AS “LPB Bank”

Financial statements of the Bank
for the year ended 31 December 2018

CONTENTS

MANAGEMENT REPORT

1. GENERAL INFORMATION

AS "LPB Bank" (until 15 December 2017 AS "Latvijas pasta banka") (hereinafter – the Bank) is a joint stock company registered in the Republic of Latvia and operates according to the laws of the Republic of Latvia and the licence issued by the Financial and Capital Markets Commission on 12 September 2008.

AS "LPB Bank" legal address is Brivibas street 54, Riga, LV-1011, Latvia.

The Bank has a head office and two customer service centres. The Bank has no branches or representative offices abroad.

2. ECONOMICAL OVERVIEW

In 2018, the Bank's net profit reached 3.29 million EUR (in the previous year – 7.20 million EUR). The financial result was influenced by external factors as changes in regulatory requirements, which required adjustments in the Bank's internal processes. The Bank made one-off provisions for the fine imposed on it in accordance with the FCMC's decision. The second circumstance was the increase in some items of operating expenses of the Bank. The Bank as a whole was able to adapt quickly to the new circumstances during the past year, therefore the above-mentioned reasons are expected to have a short-term impact on the Bank's future financial results.

The decrease in profit was partly compensated by an 8% increase in net interest income, most part of which was formed by double increase in interest income on credit institutions as well as increase in interest income on loans issued to clients.

As clients switched to euro payments more and foreign currency payments declined accordingly, the Bank's profit from payment processing also declined last year, however it was compensated by increase in commission income on account maintenance. Positive dynamics was also demonstrated by the trading and revaluation result of financial instruments, which increased by 28% compared to the previous year.

Overall, the Bank's structure of profit sources is balanced and has not changed significantly during the year – the share of net interest income after formation of provisions for financial assets reaches 39%, net commission income forms 36%, net profit from financial instruments – 24%, other income – 1%.

As of the end of 2018, the Bank's assets amounted to 197.1 million EUR, decreasing during the year by 37.4 million EUR, or 16%, which also was in line with trends in the Latvian banking sector as a whole. Amount of deposits decreased by 41.3 million EUR, it was formed mainly from funds of foreign clients. It should be noted that the total assets of Latvian banks have been decreasing since the beginning of 2016 due to the change of operation strategies and business models of the banks, reducing the share of services to foreign clients, optimisation of capital costs, as well as cancellation of the ABLV Bank AS licence.

MANAGEMENT REPORT (continued)

The bank's asset structure is characterised by high liquidity. Slightly more than 40% of the assets consist of debt securities portfolio, of which 96% have investment grade credit rating. 24% of the Bank's assets are receivables from banks, incl. the Bank of Latvia. At the end of 2018, the liquidity coverage ratio reached 226%.

The Bank started 2018 with a total credit portfolio amount of almost 50 million EUR. During 2018, the credit portfolio amount was increased by more than 16% and amounted to almost 59 million EUR by the end of the year. Looking at the breakdown by sector, by the end of 2018 the most part of the total credit portfolio – 38.43% – was comprised of funding allocated to the Real Estate Operations sector. This was followed by loans provided to the Processing Industry (12.40%) and Accommodation and Food Services (11.10%).

Similarly to 2017, financing of enterprises and economic operators remained the main lending priority in 2018. The total amount of newly issued and increased loans reached 19.5 million EUR during the year, 95% of which were issued for starting and developing business activities with a weighted average credit portfolio rate of 5.26%.

In 2018, the Bank worked hard on existing IT solutions and system improvements, including those related to data exchange with the Credit Register of the Bank of Latvia, as well as continued working on improving the quality of its Credit Portfolio.

One of the focuses (setting) for 2019 is to continue working on building an internal infrastructure, which would allow optimisation of the internal document circulation process and improve the quality of the credit portfolio, ensuring its moderate growth with new low/moderate risk projects for SME clients.

The year 2018 in the area of money laundering and terrorism financing prevention, not only in Latvia, but also in the world as a whole, has been a very influential factor in changing the direction of financial sector development, which has brought about a cardinal influence and changes in the Bank's activities as well.

The turmoil in the Latvian financial sector at the beginning of the year and the subsequent changes in the regulatory enactments in this area are a turning point in the direction of transparency and openness in the Latvian financial sector. Regardless of the decision of the supervisory authority, which was unfavourable to the Bank, the Bank's shareholders and management consider the policy adopted to arrange the Latvian financial sector as the right and appropriate one.

The Bank's management believes that not only a change in the directions of the financial sector activities, but also a unified and common understanding of the proper application of money laundering and terrorism financing prevention requirements and risk management is no less important factor. The Bank, being aware of the negative impact of money laundering and terrorism financing on the financial sector and in cooperation with the supervisory authority, as well as through the involvement of independent external auditors, is actively working and investing appropriate resources to improve and enhance the Bank's internal control system.

MANAGEMENT REPORT (continued)

The Bank's management is convinced that in addition to modern information technologies, which undoubtedly provide an integral effect in risk management, the efficient internal control system is formed by highly qualified and knowledgeable personnel.

The Bank has made significant investments in the area of compliance and money laundering and terrorism financing prevention in order to implement the highest compliance standards, increasing the capacity of professionals involved in compliance and supervision processes by 50% (increasing the number of employees with the CAMS – Certified Anti-Money Laundering Specialist – certificate from 2 to 3, while the number of employees of the Department of the money laundering and terrorism financing prevention – from 12 to 22). In addition to

enhancements to US-developed financial analytics and transactions monitoring technology solution Siron, the Bank has implemented an information analysis tool i2 that allows for the quick summarising and detailed analysis of complex datasets, thus effectively identifying, envisaging and eliminating potential negative consequences of the risk of money laundering and terrorism financing.

In 2019, the Bank will continue to strengthen compliance of its internal control system with the requirements and standards of law and best practice with a view to ensuring the effectiveness of the internal control system in relation to the highest level of prevention of money laundering and terrorism financing.

As of 31 December 2018, the capital adequacy ratio characterising the Bank's exposure to credit risk, operational and market risk was 19.20% (21.59% as of 31 December 2017). The Bank has not formed a trading portfolio, therefore the Bank's market risk is mainly related to foreign exchange risk.

In 2018, the Bank was actively working on improving the Bank's internal regulatory documents and activities to ensure compliance with applicable laws, regulations and standards:

- The Bank continued to work actively on the development and improvement of internal regulatory documents to implement the requirements arising from Regulation (EU) 2016/679 of the European Parliament and of the Council (General Data Protection Regulation), which is applied from 25 May 2018.
- The Bank's internal regulatory documents regulating the area of money laundering and terrorism financing prevention were constantly reviewed and improved.
- Taking into account the 2018 amendments to the Consumer Rights Protection Law, the Bank's internal regulatory documents have been improved to incorporate requirements for information exchange with credit information bureaus, as well as for requesting a certificate on consumer income from the State Social Insurance Agency or the State Revenue Service or a certificate from other country's tax administration containing similar information before granting the credit, if the amount of the credit is equal to or more than 100 euros.

MANAGEMENT REPORT (continued)

- To implement requirements arising from the European Commission 28/09/2017 Implementing Regulation (EU) 2018/34 laying down implementing technical standards with regard to the standardised presentation format of the fee information document and its common symbol according to Directive 2014/92/EU of the European Parliament and of the Council, as well as Regulation of the Financial and Capital Market Commission No. 90 of 29/05/2018 “Regulatory provisions for setting minimum requirements for the services price list and the services fee report”, the Tariff Information Document, which is available on the Bank's website, was developed.
- Taking into account the requirements of the Cabinet of Ministers Regulation No. 480 of 07/08/2018 “Procedures for Provision of Information on Fees Applied to Payment Account Related Services”, a breakdown of payment positions of the services provided to Consumers in the territory of the Republic of Latvia and related to payment accounts in euro was developed.
- The Bank's internal regulatory documents have been amended and improved to implement the requirements provided by the 2018 amendments in the Law on Payment Services and Electronic Money.
- Work continued to improve compliance of the Bank's internal regulatory documents with requirements of the MIFIR (Markets in Financial Instruments Regulation) and the Financial Instruments Market Law.
- Improvements have been made to the Bank's internal regulatory documents to implement fulfilment of requirements of other regulatory requirements as well.

Currently the Bank employs more than 200 qualified specialists. With the development of FinTech, the Bank is pleased to provide more opportunities for domestic businessmen and service providers, developing opportunities in the European Union market as well. In 2018, the Bank continued the development and communication of a new brand. In order to expand business opportunities and exchange experiences, the Bank's employees participated in various experience exchange events in 2018, including a B2B event in London – “ICE Totally Gaming” and “Baltic Financial & Regulatory Summit – FinReg 2018” in Vilnius.

Following the latest market trends, the Bank began offering its Clients even more convenient payment instruments – contactless Payment cards – with the launch of a new, modern Payment card design for Standard, Gold and Platinum cards in 2018, while the Bank also plans to introduce Corporate and Business Preferred payment cards already in 2019.

To provide additional security for online payments, in May the Bank introduced the Mastercard© Identity Check™ service, which is an additional layer of security for online credit card and debit card transactions.

The Bank continued to develop its e-commerce service and was able to maintain its e-commerce client portfolio despite the challenges facing the Latvian banking sector in terms of servicing foreign clients.

The results of the VISA and Mastercard tests confirmed the Bank's high compliance standards in the AML risk management area.

MANAGEMENT REPORT (continued)

While implementing a set of measures necessary for the Bank's transformation, the Bank's management was changed in October 2018: A member of the Council – Jūlija Kozlova and a member of the Board – Antons Kononovs joined the Bank. The representation rights of the members of the Board were also changed – from now on at least two members of the Board together may represent the Bank on the basis of the Articles of Association.

As the Bank sets a high value on significance of social responsibility, it donated funds to the Children's Hospital Foundation of the Children's Clinical University Hospital for the purchase of equipment for the special educator's office in 2018 as well.

Caring and appreciating the trust of its clients and employees, the Bank continued to expand its Loyalty program offerings – in areas such as catering, fitness and recreation.

The participation of the Bank's employees in the large-scale Latvian running event – Lattelecom Riga Marathon – has already become a tradition. We are pleased that team spirit and focus on success are uniting the Bank's employees not only at work but also at sporting events!

In 2018, the Bank successfully celebrated 10 years of operation. The Bank appreciates the trust of every Client and, developing in FinTech area, is ready to provide more and more opportunities for business development in the European market. We can say that an important milestone in the Bank's development and growth has been set, and an even more responsible stage – with new goals and challenges – is expected in 2019.

We express our gratitude to the Bank's shareholder and Clients for their loyalty and to all employees for their contribution to the Bank's growth!

3. THE COUNCIL AND THE BOARD

The Council of the Bank as at 31 December 2018

Name, Last name	Position	Date of appointment
Biomins Kajems	Chairman of the Council	13/10/2008
Mihails Uļmans	Deputy Chairman of the Council	20/09/2013
Aleksandr Plotkin	Council Member	14/10/2015
Julija Kozlova	Council Member	03/10/2018

The Board of the Bank as at 31 December 2018

Name, Last name	Position	Date of appointment
Boriss Ulmans	Chairman of the Board	05/09/2008
Arnis Kalveršs	Board Member	05/09/2008
Jurijs Svirčenkovs	Board Member	29/04/2014
Antons Kononovs	Board Member	03/10/2018

On April 29, 2019, Baiba Preise was appointed to the Board of the Bank. As at the date of signing the report, the Board of the Bank consists of 5 people.

On behalf of the Bank:

Biomins Kajems Chairman of the Council	Boriss Ulmans Chairman of the Board	Arnis Kalveršs Board Member

Riga, 2 September 2019

STATEMENT OF MANAGEMENT'S RESPONSIBILITY

The management of AS "LPB Bank" (hereinafter – the Bank) is responsible for the preparation of the Bank's financial statements for each financial year.

In preparing the financial statements set out on pages 10 to 82 for the year ended 31 December 2018, the management has applied appropriate accounting principles that are based on prudent and reasonable judgments and estimates. The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the regulations of the Financial and Capital Markets Commission.

The Bank's management is responsible for maintaining proper accounting records and ensuring compliance with the Regulations of the Financial and Capital Market Commission, law on credit institutions and other legislation. The management is also responsible for taking all reasonable efforts to safeguard the Bank's assets and the prevention and detection of fraud and other irregularities in the Bank. The management's decisions and judgments used in the preparation of these financial statements were prudent and reasonable.

On behalf of the Bank`s management:

Biomins Kajems Chairman of the Council	Boriss Ulmans Chairman of the Board	Arnis Kalveršs Board Member

Riga, 2 September 2019

STATEMENT OF COMPREHENSIVE INCOME
(All amounts are expressed in thousands of euro (000'EUR))

	Notes	2018	2017
Interest income	3	6 295	5 563
Interest expense	3	(1 309)	(945)
Net interest income	3	**4 986**	**4 618**
Result of making provisions for doubtful debts	8	283	241
Net interest income after provision for loan impairment		**5 269**	**4 859**
Commission and fee income	4	17 737	20 687
Commission and fee expense	4	(12 901)	(13 509)
Net commission and fee income	4	**4 836**	**7 178**
Income from dividends		20	16
Net gain/(loss) on financial assets not at fair value through profit or loss		466	379
Net gain/(loss) on financial assets at fair value through profit or loss		2 045	447
Net gain on foreign exchange	6	765	1 740
Other income	5	112	572
Administrative expense	7	(8 713)	(6 277)
Depreciation	15	(354)	(358)
Other expense	5	(1 162)	(996)
Profit before tax		**3 284**	**7 560**
Corporate income tax	9	6	(361)
Net profit for the year		**3 290**	**7 199**
Profit attributable to owners of the Bank		**3 290**	**7 199**
Other comprehensive income / (expense)			
Items that may be reclassified subsequently to profit or loss			
Accumulated result from other comprehensive income / expense)		(600)	119
Total other comprehensive income / (expense)		**(600)**	**119**
Total other comprehensive income attributable to owners of the Bank		**2 690**	**7 318**
Earnings per share (EUR)	22	**0.253**	**0.554**

The accompanying notes on pages 14 to 82 form an integral part of these financial statements.

The Bank's financial statements set out on pages 10 to 82 were approved by the Board and by the Council on 2 September 2019.

Biomins Kajems	Boriss Ulmans	Arnis Kalveršs
Chairman of the Council	Chairman of the Board	Board Member

Riga, 2 September 2019

STATEMENT OF FINANCIAL POSITION

(All amounts are expressed in thousands of euro (000'EUR))

	Notes	31.12.2018	31.12.2017
ASSETS			
Cash and balances with the Bank of Latvia	10	17 606	34 096
Due from credit institutions	11	30 207	24 249
Financial assets measured at fair value through profit or loss		1 546	1 267
- *derivatives*	*14*	*35*	*18*
- *shares*		*1 511*	*1 249*
Financial assets measured at fair value through other comprehensive income		34 130	35 333
- *debt securities*	*13*	*34 130*	*35 333*
Financial assets measured at amortised cost		98 476	119 108
- *loans and receivables due from customers*	*12*	*52 889*	*45 789*
- *debt securities*	*13*	*45 587*	*73 319*
Property, plant and equipment	15	6 569	6 742
Intangible assets	15	462	541
Other financial assets	16	7 347	12 282
Overpaid corporate income tax		394	562
Other non-financial assets	16	360	325
Total assets		**197 097**	**234 505**
LIABILITIES			
Financial liabilities measured at fair value through profit or loss	14	-	89
Liabilities measured at amortised cost		156 554	197 838
Deposits from customers	*19*	*156 554*	*197 838*
Other financial liabilities	20	11 876	7 994
Other non-financial liabilities	20	367	281
Total liabilities		**168 797**	**206 202**
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK			
Paid-in share capital	21	13 000	13 000
Financial assets measured at fair value through other comprehensive income revaluation reserve		(911)	938
Retained earnings		16 211	14 365
Total equity attributable to equity holders of the Bank		**28 300**	**28 303**
Total equity		**28 300**	**28 303**
Total liabilities and equity		**197 097**	**234 505**

The accompanying notes on pages 14 to 82 form an integral part of these financial statements.

