,187 | - |
| Income from production of electricity and heating | - | - | 697 | - |
| Other | 1,245 | 646 | 1,107 | 542 |
| | **12,852** | **6,354** | **11,103** | **4,867** |

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

# 13 Impairment losses

| | 2019<br>'000 EUR<br>Group | 2019<br>'000 EUR<br>Bank | 2018<br>'000 EUR<br>Group | 2018<br>'000 EUR<br>Bank |
|---|---|---|---|---|
| **Impairment losses** | | | | |
| Loans and advances due from banks | (8) | (8) | (2) | (2) |
| Loans and receivables due from customers | (9,963) | (9,392) | (28,193) | (28,646) |
| Intangible assets | - | - | (53) | - |
| Financial assets at fair value through other comprehensive income | (567) | (567) | (225) | (225) |
| Debt securities at amortised cost | (111) | (111) | (29) | (29) |
| Investments in subsidiaries | - | (1) | - | (725) |
| Other non-financial assets | (809) | (702) | (114) | (73) |
| | **(11,458)** | **(10,781)** | **(28,616)** | **(29,700)** |
| **Reversals of impairment losses** | | | | |
| Loans and advances due from banks | 1 | 1 | 14 | 14 |
| Loans and receivables due from customers | 2,202 | 2,576 | 11,465 | 11,555 |
| Financial assets at fair value through other comprehensive income | 72 | 72 | 341 | 341 |
| Debt securities at amortised cost | 37 | 37 | 232 | 232 |
| Other non-financial assets | 16 | 11 | 72 | 72 |
| | **2,328** | **2,697** | **12,124** | **12,214** |
| **Net impairment losses** | **(9,130)** | **(8,084)** | **(16,492)** | **(17,486)** |

# 14 General and administrative expenses

| | 2019 '000 EUR Group | 2019 '000 EUR Bank | 2018 '000 EUR Group | 2018 '000 EUR Bank |
|---|---|---|---|---|
| Employee compensation | 15,621 | 10,292 | 18,882 | 13,441 |
| Salaries to Board of Directors and Council | 2,332 | 1,824 | 1,977 | 1,295 |
| Payroll related taxes on employee remuneration | 4,305 | 2,907 | 4,898 | 3,529 |
| Depreciation and amortisation | 2,630 | 2,851 | 2,889 | 1,327 |
| Repairs and maintenance | 3,146 | 771 | 2,559 | 792 |
| Taxes other than on corporate income and payroll | 2,615 | 1,452 | 2,793 | 1,524 |
| IT related costs | 1,315 | 1,311 | 1,695 | 1,691 |
| Rent | 425 | 98 | 1,473 | 3,128 |
| Representative offices | 294 | 196 | 621 | 526 |
| Advertising and marketing | 879 | 190 | 837 | 161 |
| Communications and information services | 732 | 613 | 980 | 832 |
| Travel expenses | 791 | 376 | 1,158 | 627 |
| Professional services | 3,240 | 3,296 | 982 | 1,007 |
| Provision for bonus and payroll related taxes | 1,175 | 1,175 | 1,929 | 1,849 |
| Representation | 149 | 133 | 116 | 98 |
| Charity and sponsorship | - | - | 868 | 3 |
| Credit card service | 176 | 176 | 171 | 171 |
| Insurance | 297 | 201 | 289 | 216 |
| Employee health insurance | 173 | 160 | 193 | 185 |
| Audit services | 367 | 252 | 455 | 212 |
| Subscription of information | 211 | 211 | 236 | 236 |
| Office supplies (Stationery) | 79 | 21 | 92 | 30 |
| Security | 74 | 118 | 148 | 119 |
| Other | 2,839 | 2,029 | 3,061 | 1,227 |
| Reversal of provisions for the management bonus | (4,714) | (4,714) | (96) | (96) |
| | **39,151** | **25,939** | **49,206** | **34,130** |

The amount of reversed provision for bonuses represents the part of potential bonuses which, in addition to bonuses annually paid out by the Bank and the Group, might be paid discretionary by the Bank, subject to certain conditions.
Audit services includes fee in amount of EUR 7 thousand for other assurance engagements.

# 15 Income tax expense

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

| | 2019 ’000 EUR Group | 2019 ’000 EUR Bank | 2018 ’000 EUR Group | 2018 ’000 EUR Bank |
|---|---|---|---|---|
| **Current tax expense** | | | | |
| Current tax expense | 1,273 | 674 | 1,453 | 997 |
| Deferred tax | 237 | - | (66) | - |
| **Total income tax expense in the profit and loss** | **1,510** | **674** | **1,387** | **997** |

| **The tax rate applicable in countries in which group entities operate:** | **2019** | **2018** |
|---|---|---|
| Latvia | 20.00% | 20.00% |
| Belarus | 18.00% | 18.00% |
| Cyprus | 12.50% | 12.50% |
| Russia | 20.00% | 20.00% |

## (b) Reconciliation of effective tax rate:

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

# 16 Cash and balances due from the Bank of Latvia

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

| | 31 Dec 2019 ’000 EUR Group | 31 Dec 2019 ’000 EUR Bank | 31 Dec 2018 ’000 EUR Group | 31 Dec 2018 ’000 EUR Bank |
|---|---|---|---|---|
| Cash | 1,519 | 1,502 | 2,658 | 2,613 |
| Balances due from the Bank of Latvia | 501,570 | 501,570 | 463,832 | 463,831 |
| | **503,089** | **503,072** | **466,490** | **466,444** |

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

In accordance with the Bank of Latvia’s regulations, the Bank is required to maintain a compulsory reserve.

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

# 17 Loans and receivables due from banks

| | 31 Dec 2019 '000 EUR Group | 31 Dec 2019 '000 EUR Bank | 31 Dec 2018 '000 EUR Group | 31 Dec 2018 '000 EUR Bank |
|---|---|---|---|---|
| **Demand accounts** | | | | |
| Latvian commercial banks | 155 | - | 258 | - |
| Other OECD banks | 61,818 | 61,818 | 65,567 | 65,567 |
| Non-OECD banks | 19,528 | 19,101 | 26,618 | 26,261 |
| Expected credit losses | (8) | (8) | - | - |
| **Total Demand accounts** | **81,493** | **80,911** | **92,443** | **91,828** |

**Concentration of placements with banks**

As at 31 December 2019 the Bank and the Group had 4 balances (2018: 3), which exceeded 10% of total loans and receivables from banks.

The largest balances due from credit institutions as of 31 December 2019 in the Bank and the Group were as follows:

| | 31 Dec 2019 '000 EUR | % |
|---|---|---|
| Erste Group Bank AG | 35,729 | 44.15 |
| ALFA Bank Closed JSC | 14,256 | 16.46 |
| Raiffeisenbank Bank International AG | 13,323 | 14.44 |
| Euroclear Bank SA | 11,684 | 17.62 |
| **Total** | **74,992** | **92.67** |

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

| | 31 Dec 2018 '000 EUR | % |
|---|---|---|
| Raiffeisenbank Bank International AG | 44,160 | 48.09 |
| Sberbank of Russia AO | 18,761 | 20.43 |
| Euroclear Bank SA | 9,593 | 10.45 |
| **Total** | **72,514** | **78.97** |

# 18 Financial assets at fair value through profit or loss

| | 31 December 2019 '000 EUR Group | 31 December 2019 '000 EUR Bank | 31 December 2018 '000 EUR Group | 31 December 2018 '000 EUR Bank |
|---|---|---|---|---|
| Debt securities | | | | |
| - with rating from AAA to A | - | - | 635 | - |
| - non-investment grade | - | - | 968 | 968 |
| Equity instruements | 9,617 | 9,511 | 9,397 | 9,888 |
| Derivative financial instruments | 538 | 538 | 815 | 815 |
| **Financial assets at fair value through profit or loss** | **10,155** | **10,049** | **11,815** | **11,671** |
| | | | | |
| Derivative financial instruments | (94) | (94) | - | - |
| **Financial liabilities at fair value through profit or loss** | **(94)** | **(94)** | **-** | **-** |

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

**Derivative financial assets and liabilities**

| The Group | 31 Dec 2019 '000 EUR Carrying amount | 31 Dec 2019 '000 EUR Notional amount | 31 Dec 2018 '000 EUR Carrying amount | 31 Dec 2018 '000 EUR Notional amount |
|---|---|---|---|---|
| **Assets** | | | | |
| Option premium | 53 | n/a | 123 | n/a |
| Forward contracts | 3 | 242 | - | - |
| Futures contracts | 482 | n/a | 692 | n/a |
| **Total derivative financial assets** | **538** | | **815** | |
| **Liabilities** | | | | |
| Forward contracts | 94 | 11,338 | - | - |
| **Total derivative liabilities** | **94** | | **-** | |

| The Bank | 31 Dec 2019 '000 EUR Carrying amount | 31 Dec 2019 '000 EUR Notional amount | 31 Dec 2018 '000 EUR Carrying amount | 31 Dec 2018 '000 EUR Notional amount |
|---|---|---|---|---|
| **Assets** | | | | |
| Option premium | 53 | n/a | 123 | n/a |
| Forward contracts | 3 | 242 | - | - |
| Futures contracts | 482 | n/a | 692 | n/a |
| **Total derivative financial assets** | **538** | | **815** | |
| **Liabilities** | | | | |
| Forward contracts | 94 | 11,338 | - | - |
| **Total derivative liabilities** | **94** | | **-** | |

# 19 Financial assets at amortised cost

## 19.1 Debt securities

| | 31 Dec 2019 ’000 EUR Group | 31 Dec 2019 ’000 EUR Bank | 31 Dec 2018 ’000 EUR Group | 31 Dec 2018 ’000 EUR Bank |
|---|---|---|---|---|
| **- Corporate bonds** | | | | |
| European Union countries | 53,395 | 53,395 | 35,537 | 35,537 |
| Non-European Union countries | 7,141 | 7,141 | - | - |
| **Total corporate debt securities** | **60,536** | **60,536** | **35,537** | **35,537** |

***Analysis of movements in the allowance for expected credit losses:***

### 31 December 2019

**The Group and the Bank, EUR’000**

| | Opening balance as at 1 Jan 2019 | Origination and acquisition | Derecognition and repayments | Changes in credit risk, net | Other adjustments | Closing balance as at 31 Dec 2019 |
|---|---|---|---|---|---|---|
| Stage 1 | 590 | 30 | (3) | 5 | - | 622 |
| Stage 2 | - | - | - | 34 | (1) | 33 |
| Stage 3 | - | 4 | - | 4 | - | 8 |
| **Total** | **590** | **34** | **(3)** | **43** | **(1)** | **663** |