The Bank's financial statements set out on pages 10 to 82 were approved by the Board and by the Council on 2 September 2019.

Biomins Kajems	Boriss Ulmans	Arnis Kalveršs
Chairman of the Council	Chairman of the Board	Board Member

Riga, 2 September 2019

STATEMENT OF CHANGES IN EQUITY

(All amounts are expressed in thousands of euro (000'EUR))

	Paid-in share capital	Financial assets at fair value through other comprehensive income revaluation reserve	Retained earnings	Total
Balance as at 31 December 2016	**13 000**	**819**	**16 166**	**29 985**
Other comprehensive income	-	*119*	-	*119*
Net profit for the year	-	-	*7 199*	*7 199*
Total income for the year	-	119	7 199	7 318
Dividends paid	-	-	(9 000)	(9 000)
Balance as at 31 December 2017	**13 000**	**938**	**14 365**	**28 303**
Impact of IFRS 9 first day implementation	-	-	*(693)*	*(693)*
Effects of reclassification in the implementation of the IFRS 9	-	*(1 249)*	*1 249*	-
Impact of implementation IFRS 9, total		(1 249)	556	(693)
Other comprehensive income	-	*(600)*	-	*(600)*
Net profit for the year	-	-	*3 290*	*3 290*
Total income for the year	-	(600)	3 290	2 690
Dividends paid	-	-	(2 000)	(2 000)
Balance as at 31 December 2018	**13 000**	**(911)**	**16 211**	**28 300**

The accompanying notes on pages 14 to 82 form an integral part of these financial statements.
The Bank's financial statements set out on pages 10 to 82 were approved by the Board and by the Council on 2 September 2019.

Biomins Kajems Chairman of the Council	Boriss Ulmans Chairman of the Board	Arnis Kalveršs Board Member

Riga, 2 September 2019

STATEMENT OF CASH FLOWS

(All amounts are expressed in thousands of euro (000'EUR))

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	3 284	7 560
Amortisation / depreciation	354	358
(Decrease) / increase in impairment allowance for financial assets	(283)	(241)
Interest income	(6 295)	(5 563)
Interest expense	1 309	945
Unrealised foreign exchange loss	1 740	475
Increase in cash and cash equivalents from operating activities before changes in assets and liabilities	**109**	**3 534**
Decrease in balances due from credit institutions	-	-
(Increase) / decrease in loans and receivables	(7 149)	(5 313)
(Increase) in other assets	4 556	(3 833)
Increase / (decrease) in deposits from customers	(41 757)	29 800
Increase in other liabilities	3 837	3 249
Change in cash and cash equivalents from operating activities before income tax	**(40 404)**	**27 437**
Interest received	6 725	5 571
Interest paid	(836)	(1 296)
Corporate income tax paid	174	(2 178)
Change in cash and cash equivalents from operating activities	**(34 341)**	**29 534**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(102)	(232)
(Increase) / decrease of financial assets at fair value through other comprehensive income	385	(9 157)
Settlement / (increase) of financial assets at fair value through profit or loss	27 283	6 006
Change in cash and cash equivalents from investing activities	**27 566**	**(3 383)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(2 000)	(9 000)
Change in cash and cash equivalents from financing activities	**(2 000)**	**(9 000)**
Net cash flows for the year	**(8 775)**	**17 151**
Cash and cash equivalents at the beginning of the year	58 345	41 669
Foreign exchange (loss)	(1 740)	(475)
Cash and cash equivalents at the end of the year	**47 830**	**58 345**

The accompanying notes on pages 14 to 82 form an integral part of these financial statements.

The Bank's financial statements set out on pages 10 to 82 were approved by the Board and by the Council on 2 September 2019.

Biomins Kajems	Boriss Ulmans	Arnis Kalveršs
Chairman of the Council	Chairman of the Board	Board Member

Riga, 2 September 2019

NOTE 1 BASIS OF PREPARATION OF FINANCIAL STATEMENTS

(a) Statement of compliance

The Bank's financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU").

Based on Commercial Code of the Republic of Latvia, shareholder meeting has rights and obligations to make decision on approval of financial statements. Shareholder and the Board have rights to amend the financial statements after issue.

(b) Going concern

The financial statements are prepared on the going concern basis. The Bank's management has analysed the Bank's financial position, availability of financial resources as well as the impact of the financial crisis on the future operations of the Bank. The Bank's operating strategy is aimed at further development of a bank servicing certain customers and developing customised products and service technologies.

The Bank's capital adequacy is monitored by the following:

- Analysing the report prepared in accordance with the Bank's Procedure for Calculating the Minimum Capital Requirements at least on a monthly basis;
- Assessing the capital required to cover all significant risks the Bank is exposed to and the extent of the available capital for a three-year planning period at least once every year and by benchmarking the actual financial performance of the Bank against the target indicators on a monthly basis;
- Analysing the asset quality and estimating the required allowances at least on a quarterly basis.

Pursuant to the Bank's Crisis Management Plan, in the event of a prolonged crisis of capital the Bank will use its capital reserves, attract subordinated deposits, or seek a shareholders' decision to increase the Bank's capital.

Having analysed the key risks related to the present and potential economic situation, the development of the banking industry as well as the Bank's existing and potential human and financial resources, the Bank has selected to pursue the following strategy:

- Priority line of activities is FinTech, in particular the acquiring. The Bank's service is created in accordance with the requirements and standards of MasterCard and Visa. The Bank holds a MasterCard acquiring license for Europe and a Visa acquiring license for Europe, thus the Bank provides and intends to provide services to Internet sellers throughout Europe;
- In relation to the priority line of activities, to offer services to legal persons, creating a Client portfolio based on personalised service provision;
- Offer personalised services to high and ultra-high income natural persons on an equal basis with legal persons;
- Continue expanding provision of its services in Latvia and outside Latvia, developing the communication of the Bank's new Brand and name "LPB Bank" with the core communication message as "Dynamic, innovative and goal-oriented Bank that respects tradition and is a reliable, long-lasting and valuable partner to every Client of the Bank in pursuit of their business objectives";
- Actively attract potential Clients through classic and digital marketing channels;

- Continue placement of raised funds:
  - in financial instruments,
  - in lending to legal persons, in particular – for current assets and business development investments;
- Priority areas of operations – Latvia, EEA countries, NATO member countries, OECD member countries and other countries that do not pose an increased reputational risk to the Bank.

The Financial and Capital Market Commission (FCMC) has conducted on-site inspection of ML/TF risk management effectiveness at the Bank from January 2017 till March 2017. The results afterwards were supplemented by the results of off-site inspections conducted by the FCMC between March 2016 and August 2018. As a result, on October 16, 2018, the FCMC adopted a decision on a fine of EUR 2.2 million and legal obligations for the Bank, as well as obligation to carry an independent audit of the ML/TF risk management effectiveness. The Bank has appealed the fine imposed and legal proceedings have been initiated against the FCMC. As the timing of the litigation process is uncertain and the expected end result is connected with some uncertainty, the financial results for 2018 have been adjusted accordingly. The Bank's management has the opinion that these processes have no impact on the continuation of Bank's operations.

On November 30, 2018, the Bank's Supervisory Council approved the action plan agreed with the FCMC to improve the internal control system in the field of ML/TF risk management and to ensure its efficiency with the deadline of March 31, 2019 and carrying the independent audit with the deadline of June 30, 2019. In accordance with the action plan, the Bank has established an electronic customer information database, launched several information flow automation projects, improved internal regulatory documents and introduced several additional internal control mechanisms. As of January 15, 2019, the Bank has provided monthly information to the FCMC on the progress made in accordance with the Action Plan. From February 1, 2019 till June 28, 2019, the Bank has conducted an independent audit of the ML/TF risk management and sanction risk management effectiveness, including the assessment of the adequacy and operational effectiveness of the information systems used and implementation of the action plan previously agreed with the FCMC. On 1 July 2019, the Bank has submitted the results of an independent audit together with a plan to address the identified deficiencies to the FCMC. Basically, the plan covers the continuation of the automation and information transfer processes which already have been started. According to the FCMC request, the Bank will continue to provide quarterly progress reports.

Currently, the Bank continues the ongoing process improvement and automation projects, with adequate staff, technological and financial resources devoted by the management. The next independent audit of the ML/TF and proliferation financing and sanctions risk management is planned for the second half of 2020.

The Bank has set a target capital adequacy ratio for 2018 of at least 16 per cent.

(c) Functional and presentation currency

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

(d) Basis of presentation

These financial statements are prepared on a historical cost basis, except for assets and liabilities which are reported at fair value:

- financial assets at fair value through profit or loss;
- financial assets at fair value through other comprehensive income.

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

Income and expense are not offset in the financial statements unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Bank.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) New Standards and Interpretations

Changes in accounting policies

Except for the changes below, the Bank has consistently applied the accounting policies to all periods presented in these financial statements.

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

IFRS 9 "Financial instruments" (effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other

comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach, which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. As the Bank had not used and is not planning to use hedge accounting, these changes in the standard are not relevant to the operations of the Bank.

Management of the Bank has carried out assessment of implementation of IFRS 9 and has recognised respective capital correction as at 1 January 2018. As a result, additional provisions for expected credit losses of financial assets were recognised in the amount of 693 thousand EUR, comprised of 54 thousand EUR increase of provisions for loans and 639 thousand EUR increase in provisions for securities and other assets.

After evaluating business model, as well as payments of principal and interest, no major changes were made to classification of financial assets and liabilities, apart from classification of VISA shares, which were reclassified from available-for-sale financial assets to financial assets at fair value with revaluation through profit and loss. As a result, retained earnings were increased by 1.2 million EUR, reclassifying positive difference previously recognised as part of revaluation reserves.

Initial implementation of the IFRS 9 broken down by class of financial instrument:

	Debt securities	VISA shares	Loans and receivables due from customers	Derivatives	Total
31.12.2017. by IAS 39					
Available-for-sale financial assets	35 333	1 249	-	-	**36 582**
Held-to-maturity investments	73 319	-	-	-	**73 319**
Loans and receivables due from customers	-	-	45 789	-	**45 789**
Held for trading financial assets	-	-	-	18	**18**
On 01/01/2018 after reclassification in accordance with IFRS 9					
Financial assets at amortised cost	73 319	-	45 789	-	**119 108**
Financial assets at fair value through other comprehensive income	35 333	-	-	-	**35 333**
Financial assets at fair value through profit or loss	-	1 249	-	18	**1 267**

Impact of the first day on the Bank's financial result through the implementation of the IFRS, broken down by class of financial instrument:

Expected credit losses when implementing the IFRS 9 (in addition to recognised value impairment as of 31/12/2017)	**(693)**
Due from credit institutions	(21)
Financial assets at amortised cost:	
Loans and receivables due from customers	*(54)*
Debt securities	*(499)*
Financial assets at fair value through other comprehensive income	(98)
Other assets	(21)
Adjustment of the revaluation reserve resulting from the active asset classification change in accordance with the implementation of the IFRS 9	**1 249**
Financial assets at fair value through profit or loss	1 249
Impact of implementation IFRS 9, total	**556**

- IFRS 15 "Revenue from Contracts with Customers" (effective for annual periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. Based on the assessment of IFRS 15 implementation performed by the management of the Bank, new standard will have no effect on the financial statements of the Bank in next financial year.

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2019, and have not been applied in preparing these financial statements. Those, which may be relevant to the Bank, are set out below. The Bank does not plan to adopt these standards early.

- IFRS 16 "Leases" (effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The management of the Bank has assessed the impact of the implementation of the new standard and has found that as of 01/01/2019, the lease agreements in force are short-term and have no effect on the total value of assets and liabilities.
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU).
- IFRIC 23 "Uncertainty over Income Tax Treatments" (effective for annual periods beginning on or after 1 January 2019). The IAS 12 explains how to account for current and deferred tax, but not how to represent the impact of uncertainty related to tax. This interpretation explains how to apply the recognition and estimation requirements provided in the IAS 12 in the events when uncertainty about application of income tax exists.
- Amendments to IFRS 9 "Financial instruments" – Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019, not yet endorsed in the EU).
- Annual improvements to IFRS's 2017 (effective for annual periods beginning on or after 1 January 2019, not yet endorsed in the EU). The amendments include changes that affect 4 standards:
    - IFRS 3 - "Business Combinations",
    - IFRS 11 - "Joint Arrangements"
    - IAS 12 - "Income taxes"
    - IAS 23 - "Borrowing costs".

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

(b) Significant accounting judgments and estimates

In the process of applying the Bank's accounting policies, management has exercised judgment and estimates in determining the amounts recognised in the financial statements. The most significant judgments and estimates used are as follows:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs.

Impairment losses

The Bank makes accumulations for financial assets, which are debt instruments, as well as for off-balance sheet liabilities with credit risk. The purpose of the developed model is to predict the probability of the expected loan default as accurately as possible in order to make corresponding accumulations in the appropriate amount for the loans to be assessed individually.

The loan default probability is calculated in two stages. In the first stage, it is considered that for the loans with monthly repayments, the delay or non-delay in repaying the loan in the following month depends only on the delay or non-delay in repaying the loan in the current month. Respectively, the future repayment of the loan depends only on the present repayment of the loan. In the second stage, when the probability of default of the loan is determined, its value is adjusted according to the macroeconomic forecast.

For determination of the probability of default of the financial instruments and financial institutions where the Bank's funds are placed and the part of the financial asset lost there, financial indicator information is used for each financial instrument and its issuer. As well as long-term statistical information on financial instruments with similar indicators, migration of their ratings (deterioration or improvement of indicators) and probability of their default.

(c) Foreign currency translation

Transactions and balances

Transactions in foreign currencies are recorded in euro at the functional currency rate of exchange ruling at the date of the transaction set by the European Central Bank. Monetary assets and liabilities denominated in foreign currencies are translated into euro at the official rate of exchange set by the European Central Bank prevailing at the end of the year.

All realised gains and losses are taken to the statement of comprehensive income in the period when incurred. Unrealised gains and losses resulting from the revaluation of assets and liabilities are included in the statement of comprehensive income applying the exchange rates prevailing at the reporting date.

The principal year-end rates of exchange (amount of foreign currency to one EUR) used in the preparation of these financial statements are as follows:

	European Central Bank official exchange rate	
	31 December 2018	**31 December 2017**
USD	1.14500	1.19930
RUB	79.71530	69.39200
GBP	0.89453	0.88723
PLN	4.30140	4.17700

(d) Financial assets and liabilities

All financial instruments upon initial recognition are classified into one of the following categories:

- Financial assets and liabilities measured at fair value through profit or loss
- Financial assets and liabilities measured at fair value through other comprehensive income;
- Financial assets and liabilities measured at amortised cost.

Recognition and derecognition of financial assets

Financial assets are recognised in the statement of financial position when, and only when, the Bank becomes a party to the contractual provisions of the instrument. All regular way purchases and sales of financial assets are recognized in the statement of financial position on the settlement date representing the date when the financial asset is delivered. In the period between the dates of transaction and settlement, the Bank accounts for the changes in the fair value of the received or transferred asset based on the same principles as used for any other acquired asset of the respective category. A financial asset is derecognised only when the contractual rights to receive cash flows from the asset have expired, or the Bank has transferred the financial asset and substantially all the risks and rewards of the asset to the counterparty.

All purchases and sales of financial assets, except for loans issued to non-bank customers, are recognised and derecognised on the settlement date. Loans to non-bank customers are recognised in the statement of financial position when cash is transferred to the customer's current account. Change in value of assets between the trading date and settlement date are recognised in the statement of comprehensive income.