### 31 December 2018

**The Group and the Bank, EUR’000**

| | Opening balance as at 1 Jan 2018 | Origination and acquisition | Derecognition and repayments | Changes in credit risk, net | Other adjustments | Closing balance as at 31 Dec 2018 |
|---|---|---|---|---|---|---|
| Stage 1 | 778 | 23 | (154) | (53) | (4) | 590 |
| Stage 2 | 19 | - | (19) | - | - | - |
| **Total** | **797** | **23** | **(173)** | **(53)** | **(4)** | **590** |

## 19.2 Loans and receivables due from customers

| | 31 Dec 2019 ’000 EUR Group | 31 Dec 2019 ’000 EUR Bank | 31 Dec 2018 ’000 EUR Group | 31 Dec 2018 ’000 EUR Bank |
|---|---|---|---|---|
| Companies | | | | |
| Finance leases | 23,628 | - | 28,442 | - |
| Loans | 436,116 | 594,885 | 482,177 | 662,320 |
| Individuals | | | | |
| Finance leases | 11,309 | - | 8,797 | - |
| Loans | 128,729 | 73,836 | 170,091 | 119,694 |
| Expected credit losses | (14,491) | (30,198) | (71,608) | (86,671) |
| **Net Loans and receivables from customers** | **585,291** | **638,523** | **617,899** | **695,343** |

### (a) Finance leases

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

| | 31 Dec 2019 ’000 EUR Group | 31 Dec 2018 ’000 EUR Group |
|---|---|---|
| Gross investment in finance leases, receivable | | |
| Less than one year | 20,462 | 21,192 |
| More than one year | 22,279 | 24,019 |
| Total gross investment in finance leases | 42,741 | 45,211 |
| Unearned finance income | (7,804) | (7,972) |
| Net investment in finance lease before allowance | 34,937 | 37,239 |
| Expected credit losses | (237) | (318) |
| **Net investment in finance lease** | **34,700** | **36,921** |
| | | |
| The net investment in finance leases comprises: | | |
| Less than one year | 16,207 | 16,727 |
| Between one and five years | 18,493 | 20,194 |
| **Net investment in finance lease** | **34,700** | **36,921** |

# 19.2 Loans and receivables due from customers, continued

## (b) Credit quality of loan portfolio

### *(i) Ageing structure of loan portfolio*

**The Group, 31 Dec 2019**

| EUR'000 | Gross amount | | | Expected | Net carrying | Uncollateralised exposure of net |
|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | credit loss | amount | carrying amount |
| Not past due and past due <= 30 days | 407,094 | 6,327 | 50,235 | (7,602) | 456,054 | 104,021 |
| Past due > 30 days <= 90 days | - | 975 | 33,598 | (572) | 34,001 | 822 |
| Past due > 90 days | - | - | 101,553 | (6,317) | 95,236 | 2,742 |
| **Total** | **407,094** | **7,302** | **185,386** | **(14,491)** | **585,291** | **107,585** |

**The Bank, 31 Dec 2019**

| EUR'000 | Gross amount | | | Expected | Net carrying | Uncollateralised exposure of net |
|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | credit loss | amount | carrying amount |
| Not past due and past due <= 30 days | 440,671 | 8,125 | 86,076 | (24,935) | 509,937 | 60,706 |
| Past due > 30 days <= 90 days | - | 550 | 33,453 | -<br>(406) | 33,597 | 522 |
| Past due > 90 days | - | - | 99,846 | -<br>(4,857) | 94,989 | 2,504 |
| **Total** | **440,671** | **8,675** | **219,375** | **(30,198)** | **638,523** | **63,732** |

**The Group, 31 Dec 2018**

| EUR'000 | Gross amount | | | Expected | Net carrying | Uncollateralised exposure of net |
|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | credit loss | amount | carrying amount |
| Not past due and past due <= 30 days | 424,854 | 13,299 | 76,765 | (22,093) | 492,825 | 103,894 |
| Past due > 30 days <= 90 days | - | 13,132 | 521 | (410) | 13,243 | 2,400 |
| Past due > 90 days | - | - | 160,936 | (49,105) | 111,831 | 612 |
| **Total** | **424,854** | **26,431** | **238,222** | **(71,608)** | **617,899** | **106,906** |

# 19.2 Loans and receivables due from customers, continued

**The Bank, 31 Dec 2018**

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

***(ii) Analysis of loan portfolio by type of collateral***

The following table provides the analysis of the loan portfolio, net of impairment, by main types of collateral as at 31 December 2019:

**The Group**

| EUR'000 | 31 Dec 2019 | % of loan portfolio | 31 Dec 2018 | % of loan portfolio |
|---|---|---|---|---|
| Commercial buildings | 189,090 | 32.31 | 192,130 | 31.09 |
| Commercial assets pledge | 118,768 | 20.29 | 140,579 | 22.75 |
| Traded securities | 23,010 | 3.93 | 25,575 | 4.14 |
| Mortgage on residential properties | 38,118 | 6.51 | 53,764 | 8.70 |
| Land mortgage | 48,435 | 8.28 | 36,650 | 5.93 |
| Without collateral | 107,585 | 18.38 | 106,906 | 17.30 |
| Other mortgage | 23,560 | 4.03 | 24,272 | 3.93 |
| Guarantee | 1,588 | 0.27 | - | - |
| Deposit | 348 | 0.06 | 683 | 0.11 |
| Non-traded securities | - | - | 334 | 0.05 |
| Other | 89 | 0.01 | 85 | 0.01 |
| Finance lease | 34,700 | 5.93 | 36,921 | 5.99 |
| **Total** | **585,291** | **100.00** | **617,899** | **100.00** |

# 19.2 Loans and receivables due from customers, continued

**The Bank**

| EUR'000 | 31 Dec 2019 | % of loan portfolio | 31 Dec 2018 | % of loan portfolio |
|---|---|---|---|---|
| Commercial buildings | 238,237 | 37.31 | 244,308 | 35.13 |
| Commercial assets pledge | 190,380 | 29.82 | 215,492 | 30.99 |
| Traded securities | 23,010 | 3.60 | 25,575 | 3.68 |
| Mortgage on residential properties | 38,118 | 5.97 | 53,950 | 7.76 |
| Land mortgage | 52,677 | 8.25 | 41,477 | 5.96 |
| Without collateral | 63,732 | 9.98 | 62,866 | 9.04 |
| Other mortgage | 30,342 | 4.75 | 50,573 | 7.27 |
| Guarantee | 1,588 | 0.25 | - | - |
| Deposit | 348 | 0.06 | 683 | 0.10 |
| Non-traded securities | - | - | 334 | 0.05 |
| Other | 91 | 0.01 | 85 | 0.02 |
| **Total** | **638,523** | **100.00** | **695,343** | **100.00** |

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

# 19.2 Loans and receivables due from customers, continued

***(iii) Movements in the expected credit losses***

The following tables show reconciliation from the opening to the closing balance of the expected credit losses for the year 2019:

**The Group**

**EUR'000**

| | Opening balance, 1 Jan 2019 | Origination and acquisition | Disposals and repayments | Changes in credit risk, net | Decrease due to write-offs | Other adjustments | Closing balance, 31 Dec 2019 |
|---|---|---|---|---|---|---|---|
| Stage 1 | 2,506 | 898 | (600) | (805) | - | 17 | 2,016 |
| Stage 2 | 621 | 48 | (67) | (428) | - | 100 | 274 |
| Stage 3 | 68,481 | 1,327 | (182) | 7,570 | (64,810) | (185) | 12,201 |
| **Total** | **71,608** | **2,273** | **(849)** | **6,337** | **(64,810)** | **(68)** | **14,491** |

**The Bank**

**EUR'000**

| | Opening balance, 1 Jan 2019 | Origination and acquisition | Disposals and repayments | Changes in credit risk, net | Decrease due to write-offs | Other adjustments | Closing balance, 31 Dec 2019 |
|---|---|---|---|---|---|---|---|
| Stage 1 | 2,363 | 436 | (263) | (906) | - | 4 | 1,634 |
| Stage 2 | 679 | 15 | (5) | (512) | - | - | 177 |
| Stage 3 | 83,629 | 980 | (173) | 7,244 | (63,544) | 251 | 28,387 |
| **Total** | **86,671** | **1,431** | **(441)** | **5,826** | **(63,544)** | **255** | **30,198** |

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

**The Group**

**EUR'000**

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

**The Bank**

**EUR'000**

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

# 19.2 Loans and receivables due from customers, continued

## (c) Industry analysis of the loan portfolio

| | 31 Dec 2019 ’000 EUR Group | 31 Dec 2019 ’000 EUR Bank | 31 Dec 2018 ’000 EUR Group | 31 Dec 2018 ’000 EUR Bank |
|---|---|---|---|---|
| Financial services | 171,607 | 245,901 | 173,705 | 247,296 |
| Real estate management | 156,284 | 220,001 | 134,355 | 218,385 |
| Individuals | 123,126 | 70,482 | 161,311 | 112,459 |
| Transport and communication | 27,830 | 30,144 | 50,576 | 52,972 |
| Wholesale and retailing | 31,020 | 30,969 | 32,195 | 32,129 |
| Investments in finance lease | 34,700 | - | 36,921 | - |
| Construction | 1,185 | 1,173 | 980 | 965 |
| Manufacturing | 12,868 | 13,392 | 15,844 | 16,390 |
| Tourism | 719 | 713 | 1,110 | 1,110 |
| Other | 25,952 | 25,748 | 10,902 | 13,637 |
| | **585,291** | **638,523** | **617,899** | **695,343** |

## (d) Geographical analysis of the loan portfolio

| | 31 Dec 2019 ’000 EUR Group | 31 Dec 2019 ’000 EUR Bank | 31 Dec 2018 ’000 EUR Group | 31 Dec 2018 ’000 EUR Bank |
|---|---|---|---|---|
| Latvia | 212,343 | 257,418 | 177,202 | 249,082 |
| Other OECD countries | 174,049 | 174,024 | 178,415 | 178,316 |
| Non-OECD countries | 198,899 | 207,081 | 262,282 | 267,945 |
| | **585,291** | **638,523** | **617,899** | **695,343** |

## (e) Significant credit exposures

According to regulatory requirements, the Bank and the Group are not allowed to have a credit exposure to one client or group of related clients more than 25% of its equity. As at 31 December 2019 and 2018 the Bank and the Group were in compliance with this requirement.

# 20 Financial assets at fair value through other comprehensive income

| | 2019 '000 EUR Group | 2019 '000 EUR Bank | 2018 '000 EUR Group | 2018 '000 EUR Bank |
|---|---|---|---|---|
| **Debt securities** | | | | |
| - with rating from AAA to A | 111,097 | 111,097 | 72,461 | 72,461 |
| - with rating from BBB+ to BBB- | 104,896 | 104,896 | 44,998 | 44,998 |
| - non-investment grade | 74,436 | 74,436 | 41,946 | 41,946 |
| - without rating | 61 | 61 | - | - |
| **Total fair value** | **290,490** | **290,490** | **159,405** | **159,405** |
| Acquisition cost | 287,637 | 287,637 | 161,881 | 161,881 |
| Revaluation | 3,578 | 3,578 | (2,246) | (2,246) |
| Impairment allowance | (725) | (725) | (230) | (230) |
| **Total fair value** | **290,490** | **290,490** | **159,405** | **159,405** |

*Analysis of movements in the allowance for expected credit losses:*

**31 December 2019**

**The Group and the Bank, EUR'000**

| | Opening balance, 1 Jan 2019 | Origination and acquisition | Derecognition and repayments | Changes in credit risk, net | Other adjustments | Closing balance, 31 Dec 2019 |
|---|---|---|---|---|---|---|
| Stage 1 | 230 | 290 | (91) | 59 | - | 488 |
| Stage 2 | - | 2 | (239) | 474 | - | 237 |
| Stage 3 | - | 12 | - | (12) | - | - |
| **Total** | **230** | **304** | **(330)** | **521** | **-** | **725** |

**31 December 2018**

**The Group and the Bank, EUR'000**

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

# 21 Investments in subsidiaries

Investment in subsidiaries at 31 December 2019 ('000 EUR):

| Company | Address | Share Capital | Equity | Bank's share of total share capital, % | Gross carrying amount |
|---|---|---|---|---|---|
| RB Investments SIA | Vesetas str.7, Riga, Latvia | 14,229 | 10,594 | 100% | 14,228 |
| RB Securities Ltd | Stasinou str.1, Mitsi Building 1, 2nd floor, Flat/office 5, Plateia Eleftherias, P.C.1060, Nicosia, Cyprus | 11,602 | 2,970 | 99.99% | 10,956 |
| Overseas Estates SIA | Vesetas str.7, Riga, Latvia | 9,480 | 1,420 | 100% | 7,346 |
| Rietumu Asset Management IPS | Vesetas str.7, Riga, Latvia | 500 | 952 | 100% | 500 |
| Rietumu Leasing Ltd | Odoevskogo str.117, 6th floor, office 9, Minsk, Belarus | 275 | 4,902 | 99.5% | 2,362 |
| InCREDIT GROUP SIA | Krisjana Barona str.130, Riga, Latvia | 500 | 7,972 | 51% | 255 |
| RB Drosiba SIA | Vesetas str.7, Riga, Latvia | 71 | 193 | 100% | 71 |
| Vesetas 7 SIA | Vesetas str.7, Riga, Latvia | 142 | 9,048 | 100% | 3,263 |
| Rietumu Bankas Labdaribas Fonds | Vesetas str.7, Riga, Latvia | - | 2,602 | 100% | - |
| Euro Textile Group SIA | Ganibu dambis str. 30, Riga, Latvia | 887 | (1,037) | 100% | 1,000 |
| Rietumu Jazz SIA | Vesetas str.7, Riga, Latvia | 3 | 1 | 100% | 3 |
| Aristida Briana 9 SIA | Aristida Briana str. 9, Riga, Latvia | 558 | 78 | 100% | 112 |
| Lilijas 28 SIA | Vesetas str. 7, Riga, Latvia | 182 | 293 | 100% | 620 |
| KI FUND SIA | Vesetas str. 7, Riga, Latvia | 5,719 | 3,778 | 100% | 5,719 |
| Impairment allowance | | | | | (16,969) |
| **Total Bank's investment in subsidiaries, net** | | | | | **29,466** |

# 21 Investments in subsidiaries, continued

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

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

# 21 Investments in subsidiaries, continued

***Movements in the impairment allowance***

Movements in the investment in subsidiaries impairment allowance for the year ended 31 December 2019 and 2018 are as follows:

| | 2019<br>'000 EUR<br>Bank | 2018<br>'000 EUR<br>Bank |
|---|---|---|
| **Allowance for impairment** | | |
| Balance at 1 January | 16,983 | 16,380 |
| Charge for the year | 1 | 725 |
| Sales of subsidiary | - | (122) |
| Liquidation of subsidiary | (15) | - |
| **Balance at 31 December** | **16,969** | **16,983** |

# 22 Equity accounted investees

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

| Name | Country of incorpora-tion | Principal activities | Ownership % | Amount of investment | Ownership % | Amount of investment |
|---|---|---|---|---|---|---|
| | | | 31 December 2019 | '000 EUR | 31 December 2018 | '000 EUR |
| AED Rail Service SIA | Latvia | Railway information services | 43.00% | 4 | 43.00% | 32 |
| Dzelzcelu Tranzits SIA | Latvia | Railway information services | 49.12% | - | 49.12% | - |
| **Total** | | | | **4** | | **32** |

# 23 Property and equipment

## The Group

| **Cost/Revalued amount ’000 EUR** | **Land and buildings** | **Construction in progress** | **Vehicles** | **Office equipment and machinery** | **Advances** | **Total** |
|---|---|---|---|---|---|---|
| At 1 January 2019 | **38,046** | **4,178** | **2,708** | **21,181** | **230** | **66,343** |
| Additions | - | 548 | 138 | 325 | 20 | **1,031** |
| Disposals | (56) | (26) | (222) | (501) | - | **(805)** |
| Transfers | - | (23) | - | 147 | (124) | **-** |
| Sale of subsidiary | (900) | - | - | (4,059) | (105) | **(5,064)** |
| Reclassification to investment property | - | (4,175) | - | - | - | **(4,175)** |
| Revaluation | (10) | - | - | - | - | **(10)** |
| FX translation effect | 79 | 69 | 2 | 2 | - | **152** |
| Introduction of IFRS 16 | 2,533 | - | - | - | - | **2,533** |
| **At 31 December 2019** | **39,692** | **571** | **2,626** | **17,095** | **21** | **60,005** |
| | | | | | | |
| **Depreciation** | | | | | | |
| At 1 January 2019 | **6,784** | **-** | **1,815** | **14,872** | **-** | **23,471** |
| Depreciation charge | 1,129 | - | 332 | 622 | - | **2,083** |
| Disposals | (70) | - | (215) | (479) | - | **(764)** |
| Adjustment | - | - | 112 | - | - | **112** |
| Sale of subsidiary | (386) | - | - | (2,981) | - | **(3,367)** |
| Transfer | - | 7 | - | (7) | - | **-** |
| FX translation effect | 53 | - | (3) | (4) | - | **46** |
| **At 31 December 2019** | **7,510** | **7** | **2,041** | **12,023** | **-** | **21,581** |
| | | | | | | |
| **Net carrying amount** | | | | | | |
| **At 31 December 2019** | **32,182** | **564** | **585** | **5,072** | **21** | **38,424** |
| **At 31 December 2018** | **31,262** | **4,178** | **893** | **6,309** | **230** | **42,872** |

# 23 Property and equipment, continued

## The Group, continued

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

# 23 Property and equipment, continued

**Revalued assets**

As at 31 December 2019 and 2018, properties consisting of office buildings and land were revalued based on report by external independent and qualified property appraisers with recent experience in the location and category of the property being valued. The independent appraisers provide the fair value of the property portfolio every year.

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

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

| Type | Valuation technique | Significant unobservable inputs | Inter-relation between significant unobservable inputs and fair value measurement |
|---|---|---|---|
| Office premises in administrative building in the net carrying amount of EUR 571 thousand (2018: EUR 555 thousand) located in Minsk, Belarus | Market comparison technique: The fair value was based on results of comparable sales of similar buildings | Price per $m^2$ – 893 EUR (2018: EUR 868) | The fair value would increase (decreased) if the price per $m^2$ was higher (lower). |
| Office building (17,071 m2) and land in the amount of EUR 29,471 thousand (2018: EUR 30,190 thousand) located in Riga, Latvia | Discounted cash flows technique: The model is based on discounted cash flows from rental income. | Rental income per $m^2$ of EUR 13 (2018: EUR 12-20)<br>Discount rate of 6.5 % (2018: 6.5%) | The estimated fair value would increase (decrease) if:<br>- Rental income per $m^2$ was higher (lower)<br>- The discount rate was lower (higher)<br>- Annual capital expense are lower (higher)<br>- The occupancy rate was higher (lower) |

# 23 Property and equipment, continued

## The Bank

| ’000 EUR | Land and buildings | Construction in progress | Vehicles | Office equipment | Advances | Total |
|---|---|---|---|---|---|---|
| **Cost/Revalued amount** | | | | | | |
| 1 January 2019 | **-** | **3,518** | **2,572** | **12,339** | **124** | **18,553** |
| Additions | - | 533 | 134 | 166 | 20 | **853** |
| Disposals | - | - | (215) | (100) | - | **(315)** |
| Transfers | - | 124 | - | - | (124) | **-** |
| Reclassification to investment property | - | (4,175) | - | - | - | **(4,175)** |
| Introduction of IFRS 16 | 32,015 | - | - | - | - | **32,015** |
| **At 31 December 2019** | **32,015** | **-** | **2,491** | **12,405** | **20** | **46,931** |
| **Depreciation and impairment losses** | | | | | | |
| At 1 January 2019 | **-** | **-** | **1,740** | **8,427** | **-** | **10,167** |
| Depreciation charge | 1,711 | - | 318 | 279 | **-** | **2,308** |
| Disposals | - | - | (215) | (95) | **-** | **(310)** |
| Adjustment | - | - | 112 | - | **-** | **112** |
| **At 31 December 2019** | **1,711** | **-** | **1,955** | **8,611** | **-** | **12,277** |
| **Net carrying amount** | | | | | | |
| **At 31 December 2019** | **30,304** | **-** | **536** | **3,794** | **20** | **34,654** |
| **At 31 December 2018** | **-** | **3,518** | **832** | **3,912** | **124** | **8,386** |

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

# 24 Intangible assets

## The Group

| ’000 EUR | Goodwill | Software | Other | Advances | Total |
|---|---|---|---|---|---|
| **Cost amount** | | | | | |
| At 1 January 2019 | **1,069** | **13,197** | **1,532** | **754** | **16,552** |
| Additions | - | - | 21 | 119 | **140** |
| Disposals | - | - | (6) | - | **(6)** |
| Sale of subsidiary | - | - | (1,488) | - | **(1,488)** |
| Transfers | - | 139 | - | (139) | **-** |
| **At 31 December 2019** | **1,069** | **13,336** | **59** | **734** | **15,198** |
| **Amortisation and impairment losses** | | | | | |
| At 1 January 2019 | **-** | **12,531** | **1,182** | **-** | **13,713** |
| Amortisation charge | - | 539 | 8 | - | **547** |
| Disposals | - | - | (6) | - | **(6)** |
| Sale of subsidiary | - | - | (1,148) | - | **(1,148)** |
| **At 31 December 2019** | **-** | **13,070** | **36** | **-** | **13,106** |
| **Net carrying amount** | | | | | |
| **At 31 December 2019** | **1,069** | **266** | **23** | **734** | **2,092** |
| **At 31 December 2018** | **1,069** | **666** | **350** | **754** | **2,839** |

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

Goodwill of EUR 1,069 thousand (2018: EUR 1,069 thousand) originated on the acquisition of a payment card business unit in 2001.