Derivative financial instruments

Derivative financial instruments are classified as financial assets and liabilities held at fair value through profit or loss as held for trading assets and liabilities. The Bank uses derivatives such as forward foreign exchange contracts and currency swaps. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. The fair value of derivatives is disclosed in the statement of financial position as derivative financial instruments. Daily changes in the fair value of derivatives are included in the statement of comprehensive income in net income from trading with financial instruments.

Financial instruments measured at fair value through other comprehensive income

The Bank acquires securities evaluated at fair value through other comprehensive income for the purpose of holding these assets in order to receive principal amounts and interest and to sell them. This portfolio includes fixed income debt securities.

The securities evaluated at fair value through other comprehensive income are initially accounted at their fair value, including direct transaction costs, and are subsequently revalued at fair value. The result of revaluation is recognised in the statement of comprehensive income, except for foreign currency profit and losses.

For the securities evaluated at fair value through other comprehensive income that have been acquired at a discount (premium), the discount (premium) amount is gradually amortised using the effective interest rate. Amortisation amounts are included in the statement of comprehensive income as interest income/(expenses) on debt securities.

Profit or losses arising from the alienation of the securities evaluated at fair value through other comprehensive income and the fair value revaluation reserve accumulated until alienation are included in the item "Net realised profit (losses) on financial instrument trading transaction" of the statement of comprehensive income.

Financial assets evaluated at amortised acquisition cost (excluding loans and receivables)

Investment securities evaluated at amortised acquisition cost include non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Bank has the intention and ability to hold to maturity and which, by definition, are not loans and receivables. Financial assets evaluated at amortised acquisition cost include debt financial instruments. Financial assets evaluated at amortised acquisition cost are accounted at amortised cost using the effective interest rate method, taking into account provisions for impairment.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans are carried at amortised cost using the effective interest method. The amortised cost of a loan is the amount at the issue of the loan minus principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between the initial amount and the maturity amount, and minus any reduction for impairment or uncollectability.

Finance leases (Bank as a lessor)

For reporting purposes, finance lease receivables are carried as loans and receivables.

Finance lease receivables are recognised as assets at the commencement of the lease term at an amount equal at the inception of the lease to the net investment in the lease. Finance income is recognised over the lease term to produce a constant periodic return on the net investments outstanding in respect of finance leases.

Financial liabilities

Financial instruments carried as deposits from customers, subordinated debt and other financial liabilities are classified as financial liabilities at amortised cost.

After initial measurement, financial liabilities are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount on issue and fees that are an integral part of the effective interest rate. The amortisation is included in interest expense in the statement of comprehensive income.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in profit or loss.

Impairment of financial assets

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

The Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant and collectively for all past due loans regardless of their net carrying amount. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

For the purpose of a collective evaluation of impairment, the Bank assumes that contractual cash will be recovered and the impairment loss is evaluated based on historical loss experience adjusted for current observable data.

The carrying amount of the asset is reduced using an allowance account, and the decrease or increase of allowances is taken to the statement of comprehensive income for the reporting year. When there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank loan balance together with the associated allowance are written off.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Fair value of 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. To determine the fair value of financial assets and liabilities, the Bank uses quoted market prices, ratings assigned by independent rating agencies, or relevant valuation techniques. Where quoted prices are not readily available, fair values are determined by using alternative pricing models considering that fair value is not the amount that the Bank would receive or pay in a forced transaction, involuntary liquidation or distress sale. These models are based on the discounted cash flow analysis where relevant cash flows from the respective financial assets are measured and discounted at interest rates applicable to a certain category of assets.

(e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment charges, if any is recognised. No depreciation is calculated for land. For other fixed assets and intangible assets that have a limited life, the cost is reduced by accumulated depreciation calculated based on the asset useful lives, using the straight-line method.

Depreciation is calculated using the straight-line method applying the following rates:

Property, plant and equipment:	
Buildings	2%
Computers and equipment	33 %
Mobile phone, iPad	50 %
Vehicles	20 %
Other property, plant and equipment	10-20 %

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset is calculated as the difference between the net disposal proceeds and the carrying amount of the item at the disposal date and is included in the statement of comprehensive income.

(f) Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance (licences, software that is not an integral part of the related hardware, etc.) held for supply of services or otherwise and are recognised as such when it is probable that the expected economic benefits that are attributable to the asset will flow to the Bank.

Intangible assets are stated at cost less accumulated amortisation and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation is included in the statement of comprehensive income on a straight-line basis over the useful life of the asset. The useful life of each asset is estimated on an individual basis, considering the contractual provisions and/or the period in which the asset's future economic benefits are expected to be consumed by the Bank.

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

The amortisation rates by categories of assets are as follows:

Intangible assets:	
Licences	10 %
Software	10 %

(g) Impairment of non-financial assets

The Bank assesses at each reporting date whether there is an indication that non-financial assets (except for the deferred tax asset) may be impaired. If any such indication exists, the Bank makes an estimate of the asset's recoverable amount. The recoverable amount is the higher of an asset`s fair value less costs of disposal and value in use. An impairment loss is recognised when the carrying amount of an asset exceeds its recoverable amount. Impairment losses are taken to the statement of comprehensive income.

(h) Recognition of income and expense

For all interest bearing financial assets and financial liabilities, interest income or expense is recorded in the statement of comprehensive income by using the effective interest rate (EIR), which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument. The calculation takes into account all contractual terms of the financial instrument (for example, prepayments, maturity and other options), but not future credit losses.

Interest income and expense include the amortisation of any difference between the cost of interest-bearing financial assets or liabilities and their maturity amount calculated applying the effective interest rate method (discount, premium, etc.).

Interest income comprises coupons earned from debt securities of the Bank's portfolio.

Accumulated interest income and income from impaired financial assets are included in the statement of comprehensive income unless the Bank has objective evidence that payments will not be received in the due term. Once the recorded value of a financial asset has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Commission and fee income from customers is usually recognised on an accrual basis as the service is supplied based on each particular situation, or on a certain performance.

Fees earned for the provision of services over a period of time are accrued over that period and taken to income. These fees include account servicing, asset management, commission from payment card transactions, etc. Loan related fees are taken to income on a systematic basis over the period of the loan. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight-line basis. Fees that are due for the provision of certain services are taken to income on completion of the respective service.

Income and expense attributable to the reporting period are taken to the statement of comprehensive income regardless of the receipt or payment date.

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash and amounts due from central banks and other credit institutions, and amount due to other credit institutions on demand and with an original maturity of three months or less. The statement of cash flows reports cash flows during the period classified by operating, investing and financing activities.

Cash flows from operating activities are reported using the indirect method. Cash flows from investing and financing activities are presented based cash payments for the year.

(j) Taxation

In 2017, the legislation of the Republic of Latvia was amended. The changes to the corporate income tax (CIT) regime entered into force on 1 January 2018. Until 2018 in Latvia, the CIT was imposed on the financial year profit and there was a right to a partial reduction of taxable profit by tax losses accumulated in previous taxation periods. The new CIT regime stipulates that 20% tax

is paid at the time when the profit is paid, not when it is recognised, and is calculated as 0.2/0.8 of the net dividend paid. In addition, certain expenses and loans to related persons are treated for tax purposes as dividends (for example, non-business expenses and representation expenses above a certain threshold, interest expenses above a certain amount). Deferred tax is calculated at the tax rate applicable to retained earnings, which is 0% in Latvia.
The separate transitional arrangements provided for in the new CIT regime state that the new CIT provisions are not applicable to dividends paid out of retained earnings obtained during the previous tax regime and this right has no a period of limitation.
Changes in Latvian tax regulations have had a positive impact on the Bank's effective tax rate in 2018 compared to 2017. Retained earnings are subject to favourable conditions under the new Latvian corporate income tax regime. During the reporting period, almost all income of the Bank is non-taxable.

(k) Off-balance sheet financial commitments and contingent liabilities

In the ordinary course of business, the Bank is involved with off-balance sheet financial commitments and contingent liabilities comprising commitments to extend loans and receivables to customers, commitments for unutilised credit lines or credit card limits, and financial guarantees.

Commitments to extend loans and receivables and commitments for unutilised credit lines or credit card limits represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiration dates or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

Provisions are recognised when the Bank has a present obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement.

(l) Trust activities

Funds managed by the Bank on behalf of individuals, corporate customers, trusts and other institutions are not regarded as assets of the Bank and, therefore, are not separately included in the statement of financial position. Funds under trust management are presented in these financial statements only for disclosure purposes. The Bank does not assume any control, risks and rights with regard to the assets and liabilities under trust management.

(m) Dividends

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

(n) Employee benefits

The Bank pays State compulsory social security contributions for state pension insurance and to the state funded pension scheme in accordance with Latvian legislation. State funded pension scheme is a defined contribution plan under which the Bank pays fixed contributions determined by the law and it will have no legal or constructive obligations to pay further contributions if the state pension insurance system or state funded pension scheme are not able to settle their liabilities to employees. According to the rulings of the Cabinet of Ministers of the Republic of Latvia 72%

(2017: 72%) of the social security contributions are used to finance state funded pension scheme.

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

NOTE 3 NET INTEREST INCOME

	2018	2017
Interest income		
Due from credit institutions	1 377	674
Loans and receivables	2 818	2 524
Incl. impaired loans	*151*	*5*
Securities	2 100	2 365
Incl. at amortized cost	*1 208*	*1 761*
Incl. at FVOCI	*892*	*604*
Total interest income:	**6 295**	**5 563**
Interest expense		
Due to credit institutions	(183)	-
Non-bank deposits	(855)	(698)
Payments to the Deposit Guarantee Fund	(271)	(247)
Total interest expense:	**(1 309)**	**(945)**
Net interest income	**4 986**	**4 618**

NOTE 4 NET COMMISSION AND FEE INCOME

	2018	2017
Commission and fee income		
Payment card transactions	14 335	17 635
Service fee for account maintenance and cash transactions	2 950	2 200
Asset management and brokerage services	224	610
Other bank transactions	228	242
Total commission and fee income:	**17 737**	**20 687**
Commission and fee expense		
Payment card transactions	(10 619)	(10 256)
Agents commission	(2 107)	(2 965)
Correspondent banking services	(84)	(189)
Brokerage services	(77)	(59)
Other bank transactions	(14)	(40)
Total commission and fee expense:	**(12 901)**	**(13 509)**
Net commission and fee income	**4 836**	**7 178**

NOTE 5 OTHER INCOME AND EXPENSE

	2018	2017
Other income		
Penalties collected	76	246
Incl. past due loan payments	*64*	*237*
Income from collateral seized for sale	-	237
Other income	36	89
Total other income	**112**	**572**
Other expense		
Membership fees to various organisations	(123)	(106)
Payment card project implementation and servicing	(677)	(800)
Losses from a credit agreement cession	(246)	-
Other expenses	(116)	(90)
Total other expenses	**(1 162)**	**(996)**

NOTE 6 NET INCOME FROM FINANCIAL INSTRUMENTS

	2018	2017
Net gain on financial assets at fair value through profit or loss	2 045	447
Incl. net trading gain	*1 822*	*518*
net revaluation result	*223*	*(71)*
Net gain from transactions with other currency	765	1 740
Incl. net trading gain	*2 505*	*2 215*
net revaluation result	*(1 740)*	*(475)*
Net gain on financial assets not at fair value through profit or loss	466	379
Incl. from fair value through other comprehensive income debts	*-*	*379*
from amortized cost debts	*466*	*-*
Net trading gain	**3 276**	**2 566**

NOTE 7 ADMINISTRATIVE EXPENSE

	2018	2017
Remuneration expense		
Remuneration to the Council and the Board	253	235
Remuneration to personnel	4 141	3 826
State compulsory social security contributions of personnel	996	900
State compulsory social security contributions of the Council and the Board	61	55
Total remuneration expense:	**5 451**	**5 016**
Lease and maintenance of premises	129	127
Non-deductible input tax	173	179
Telephone, communications and mail	94	89
Software maintenance	155	135
Professional and legal fees	166	159
Stationery and other office expense	38	33
Other personnel expense (ex. loyality expense)	87	113
Property tax	46	56
Donations	3	209
Representation expense	42	43
Personnel loyality expense	27	-
Penalties paid	2 206	25
Other administrative expense	95	76
Non-operating expenses	1	17
Total other expense:	**3 262**	**1 261**
Administrative expense	**8 713**	**6 277**

As at 31 December 2018, the Bank had 194 employees (2017: 192 employees).

Payment for the audit and other services to various certified audit firms is included in administrative expenses. Total amounts paid to certified audit firms by the type of services are:

	2018	2017
Services received from the company auditing these financial statements:		
Financial year audit and interim audit fee	85	38
Other payments for non-audit services (non-audit assurance engagements required by the law)	14	2
Services received from other auditing companies:		
Other payments for non-audit services	13	67

NOTE 8 IMPAIRMENT PROVISIONS

	Loans	Off-balance	Other assets	Total
Balance as at 31 December 2016	**941**	**-**	**-**	**941**
Increase	64	-	59	123
Decrease	(364)	-	-	(364)
Write-offs	-	-	(59)	(59)
Balance as at 31 December 2017	**641**	**-**	**-**	**641**
Impact of implementation IFRS 9	41	13	639	693
Increase	261	58	186	505
Decrease	(191)	(64)	(533)	(788)
Write-offs	(32)	-	(42)	(74)
Exchange rate difference	-	-	6	6
Balance as at 31 December 2018	**720**	**7**	**256**	**983**

NOTE 9 CORPORATE INCOME TAX

Corporate income tax expense comprises the following items:

	2018	2017
Current corporate income tax charge for the reporting year	(11)	(715)
Deferred corporate income tax	-	354
Recovery of corporate income tax paid in previous reporting years in accordance with the double taxation prevention conventions	17	-
Total corporate income tax expense	**6**	**(361)**

Below is presented the comparison of actual income tax charge and the theoretical tax calculated applying the 15% statutory rate prescribed by Latvian tax laws in 2017:

	2017
Profit before tax	**7 560**
Corporate income tax at the statutory rate of 15%	1 134
Non-taxable income	(364)
Non-deductible expenses	123
Tax credit for donations	(178)
Corporate income tax expense for the year	**715**

In 2018, Latvian tax legislation changed the way corporate income tax was calculated, moving to paying corporate income tax at the time of paying dividends, as well as paying a 20% tax on the conditionally distributed profit every month, applying a factor of 0.8 to the calculation.

The tax paid in 2018 was formed as follows:

	2018
Conditionally distributed profit in the reporting period	**43**
including non-operating expenses	1
including write-off of receivables	42
Taxable base	**54**
Corporate income tax calculated in the reporting year	**11**

There was no tax loss carried forward as at 31 December 2018 and 31 December 2017.

NOTE 10 CASH AND BALANCES WITH THE BANK OF LATVIA

	31.12.2018.	31.12.2017.
Cash	2 425	2 815
Balances with the Bank of Latvia	15 181	31 281
Total	**17 606**	**34 096**

Balances with the Bank of Latvia include cash on the correspondent account and a short-term deposit with the Bank of Latvia. According to the instructions of the Bank of Latvia, the Bank's average monthly balance on its correspondent account may not be less than the compulsory reserve calculated for the balance of liabilities included in the reserve basis on the last day of the month. As at 31 December 2018, the Bank's compulsory reserve requirement was 1 495 thousand EUR (31 December 2017: EUR 1 649 thousand).