# 24 Intangible assets, continued

## The Bank

| '000 EUR | Goodwill | Software | Other | Advances | Total |
|---|---|---|---|---|---|
| **Cost amount** | | | | | |
| At 1 January 2019 | **1,069** | **13,411** | **40** | **45** | **14,565** |
| Additions | - | - | - | 119 | **119** |
| Disposals | - | - | (6) | **-** | **(6)** |
| Transfers | - | 138 | 2 | (140) | **-** |
| **At 31 December 2019** | **1,069** | **13,549** | **36** | **24** | **14,678** |
| | | | | | |
| **Amortisation and impairment losses** | | | | | |
| At 1 January 2019 | **-** | **12,037** | **30** | **-** | **12,067** |
| Amortisation charge | - | 538 | 5 | **-** | **543** |
| Disposals | - | - | (6) | **-** | **(6)** |
| **At 31 December 2019** | **-** | **12,575** | **29** | **-** | **12,604** |
| | | | | | |
| **Net carrying amount** | | | | | |
| **At 31 December 2019** | **1,069** | **974** | **7** | **24** | **2,074** |
| **At 31 December 2018** | **1,069** | **1,374** | **10** | **45** | **2,498** |

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

Goodwill of EUR 1,069 thousand (2018: EUR 1,069 thousand) originated on the acquisition of a payment card business unit in 2001.

# 25 Right-of-use assets and Lease liabilities

Property and equipment comprise owned and leased assets that do not meet the definition of investment property.

| | 31 December 2019 ’000 EUR Group | 31 December 2019 ’000 EUR Bank |
|---|---|---|
| Property and equipment owned | 36,289 | 4,350 |
| Right-of-use assets | 2,135 | 30,304 |
| **Total** | **38,424** | **34,654** |

The Group and the Bank leases land and buildings. Information about leases for which the Group is a lessee is presented below.

### *Right-of-use assets*

| | 31 December 2019 Land and buildings ’000 EUR Group | 31 December 2019 Land and buildings ’000 EUR Bank |
|---|---|---|
| **Balance at 1 January** | 2,533 | 32,015 |
| Depreciation charge for the period | (398) | (1,711) |
| **Balance at 31 December 2019** | **2,135** | **30,304** |

### *Lease liabilities*

Lease liability is included in the position Other liabilities and accruals. For maturity analysis of contractual undiscounted cash flows see note 4 (d).

### *Amounts recognized in profit or loss*

| | 31 December 2019 ’000 EUR Group | 31 December 2019 ’000 EUR Bank |
|---|---|---|
| Interest expense on lease liabilities | 112 | 1,143 |
| Depreciation charge | 398 | 1,711 |
| **Total** | **510** | **2,854** |

## 26 Investment property

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

| | 31 Dec 2019 ’000 EUR Group | 31 Dec 2019 ’000 EUR Bank | 31 Dec 2018 ’000 EUR Group | 31 Dec 2018 ’000 EUR Bank |
|---|---|---|---|---|
| Balance at 1 January | 84,373 | 9,343 | 90,178 | 10,470 |
| Sale of subsidiary | (2,117) | - | (1,105) | - |
| Acquisition of subsidiary | 1,322 | - | - | - |
| Transferred from other assets | - | - | 388 | - |
| Transferred from loans | - | 23,335 | - | - |
| Transferred from property and equipment | 4,175 | 4,175 | - | - |
| Transferred to Non-current assets held for sale | (596) | (596) | (2,759) | - |
| Transferred to property and equipment | - | - | (494) | - |
| Additions | 7,959 | 75 | 7,912 | 24 |
| Disposals/Sales | (5,984) | (877) | (5,569) | (837) |
| Revaluations | 279 | (341) | (3,359) | (314) |
| Currency revaluation | 648 | - | (819) | - |
| **Balance at 31 December** | **90,059** | **35,114** | **84,373** | **9,343** |

*Rental income and operating expense for the year ended 31 December 2019, the Group:*

| | Carrying amount ’000 EUR | Rental income ‘000 EUR | Operating expenses ‘000 EUR |
|---|---|---|---|
| Investment property rented out | 45,672 | 3,631 | 1,644 |
| Investment property held for value appreciation | 44,387 | - | 748 |
| **Total** | **90,059** | **3,631** | **2,392** |

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

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

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

All investment properties represent Level 3 fair value hierarchy.

# 26 Investment property, continued

The following table shows the valuation technique used in measuring fair value of investment property of the Group and significant unobservable inputs used as at 31 December 2019:

| Type | Valuation technique | Significant unobservable inputs | Carrying amount '000 EUR |
|---|---|---|---|
| **Residential property** | Market comparison technique: The fair value was based on results of comparable sales of similar properties | Average price per m$^2$ * | |
| - Riga | | EUR 1,390 – 2,516 | 8,996 |
| - Jurmala | | EUR 902 – 2,479 | 3,653 |
| - Other areas in Latvia | | EUR 919 – 1,488 | 8,007 |
| **Land** | Market comparison technique: The fair value was based on results of comparable sales of similar land plots | Average price per m$^2$ * | |
| - Riga | | EUR 3 – 70 | 5,249 |
| - Jurmala | | EUR 7 – 63 | 1,544 |
| - Other areas in Latvia | | EUR 0.3 – 23 | 7,470 |
| **Commercial property** | Market comparison technique: The fair value was based on results of comparable sales of similar properties | Average price per m$^2$ * | |
| - Riga | | EUR 276 – 1,485 | 19,791 |
| - Other areas in Latvia | | EUR 67 – 204 | 255 |
| | | EUR 549 | |
| - Belarus | | EUR 1,664-3,550 | 801 |
| - Moscow, Russia | | Rental income per m$^2$ | 8,524 |
| - Riga region | Discounted cash flows technique: The model is based on discounted cash flows from rental income | EUR 4.5 | 2,321 |
| | | Annual discount rate of 6% | |
| **Commercial property**<br>- Residential and commercial premises (Riga) | Market comparison technique: The fair value was based on results of comparable sales of similar properties | Average price per m$^2$ for renovated premises*<br>EUR 2,300-2,500<br>Rental income per m2<br>EUR 3.5- 4.75<br>Annual discount rate of 7% | 8,619 |
| - Hotels (Latvia) | Discounted cash flows technique: The model is based on discounted cash flows from rental income | Annual discount rate of 8.5-9.5%<br>EUR 35 – 250 income per hotel room<br>The occupancy rate increasing over time from 37% to 60% | 7,158 |
| - Terminal (Ventspils) | Discounted cash flows technique: The model is based on discounted cash flows from transhipment, storage and blending of palm oil products | Income from palm oil products transhipment 12.59 EUR / t. Transhipment volume limit up to 200 thousand tons per year.<br>Annual discount rate of EBITDA 12.7%. Capitalization rate 10.7%. | 4,140 |
| - Residential, office and shop premises (Riga) | Market comparison technique: The fair value was based on results of comparable sales of similar properties | Average sales price per m$^2$ *<br>EUR 677-989 | 3,531 |
| **Total** | | | **90,059** |

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

# 26 Investment property, continued

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

| Type | Valuation technique | Significant unobservable inputs | Carrying amount '000 EUR |
|---|---|---|---|
| **Residential property** | Market comparison technique: The fair value was based on results of comparable sales of similar properties | Average price per m$^2$ * | |
| - Riga | | EUR 840 – 1,700 | 6,851 |
| - Jurmala | | EUR 1,110 – 3,300 | 3,686 |
| - Other areas in Latvia | | EUR 400 – 1,500 | 6,359 |
| - Moscow, Russia | | EUR 3,354 – 6,635 | 1,740 |
| **Land** | Market comparison technique: The fair value was based on results of comparable sales of similar land plots | Average price per m$^2$ * | |
| - Riga | | EUR 10 – 100 | 6,644 |
| - Jurmala | | EUR 15 – 60 | 1,789 |
| - Other areas in Latvia | | EUR 0.1 – 30 | 11,236 |
| **Commercial property** | Market comparison technique: The fair value was based on results of comparable sales of similar properties | Average price per m$^2$ * | |
| - Riga | | EUR 276 – 1,485 | 21,016 |
| - Other areas in Latvia | | EUR 67 – 204 | 129 |
| - Belarus | | EUR 538 | 784 |
| - Moscow, Russia | | EUR 2,000-2,280 | 3,200 |
| - Riga region | Discounted cash flows technique: The model is based on discounted cash flows from rental income | Rental income per m$^2$ EUR 5<br>Annual discount rate of 10% | 1,370 |
| **Commercial property**<br>- Residential and commercial premises (Riga) | Market comparison technique: The fair value was based on results of comparable sales of similar properties | Average price per m$^2$ for renovated premises*<br>EUR 1,950-2,467 | 7,297 |
| - Hotels (Latvia) | Discounted cash flows technique: The model is based on discounted cash flows from rental income | Annual discount rate of 7%<br>EUR 45 – 241 income per hotel room<br>The occupancy rate increasing over time from 37% to 58% | 4,968 |
| - Terminal (Ventspils) | Discounted cash flows technique: The model is based on discounted cash flows from transhipment, storage and blending of palm oil products | Income from palm oil products transhipment 13.88 EUR / t.<br>Transhipment volumes 100 – 160 thousand tons per year.<br>Annual discount rate of EBITDA 13%. Capitalization rate 11.3%. | 4,140 |
| - Residential, office and shop premises (Riga) | Market comparison technique: The fair value was based on results of comparable sales of similar properties | Average sales price per m$^2$ *<br>EUR 1,862-2,166 | 3,164 |
| **Total** | | | **84,373** |

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

# 27 Other assets

| | 31 Dec 2019 '000 EUR Group | 31 Dec 2019 '000 EUR Bank | 31 Dec 2018 '000 EUR Group | 31 Dec 2018 '000 EUR Bank |
|---|---|---|---|---|
| ***Other financial assets*** | | | | |
| Cash in transit | 27,238 | 27,199 | 20,019 | 19,936 |
| Other | 48 | 20 | 75 | 27 |
| ***Other non-financial assets*** | | | | |
| Collateral assumed on non-performing loans | 2,387 | 2,387 | 4,160 | 4,160 |
| Prepayments | 1,725 | 436 | 791 | 495 |
| Recoverable VAT | 2,328 | - | 4,086 | - |
| Other debtors | 3,225 | 1,171 | 2,875 | 1,887 |
| Other | 6,289 | 3,980 | 5,690 | 3,131 |
| Impairment allowance | (2,354) | (2,128) | (3,649) | (3,331) |
| | **40,886** | **33,065** | **34,047** | **26,305** |

Impairment allowance as at 31 December 2019 and 2018 is recognized mainly for receivables - other debtors and collateral assumed on non-performing loans. Assets classified as collateral assumed on non-performing loans in the amount of EUR 2,387 thousand by the Group (2018: EUR 4,160 thousand) and EUR 2,387 thousand by the Bank (2018: EUR 4,160 thousand), represent repossessed loan collateral. Collateral assumed on non-performing loans are initially recognised at take-over value which set to be a notional cost. Subsequently, management has determined a recoverable amount which was fair value less cost to sell as at 31 December 2019 using market data. After the acquisition of the collateral and unless all legal titles are transferred to the Group and the Bank, the Group and the Bank do not define classification of the collateral, whether it should be investment property, property, plant and equipment or non-current asset held for sale, therefore the collateral is part of other assets.

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

| | 2019 '000 EUR Group | 2019 '000 EUR Bank | 2018 '000 EUR Group | 2018 '000 EUR Bank |
|---|---|---|---|---|
| Balance at 1 January | 4,160 | 4,160 | 4,643 | 4,255 |
| Addition | 204 | 204 | - | - |
| Sale of collateral completed | (80) | (80) | (95) | (95) |
| Reclassified to investment property | - | - | (388) | - |
| Written off | (1,897) | (1,897) | - | - |
| **Balance at 31 December** | **2,387** | **2,387** | **4,160** | **4,160** |
| Impairment allowance | (1,910) | (1,910) | (3,116) | (3,116) |
| **Recoverable amount at 31 December** | **477** | **477** | **1,044** | **1,044** |

# 27 Other assets, continued

***Analysis of movements in the impairment allowance***

| | 2019 ’000 EUR Group | 2019 ’000 EUR Bank | 2018 ’000 EUR Group | 2018 ’000 EUR Bank |
|---|---|---|---|---|
| Balance at 1 January | 3,649 | 3,331 | 3,912 | 3,521 |
| Charge for the year | 809 | 702 | 114 | 73 |
| Recovery | (16) | (11) | (72) | (72) |
| Acquisition of subsidiaries | 4 | - | (1) | - |
| Written off | (2,096) | (1,897) | (311) | (199) |
| Currency revaluation | 4 | 3 | 7 | 8 |
| **Balance at 31 December** | **2,354** | **2,128** | **3,649** | **3,331** |

# 28 Deposits and balances due to banks

| | 31 Dec 2019 ’000 EUR Group | 31 Dec 2019 ’000 EUR Bank | 31 Dec 2018 ’000 EUR Group | 31 Dec 2018 ’000 EUR Bank |
|---|---|---|---|---|
| Vostro demand accounts | 2,920 | 2,920 | 2,348 | 2,348 |
| Term deposits | - | - | 55 | - |
| | **2,920** | **2,920** | **2,403** | **2,348** |

**Concentration of deposits and balances due to banks**

As at 31 December 2019 the Bank and the Group had balances with four clients (three as at 31 December 2018), which exceeded 10 % of total deposits and balances from banks. The gross value of these balances as of 31 December 2019 was EUR 941 thousand, EUR 830 thousand, EUR 663 thousand and EUR 344 thousand accordingly (2018: EUR 1,222 thousand, EUR 360 thousand and EUR 245 thousand).

# 29 Current accounts and deposits due to customers

| | 31 Dec 2019 '000 EUR Group | 31 Dec 2019 '000 EUR Bank | 31 Dec 2018 '000 EUR Group | 31 Dec 2018 '000 EUR Bank |
|---|---|---|---|---|
| **Private companies** | | | | |
| - current accounts | 448,007 | 463,438 | 331,556 | 348,078 |
| - term deposits | 32,978 | 32,556 | 41,368 | 40,810 |
| **Total private companies** | **480,985** | **495,994** | **372,924** | **388,888** |
| **Government** | | | | |
| - current accounts | 45 | 45 | 29 | 29 |
| - term deposits | 13 | - | 21 | - |
| **Total government** | **58** | **45** | **50** | **29** |
| **Private individuals** | | | | |
| - current accounts | 254,557 | 254,557 | 251,440 | 251,440 |
| - term deposits | 584,233 | 581,933 | 395,282 | 393,182 |
| **Total private individuals** | **838,790** | **836,490** | **646,722** | **644,622** |
| **Total current accounts and deposits due to customers** | **1,319,833** | **1,332,529** | **1,019,696** | **1,033,539** |

### (a) Geographical analysis

| | 31 Dec 2019 '000 EUR Group | 31 Dec 2019 '000 EUR Bank | 31 Dec 2018 '000 EUR Group | 31 Dec 2018 '000 EUR Bank |
|---|---|---|---|---|
| Latvia | 284,363 | 289,916 | 159,817 | 170,320 |
| Other OECD countries | 588,430 | 595,766 | 366,807 | 370,305 |
| Non-OECD countries | 447,040 | 446,847 | 493,072 | 492,914 |
| | **1,319,833** | **1,332,529** | **1,019,696** | **1,033,539** |

### (b) Concentrations of current accounts and customer deposits

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

### (c) Subordinated deposits

As of 31 December 2019 the Bank and the Group had subordinated deposits of EUR 64,640 thousand 2018: EUR 77,944 thousand).

# 30 Issued debt securities

On 1th October 2018 Rietumu Leasing Ltd issued unsecured bonds with maturity of three years and interest payments quarterly.

| | 2019<br>'000 EUR<br>Group | 2018<br>'000 EUR<br>Group |
|---|---|---|
| **Balance at 1 January** | **62** | **-** |
| ***Change from financing cash flows*** | | |
| Issued debt securities | 650 | 62 |
| **Total changes from financing cash flows** | **650** | **62** |
| **Balance at 31 December** | **712** | **62** |

# 31 Other liabilities and accruals

| | 31 Dec 2019<br>'000 EUR<br>Group | 31 Dec 2019<br>'000 EUR<br>Bank | 31 Dec 2018<br>'000 EUR<br>Group | 31 Dec 2018<br>'000 EUR<br>Bank |
|---|---|---|---|---|
| ***Other financial liabilities*** | | | | |
| Management bonus accrual | 3,545 | 3,532 | 7,075 | 7,071 |
| Deposits guarantee fund | 436 | 436 | 290 | 290 |
| Estimated liability for FCMC | 203 | 203 | 136 | 136 |
| Dividends payable | 416 | 416 | 24 | 6 |
| Lease liability | 2,262 | 30,840 | - | - |
| Cash in transit | - | - | 8 | - |
| Other | 638 | 207 | 341 | 341 |
| ***Other non-financial liabilities*** | | | | |
| Deferred income | 3,783 | 490 | 3,615 | 615 |
| Annual leave accrual | 1,483 | 1,020 | 1,747 | 1,380 |
| VAT payable | 374 | 260 | 294 | 189 |
| Prepayments | 378 | 263 | 1,263 | 71 |
| Accounts payable to suppliers | 3,591 | 212 | 6,676 | 2,815 |
| Accrued liabilities | 2,724 | 2,144 | 2,872 | 1,875 |
| Other | 1,617 | 1,234 | 653 | 81 |
| | **21,450** | **41,257** | **24,994** | **14,870** |

# 32 Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities as of 31 December 2019 and 2018.

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

**The Group**

| | **Assets** | | **Liabilities** | | **Net** | |
|---|---|---|---|---|---|---|
| **’000 EUR** | **2019** | **2018** | **2019** | **2018** | **2019** | **2018** |
| Property and equipment | 145 | 142 | (22) | - | 123 | 142 |
| Investment property | 63 | - | (305) | (189) | (242) | (189) |
| Other assets | 179 | 255 | (72) | - | 107 | 255 |
| Other liabilities | 30 | 3 | (10) | (84) | 20 | (81) |
| **Total recognised deferred tax assets/(liabilities)** | **417** | **400** | **(409)** | **(273)** | **8** | **127** |
| **Recognised deferred tax** | | | | | **8** | **127** |

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

## Movement in temporary differences during the year ended 31 December 2019

| **The Group** | **2019 ’000 EUR** | **2018 ’000 EUR** |
|---|---|---|
| Balance at 1 January – deferred tax liability | (46) | (426) |
| Balance at 1 January – deferred tax asset | 173 | 37 |
| Charge to profit for the year | (237) | 66 |
| Acquisition of subsidiary | 85 | - |
| Transfer to Revaluation reserve | - | 474 |
| Currency revaluation | 33 | (24) |
| **Balance at 31 December** | **8** | **127** |
| **Deferred tax asset** | **107** | **173** |
| **Deferred tax liability** | **(99)** | **(46)** |

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

# 33 Share capital and reserves

## (a) Issued capital and share premium

In June 2019, the Bank's Shareholders decided to terminate non-voting preference shares and replace them with B category dematerialized registered non-voting shares and to approve the Bank's Statutes in a new wording.

The largest shareholders of the Bank as of 31 December 2019 are as follows:

| | **2019 '000 EUR** | **%** |
|---|---|---|
| **A category registered shares** | | |
| ***Companies non-residents*** | | |
| Boswell (International) Consulting Limited | 47,111 | 33.11% |
| ***Companies residents*** | | |
| Esterkin Family Investments Ltd | 47,125 | 33.12% |
| Suharenko Family Investments Ltd | 24,665 | 17.34% |
| Other | 1,579 | 1.10% |
| ***Private persons*** | | |
| Others | 21,807 | 15.33% |
| **A category registered shares, total** | **142,287** | **100%** |
| | | |
| **B category registered shares** | | |
| Companies | 13,616 | |
| Private persons | 13,013 | |
| **B category registered shares, total** | **26,629** | |
| Issued capital | **168,916** | |
| **Share premium** | **52,543** | |

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

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

B category registered shares are non-voting shares, but its holders also are entitled to receive dividends as declared from time to time.