NOTE 11 DUE FROM CREDIT INSTITUTIONS

	31.12.2018.	31.12.2017.
Amounts due on demand	**24 742**	**15 979**
Credit institutions registered in Latvia	110	2 770
Credit institutions registered in the EU	2 807	3 062
Credit institutions of other countries	21 825	10 147
Term deposits	**5 482**	**8 270**
Credit institutions registered in Latvia	5 482	5 767
Credit institutions of other countries	-	2 503
Total due from credit instituions	**30 224**	**24 249**
Provisions	(17)	-
Net due from credit instituions	**30 207**	**24 249**

The Bank's average interest rates applicable for the balances due from credit institutions in 2018 are as follows: USD 1.21%, EUR 0.116%, RUB 4.937%. (2017: USD 1.14%, EUR 1.54%, RUB 7.09%).

NOTE 12 LOANS

(a) By customer profile

	31.12.2018.	31.12.2017.
Private non-financial companies	43 291	34 794
Financial institutions	1 562	2 900
Households	8 756	8 736
Total loans	**53 609**	**46 430**
Provisions	(720)	(641)
Net loans	**52 889**	**45 789**

(b) By geographical profile

	31.12.2018.	31.12.2017.
Residents of Latvia	49 102	40 815
Residents of EU Member States	272	777
Residents of other countries	4 235	4 838
Total loans	**53 609**	**46 430**
Provisions	(720)	(641)
Net loans	**52 889**	**45 789**

(c) By type

	31.12.2018.	31.12.2017.
Mortgage loans	27 196	20 288
Commercial loans	7 628	8 628
Industrial loans	5 705	6 785
Finance leases	452	576
Factoring	802	896
Credit card loans	86	69
Other loans	11 589	8 676
Cash in financial institutions reserved for operations	151	512
Total loans	**53 609**	**46 430**
Provisions	(720)	(641)
Net loans	**52 889**	**45 789**

(d) Loans and advances to customers by quality

31.12.2018.

	Loans	Finance leases	Factoring	Credit card loans	Total
Loans and advances to customers neither past due nor impaired	**41 530**	**336**	**376**	**59**	**42 301**
Private non-financial companies	32 111	336	376	7	32 830
Financial institutions	1 557	-	-	-	1 557
Private individuals	7 862	-	-	52	7 914
Loans and advances to customers past due but not impaired	**10 739**	**116**	**426**	**27**	**11 308**
Past due up to 30 days	7 232	74	-	19	7 325
Past due 30-60 days	88	-	-	-	88
Past due 60-90 days	272	-	-	-	272
Past due over 90 days	3 147	42	426	8	3 623
Total gross loans and advances to customers	**52 269**	**452**	**802**	**86**	**53 609**
Provisions	(226)	(42)	(433)	(19)	(720)
Total net loans and advances to customers	**52 043**	**410**	**369**	**67**	**52 889**

31.12.2017.

	Loans	Finance leases	Factoring	Credit card loans	Total
Loans and advances to customers neither past due nor impaired	**40 134**	**534**	**470**	**44**	**41 182**
Private non-financial companies	29 032	529	470	12	30 043
Financial institutions	2 900	-	-	-	2 900
Private individuals	8 202	5	-	32	8 239
Loans and advances to customers past due but not impaired	**4 755**	**42**	**426**	**25**	**5 248**
Past due up to 30 days	1 420	-	-	13	1 433
Past due 30-60 days	685	-	-	-	685
Past due 60-90 days	546	-	-	-	546
Past due over 90 days	2 104	42	426	12	2 584
Total gross loans and advances to customers	**44 889**	**576**	**896**	**69**	**46 430**
Provisions	(161)	(42)	(426)	(12)	(641)
Total net loans and advances to customers	**44 728**	**534**	**470**	**57**	**45 789**

(e) Significant credit risk concentration

As at 31 December 2018 the Bank had 4 borrowers or groups of borrowers, whose aggregate liabilities exceeded 10% of the Bank's equity (as at 31 December 2017, the Bank had no borrowers, whose aggregate liabilities exceeded 10% of the Bank`s equity).

The Bank's credit risk concentration to one customer or a group of related customers may not exceed 25% of the Bank's equity. If a customer is a credit institution or an investment brokerage firm, or a group of related customers including one or several credit institutions or investment brokerage firms, established in the country comparable to the European Union country (Implementation decision No 2014/908 of European Union and the European Commission of 12 December 2014 / EU on equivalence third countries' and territories' supervisory and regulatory requirements to apply the approach to risk tantamount according to the European Parliament and Council Regulation (EU) Nr.575 / 2013), total exposure to the customer shall not exceed 95 per cent of the Bank's equity. On 31 December 2018 and 31 December 2017, the Bank was in compliance with these requirements.

NOTE 13 INVESTMENTS INTO SECURITIES

a) Securities by portfolios

	31.12.2018.	31.12.2017.
Financial assets at fair value through other comprehensive income		
Debt securities issued by Latvian government	-	1 970
Debt securities issued by EU central government	3 025	
Debt securities issued by other central government	2 538	7 425
Debt securities issued by EU credit institutions	4 905	7 422
Debt securities issued by credit institutions of other countries	6 609	6 470
Debt securities issued by EU financial institutions	1 917	-
Debt securities issued by other countries financial institutions	6 572	4 819
Debt securities issued by Latvia non-financial companies	-	1 053
Debt securities issued by EU non-financial companies	7 541	4 070
Debt securities issued by other countries non-financial companies	1 127	2 104
VISA shares*	-	1 249
Financial assets at fair value through other comprehensive income, total	**34 234**	**36 582**
Provisions	(104)	-
Financial assets at fair value through other comprehensive income, net	**34 130**	**36 582**
Financial assets at amortised cost		
Debt securities issued by the Latvian government	15 572	13 456
Debt securities issued by EU central governments	6 320	6 369
Debt securities issued by EU credit institutions	4 193	11 691
Debt securities issued by credit institutions of other countries	9 640	21 851
Debt securities issued by EU financial companies	2 842	2 036
Debt securities issued by EU non-financial companies	7 123	12 439
Debt securities issued by other countries non-financial companies	-	5 477
Financial assets at amortised cost, total	**45 690**	**73 319**
Provisions	(103)	-
Financial assets at amortised cost, net	**45 587**	**73 319**

***After implementation of the IFRS 9, the asset has been reclassified to financial assets evaluated at fair value with representation in the profit and loss account.

b) Securities by countries

	31.12.2018		31.12.2017	
	Carrying amount	**% of equity**	**Carrying amount**	**% of equity**
Central governments debt securities	**27 455**	**x**	**29 220**	**x**
USA	-	-	4 973	*18.65*
Latvia	15 572	*56.01*	15 426	*57 84*
Lithuania	4 194	*15.09*	4 225	*15.84*
Finland	3 025	*10.88*	-	-
Other countries	4 664	*16.78*	4 596	*17.23*
Credit institutions debt securities	**25 347**	**x**	**47 434**	**x**
AAE	-	-	3 373	*12.65*
USA	8 313	*29.90*	10 883	*40.81*
Canada	2 552	*9.18*	4 147	*15.55*
Netherlands	-	-	4 606	*17.27*
Other countries	14 482	*52.09*	24 425	*91.58*
Other financial institution debt securities	**11 331**	**x**	**6 855**	**x**
USA	6 572	*23.64*	4 819	*18.07*
Luxembourg	4 759	*17.21*	-	-
Other countries	-	-	2 036	*7.64*
Private non-financial institutions debt securities	**15 791**	**x**	**25 143**	**x**
Estonia	3 070	*11.04*	5 128	*19.23*
Netherlands	2 994	*10.77*	-	-
Germany	2 954	*10.63*	2 007	*8.52*
Other countries	6 773	*24.36*	18 008	*66.53*
Financial investments, total	**79 924**	**x**	**108 652**	**x**
Provisions	**(207)**	**x**	**-**	**x**
Financial investments, net	**79 717**	**x**	**108 652**	**x**

c) Financial investment qualitative rating

	31.12.2018.	31.12.2017.
Financial assets at fair value through other comprehensive income by risk classes		
AAA to A-	21 410	30 740
BBB+ to BBB-	9 311	5 842
BB+ to BB-	3 513	-
Financial assets at fair value through other comprehensive income, total	**34 234**	**36 582**
Provisions	(104)	-
Financial assets at fair value through other comprehensive income, net	**34 130**	**36 582**
Financial assets at amortised cost by risk classes		
AAA to A-	41 021	46 689
BBB+ to BBB-	4 669	22 574
BB+ to BB-	-	4 056
Financial assets at amortised cost, total	**45 690**	**73 319**
Provisions	(103)	-
Financial assets at amortised cost, net	**45 587**	**73 319**

Investments are made in securities according to the "Investment strategy for portfolio of financial instruments evaluated at fair value through other comprehensive income (FVTOCI)" and "Investment Strategy for portfolio of financial instruments to be accounted at amortised value" approved by the Bank. To avoid high risk exposure, the Bank has set sub-limits for new investments in securities and determined that only investments in securities of Latvia central government are allowed and whereby only investments in low-risk instruments, i.e., having at least a credit rating of BBB- and a stable outlook (according to *Moody's*, or equivalent rating of *Fitch* or *Standard & Poor's*), are allowed. It is possible, within the limit, to supplement financial assets measured at fair value through other comprehensive income with financial instruments whose credit rating is not lower than BB- (by *Moody's* scale, or its equivalent by *Fitch* or *Standard & Poor's*).

To identify, in a timely manner, any changes that could produce an adverse effect on the ability and/ or willingness of a particular country's government and/ or residents to meet their financial liabilities towards the Bank, the Bank keeps pace with the latest news and information about events occurring in the respective countries. For monitoring purposes, credit ratings assigned by tree international rating agencies Moody's Investors Service, Standard & Poor's, Fitch Ratings are used. Average rating used by the Bank is calculated as follows: if risk rating is available only from one risk rating agency – this rating is applied; if two risk rating agencies have published risk ratings and risk ratings are different, the rating with higher degree of risk is applied; if all three risk rating agencies have published different risk ratings, the Bank first selects two risk ratings with the lowest degree of risk and then from those choses the one with highest degree of risk. Additional sources of information used in analysis are mass media, economic analysis reports by international organisations and data from rating agencies.

Whenever any events that are likely to produce a material impact on the solvency of any country's government and/ or residents are identified, the Risk Control Department:

- Informs the Asset and liability committee accordingly,
- Performs closer monitoring of the country and, if necessary, makes suggestions to the Resource Department that no additional investments should be made or country exposure limits for transactions with residents of the respective country should be reduced.

If the Bank's exposure to residents of the respective country cannot be reduced within the nearest three months, the Bank considers and initiates risk mitigation measures, such as allowances and requests for financial collateral.

NOTE 14 DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of the Bank's currency swaps is as follows:

	31.12.2018.		31.12.2017.	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Notional amount	9 910	-	30 601	30 672
Fair value	**35**	**-**	**18**	**89**

The notional amount is the amount of a derivative's underlying asset and is calculated according to the FCMC (Financial and Capital Market Commission) capital adequacy requirements. The notional amount indicates the volume of transactions outstanding as at the year-end.

As at 31 December 2018, the Bank had derivative foreign currency exchange transactions, the revaluation methods and, as a result, the revaluation results of which may affect the Bank's financial performance. The Bank determines the value of these transactions based on the prices of the underlying investments at the reporting date, i.e. the currency exchange rates are determined on the basis of the official exchange rates set by the European Central Bank and the interest rates are based on the LIBOR rates.

The Bank's management believes that the revaluation methods applied are correct and conservative enough to prevent potential significant changes in the Bank's financial indicators.

NOTE 15 PROPERTY, PLANT AND EQUIPMENT (PPE) AND INTANGIBLE ASSETS (IA)

	Intangible assets	Advance for IA	Total IA	Land and buildings	Computers and equipment	Vehicles	Other PPE	Total PPE
Acquisition value								
31.12.2016.	**957**	**138**	**1 095**	**7 214**	**308**	**48**	**156**	**7 726**
Additions	270	-	**270**	-	77	15	8	**100**
Disposals	-	(138)	**(138)**	-	(16)	(12)	-	**(28)**
31.12.2017.	**1 227**	**-**	**1 227**	**7 214**	**369**	**51**	**164**	**7 798**
Additions	46	-	**46**	-	46	-	10	**56**
Disposals	-	-	**-**	-	(13)	-	(7)	**(20)**
31.12.2018.	**1 273**	**-**	**1 273**	**7 214**	**402**	**51**	**167**	**7 834**
Accumulated amortisation/ depreciation								
31.12.2016.	**574**	**-**	**574**	**501**	**216**	**27**	**94**	**838**
Accumulated amortisation/ depreciation for the year	112	-	**112**	140	66	17	23	**246**
Disposal depreciation	-	-	**-**	-	(16)	(12)	-	**(28)**
31.12.2017.	**686**	**-**	**686**	**641**	**266**	**32**	**117**	**1 056**
Accumulated amortisation/ depreciation for the year	125	-	**125**	140	61	9	19	**229**
Disposal depreciation	-	-	**-**	-	(13)	-	(7)	**(20)**
31.12.2018.	**811**	**-**	**811**	**781**	**314**	**41**	**129**	**1 265**
Net carrying amount								
31.12.2016.	**383**	**138**	**521**	**6 713**	**92**	**21**	**62**	**6 888**
31.12.2017.	**541**	**-**	**541**	**6 573**	**103**	**19**	**47**	**6 742**
31.12.2018.	**462**	**-**	**462**	**6 433**	**88**	**10**	**38**	**6 569**

The amortisation/ depreciation charge for the year totalling EUR 353 thousand (2017: EUR 351 thousand). Net book value for disposals taken to the Bank's statement of comprehensive income as depreciation/ amortisation amount to EUR 1 thousand (2017: EUR 7 thousand).

NOTE 16 OTHER ASSETS

	31.12.2018.	31.12.2017.
Other financial assets	**7 347**	**12 282**
Card operations	1 797	6 878
Incl.provisions	*(1)*	-
Security deposit for transactions	5 092	4 913
Incl.provisions	*(32)*	-
Deferred payment for VISA Europe shares sale	447	447
Accrued commission income	11	44
Other non-financial assets	**360**	**325**
VAT input tax	1	3
Inventory (digipass and card blanks)	40	22
Future period expenses	167	147
Other receivables	152	153

NOTE 17 FUNDS UNDER TRUST MANAGEMENT

	31.12.2018.	31.12.2017.
Assets	**30 110**	**55 893**
Loans to private companies	11 546	49 856
Loans to financial intermediaries and auxiliary firms	18 150	5 599
Clients' financial instruments cash accounts	271	244
Clients' financial instruments under management	143	194
Liabilities	**30 110**	**55 893**
Credit institutions	179	17 231
Private companies	29 779	38 468
Households	152	194

The Bank issues loans or makes investments in financial instruments classified as funds under trust management based on specific requests of asset owners. According to the trust management agreements concluded with customers, the asset owners assume all the risks inherent in these assets, the Bank has no control over these assets and does not received any rewards from these assets. The Bank acts only as an intermediary receiving the management fee.

As at 31 December 2018, the accumulated outstanding commission fee for the asset management was EUR 9 thousand (2017: EUR 16 thousand).

NOTE 18 DUE TO CREDIT INSTITUTIONS

As at the end of 2018 and 2017, the Bank had no liabilities to credit institutions.
The Bank's average interest rates on liabilities to credit institutions in 2018 were EUR 0.139%, (2017: EUR 1.65%).

NOTE 19 DEPOSITS FROM CUSTOMERS

(a) By customer profile:

	31.12.2018.	31.12.2017.
Demand deposits	**123 569**	**160 525**
Financial institutions	21 937	21 110
Private companies	76 684	111 170
Households and non-profit organisations servicing them	24 948	28 245
Term deposits	**32 985**	**37 313**
Financial institutions (2nd pillar pension funds)	1 168	1 353
Private companies	5	4 441
Households and non-profit organisations servicing them	31 812	31 519
Total	**156 554**	**197 838**

(b) By geographical profile

	31.12.2018.	31.12.2017.
Demand deposits	**123 569**	**160 525**
Residents of Latvia	42 152	41 201
Residents of EU Member States	62 215	84 942
Residents of other countries	19 202	34 382
Term deposits	**32 985**	**37 313**
Residents of Latvia	30 339	30 261
Residents of EU Member States	68	141
Residents of other countries	2 578	6 911
Total	**156 554**	**197 838**

The Bank's average interest rates in 2018 are as follows: 1.451% (USD), 1.435% (EUR) (2017: 1.472% (USD), 1.436% (EUR)).