# 33 Share capital and reserves, continued

The largest shareholders of the Bank as of 31 December 2018:

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

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

## (b) Dividends

During reporting period dividends for the previous period were paid in amount of EUR 173,995 thousand (2018: EUR 12,729 thousand). Dividends are proportionately divided between ordinary and preference shares, or A category and B category shares.

| | 2019<br>'000 EUR<br>Group | 2019<br>'000 EUR<br>Bank | 2018<br>'000 EUR<br>Group | 2018<br>'000 EUR<br>Bank |
|---|---|---|---|---|
| ***Change from financing cash flows*** | | | | |
| Dividend paid | 173,995 | 173,995 | 12,729 | 12,729 |
| Dividends paid to non-controlling interest shareholders | 1,713 | - | 1,225 | - |
| **Total changes from financing cash flows** | **175,708** | **173,995** | **13,954** | **12,729** |

## (c) Other reserves

Out of all Other reserves those amounting to EUR 23 thousand at the Bank (2018: EUR 23 thousand) represent contributions made by shareholders in previous years.

## (d) Fair value reserve

The fair value reserve represents the changes in fair value of financial assets at fair value through other comprehensive income.

# 33 Share capital and reserves, continued

***Movements in fair value reserve***

Movements in the fair value reserve net of tax for the year ended 31 December 2019 and 2018 are as follows:

| | **2019 ’000 EUR Group** | **2019 ’000 EUR Bank** | **2018 ’000 EUR Group** | **2018 ’000 EUR Bank** |
|---|---|---|---|---|
| Balance at 1 January | (2,246) | (2,246) | 3,409 | 3,976 |
| Effect from changed accounting policy - IFRS 9 | - | - | (1,941) | (2,508) |
| Revaluation during the period | 5,329 | 5,329 | (3,598) | (3,598) |
| Change in expected credit losses during the period | 495 | 495 | (116) | (116) |
| **Balance at 31 December** | **3,578** | **3,578** | **(2,246)** | **(2,246)** |

## (e) Revaluation reserve

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

| | **2019 ’000 EUR Group** | **2019 ’000 EUR Bank** | **2018 ’000 EUR Group** | **2018 ’000 EUR Bank** |
|---|---|---|---|---|
| Revaluation reserve as at 1 January | 1,914 | - | 1,381 | - |
| Transfer to retained earnings | (27) | - | (27) | - |
| Revaluation of property and equipment | 3 | - | 86 | - |
| Transfer from Deferred tax | - | - | 474 | - |
| **Revaluation reserve as at 31 December** | **1,890** | **-** | **1,914** | **-** |

# 34 Cash and cash equivalents

Cash and cash equivalents consist of the following:

| | 31 Dec 2019 '000 EUR Group | 31 Dec 2019 '000 EUR Bank | 31 Dec 2018 '000 EUR Group | 31 Dec 2018 '000 EUR Bank |
|---|---|---|---|---|
| Cash | 1,519 | 1,502 | 2,658 | 2,613 |
| Balances due from the Bank of Latvia | 501,570 | 501,570 | 463,832 | 463,831 |
| | **503,089** | **503,072** | **466,490** | **466,444** |
| Demand loans and receivables from banks | 81,493 | 80,911 | 92,443 | 91,828 |
| Demand deposits and balances due to banks | (2,920) | (2,920) | (2,348) | (2,348) |
| **Total** | **581,662** | **581,063** | **556,585** | **555,924** |

# 35 Commitments and guarantees

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

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

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

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

| | 31 Dec 2019 '000 EUR Group | 31 Dec 2019 '000 EUR Bank | 31 Dec 2018 '000 EUR Group | 31 Dec 2018 '000 EUR Bank |
|---|---|---|---|---|
| **Contracted amount** | | | | |
| Loan commitments | 95,736 | 137,942 | 95,244 | 145,394 |
| Financial guarantees | 13,833 | 13,833 | 4,275 | 4,275 |
| Other commitments | 107 | 107 | 171 | 171 |
| **Total commitments and guarantees** | **109,676** | **151,882** | **99,690** | **149,840** |
| Provisions | (105) | (154) | (76) | (138) |
| **Net exposure** | **109,571** | **151,728** | **99,614** | **149,702** |

# 35 Commitments and guarantees, continued

### *Movements in the provisions for commitments and guarantees, 31 Dec 2019:*

**The Group, EUR'000**

| | Opening balance 1 Jan 2019 | Origination and acquisition | Repayments and disposals | Changes in credit risk, net | Other adjustments | Closing balance 31 Dec 2019 |
|---|---|---|---|---|---|---|
| Stage 1 | 75 | 190 | (49) | (109) | (2) | 105 |
| Stage 2 | 1 | - | - | (1) | - | - |
| Stage 3 | - | - | (2) | 2 | - | - |
| **Total** | **76** | **190** | **(51)** | **(108)** | **(2)** | **105** |

**The Bank, EUR'000**

| | Opening balance 1 Jan 2019 | Origination and acquisition | Repayments and disposals | Changes in credit risk, net | Closing balance 31 Dec 2019 |
|---|---|---|---|---|---|
| Stage 1 | 127 | 192 | (54) | (143) | 122 |
| Stage 2 | 11 | 5 | (6) | 22 | 32 |
| Stage 3 | - | - | (2) | 2 | - |
| **Total** | **138** | **197** | **(62)** | **(119)** | **154** |

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

**The Group, EUR'000**

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

**The Bank, EUR'000**

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

# 36 Provisions

| | 31 Dec 2019 ’000 EUR Group | 31 Dec 2019 ’000 EUR Bank | 31 Dec 2018 ’000 EUR Group | 31 Dec 2018 ’000 EUR Bank |
|---|---|---|---|---|
| Provisions for possible obligations – Litigations (Note 37 (b)) | 34,000 | 34,000 | 34,000 | 34,000 |
| Provisions for commitments and guarantees (Note 35) | 105 | 154 | 76 | 138 |
| **Total** | **34,105** | **34,154** | **34,076** | **34,138** |

***Movements in the provisions:***

| EUR’000 | 2019 ’000 EUR Group | 2019 ’000 EUR Bank | 2018 ’000 EUR Group | 2018 ’000 EUR Bank |
|---|---|---|---|---|
| **Balance at 1 January** | **34,076** | **34,138** | **20,000** | **20,000** |
| IFRS 9 provisions for commitments and guarantees (day-one implementation impact): | - | - | 164 | 207 |
| **Restated balance at 1 January** | **-** | **-** | **20,164** | **20,207** |
| Increase of provisions for possible obligations – Litigations (Note 37 (b)) | - | - | 14,000 | 14,000 |
| Increase/(decrease) of provisions for commitments and guarantees (Note 35) | 29 | 16 | (88) | (69) |
| **Balance at 31 December** | **34,105** | **34,154** | **34,076** | **34,138** |

# 37 Litigations

### (a) Ordinary legal proceedings

In the ordinary course of business, the Bank and the Group are involved in a number of judicial proceedings brought against the Bank and the Group by its customers, in respect of matters such as ownership and property rights, cancellation or challenge of the transactions or contracts and monetary claims. As at 31 December 2019, there were 17 open legal proceedings against the Bank and the Group with a total amount under dispute of EUR 401 thousand (31 December 2018: EUR 381 thousand). The ultimate outcome of any such litigation is uncertain and any position taken by the Management Board involves significant judgement and inherent estimation uncertainty. In respect of the above litigation proceedings, no liability (provision) has been recognized as in the Management Board’s view, supported by the result of the analysis by the Bank’s external legal advisers, the likelihood of any loss (outflow of economic resources) arising therefrom is possible rather than probable.

### (b) Litigation in France

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

On 6 July 2017, the 32nd section of the Paris Criminal Court ruled in its first instance judgment that the Bank was guilty of aggravated money laundering by providing assistance, as a bank, to placement, concealment or conversion operations of the proceed of an offence. The Court ordered the Bank to pay

# 37 Litigations, continued

a criminal fine of EUR 80 million and damages, jointly and severally with the other defendants, of EUR 10 million to the French State and EUR100 thousand court expenses. In addition, the Bank was ordered to stop any banking activities in France for 5 years. The Bank lodged its appeal against the first instance judgement on 12 July 2017, followed by an appeal by the Public Prosecutor, to leave the upper limit of the amount of any penalties above that included in the first instance court's sentence. The date for the appeal court hearing has been planned to take place late September 2019, but was suspended to May 2020. The Management Board intends to cooperate with all relevant authorities in the proceeding. However, although there can be no assurance as to the ultimate outcome of the case, the Bank believes to have a meritorious defence, and so it intends to vigorously defend its position. Among other things, the amounts the Bank was sentenced to pay appear inflated and ungrounded based on the understanding of the French criminal law by the Bank and its legal advisers.

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

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

# 38 Trust and custody activities

## (a) Trust activities

Funds under trust management represent securities and other assets managed and held by the Bank and the Group on behalf of customers. The Bank and the Group earn commission income for holding such assets. The Bank and the Group are not subject to interest, credit, liquidity, price and currency risk with respect of these securities in accordance with the agreements concluded with the customers. As at 31 December 2019 the total assets held by the Group on behalf of customers and assets under management were EUR 212,889 thousand (2018: EUR 332,060 thousand) and by the Bank EUR 212,889 thousand (2018: EUR 214,559 thousand) accordingly.

# 39 Related party transactions

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

| ’000 EUR | 31 Dec 2019 | | | 31 Dec 2018 | | |
|---|---|---|---|---|---|---|
| | Subsidiaries and associates | Key management | Other related parties | Subsidiaries and associates | Key management | Other related parties |
| Loans and receivables due from customers | 143,082 | 87 | 28,331 | 165,716 | 105 | 22,465 |
| Expected credit losses | (18 488) | (1) | (78) | (18,431) | (1) | (65) |
| Current accounts and deposits due to customers | 15,531 | 35,723 | 100,408 | 3,256 | 9,474 | 908 |
| Equity instruments | - | - | - | 1,229 | - | - |
| Commitments and Contingencies | 42 442 | 462 | 5 217 | 51,647 | 781 | 11,824 |
| Provisions | (48) | (5) | (1) | (62) | (4) | (1) |
| Interest income | 7,348 | 5 | 947 | 6,809 | 4 | 782 |
| Interest expense | - | 877 | 477 | - | 904 | 528 |
| Fee and commission income | 26 | 5 | 75 | 8 | 1 | 45 |
| Fee and commission expense | - | - | 67 | - | - | 112 |

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

| | 31 Dec 2019 ’000 EUR Group | 31 Dec 2019 ’000 EUR Bank | 31 Dec 2018 ’000 EUR Group | 31 Dec 2018 ’000 EUR Bank |
|---|---|---|---|---|
| Members of the Council | 499 | 477 | 503 | 483 |
| Members of the Board of Directors | 1,833 | 1,347 | 1,474 | 812 |
| **Total** | **2,332** | **1,824** | **1,977** | **1,295** |

During the year 2019, the Bank received dividends from its subsidiary InCredit GROUP SIA in the amount of EUR 1,783 thousand (2018: EUR 1,275 thousand); from Rietumu Leasing SIA in the amount of EUR 1,008 thousand and from RB Asset Management in the amount of EUR 326 thousand (2018: EUR 570 thousand).