NOTE 20 OTHER LIABILITIES

	31.12.2018.	31.12.2017.
Other financial liabilities	**11 876**	**7 994**
Payment for transactions with payment cards	8 382	6 780
Liabilities under clarification	3	22
Accrued expenses related to financial transaction servicing	234	204
Third-party funds held as collateral	544	554
Accrued expenses for payments to the Deposit Guarantee Fund and the FCMC	51	75
Accrued payments to agents	312	171
Other financial liabilities and accrued expenses	145	188
Accrued payments to penalty in accordance with the FCMC decision	2 205	-
Other non-financial liabilities	**367**	**281**
Taxes payable	20	22
Vacation pay reserve	292	245
Deferred income	20	12
Other non-financial liabilities	35	2

NOTE 21 PAID-IN SHARE CAPITAL

As at 31 December 2018, the Bank's registered and paid-in share capital was EUR 13 million (2016: EUR 13 million). In 2018 there were no changes in share capital.

The Bank's share capital consists of only ordinary voting shares. The par value of each share is EUR 1 as at 31 December 2018, all shares were fully paid and the Bank did not hold any of its own shares.

As at 31 December 2018 and 2017, the Bank's sole shareholder was SIA Mono, registration No 40003004625, legal address Riga, Katlakalna iela 1, which is also the ultimate parent of the Bank. The sole shareholder has three ultimate beneficiaries, who individually do not control the Bank.

NOTE 22 EARNINGS PER SHARE

Earnings per share are calculated by dividing net profit for the year by the number of shares issued.

	2018	2017
Net profit	3 290	7 199
Number of ordinary shares at reporting date ('000)	13 000	13 000
Earnings per share (EUR)	**0.253**	**0.554**

NOTE 23 CASH AND CASH EQUIVALENTS

	31.12.2018.	31.12.2017.
Cash and demand deposits with the Bank of Latvia	17 606	34 096
Balances due from other credit institutions with original maturities of less than three months	30 224	24 249
Total	**47 830**	**58 345**

NOTE 24 OFF-BALANCE SHEET ITEMS

	31.12.2018.	31.12.2017.
Contingent liabilities	**1 283**	**1 502**
Guarantees	1 283	1 502
Financial commitments	**3 706**	**2 769**
Unutilised credit lines	3 227	2 329
Credit card commitments	479	440
Total off-balance sheet items, gross	**4 989**	**4 271**
Provisions	(8)	-
Total off-balance sheet items, net	**4 981**	**4 271**

In the ordinary course of business, the Bank issues loans and guarantees. The main purpose of these financial instruments is to ensure that adequate funds are available to customers.

Guarantees that comprise irrevocable commitments are assigned the same risk as loans because those commit the Bank to paying in the event of a customer’s default. Liabilities arising from credit lines represent the undrawn balances of credit lines. As regards credit risk, the Bank is potentially exposed to loss arising also from loan commitments.

NOTE 25 RELATED PARTY DISCLOSURES

Related parties are defined as shareholders that have the ability to control or exercise significant influence over the Bank’s management policy, Council and Board members, close members of their families, and entities in which these persons have a controlling interest and a qualifying holding.

In the ordinary course of business, the Bank enters into transactions with related parties. All loans are issued to and financial transactions are made with related parties on an arm’s length basis. As at 31 December 2018, there were no loans issued to related parties that would have been past due.

The Bank's financial statements include the following balances of assets, liabilities and memorandum items associated with the Bank's transactions with related parties:

	31.12.2018.			31.12.2017.		
	Carrying amount	**Off-balance sheet items**	**Total**	**Carrying amount**	**Off-balance sheet items**	**Total**
Assets	**1 260**	**225**	**1 485**	**1 082**	**205**	**1 287**
Loans and receivables, net	**1 260**	**225**	**1 485**	**1 082**	**205**	**1 287**
Council and Board	114	133	247	117	110	227
Related companies and individuals	1 146	92	1 238	965	95	1 060
Assets under management	**-**	**3 535**	**3 535**	**-**	**13 203**	**13 203**
Related companies and individuals	-	3 535	3 535	-	13 203	13 203
Liabilities	**34 502**	**-**	**34 502**	**24 516**	**-**	**24 516**
Deposits	**34 502**	**-**	**34 502**	**24 516**	**-**	**24 516**
Parent company	714	-	714	2 571	-	2 571
Council and Board	7 516	-	7 516	10 184	-	10 184
Related companies and individuals	26 272	-	26 272	11 761	-	11 761
Liabilities under management	**-**	**29 665**	**29 665**	**-**	**49 985**	**49 985**
Council and Board	-	77	77	-	55	55
Related companies and individuals	-	29 588	29 588	-	49 930	49 930

The table below presents income and expense on the balances due from / to related parties:

	2018	**2017**
Interest income	78	78
Interest expense	(92)	(91)
Net interest expense	**(14)**	**(13)**
Commission and fee income	**202**	**269**

NOTE 26 RISK MANAGEMENT

The Bank organises risk management according to the requirements of the Law of the Republic of Latvia on Credit Institutions, European Parliament and Council and FCMC regulations as well as following the Bank's strategy and other documents governing the Bank's operations. The Bank's risk management policy details the Bank's risk management objectives, goals and principles as well as related instruments. The Bank's risk management policy is based on the principle of continuing profitability or acceptable loss and is aimed at achieving an appropriate balance between risks assumed by the Bank and returns.

The policy prescribes that various risk mitigation instruments should be used, their selection depending on the risk type.

The Bank's risk management objective is as follows:

- To establish and maintain such a system of risk identification and management which would allow minimisation of the negative effect the risks may produce on the Bank's operations and performance;
- To identify and determine the level of risk tolerance which would facilitate achievement of the Bank's strategic goals;
- To define the levels of responsibility of the Bank's risk management system and their respective functions;
- To define the risk management structure and methods;
- To ensure the Bank's statutory compliance.

As a result of the regular capital adequacy assessment, the Bank has established that risks inherent in its current and planned business are as follows: credit risk, concentration risk, country risk, liquidity risk, operational risk, compliance risk, strategic and business risk, residual risk, market risk (position risk and foreign currency risk), interest rate risk, reputational risk and money laundering, sanctions risk and terrorist financing risk. As part of market risk assessment settlement risk was also evaluated as a risk for which under certain conditions capital requirements should be calculated.

RISK MANAGEMENT STRUCTURE

The Council of the Bank is responsible for establishing and effective functioning of the risk management system and approving the relevant risk management policies and strategies.

The Board of the Bank has the responsibility for implementing risk management strategies and policies approved by the Council.

Bank`s Chief Risk Officer:

- Leads a comprehensive risk control function, which also includes the compliance monitoring and prevention of money laundering and terrorist financing;
- Ensures monitoring and improvement of the Bank's risk management system;
- Ensures regular evaluation of compliance of the Bank's business strategy and Bank's essential services, development of new services or changes to the services offered by the Bank, Bank's structure, the overall risk profile, as well as the restrictions and limits with the Bank's risk strategy. In case of non-compliance reporting to the Council and the Board and other officers in accordance with internal policies is ensured;
- Provides a comprehensive and clear information on the Bank's overall risk profile, all

relevant risks and risks compliance with the risk management strategy through regular communication to the Council and the Board and other officers according to the internal policies;
- Advises and provides support to the Council and the Board of the Bank in designing operational strategy and in making other decision related to the risks faced by the Bank.

Bank's Business Continuity Assurance Committee regularly identifies and examines risks of business continuity.

Bank`s Credit Committee reviews lending issues and makes decisions on matters relating to the credit risk bearing activities of the Bank.

Asset and Liability Committee:
- Monitors, plans and manages the Bank's liquidity;
- Monitors, plans and manages the Bank's interest rate risk;
- Monitors, plans and manages the Bank's exposure to market risks;
- Monitors, plans and manages the structure of the Bank's balance sheet and off-balance sheet commitments;
- Monitors and manages the Bank's growth;
- Monitors and manages debt collection and cessation processes;
- Approves opening and closing of the Bank's correspondent accounts;
- Determines limits for investments in Bank's portfolios of financial instruments;
- Determines country risk limits;
- Determines Bank's tariffs.

The Risk Control Department identifies significant risks the Bank is exposed to and formulates the relevant risk management policies and procedures, ensures monitoring of compliance with the risk management policies and procedures, including the limits and restrictions set, as well as reports information about the risks inherent in the Bank`s business to the Bank`s Risk director, Business Continuity Assurance Committee, the Asset and Liability Committee and the Board on a regular basis, thereby allowing permanent assessment of risk affecting the Bank`s ability to achieve its goals and, if necessary, making decisions on the relevant corrective actions.

The Resource Department is responsible for managing the Bank's assets and liabilities and the overall financial structure as well as ensuring the daily management of liquidity risk, managing of interest rate risk, currency and market risk as well as the Bank's financial statement structure and growth, and analysing of financial and lending resources and the related planning in line with the Bank's strategic goals.

The key goal of the Compliance Control Department is identification, measurement, and management of compliance risk.

The Internal Audit Department carries out regular reviews and assessment of the Bank's compliance with its risk management strategies, policies and procedures and communicates the review results together with assessment of the Bank's risk management system efficiency to the Council.

Heads of the Bank's structural units and other employees of the Bank are aware of their duties and responsibilities related to routine risk management and, within the boundaries of their competences, report the compliance with the limits and restrictions set to the Risk Control Department as well as participate in the risk identification, effect assessment, and materiality determination process.

RISK MEASUREMENT AND REPORTING SYSTEMS

The Bank performs quantitative risk assessment on the basis of the standardised and basic indicator approaches referred to in Regulations No. 575/2013 (26 June 2013) on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No.648/2012, the Standardised and Basic Indicator Approach, as well as the Financial and Capital Market Commission 29.11.2016. Regulatory rules No.199 "Capital Adequacy Assessment Process Regulations" described simplified methods. The Bank also performs stress testing.

The level of the Bank's exposure is mainly controlled by using the early warning system designed by the Bank, which encompasses the limits approved by the Bank and defines the parameters of each risk relevant for the moderate risk exposure defined in the Bank's operational strategy. The aggregate risk exposure is determined as the weighted average of all components. The Risk Control Department summarises, analyses and presents to the Bank`s Risk director, the Asset and Liability Committee and the Board its opinion accompanied with explanatory information on each specific risk and the aggregate risk exposure on a weekly basis. On monthly basis, the Risk Control Department prepares a comparative report with the results of the previous month and the Board submits it to the Council. In case of exceeding any internal limits, Risk Control Department shall immediately notify the Asset and Liability Committee and propose to investigate non-compliance in the next Assets and Liabilities Committee meeting. In the event of exceeding any external limits, Risk Control Department shall immediately notify the Asset and Liability Committee and initiate extra-ordinary Asset and Liability Committee meeting to investigate the incompliance. In the event when individual or aggregate risk exposure approaches or exceeds predetermined significant risk level, the Risk Control Department shall immediately report it to the Board. In the event that the individual or aggregate risk exposure is approaching a high level of risk, Risk Control Department is required to initiate meeting of Business continuity committee.

RISK MITIGATION

For the purposes of risk mitigation, the Bank uses the following methods:

- Risk acceptance. The Bank admits that it is exposed to such risks but does not take any actions to minimise their effect because those are insignificant and the elimination costs would exceed the respective benefits;
- Risk avoidance. The Bank conducts an analysis before engaging in any new transactions and chooses to avoid excessively risky transactions or actions;
- Changing risk probability. The Bank applies this method together with the relevant risk strategies, Bank's procedures, and the early warning system in respect of the following risks: credit risk, operational risk, market price risk, interest rate risk, currency risk, liquidity risk, IT risk;
- Changing potential risk consequences. The Bank uses credit enhancements and currency risk hedging instruments as well as establishes a business continuity system;
- Risk sharing. The Bank uses insurance and syndicated transactions. In selecting this method of risk mitigation, the Bank is aware that it does not change the overall exposure to transaction and operational risks, affecting only the portion attributable to the Bank.

CONCENTRATION RISK

Concentration risk arises from large exposures to individual customers or groups of related customers or exposures to customers whose creditworthiness is determined by one common risk factor (industry, geographical location, currency, credit enhancement (homogenous collateral or one collateral provider)).

The concentration risk management policy covers the Bank's credit portfolio and other assets, off-balance sheet items, as well as the deposits attracted by the Bank and balances due to credit institutions.

The core elements of concentration risk management include risk assessment, setting limits for individual counterparties as well as industry, geographical and market concentrations and monitoring exposures in relation to such limits.

For the purposes of additional concentration risk assessment, stress tests are performed on a regular basis.

CREDIT RISK

Credit risk is the risk that the Bank will incur a loss because its borrowers (debtors) or counterparties fail or refuse to settle their contractual obligations to the Bank. Credit risk is inherent in the Bank's transactions which give rise to the Bank's claims against another person and which are reported by the Bank in the statement of financial position or as off-balance sheet items. Credit risk arises as soon as the Bank's funds are issued, invested or transferred to other parties for use based on the contractual provisions.

The objective of managing credit risk is to determine the maximum acceptable exposure to credit risk and ensure the compliance with the set limits in the normal course of business.

The Bank is involved in following transactions giving rise to credit risk:

- Cash placements with other banks;
- Loans and credit lines to banks;
- Loans and credit lines to customers;
- Guarantees issued to third parties and other contingent liabilities for the benefit of customers if they may demand settlement of obligations;
- Securities transactions;
- Dealing.

The credit risk management system is composed of the following elements: approval of methods used to measure credit risk related to counterparties, borrowers and issuers; setting restrictions for loan types; fixing limits for investments in the securities included in the Bank's portfolio and lending by amount and maturity; regular assessment of assets and off-balance sheet items as well as regular stress testing.

Following authority levels are set in respect of decision-making on the loans, namely – issuance and amendments made (from lowest):

- Individual;
- Credit committee;
- Bank's Board;

- Bank's Council (for approval of decisions, if it requires a higher-level authorisation than of the Board).

Maximum limits for each decision-making authority level within the Bank are approved by the Bank's Council.

The Bank believes that its exposure to credit risk arises mainly from loans, balances due from credit institutions and the held-to-maturity portfolio. The maximum exposure of the Bank's assets and off-balance sheet items is shown in the credit risk concentration analysis.

MAXIMUM EXPOSURE TO CREDIT RISK

The following table presents the Bank's maximum credit risk exposure without taking into account collateral or other credit enhancements.

	31.12.2018.	**31.12.2017.**
Assets exposed to credit risk	**171 706**	**192 239**
Due from credit institutions	30 207	24 249
Financial assets measured at fair value through profit or loss:	1 546	1 267
Derivative	*35*	*18*
Shares	*1 511*	*1 249*
Financial assets measured at fair value through other comprehensive income:	34 130	35 333
Debt securities	*34 130*	*35 333*
Financial assets measured at amortised cost:	98 476	119 108
Loans and receivables	*52 889*	*45 789*
Debt securities	*45 587*	*73 319*
Other financial assets	7 347	12 282
Off-balance sheet items exposed to credit risk	**4 989**	**4 271**
Contingent liabilities	1 283	1 502
Financial commitments	3 706	2 769
Maximum credit risk exposure	**176 695**	**196 510**

Mortgages from private individuals and commercial mortgages, commercial pledges, term deposits and guarantees were accepted as collateral at the end of the financial year.

MAXIMUM CREDIT RISK CONCENTRATION

The Bank places limits on the amount of risk for individual counterparties (groups of related counterparties) as well as for industry, geographical, exposure and market concentrations. The exposure to any single counterparty is further restricted by sub-limits. The credit risk concentration is analysed by estimating the large exposure ratio to equity. According to the Law on Credit Institutions, the Bank treats as large the credit exposure exceeding 10% of equity. Any credit exposure to a single customer or a group of related customers may not exceed 25% of the Bank's equity. If a customer is a credit institution or an investment brokerage firm, or a group of related customers including one or several credit institutions or investment brokerage firm Registered in European union similar country country (The European Union and the European Commission of 12 December 2014 implementing Decision No. 2014/908 / EU of certain third countries and territories supervisory and regulatory requirements equivalence to exposures specific approach of the European Parliament and Council Regulation (EU) Nr.575 / 2013 of the country), the total exposure to such customer shall not exceed 95% of the Bank's equity. During the financial reporting period, the Bank was in compliance with these requirements.

GEOGRAPHICAL ANALYSIS

The following table provides an analysis of the Bank's assets and off-balance sheet items by geographical profile without taking into account collateral and other credit enhancements. The grouping is done based on information about the residence of the respective counterparties.

31.12.2018.

	Latvia	Eurozone countries	Other countries	Total
Exposure to credit risk of balance sheet assets	**69 746**	**36 359**	**65 601**	**171 706**
Due from credit institutions	5 588	2 660	21 959	**30 207**
Financial assets measured at fair value through profit or loss:	-	-	1 546	**1 546**
Derivative	-	-	*35*	***35***
Shares	-	-	*1 511*	***1 511***
Financial assets measured at fair value through other comprehensive income:	-	17 360	16 770	**34 130**
Debt securities	-	*17 360*	*16 770*	***34 130***
Financial assets measured at amortised cost:	63 934	16 339	18 203	**98 476**
Loans and receivables	*48 391*	*138*	*4 360*	***52 889***
Debt securities	*15 543*	*16 201*	*13 843*	***45 587***
Other financial assets	224	-	7 123	**7 347**
Exposure to credit risk of off-balance sheet items	4 884	49	56	**4 989**
Total	**74 630**	**36 408**	**65 657**	**176 695**

31.12.2017.

	Latvia	Eurozone countries	Other countries	Total
Exposure to credit risk of balance sheet assets	**72 098**	**53 927**	**66 214**	**192 239**
Due from credit institutions	8 537	7 595	8 117	**24 249**
Financial assets measured at fair value through profit or loss:	-	18	1 249	**1 267**
Derivative	-	*18*	-	***18***
Shares	-	-	*1 249*	***1 249***
Financial assets measured at fair value through other comprehensive income:	3 023	11 491	20 819	**35 333**
Debt securities	*3 023*	*11 491*	*20 819*	***35 333***
Financial assets measured at amortised cost:	53 630	33 312	32166	**119 108**
Loans and receivables	*40 174*	*777*	*4 838*	***45 789***
Debt securities	*13 456*	*32 535*	*27 328*	***73 319***
Other financial assets	6 908	1 511	3 863	**12 282**
Exposure to credit risk of off-balance sheet items	**4 092**	**62**	**117**	**4 271**
Total	**76 190**	**53 989**	**66 331**	**196 510**

INDUSTRY ANALYSIS

The following table provides an analysis of the Bank's assets and off-balance sheet items by industry without taking into account collateral and other credit enhancements. The grouping is done based on information about the business of the respective counterparties.

	31.12.2018.	31.12.2017.
Exposure to credit risk of balance sheet assets	**171 706**	**192 239**
Central governments	27 377	29 221
Credit institutions	55 497	71 683
International development banks	9 084	4 819
Private individuals	8 730	8 730
Agriculture	196	249
Operations with real estate	21 468	10 987
Trade	7 072	7 816
Professional services	18	280
Mining and quarrying	-	6 491
Manufacturing	14 599	7 874
Accommodation and catering services	6 251	3 231
Construction	180	1 466
Information and communication services	501	2 488
Transport	308	360
Health and social care	1 742	1 807
Electricity	4 322	10 657
Financial services	13 252	10 065
Administrative and support service activities	4	6 979
Other	1 105	7 036
Exposure to credit risk of off-balance sheet items	**4 989**	**4 271**
Total	**176 695**	**196 510**

CREDIT QUALITY OF FINANCIAL ASSETS

Credit quality of financial assets is performed by the Bank via debtors' (borrowers') financial analysis techniques, analysis of the counterparty's reputation and historical cooperation with the counterparty as well as by monitoring international ratings granted to counterparties.

The table below represents the Bank's financial assets exposed to credit risk, broken down by financial asset quality stages without taking into account collateral or other credit quality improvements. The Bank's financial assets are classified in three stages, where such financial assets, credit risk of which has not significantly increased compared to the initial recognition, are classified in the 1st stage, and such financial assets, credit risk of which has significantly increased compared to the initial recognition, but which have no default observed, are classified in the 2nd stage, and such financial assets, for which signs of default are detected, are classified in the 3rd stage.

31.12.2018.

	Stage 1	Stage 2	Stage 3	Total
Exposure to credit risk of balance sheet assets	**159 229**	**9 072**	**4 788**	**173 089**
Due from credit institutions	30 223	-	-	**30 223**
Financial assets measured at fair value through profit or loss:	1 546	-	-	**1 546**
Derivative	*35*	-	-	***35***
Shares	*1 511*	-	-	***1 511***
Financial assets measured at fair value through other comprehensive income:	29 180	5 055	-	**34 235**
Debt securities	*29 180*	*5 055*	-	***34 235***
Financial assets measured at amortised cost:	90 900	4 017	4 788	**99 705**
Loans and receivables	*46 537*	*2 689*	*4 788*	***54 014***
Debt securities	*44 363*	*1 328*	-	***45 691***
Other financial assets	7 380	-	-	**7 380**
Exposure to credit risk of off-balance sheet items	**4 638**	**351**	**-**	**4 989**
Total	**163 867**	**9 423**	**4 788**	**178 078**

31.12.2017.

	Stage 1	Stage 2	Stage 3	Total
Exposure to credit risk of balance sheet assets	**126 379**	**64 617**	**1 884**	**192 880**
Due from credit institutions	5	24 244	-	**24 249**
Financial assets measured at fair value through profit or loss:	1 249	18	-	**1 267**
Derivative	-	*18*	-	***18***
Shares	*1 249*		-	***1 249***
Financial assets measured at fair value through other comprehensive income:	26 176	9 157	-	**35 333**
Debt securities	*26 176*	*9 157*	-	***35 333***
Financial assets measured at amortised cost:	86 667	31 198	1 884	**119 749**
Loans and receivables	*40 820*	*3 726*	*1 884*	***46 430***
Debt securities	*45 847*	*27 472*	-	***73 319***
Other financial assets	12 282	-	-	**12 282**
Exposure to credit risk of off-balance sheet items	**4 181**	**90**	**-**	**4 271**
Total	**130 560**	**64 707**	**1 884**	**197 151**

COLLATERAL HELD IN RESPECT OF FINANCIAL ASSETS SUBJECT TO CREDIT RISK

The type and amount of collateral depends on an assessment of the credit risk of a customer or a group of related customers. The collateral types and valuation parameters are defined in the Credit Policy and the Credit Control Procedure. The main collateral types include mortgage, commercial pledge, deposits and securities. The Bank also accepts guarantees as additional (secondary) collateral.

The following table shows the fair value of collateral by the type of loan.

	31.12.2018.		**31.12.2017.**	
	Collateral value	**Loan value**	**Collateral value**	**Loan value**
Loan type				
Loan for working capital	25 365	7 663	30 092	8 629
Industrial loan	17 226	5 734	20 178	6 785
Financial lease	1 889	455	2 357	576
Loan for purchasing consumer goods	539	184	539	190
Mortgage loan	59 896	27 419	50 733	20 287
Factoring	1 023	803	1 592	896
Other loans	40 404	11 756	21 203	9 067
Total	**146 342**	**54 014**	**126 694**	**46 430**

SIGNS OF A SIGNIFICANT INCREASE IN CREDIT RISK, FOR WHICH DEFAULT IS NOT OBSERVABLE

The Bank considers the following as significant credit risk increase for risk transactions:

- a delay of more than 15 days in the performance of the counterparty's obligations (such as payment of principal amount or interest);
- non-use of the allocated funds for the purposes specified in the agreement;
- failure to meet project implementation preconditions;
- default of a person related to the Bank's counterparty that affects the counterparty's ability to meet their credit obligations to the Bank;
- impairment of collateral in the cases when performance of obligations is directly dependent on value of collateral;
- non-compliance with the terms of the transaction agreement;
- and other event signs that may indicate a significant increase in credit risk of the counterparty.

SIGNS OF DEFAULT

- significant financial difficulties of the counterparty;
- a delay of more than 90 days in the performance of the counterparty's obligations (such as payment of principal amount or interest);
- the Bank grants such advantages to the counterparty for economic or legal reasons related

to the borrower's financial difficulties, which the Bank would not otherwise have considered;
- it becomes probable that the counterparty will begin bankruptcy procedure or financial reorganisation of other kind;
- financial asset has been acquired or issued at a deep discount that reflects an existing impairment;
- a combination of several other events or other event signs that may characterise a counterparty default.

LIQUIDITY RISK

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

A liquidity crisis may be caused by unexpected events, such as prolonged outflow of cash from the accounts opened with the Bank without a corresponding cash inflow. This process may be a consequence of the loss of trust, or a national crisis like a currency crisis. The Bank is exposed to liquidity risk when its cash flows are not balanced in terms of their maturity (maturity bands) due to the Bank's activities involving borrowings, loans, capital and other items of assets and liabilities.

Liquidity problems may be caused also by the lack of liquidity of the financial market.

The objective of liquidity management is to achieve placement of Bank's assets enabling the Bank to meet legally justified claims of its creditors at any time.

The liquidity risk management methods (core elements) are as follows:
- Compliance with the statutory liquidity ratio;
- Setting limits for deposits from customers;
- Monitoring of adherence to the limits fixed in the liquidity strategy;
- Employing the early warning system;
- Conducting liquidity stress tests and analysis of results obtained;
- Drawing a liquidity contingency plan.

To maintain its liquidity position, the Bank:
- Assesses and plans the maturity structure of its assets and liabilities on a regular basis;
- Maintains sufficient liquid assets to ensure that financial liabilities can be met;
- Ensures that the liquidity ratio (namely, the ratio of liquid assets to current liabilities) is at least 60%;
- Maintains the negative ratio of liquid assets to current liabilities of no more than 100% of the Bank's equity;
- Maintains the total of liquid assets and potential funding sources of 110% of the forecasted net cash flows for a seven-day period;
- Performs regular stress testing and assesses whether the liquidity reserve is adequate and sufficient.

The liquidity coverage ratio calculation for the years 2018 and 2017 were as follows:

No.	Item	**31.12.2018**	**31.12.2017**
1.	Liquidity reserves	54 305	72 632
2.	Total net cash outflows	23 986	20 073
3.	**Liquidity coverage ratio (%)**	**226**	**362**

ANALYSIS OF ASSETS AND LIABILITIES BY LIQUIDITY STRUCTURE

The table below allocates the Bank's assets, liabilities and off-balance liabilities liquidity groupings as at 31 December 2017 based on the time remaining from the balance sheet date to the contractual maturity dates (i.e. based on contractual discounted cash flows). Pledged financial assets measured at amortised cost financial investments are disclosed as *Other.*

31.12.2018.

	Less than 1 month inclusive	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Other	Total
Assets							
Cash and balances with the Bank of Latvia	17 606	-	-	-	-	-	**17 606**
Due from credit institutions	30 207	-	-	-	-	-	**30 207**
Financial assets measured at fair value through profit or loss:	35	-	-	-	1 511	-	**1 546**
Derivative	*35*	-	-	-	-	-	***35***
Shares	-	-	-	-	*1 511*	-	***1 511***
Financial assets measured at fair value through other comprehensive income:	34 130	-	-	-	-	-	**34 130**
Debt securities	*34 130*	-	-	-	-	-	***34 130***
Financial assets measured at amortised cost:	42 630	1 906	5 836	8 553	38 459	1 092	**98 476**
Loans and receivables	*970*	*1 514*	*5 751*	*7 920*	*35 642*	*1 092*	***52 889***
Debt securities	*41 660*	*392*	*85*	*633*	*2 817*	-	***45 587***
Property, plant and equipment	-	-	-	-	6 569	-	**6 569**
Intangible assets	-	-	-	-	462	-	**462**
Other financial assets	2	1	1	2	2 249	5 092	**7 347**
Overpaid corporate income tax	-	-	-	-	394	-	**394**
Other non-financial assets	-	-	-	-	360	-	**360**
Total assets	**124 610**	**1 907**	**5 837**	**8 555**	**50 004**	**6 184**	**197 097**
Liabilities							
Financial liabilities measured at fair value through profit or loss:	-	-	-	-	-	-	**-**
Liabilities at amortised cost	126 243	5 066	5 891	10 274	9 080	-	**156 554**
Deposits from customers	*126 243*	*5 066*	*5 891*	*10 274*	*9 080*	-	***156 554***
Current tax liabilities	10 688	262	372	-	554	-	**11 876**
Deferred tax liabilities	354	-	-	-	5	-	**359**
Other financial liabilities	**137 285**	**5 328**	**6 263**	**10 274**	**9 639**	**-**	**168 789**
Other non-financial liabilities	**4 263**	-	-	-	-	-	**4 263**
Total liabilities	**(16 938)**	**(3 421)**	**(426)**	**(1 719)**	**40 365**	**6 184**	**24 045**
Off-balance sheet items	**3 508**	**-**	**-**	**-**	**-**	**-**	**3 508**
Net liquidity position	**(6 616)**	**(4 155)**	**(6 136)**	**(5 527)**	**41 555**	**5 674**	**24 795**

31.12.2017.

	Less than 1 month inclusive	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Other	Total
Assets							
Cash and balances with the Bank of Latvia	34 096	-	-	-	-	-	**34 096**
Due from credit institutions	24 249	-	-	-	-	-	**24 249**
Financial assets measured at fair value through profit or loss:	18	-	-	-	1 249	-	**1 267**
Derivative	18	-	-	-	-	-	**18**
Shares	-	-	-	-	1 249	-	**1 249**
Financial assets measured at fair value through other comprehensive income:	35 333	-	-	-	-	-	**35 333**
Debt securities	*35 333*						***35 333***
Financial assets measured at amortised cost:	70 716	1 511	4 966	4 544	36 610	761	**119 108**
Loans and receivables	*3 305*	*768*	*4 837*	*4 106*	*32 012*	*761*	***45 789***
Debt securities	*67 411*	*743*	*129*	*438*	*4 598*	-	***73 319***
Property, plant and equipment	-	-	-	-	6 742	-	**6 742**
Intangible assets	-	-	-	-	541	-	**541**
Other financial assets	29	2	1	3	7 334	4 913	**12 282**
Overpaid corporate income tax	-	-	-	-	562	-	**562**
Other non-financial assets	-	-	-	-	325	-	**325**
Total assets	**164 441**	**1 513**	**4 967**	**4 547**	**53 363**	**5 674**	**234 505**
Liabilities							
Financial liabilities measured at fair value through profit or loss:	89	-	-	-	-	-	**89**
Liabilities at amortised cost	161 188	5 039	10 283	10 074	11 254	-	**197 838**
Deposits from customers	*161 188*	*5 039*	*10 283*	*10 074*	*11 254*	-	***197 838***
Other financial liabilities	5 991	629	820	-	554	-	**7 994**
Other non-financial liabilities	281	-	-	-	-	-	**281**
Total liabilities	**167 549**	**5 668**	**11 103**	**10 074**	**11 808**	**-**	**206 202**
Off-balance sheet items	**3 508**	**-**	**-**	**-**	**-**	**-**	**3 508**
Net liquidity position	**(6 616)**	**(4 155)**	**(6 136)**	**(5 527)**	**41 555**	**5 674**	**24 795**

The table below analyses the Bank's financial liabilities (excluding demand deposits) undiscounted cash flows into relevant maturity bands based on the remaining period, as at the reporting date, to the contractual maturity date (i.e. based on contractual undiscounted cash flows):

	Less than 1 month inclusive	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	**Total**
31.12.2018.						
Deposits from customers	4 684	4 284	4 933	10 626	8 725	**33 252**
Total:	4 684	4 284	4 933	10 626	8 725	**33 252**
31.12.2017.						
Deposits from customers	3 350	4 053	8 503	10 570	10 822	**37 298**
Total:	**3 350**	**4 053**	**8 503**	**10 570**	**10 822**	**37 298**

The following table presents term structure of future cash flows of Bank's derivatives:

31.12.2018.