# 40 Fair value of financial assets

## (a) Financial assets measured at fair value

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

### The Group

| **31 Dec 2019** | **Level (1)** | **Level (2)** | **Level (3)** | **Total** |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Financial assets at fair value through other comprehensive income | 270,738 | 19,691 | 61 | **290,490** |
| Financial assets at fair value through profit or loss | 9,025 | 538 | 592 | **10,155** |
| **Financial liabilities** | | | | |
| Financial assets at fair value through profit or loss | - | 94 | - | **94** |

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

### The Bank

| **31 Dec 2019** | **Level (1)** | **Level (2)** | **Level (3)** | **Total** |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Financial assets at fair value through other comprehensive income | 270,738 | 19,691 | 61 | **290,490** |
| Financial assets at fair value through profit or loss | 9,025 | 538 | 486 | **10,049** |
| **Financial liabilities** | | | | |
| Financial assets at fair value through profit or loss | - | 94 | - | **94** |

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

# 40 Fair value of financial assets, continued

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

| Type | Valuation technique |
|---|---|
| Financial assets and liabilities at fair value through profit or loss | Market comparison technique: The fair values are based on broker quotes. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments. |

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

**Financial assets not measured at fair value**

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

**The Group**

| 31 December 2019 | Level 1 ’000 EUR | Level 2 ’000 EUR | Level 3 ’000 EUR | Total fair values ’000 EUR | Total carrying amount ‘000 EUR |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Loans and receivables due from banks | - | - | 81,493 | 81,493 | 81,493 |
| Loans and receivables due from customers | - | - | 585,291 | 585,291 | 585,291 |
| Debt securities at amortised cost | 60,400 | - | - | 60,400 | 60,536 |
| Other financial assets | - | - | 27,286 | 27,286 | 27,286 |
| **Financial liabilities** | | | | | |
| Deposits and balances due to banks | - | - | 2,920 | 2,920 | 2,920 |
| Deposits and balances due to customers | - | - | 1,319,833 | 1,319,833 | 1,319,833 |
| Issued debt securities | - | - | 712 | 712 | 712 |
| Other financial liabilities | - | - | 7,500 | 7,500 | 7,500 |

| 31 December 2018 | Level 1 ’000 EUR | Level 2 ’000 EUR | Level 3 ’000 EUR | Total fair values ’000 EUR | Total carrying amount ‘000 EUR |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Loans and receivables due from banks | - | - | 92,443 | 92,443 | 92,443 |
| Loans and receivables due from customers | - | - | 617,899 | 617,899 | 617,899 |
| Debt securities at amortised cost | 36,329 | - | - | 36,329 | 35,537 |
| Other financial assets | - | - | 20,094 | 20,094 | 20,094 |
| **Financial liabilities** | | | | | |
| Deposits and balances due to banks | - | - | 2,403 | 2,403 | 2,403 |
| Deposits and balances due to customers | - | - | 1,019,696 | 1,019,696 | 1,019,696 |
| Issued debt securities | - | - | 62 | 62 | 62 |
| Other financial liabilities | - | - | 7,874 | 7,874 | 7,874 |

# 40 Fair value of financial assets, continued

**The Bank**

| **31 December 2019** | **Level 1 ’000 EUR** | **Level 2 ’000 EUR** | **Level 3 ’000 EUR** | **Total fair values ’000 EUR** | **Total carrying amount ‘000 EUR** |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Loans and receivables due from banks | - | - | 80,911 | 80,911 | 80,911 |
| Loans and receivables due from customers | - | - | 638,523 | 638,523 | 638,523 |
| Debt securities at amortised cost | 60,400 | - | - | 60,400 | 60,536 |
| Other financial assets | - | - | 27,219 | 27,219 | 27,219 |
| **Financial liabilities** | | | | | |
| Deposits and balances due to banks | - | - | 2,920 | 2,920 | 2,920 |
| Deposits and balances due to customers | - | - | 1,332,529 | 1,332,529 | 1,332,529 |
| Other financial liabilities | - | - | 35,634 | 35,634 | 35,634 |

| **31 December 2018** | **Level 1 ’000 EUR** | **Level 2 ’000 EUR** | **Level 3 ’000 EUR** | **Total fair values ’000 EUR** | **Total carrying amount ‘000 EUR** |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Loans and receivables due from banks | - | - | 91,828 | 91,828 | 91,828 |
| Loans and receivables due from customers | - | - | 695,343 | 695,343 | 695,343 |
| Debt securities at amortised cost | 36,329 | - | - | 36,329 | 35,537 |
| Other financial assets | - | - | 19,963 | 19,963 | 19,963 |
| **Financial liabilities** | | | | | |
| Deposits and balances due to banks | - | - | 2,348 | 2,348 | 2,348 |
| Deposits and balances due to customers | - | - | 1,033,539 | 1,033,539 | 1,033,539 |
| Other financial liabilities | - | - | 7,844 | 7,844 | 7,844 |

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

# 41 Currency analysis

The following table shows the currency structure of financial assets and liabilities of the Group as at 31 December 2019:

**The Group**

| | EUR ’000 EUR | USD ’000 EUR | Other currencies ’000 EUR | Total ’000 EUR |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash and balances with Bank of Latvia | 502,569 | 180 | 340 | **503,089** |
| Financial assets at fair value through profit or loss | 1,048 | 8,948 | 159 | **10,155** |
| Loans and receivables due from banks | 2,504 | 58,529 | 20,460 | **81,493** |
| Loans and receivables due from customers | 485,906 | 98,164 | 1,221 | **585,291** |
| Financial assets at fair value through other comprehensive income | 218,690 | 71,800 | - | **290,490** |
| Debt securities at amortised cost | 60,536 | - | - | **60,536** |
| Other financial assets | 2,256 | 20,482 | 4,548 | **27,286** |
| **Total financial assets** | **1,273,509** | **258,103** | **26,728** | **1,558,340** |
| **Financial liabilities** | | | | |
| Financial instruments at fair value through profit or loss | 94 | - | - | 94 |
| Deposits and balances due to banks | 1,120 | 1,574 | 226 | **2,920** |
| Current accounts and deposits due to customers | 1,097,940 | 186,984 | 34,909 | **1,319,833** |
| Issued debt securities | - | - | 712 | **712** |
| Other financial liabilities | 6,822 | - | 678 | **7,500** |
| **Total financial liabilities** | **1,105,976** | **188,558** | **36,525** | **1,331,059** |
| **Net position as of 31 December 2019** | **167,533** | **69,545** | **(9,797)** | |
| **Net off balance sheet position as of 31 December 2019** | **55,070** | **(63,550)** | **8,480** | |
| **Net total positions as of 31 December 2019** | **222,603** | **5,995** | **(1,317)** | |
| **Net total positions as of 31 December 2018** | **300,823** | **30,142** | **30,463** | |

# 41 Currency analysis, continued

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

**The Group**

| | EUR<br>'000 EUR | USD<br>'000 EUR | Other currencies<br>'000 EUR | Total<br>'000 EUR |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash and balances with Bank of Latvia | 465,468 | 907 | 115 | **466,490** |
| Financial assets at fair value through profit or loss | 2,217 | 9,362 | 236 | **11,815** |
| Loans and receivables due from banks | 4,689 | 54,975 | 32,779 | **92,443** |
| Loans and receivables due from customers | 450,094 | 130,606 | 37,199 | **617,899** |
| Financial assets at fair value through other comprehensive income | 159,405 | - | - | **159,405** |
| Debt securities at amortised cost | 35,537 | - | - | **35,537** |
| Other financial assets | 1,711 | 12,163 | 6,220 | **20,094** |
| **Total financial assets** | **1,119,121** | **208,013** | **76,549** | **1,403,683** |
| **Financial liabilities** | | | | |
| Deposits and balances due to banks | 750 | 1,428 | 225 | **2,403** |
| Current accounts and deposits due to customers | 806,636 | 168,441 | 44,619 | **1,019,696** |
| Issued debt securities | - | 62 | - | **62** |
| Other financial liabilities | 7,863 | 8 | 3 | **7,874** |
| **Total financial liabilities** | **815,249** | **169,939** | **44,847** | **1,030,035** |
| **Net position as of 31 December 2018** | **303,872** | **38,074** | **31,702** | |
| **Net off balance sheet position as of 31 December 2018** | **40,799** | **(45,428)** | **4,978** | |
| **Net total positions as of 31 December 2018** | **344,671** | **(7,354)** | **36,680** | |
| **Net total positions as of 31 December 2017** | **364,050** | **(10,083)** | **(7,015)** | |

# 41 Currency analysis, continued

The following table shows the currency structure of financial assets and liabilities of the Bank as at 31 December 2019:

**The Bank**

| | EUR '000 EUR | USD '000 EUR | Other currencies '000 EUR | Total '000 EUR |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash and balances with Bank of Latvia | 502,552 | 180 | 340 | **503,072** |
| Financial assets at fair value through profit or loss | 942 | 8,948 | 159 | **10,049** |
| Loans and receivables due from banks | 2,121 | 58,517 | 20,273 | **80,911** |
| Loans and receivables due from customers | 540,856 | 95,750 | 1,917 | **638,523** |
| Financial assets at fair value through other comprehensive income | 218,690 | 71,800 | - | **290,490** |
| Debt securities at amortised cost | 60,536 | - | - | **60,536** |
| Other financial assets | 2,197 | 20,474 | 4,548 | **27,219** |
| **Total financial assets** | **1,327,894** | **255,669** | **27,237** | **1,610,800** |
| **Financial liabilities** | | | | |
| Financial instruments at fair value through profit or loss | 94 | - | - | **94** |
| Deposits and balances due to banks | 1,120 | 1,574 | 226 | **2,920** |
| Current accounts and deposits due to customers | 1,107,862 | 189,730 | 34,937 | **1,332,529** |
| Other financial liabilities | 34,956 | - | 678 | **35,634** |
| **Total financial liabilities** | **1,144,032** | **191,304** | **35,841** | **1,371,177** |
| **Net position as of 31 December 2019** | **183,862** | **64,365** | **(8,604)** | |
| **Net off balance sheet position as of 31 December 2019** | **55,070** | **(63,550)** | **8,480** | |
| **Net total positions as of 31 December 2019** | **238,932** | **815** | **(124)** | |
| **Net total positions as of 31 December 2018** | **392,805** | **37,625** | **(6,089)** | |