	Less than 1 month inclusive	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	**Total**
Financial instruments settled on a gross basis						
Foreign currency swaps						
Outgoing cash flow	10 000	-	-	-	-	**10 000**
Incoming cash flow	9 932	-	-	-	-	**9 932**

31.12.2017.

	Less than 1 month inclusive	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	**Total**
Financial instruments settled on a gross basis						
Foreign currency swaps						
Outgoing cash flow	25 543	5 305	-	-	-	**30 848**
Incoming cash flow	25 359	5 313	-	-	-	**30 672**

ENCUMBERED AND UNENCUMBERED ASSETS

Information on the Bank's encumbered and unencumbered assets represented in Tables A, B and C is determined based on calculations of the risk transaction value for 2018 and 2017. Accordingly, the risk transaction value for 2018 and 2017 is determined as the median of sums of end values of the four quarters for the last 12-month period in each relevant year.

Table A. Encumbered and unencumbered assets

	Accounting value of encumbered assets		Fair value of encumbered assets		Book value of unencumbered assets		Fair value of unencumbered assets	
	2018	2017	2018	2017	2018	2017	2018	2017
Assets of the reporting institution	**7,086**	**5,035**	**x**	**x**	**215,612**	**213,641**	**x**	**x**
Equity securities	-	-			1,501	1,126		
Debt securities	2,036	-	2,039	-	69,138	104,867	64,230	107,035
Incl.: covered bonds	-	-	-	-	-	-	-	-
Incl.: asset-backed securities	-	-	-	-	-	-	-	-
Incl.: issued by general governments	-	-	-	-	*24,270*	*27,551*	*24,510*	*29,364*
Incl.: issued by financial companies	*2,036*	-	*2,039*	-	*32,972*	*52,203*	*28,693*	*52,744*
Incl.: issued by non-financial companies	-	-	-	-	*11,896*	*25,113*	*11,027*	*24,927*
Other assets	5,050	5,035	x	x	144,973	107,648	x	x

Table B. Collateral received

	Fair value of encumbered collateral received or own debt securities issued		Unencumbered The fair value of collateral received or of own debt securities issued is available for encumbrance	
	2018	2017	2018	2017
Collateral received by the reporting institution	-	-	-	-
Loans on request	-	-	-	-
Equity securities	-	-	-	-
Debt securities	-	-	-	-
Incl.: covered bonds	-	-	-	-
Incl.: asset-backed securities	-	-	-	-
Incl.: issued by general governments	-	-	-	-
Incl.: issued by financial companies	-	-	-	-
Incl.: issued by non-financial companies	-	-	-	-
Loans and advances other than loans on request	-	-	-	-
Other collateral received	-	-	-	-
Own debt securities issued other than own covered bonds or asset backed securities	-	-	-	-
Own covered bonds and asset-backed securities issued but not yet pledged	x	x	-	-
TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED	7 086	5 035	x	x

Table C. Sources of encumbrances

	Matching liabilities, contingent liabilities or securities lent		Assets, collateral received and own debt securities issued other than covered bonds and encumbered asset backed securities	
	2018	2017	2018	2017
Accounting value of selected financial liabilities	2 000	-	7 086	5 035

The Bank mainly uses two main sources of encumbrance, that is, funds in correspondent accounts that serve as collateral for operations with payment cards and financial instruments of the Bank's portfolio of financial instruments in order to ensure a sufficient amount of liquid assets in individual cases.

Amount of encumbered assets refers to security deposits with the Bank’s partners VISA and MasterCard and is related to operations with payment cards and e-commerce clients.

The Bank has assessed that the "Encumbered asset book value" in line "Other assets" in table A is insignificant in proportion to other assets, as at 31 December 2017, it was 4% (31 December 2016 – 5%) of the total items included in other assets.

AML/TFI RISK MANAGEMENT

The Bank's AML/TFI risk management strategic objectives are to maintain a good reputation of the Bank and stable relationships with customers, counterparties and the general public, cooperate with and provide services to reliable customers and counterparties whose activities are clear to the Bank, ensure an appropriate balance between the risks acceptable for the Bank and the level of profits in order to minimize the risk of potential adverse effect on the Bank’s financial position and operations.

On 25 July 2016 FCMC has charged the Bank with a penalty of 305 thousand EUR related to breaches of AML/TFI area, which were identified during targeted review of certain procedures. Administrative agreement was signed with the Bank on correction of identified breaches and timing of its implementation. During the period from 30 January to 17 March 2017 FCMC has carried out full review of AM/TFI area. First results of this review were received by the Bank in February 2018 and the Bank has responded to those by the end of February 2018. Currently the Bank is waiting for response from the FCMC. Despite the fact that final results of the review are not received, implying uncertaintly related to the further development of the process, the management of the Bank is certain that the results of the process will not impact the ability of the Bank to fulfill its liabilities against its clients and partners. The Bank is continuously improving and enhancing internal controls systems and applies all necessary care to avoid any doubtful or unusual client transactions through the Bank.

MARKET RISK

Market risk is the risk that the Bank will incur a loss as a result of the mark-to-market revaluation of assets, liabilities and off-balance sheet items caused by changes in market values of financial instruments, commodities and commodity derivatives due to changes in foreign exchange rates, interest rates and other factors. Market risks include currency risk, position risk, commodity risk, settlement risk, and counterparty risk.

The Bank does not form a trading portfolio and its exposure to market risks is limited to currency risk and interest rate risk in the banking book.

Considering that the Bank has the financial assets measured at fair value through other comprehensive income portfolio increased to 17% of the total assets (31 December 2017 - 16%), the Bank believes that its exposure to position risk, or market price risk, is significant.

CURRENCY RISK

Currency risk represents the Bank's exposure in the event that changes in foreign exchange rates have an adverse effect on the Bank's income/ expense (and, consequently, also equity) and economic value. Currency risk is the risk of loss due to the opposite fluctuations of foreign exchange rates. The transactions include items reported as both assets and off-balance sheet items.

The risk of incurring foreign exchange loss arises from the revaluation of foreign currency positions into the national currency. When the Bank has an open foreign currency position, the revaluation process results in a profit or loss, which is the difference arising from the revaluation into the national currency of assets, liabilities and capital denominated in foreign currencies.

The objective of managing currency risk is to reduce the adverse effect of changes in foreign exchange rates by minimising the open currency position.

Considering the current level of the Bank's business, the Bank is not striving to maintain the open foreign currency position to earn profits from speculative transactions.

To assess the compliance of the existing limits with the Bank's actual positions and situation on the currency market, stress tests are performed regularly.

The Bank's total open foreign currency position as at 31 December 2018 was 5.63% (31 December 2017 – 4.18%) of the total level 1 and level 2 capital.

31.12.2018.

	EUR	USD	Other currencies	Total
Assets				
Cash and balances with the Bank of Latvia	17 493	109	4	**17 606**
Due to financial institutions	1 577	2 223	26 407	**30 207**
Financial assets measured at fair value through profit or loss:	35	1 511	-	**1 546**
Derivative	*35*	-	-	***35***
Shares	-	*1 511*	-	***1 511***
Financial assets measured at fair value through other comprehensive income:	15 521	12 367	6 242	**34 130**
Debt securities	*15 521*	*12 367*	*6 242*	***34 130***
Financial assets measured at amortised cost:	94 199	1 435	2 842	**98 476**
Loans and receivables	*52 778*	*111*	-	***52 889***
Debt securities	*41 421*	*1 324*	*2 842*	***45 587***
Property, plant and equipment	6 569	-	-	**6 569**
Intangible assets	462	-	-	**462**
Other financial assets	2 426	4 471	450	**7 347**
Overpaid corporate income tax	394	-	-	**394**
Other non-financial assets	357	3	-	**360**
Total assets	**139 033**	**22 119**	**35 945**	**197 097**
Liabilities and equity				
Financial liabilities measured at fair value through profit or loss	-	-	-	**-**
Liabilities at amortised cost	114 661	16 662	25 231	**156 554**
Deposits from customers	*114 661*	*16 662*	*25 231*	***156 554***
Other financial liabilities	6 033	5 763	80	**11 876**
Other non-financial liabilities	367	-	-	**367**
Total liabilities	**121 061**	**22 425**	**25 311**	**168 797**
Equity	29 059	(677)	(82)	**28 300**
Total liabilities and equity	**150 120**	**21 748**	**25 229**	**197 097**
Net long / (short) position	**(11 087)**	**371**	**10 716**	**-**
Net off-balance sheet currency swap agreement long/ (short) position	**10 000**	**-**	**(9 910)**	**90**
Net open long/ (short) currency position	**1 087**	**371**	**806**	**90**
Percentage of equity as at 31.12.2018.	**-**	**1.33**	**2.90**	**-**

31.12.2017.

	EUR	USD	Other currencies	Total
Assets				
Cash and balances with the Bank of Latvia	33 891	173	32	**34 096**
Due to financial institutions	1 800	7 774	14 675	**24 249**
Financial assets measured at fair value through profit or loss:	18	1 249	-	**1 267**
Derivative	*18*	-	-	***18***
Shares	-	*1 249*	-	***1 249***
Financial assets measured at fair value through other comprehensive income:	8 021	19 565	7 747	**35 333**
Debt securities	*8 021*	*19 565*	*7 747*	***35 333***
Financial assets measured at amortised cost:	99 192	19 697	219	**119 108**
Loans and receivables	*45 279*	*291*	*219*	***45 789***
Debt securities	*53 913*	*19 406*	-	***73 319***
Property, plant and equipment	6 742	-	-	**6 742**
Intangible assets	541	-	-	**541**
Other financial assets	2 042	5 663	4 577	**12 282**
Overpaid corporate income tax	562	-	-	**562**
Other non-financial assets	325	-	-	**325**
Total assets	**153 134**	**54 121**	**27 250**	**234 505**
Liabilities and equity				
Financial liabilities measured at fair value through profit or loss	89	-	-	**89**
Liabilities at amortised cost	132 231	54 046	11 561	**197 838**
Deposits from customers	*132 231*	*54 046*	*11 561*	***197 838***
Other financial liabilities	5 441	2 269	284	**7 994**
Other non-financial liabilities	281	-	-	**281**
Total liabilities	**138 042**	**56 315**	**11 845**	**206 202**
Equity	27 488	836	(21)	**28 303**
Total liabilities and equity	**165 530**	**57 151**	**11 824**	**234 505**
Net long / (short) position	**(12 396)**	**(3 030)**	**15 426**	**-**
Net off-balance sheet currency swap agreement long/ (short) position	**11 270**	**2 989**	**(14 330)**	**(71)**
Net open long/ (short) currency position	**(1 126)**	**(41)**	**1 096**	**(71)**
Percentage of equity as at 31.12.2017.		**(0.15)**	**4.11**	

POSITION RISK

Position risk is a possibility of sustaining a loss due to revaluation of a position in a debt or equity security when the price of the respective security changes. Position risk may be either specific or general risk.

Specific risk is a possibility of sustaining a loss if the price of a debt or equity security changes because of the factors related to the securities issuer or – in case of derivative financial instruments – to the person issuing the security that is the underlying asset of the derivative.

General risk is a possibility of sustaining a loss if the price of a security changes because of the factors related to the fluctuations in interest rates (for debt securities) or extensive changes in the capital market (for equity securities) that are not related to a particular securities issuer.

Position risk associated with the Bank's financial assets measured at fair value through other comprehensive income portfolio is managed by setting a stop loss limit for each individual financial instrument, which triggers the sale of the instrument if the potential loss on its disposal reaches 25% of the acquisition value.

By determining the stop loss limits, the Bank restricts the excessive loss that may be incurred on impairment of financial instruments.

SETTLEMENT RISK

Settlement risk is the risk to which the Bank is exposed to outstanding transactions in foreign currencies, securities or commodities, with the exception of repurchase transactions, securities or commodities lending or borrowing. Settlement risk comprise of settlement / delivery risk and free deliveries risk.

The Bank calculates risk capital requirements for settlement / delivery risk and free deliveries only for those periods when the event or events meeting the risk definition are registered in the Bank's information system Intranet under section Risks. During 2017 and 2016 such events were not identified.

INTEREST RATE RISK

Interest rate risk represents the Bank's exposure in the event that changes in interest rates have an adverse effect on the Bank's income/ expense (and, consequently, also equity) and economic value. Sources of interest rate risk are as follows:

- Reprising risk, which is a risk of incurring a loss due to changes in interest rates and timing differences in the remaining or repricing maturities of assets, liabilities and memorandum items;
- Yield curve risk, which is a probability of a loss due to unexpected changes in the slope and shape of the yield curve;
- Basis risk, which is a probability of a loss from changes in interest rates of financial instruments having similar repricing schedules but different base rates;

- Optionality risk, which is a risk of incurring a loss if a financial instrument directly (options) or indirectly (loans with a prepayment facility, demand deposits, etc.) provides for a possibility of choice for the Bank’s customers.

The objective of managing interest rate risk is to minimise the effect of interest rate risk on the Bank’s assets and liabilities and income.

To assess interest rate risk, the Bank analyses and plans the repricing maturity structure on a regular basis, calculates the reduction in the Bank’s economic value due to adverse changes in interest rates and defines the capital requirement for interest rate risk.

The assessment of the Bank’s exposure to interest rate risk is based on the following key principles:

- The effect produced by changes in interest rates on the Bank’s financial performance and economic value is analysed as follows:
  - Assessment of interest rate risk from the income perspective – analysis of the effect of changes in interest rates on net interest income and other income and expense items related to interest rates in the short term;
  - Assessment of interest rate risk from the economic value perspective – analysis of the effect of changes in interest rates on the Bank’s economic value in the long term. The term *economic value* denotes the present value of net future cash flows, which is determined by discounting future cash flows by the current market interest rate.
- The Bank establishes the current interest rate risk level as well as identifies situations when the Bank’s exposure to interest rate risk is or may be excessively large.
- All significant interest rate risks associated with assets, liabilities and memorandum items - repricing risk, yield curve risk, basis risk, and optionality risk – are assessed. Interest rate risk is assessed and managed by conducting the repricing gap analysis and the duration analysis and using simulation models.

Simulation models demonstrate potential changes in the Bank’s economic value. With interest rates changing by +/- 200 basis points for all currencies, the reduction in economic value may not exceed 8% of the Bank’s equity.

The table below shows the reduction in economic value of the Bank, i.e. the result of applying the simulation model (the scenario defined by the Financial and Capital Market Commission):

Currency	Weighted interest rate risk position	
	31.12.2018.	**31.12.2017.**
EUR	121	106
USD	(20)	7
Other currencies	36	(7)
Weighted interest rate risk in the banking book (total)	**137**	**106**
Equity	27 802	26 669
Absolute weighted interest rate risk in the banking book position to equity, %	**0.49**	**0.40**

The below tables present the calculation of the weighted interest rate risk currency positions:

31.12.2018.