# 41 Currency analysis, continued

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

**The Bank**

| | EUR '000 EUR | USD '000 EUR | Other currencies '000 EUR | Total '000 EUR |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash and balances with Bank of Latvia | 465,423 | 906 | 115 | **466,444** |
| Financial assets at fair value through profit or loss | 1,979 | 9,577 | 115 | **11,671** |
| Loans and receivables due from banks | 4,254 | 54,918 | 32,656 | **91,828** |
| Loans and receivables due from customers | 553,471 | 141,002 | 870 | **695,343** |
| Financial assets at fair value through other comprehensive income | 159,405 | - | - | **159,405** |
| Debt securities at amortised cost | 35,537 | - | - | **35,537** |
| Other financial assets | 1,660 | 12,083 | 6,220 | **19,963** |
| **Total financial assets** | **1,221,729** | **218,486** | **39,976** | **1,480,191** |
| **Financial liabilities** | | | | |
| Deposits and balances due to banks | 750 | 1,428 | 170 | **2,348** |
| Current accounts and deposits due to customers | 817,313 | 171,573 | 44,653 | **1,033,539** |
| Other financial liabilities | 7,844 | - | - | **7,844** |
| **Total financial liabilities** | **825,907** | **173,001** | **44,823** | **1,043,731** |
| **Net position as of 31 December 2018** | **395,822** | **45,485** | **(4,847)** | |
| **Net off balance sheet position as of 31 December 2018** | 40,450 | (45,777) | 4,978 | |
| **Net total positions as of 31 December 2018** | **436,272** | **(292)** | **131** | |
| **Net total positions as of 31 December 2017** | **430,693** | **(14,708)** | **(6,524)** | |

# 42 Interest rate risk analysis

The following table shows the interest rate contracted re-pricing risk of financial assets and liabilities of the Group as at 31 December 2019, based on the earlier of contractual interest rate repricing or maturity:

| | Less than 1 month '000 EUR | 1 to 3 months '000 EUR | 3 months to 1 year '000 EUR | 1 to 5 years '000 EUR | More than 5 years '000 EUR | Non-interest bearing '000 EUR | Total '000 EUR |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Cash and balances with Bank of Latvia | 501,570 | - | - | - | - | 1,519 | **503,089** |
| Financial assets at fair value through profit or loss | - | - | - | - | - | 10,155 | **10,155** |
| Loans and receivables due from banks | 429 | - | - | - | - | 81,064 | **81,493** |
| Loans and receivables due from customers | 105,427 | 149,984 | 22,935 | 236,795 | 8,953 | 61,197 | **585,291** |
| Financial assets at fair value through other comprehensive income | 290,490 | - | - | - | - | - | **290,490** |
| Debt securities at amortised cost | 706 | 38,276 | 7,845 | 13,709 | - | - | **60,536** |
| **Total financial assets** | **898,622** | **188,260** | **30,780** | **250,504** | **8,953** | **153,935** | **1,531,054** |
| **Financial liabilities** | | | | | | | |
| Financial instruments at fair value through profit or loss | - | - | - | - | - | 94 | **94** |
| Deposits and balances due to banks | - | - | - | - | - | 2,920 | **2,920** |
| Current accounts and deposits due to customers | 343,988 | 62,325 | 203,371 | 398,204 | 11,575 | 300,370 | **1,319,833** |
| Issued debt securities | - | - | - | 712 | - | - | **712** |
| **Total financial liabilities** | **343,988** | **62,325** | **203,371** | **398,916** | **11,575** | **303,384** | **1,323,559** |
| **Net position as at 31 December 2019** | **554,634** | **125,935** | **(172,591)** | **(148,412)** | **(2,622)** | **(149,449)** | |
| **Net position as at 31 December 2018** | **68,824** | **169,254** | **(77,436)** | **(127,904)** | **(1,215)** | **329,905** | |

## 42 Interest rate risk analysis, continued

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

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

# 42 Interest rate risk analysis, continued

The following table shows the interest rate contracted re-pricing risk of financial assets and liabilities of the Bank as at 31 December 2019, based on the earlier of contractual interest rate repricing or maturity:

| Financial assets | Less than 1 month '000 EUR | 1 to 3 months '000 EUR | 3 months to 1 year '000 EUR | 1 to 5 years '000 EUR | More than 5 years '000 EUR | Non-interest bearing '000 EUR | Total '000 EUR |
|---|---|---|---|---|---|---|---|
| Cash and balances with Bank of Latvia | 501,570 | - | - | - | - | 1,502 | **503,072** |
| Financial assets at fair value through profit or loss | - | - | - | - | - | 10,049 | **10,049** |
| Loans and receivables due from banks | 429 | - | - | - | - | 80,482 | **80,911** |
| Loans and receivables due from customers | 116,758 | 219,501 | 20,686 | 214,368 | - | 67,210 | **638,523** |
| Financial assets at fair value through other comprehensive income | 290,490 | - | - | - | - | - | **290,490** |
| Debt securities at amortised cost | 706 | 38,276 | 7,845 | 13,709 | - | - | **60,536** |
| **Total financial assets** | **909,953** | **257,777** | **28,531** | **228,077** | **-** | **159,243** | **1,583,581** |
| | | | | | | | |
| **Financial liabilities** | | | | | | | |
| Financial instruments at fair value through profit or loss | - | - | - | - | - | 94 | **94** |
| Deposits and balances due to banks | - | - | - | - | - | 2,920 | **2,920** |
| Current accounts and deposits due to customers | 349,333 | 63,370 | 204,809 | 402,331 | 11,575 | 301,111 | **1,332,529** |
| **Total financial liabilities** | **349,333** | **63,370** | **204,809** | **402,331** | **11,575** | **304,125** | **1,335,543** |
| | | | | | | | |
| **Net position as at 31 December 2019** | **560,620** | **194,407** | **(176,278)** | **(174,254)** | **(11,575)** | **(144,882)** | |
| **Net position as at 31 December 2018** | **68,994** | **240,520** | **(67,662)** | **(130,556)** | **(6,730)** | **319,775** | |

## 42 Interest rate risk analysis, continued

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

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

# 43 Interest in other entities

**Non-controlling interest in subsidiaries**

The following table summarises the information relating to the Group`s subsidiaries that have material non-controlling interests (NCI), before any intra-group eliminations as at 31 December 2019 and for the year ended:

| `000 EUR | InCredit Group SIA | Other subsidiaries | Total |
|---|---|---|---|
| **Percentage of Non-controlling interest** | **49%** | | |
| Loans and advances due from customers | 53,109 | | |
| Loans and receivables due from banks | 155 | | |
| Other assets | 651 | | |
| Deposits and balances due to financial institutions | (39,084) | | |
| Current accounts and deposits due to customers | (2,300) | | |
| Other liabilities | (4,680) | | |
| **Net assets** | **7,851** | | |
| **Carrying amount of Non-controlling interest** | **3,847** | **291** | **4,138** |
| Revenue | 12,769 | | |
| Profit after tax | 3,731 | | |
| **Total comprehensive income** | **3,731** | | |
| **Profit/(loss) allocated to Non-controlling interest** | **1,828** | **47** | **1,781** |
| Cash flows from operating activities | 715 | | |
| Cash flows from investment activities | (92) | | |
| Cash flows from financing activities, before dividends to NCI | 1,693 | | |
| Cash flows from financing activities - cash dividends to NCI | (2,338) | | |
| **Net increase (decrease) in cash and cash equivalents** | **(22)** | | |

# 43 Interest in other entities, continued

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

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

Two investment funds controlled by the Group were liquidated in May 2019. As at 31 December 2019 the Group has no control over investments funds.

# 44 Disposal of subsidiaries

The disposal of the subsidiaries in 2019 had the following effect on the Group`s assets and liabilities at the date of disposal:

| `000 EUR | FRB Elektro SIA | KINI Land SIA | Bērzaunes 13 SIA | Total |
|---|---|---|---|---|
| **Disposed shares %** | **85%** | **100%** | **100%** | |
| **Assets** | | | | |
| Cash and due from central banks | 24 | - | - | **24** |
| Loans and receivables due from banks | 47 | 23 | 8 | **78** |
| Investment property | - | 1,567 | 550 | **2,117** |
| Property and equipment | 1,695 | - | 2 | **1,697** |
| Intangible assets | 340 | - | - | **340** |
| Other assets | 158 | 2 | - | **160** |
| Current tax asset | 33 | 4 | - | **37** |
| **Liabilities** | | | | |
| Deposits and balances due to financial institutions | (3,205) | - | (426) | **(3,631)** |
| Current accounts and deposits due to customers | (139) | - | - | **(139)** |
| Other liabilities | (360) | (2) | (6) | **(368)** |
| **Net identifiable assets and liabilities** | **(1,407)** | **1,594** | **128** | **315** |
| **Attributable to equity holders of the Bank** | **(1,196)** | **1,594** | **128** | **526** |
| **Consideration received** | **3** | **2,941** | **117** | **3,061** |

# 44 Disposal of subsidiaries, continued

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

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

# 45 Acquisition of subsidiaries

In 2019 the Group acquired acquired the following subsidiaries:

| | **PH Serviss Ltd** |
|---|---|
| Date of acquisition | 31.01.2019 |
| Acquired shares % | 100% |

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

| **‘000 EUR** | **PH Serviss Ltd** |
|---|---|
| **Assets** | |
| Loans and receivables due from banks | 98 |
| Investment property | 1,321 |
| Other assets | 5 |
| Deferred tax asset | 85 |
| Current accounts and deposits due to customers | (1,340) |
| Other liabilities | (13) |
| **Net identifiable assets and liabilities** | **156** |
| **Net identifiable assets and liabilities attributable to equity holders of the bank** | **156** |
| | |
| **Negative goodwill** | **156** |
| **Consideration paid** | **-** |

In 2018 the Group acquired acquired the following subsidiaries:

| | **Cabinet Holding SIA** |
|---|---|
| Date of acquisition | 14.05.2018 |
| Acquired shares % | 100% |

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

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

## Acquisition of business

In January 2019, the Group acquired the full control over a business combination PH Serviss Ltd.

In May 2018, the Group acquired the full control over a business combination Cabinet Holding SIA.

## 46 Events after the reporting date

In March 2020, restrictions related to spread of Covid-19 were imposed in Latvia and many other countries. The management of the Bank is closely monitoring the situation and taking the appropriate actions necessary in order to ensure that the Bank can properly provide banking services to the customers and protect the employees. The Bank gradually transfers employees to the mandatory remote work. The customers of the Bank are serviced through remote systems. Customer’s visits to the Bank are strictly limited and should be arranged ahead. The management of the Bank regularly informs employees via Intranet about the situation in the Bank and decisions made by the management regarding COVID-19. It is unpredictable how the situation may develop in the future, but the management of the Bank is taking proactive measures to prepare for different scenarios and ensure that the Bank remains resilient.