	Weighting factor %	EUR Net interest rate risk position	EUR Weighted interest rate risk position	USD Net interest rate risk position	USD Weighted interest rate risk position	Other currencies Net interest rate risk position	Other currencies Weighted interest rate risk position
With the remaining maturities of:							
Less than 1 month	0.08	(38 046)	(30)	1 968	1	(2 360)	(2)
1-3 months	0.32	15 102	48	(439)	(1)	(160)	-
3-6 months	0.72	29 581	213	(327)	(2)	(87)	(1)
6-12 months	1.43	14 543	208	(212)	(3)	2 748	39
1 – 2 years	2.77	(5 817)	(161)	(279)	(8)	-	-
2 - 3 years	4.49	(2 692)	(121)	(26)	(1)	-	-
3 - 4 years	6.14	(469)	(29)	-	-	-	-
4 - 5 years	7.71	(95)	(7)	(77)	(6)	-	-
Total weighted interest rate risk position (+,-)			**121**		**(20)**		**36**

31.12.2017.

	Weight-ing factor %	EUR Net interest rate risk position	EUR Weighted interest rate risk position	USD Net interest rate risk position	USD Weighted interest rate risk position	Other currencies Net interest rate risk position	Other currencies Weighted interest rate risk position
With the remaining maturities of:							
Less than 1 month	0.08	(46 702)	(37)	(13 634)	(11)	(339)	-
1-3 months	0.32	25 203	81	8 312	27	(2 109)	(7)
3-6 months	0.72	20 610	148	4 376	32	(52)	-
6-12 months	1.43	21 703	310	(1 105)	(16)	-	-
1 – 2 years	2.77	(7 027)	(195)	(469)	(13)	-	-
2 - 3 years	4.49	(2 135)	(96)	(141)	(6)	-	-
3 - 4 years	6.14	(1 551)	(95)	(15)	(1)	-	-
4 - 5 years	7.71	(134)	(10)	(59)	(5)	-	-
Total weighted interest rate risk position (+,-)			**106**		**7**		**(7)**

The Bank's exposure to interest rate risk is characterised by the maturity of interest sensitive assets, liabilities and off-balance sheet items based on the shorter of the remaining maturities of interest sensitive financial instruments and interest rate repricing periods.

The Bank also determines the effect of interest rate risk on the Bank's profit or loss and equity based on the parallel increase in interest rates by 1 per cent (or 100 basis points) and assuming that interest rates change in the mid-year. The effect on equity is calculated considering potential changes in the Bank's available-for-sale portfolio.

The tables below present the repricing maturity analysis of assets, liabilities and off-balance sheet items based on interest rate changes and the effect of interest rate risk on the Bank's profit or loss and equity:

31.12.2018.

	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Non-interest bearing	Total
Assets							
Cash and balances with the Bank of Latvia	15 181	-	-	-	-	2 425	**17 606**
Due from credit institutions	30 182	-	-	-	-	25	**30 207**
Financial assets measured at fair value through profit or loss:	1 546	-	-	-	-	-	**1 546**
Derivative	*35*	-	-	-	-	-	***35***
Shares	*1 511*	-	-	-	-	-	***1 511***
Financial assets measured at fair value through other comprehensive income:	33 915	-	-	-	-	215	**34 130**
Debt securities	*33 915*	-	-	-	-	*215*	***34 130***
Financial assets measured at amortised cost:	8 491	19 928	36 363	28 621	74	4 999	**98 476**
Loans and receivables	*5 113*	*11 048*	*29 329*	*3 010*	*74*	*4 315*	***52 889***
Debt securities	*3 378*	*8 880*	*7 034*	*25 611*	-	*684*	***45 587***
Property, plant and equipment	-	-	-	-	-	6 569	**6 569**
Intangible assets	-	-	-	-	-	462	**462**
Other financial assets	-	-	-	-	-	7 347	**7 347**
Overpaid corporate income tax	-	-	-	-	-	394	**394**
Other non-financial assets	-	-	-	-	-	360	**360**
Total assets	**89 315**	**19 928**	**36 363**	**28 621**	**74**	**22 796**	**197 097**
Long off-balance items that are sensitive to interest rate	**10 000**	**-**	**-**	**-**	**-**	**-**	**10 000**
Liabilities and equity							
Financial liabilities measured at fair value through profit or loss	-	-	-	-	-	-	**-**
Liabilities at amortised cost	125 802	4 954	5 827	10 205	8 955	811	**156 554**
Deposits from customers	*125 802*	*4 954*	*5 827*	*10 205*	*8 955*	*811*	***156 554***
Other financial liabilities	246	-	-	-	544	11 086	**11 876**
Other non-financial liabilities	17	1	3	-	-	338	**359**
Equity	-	-	-	-	-	28 300	**28 300**
Total liabilities and equity	**126 065**	**4 955**	**5 830**	**10 205**	**9 499**	**40 535**	**197 089**
Short off-balance sheet items that are sensitive to changes in interest rates	**11 686**	**470**	**1 367**	**1 338**	**30**	**-**	**14 891**
Net interest rate risk position (gap)	**(38 436)**	**14 503**	**29 166**	**17 078**	**(9 455)**	**-**	**12 856**
Effect on profit or loss	**(368)**	**121**	**182**	**43**	**-**	**-**	**(22)**
Effect on equity	**-**	**-**	**(7)**	**(18)**	**(993)**	**-**	**(1 018)**

31.12.2017

	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Non-interest bearing	Total
Assets							
Cash and balances with the Bank of Latvia	31 281	-	-	-	-	2 815	**34 096**
Due from credit institutions	24 221	-	-	-	-	28	**24 249**
Financial assets measured at fair value through profit or loss:	1 267	-	-	-	-	-	**1 267**
Derivative	18	-	-	-	-	-	**18**
Shares	1 249	-	-	-	-	-	**1 249**
Financial assets measured at fair value through other comprehensive income:	35 005	-	-	-	-	328	**35 333**
Debt securities	*35 005*	-	-	-	-	*328*	***35 333***
Financial assets measured at amortised cost:	10 890	36 782	36 491	30 878	139	3 928	**119 108**
Loans and receivables	*5 883*	*14 625*	*19 867*	*2 376*	*139*	*2 899*	***45 789***
Debt securities	*5 007*	*22 157*	*16 624*	*28 502*	-	*1 029*	***73 319***
Property, plant and equipment						6 742	**6 742**
Intangible assets	-	-	-	-	-	541	**541**
Other financial assets	-	-	-	-	-	12 282	**12 282**
Overpaid corporate income tax	-	-	-	-	-	562	**562**
Other non-financial assets	-	-	-	-	-	325	**325**
Total assets	**102 664**	**36 782**	**36 491**	**30 878**	**139**	**27 551**	**234 505**
Long off-balance items that are sensitive to interest rate	**23 705**	**5 296**	**-**	**-**	**-**	**-**	**29 001**
Liabilities and equity							
Financial liabilities measured at fair value through profit or loss	89	-	-	-	-	-	**89**
Liabilities at amortised cost	160 652	4 977	10 249	10 013	11 116	831	**197 838**
Deposits from customers	*160 652*	*4 977*	*10 249*	*10 013*	*11 116*	*831*	***197 838***
Other financial liabilities	215	-	-	-	554	7 225	**7 994**
Other non-financial liabilities	13	-	-	-	-	268	**281**
Equity	-	-	-	-	-	28 303	**28 303**
Total liabilities and equity	**160 969**	**4 977**	**10 249**	**10 013**	**11 670**	**36 627**	**234 505**
Short off-balance sheet items that are sensitive to changes in interest rates	**26 076**	**5 694**	**1 309**	**267**	**-**	**-**	**33 346**
Net interest rate risk position (gap)	**(60 676)**	**31 407**	**24 933**	**20 598**	**(11 531)**	**-**	**4 731**
Effect on profit or loss	**(581)**	**262**	**156**	**51**	**-**	**-**	**(112)**
Effect on equity	**-**	**(2)**	**-**	**(92)**	**(956)**	**-**	**(1 050)**

Before engaging in any transactions with financial instruments (except for derivatives), the Resource Department analyses the potential effect of the exposure on the interest rate repricing maturity and economic value of the Bank.

In preparing the transaction, the Credit Division determines interest rates according to the Bank's Interest Rate Setting Guidelines. The loan interest rate should cover all expenses associated with the loan and compensate the risk assumed by the Bank, namely:

- Interest on borrowed funds or consideration for other exposures;
- Loan servicing expenses;
- Compensation of potential loss (risk premium);
- Guaranteed profit.

The loan interest rate (compensation) for a particular exposure depends on the risk associated with each individual loan.

In order to assess the impact of adverse changes in interest rates on the Bank's profitability and economic value during the strained market situation, the Bank conducts regular interest rate risk stress testing.

OPERATIONAL RISK

Operational risk is the risk of a loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk is defined as the risk of a reduction in the Bank's income or incurring of additional costs (and, consequently, a reduction in equity) due to erroneous transactions with customers/counterparties, information processing, adoption of ineffective decisions, insufficient human resources or insufficient planning for the influence of external events. Namely, operational risk comprises information technology risks and legal risks.

The objective of managing operational risk is to identify the sources of risk, determine risk management methods in order to minimise the potential loss that could be caused by an operational risk event.

Routine identification of operational risk is the responsibility of all employees of the Bank, and the core elements of the operational risk management framework are as follows:

- Identification of operational risk;
- Internal operational risk assessment;
- Monitoring of operational risk;
- Control and mitigation of operational risk;
- Operational risk stress testing.

The Board is informed immediately if the losses from operational risk event exceed EUR 500.00 (for e-commerce-related cases: 1000,00 EUR) or events of one type occur more than five times per week.

If the total amount of operational risk losses per year, as recorded in the Operational risk event and loss database, exceeds 3% of the Bank's equity, the Risk Control Department analyses whether it would be necessary to maintain an additional capital to cover unexpected operational risk losses.

NOTE 27 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction. The fair value of liquid financial assets has been determined using bid prices, while offer prices have been used to determine the fair value of financial liabilities.

For illiquid financial assets and liabilities, including loans, there are, by definition, no active markets. Accordingly, fair value has been estimated using appropriate valuation techniques. The methods used to determine the fair value of assets and liabilities not carried at fair value are as follows:

Cash and balances with central banks

The fair value of cash and balances with central banks is their carrying amount as these balances may be withdrawn without notice.

Balances due from credit institutions

The fair value of balances on demand with credit institutions is their carrying amount as these balances may be withdrawn without notice. The fair value of overnight placements is their carrying amount. The fair value of other amounts due from banks is calculated by discounting expected cash flows using current market rates. In many cases, the carrying value is a close representation of fair value due to the short-term maturity profile.

Loans

The fair value of loans is calculated by discounting expected future cash flows. The discount rates consist of money market rates as at the end of year and credit spread margins, which are adjusted for current market conditions.

Securities at amortised cost

Securities at amortised cost are valued using unadjusted quoted prices in active markets, where available. In other instances, either quotes of market participants are used or the value of securities is determined using valuation models employing observable or non-observable market inputs.

Financial assets measured at fair value through other comprehensive income

Financial assets measured at fair value through other comprehensive income assets are revalued on a daily basis applying Bloomberg quotations, so that the fair value does not differ from book value.

Financial assets and liabilities measured at fair value through profit or loss

Derivative financial instruments are revalued on a daily basis according to the interbank rates and, therefore, the fair value of these instruments equals their carrying amount.

Exception is VISA Europe Limited shares included into available for sale financial assets. According to VISA Inc. information, as a result of sale of VISA Europe Limited, ratio of Visa Inc. preference shares to Visa Inc. ordinary shares is 1:13,952. Given the fact that the preference shares are not traded in free trade, and the exchange of preference shares to ordinary shares will take place over a long period of the time, the Bank determines the value of preference shares using Bloomberg price for ordinary share, applying a 50% discount.

Deposits from customers

It is assumed that the fair value of customer deposits repayable on demand and short-term deposits is their carrying amount. The fair value of other deposits is calculated by discounting expected cash flows using average market interest rates or rates offered at year-end. The fair value as at 31 December 2018 and 2017 is calculated by discounting expected cash flows and using average interest rates.

The table below shows a comparison, by class, of the carrying amounts and fair values of the Bank's financial instruments reported in the financial statements.

	31.12.2018.			**31.12.2017.**		
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
Financial assets						
Financial assets at amortised cost						
Cash and balances with the Bank of Latvia	17606	17 606	-	34 096	34 096	-
Due from credit institutions	30 207	30 207	-	24 249	24 249	-
Debt securities	45 587	46 377	(790)	73 319	75 811	(2 492)
Loans and receivables	52 889	52 220	669	45 789	45 374	415
Other financial assets	7 741	7 741	-	12 844	12 844	-
Financial assets measured at fair value through other comprehensive income						
Debt securities	34 130	34 130	-	35 333	35 333	-
Financial assets measured at fair value through profit or loss						
Shares	1 511	1 511	-	1 249	1 249	-
Derivatives	35	35	-	18	18	-
Financial liabilities						
Financial liabilities at amortised cost						
Deposits from customers	156 554	156 027	527	197 838	195 932	1 906
Other financial liabilities	11 876	11 876	-	7 994	7 994	-
Financial liabilities measured at fair value through profit or loss						
Derivatives	-	-	-	89	89	-
Total difference			**406**			**(171)**

31.12.2018.

	Carrying amount	Fair value			
		Level 1 input	Level 2 input	Level 3 input	Total
Financial assets					
Financial assets at amortised cost					
Due from credit institutions	30 207	-	-	30 207	30 207
Debt securities	45 587	-	46 377	-	46 377
Loans and receivables	52 889	-	-	52 220	52 220
Other financial assets	7 741	-	-	7 741	7 741
Financial assets measured at fair value through other comprehensive income					
Debt securities	34 130	34 130	-		34 130
Financial assets measured at fair value through profit or loss					
Shares	1 511	-	-	1 511	1 511
Derivatives	35	35	-	-	35
Financial liabilities					
Financial liabilities at amortised cost					
Deposits from customers	156 554	-	-	156 027	156 027
Other financial liabilities	11 876	-	-	11 876	11 876
Financial liabilities measured at fair value through profit or loss					
Derivatives	-	-	-	-	-

31.12.2017.

	Carrying amount	Fair value			
		Level 1 input	Level 2 input	Level 3 input	Total
Financial assets					
Financial assets at amortised cost					
Due from credit institutions	24 249	-	-	24 249	24 249
Held-to-maturity financial investments	73 319	-	75 811	-	75 811
Loans and receivables	45 789	-	-	45 374	45 374
Other financial assets	12 844	-	-	12 844	12 844
Financial assets measured at fair value through other comprehensive income					
Debt securities	36 582	35 333	-		35 333
Financial assets measured at fair value through profit or loss					
Shares	1 249	-	-	1 249	1 249
Derivatives	18	18	-	-	18
Financial liabilities					
Financial liabilities at amortised cost					
Deposits from customers	197 838	-	-	195 932	195 932
Other financial liabilities	7 994	-	-	7 994	7 994
Financial liabilities measured at fair value through profit or loss		-			
Derivatives	89	89	-	-	89

The following table shows the movements in financial assets measured at fair value through profit or loss valued using level 3 input data:

	Financial assets measured at fair value through profit or loss
Balance as at 31.11.2016.	**974**
Net revaluation result	275
Balance as at 31.12.2017.	**1 249**
Net revaluation result	262
Balance as at 31.12.2018.	**1 511**

Considering the short-term nature of cash and cash equivalents, as well as other financial assets and liabilities, their fair value approximately equals their carrying amount.

The Bank uses the following hierarchy of three levels of input data for determining and disclosing the fair value of financial assets and liabilities:

Level 1: Quoted prices in active markets;

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable;

Level 3: Other techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The methods employed in classifying the assets by the levels of the fair value hierarchy as at 31 December 2018 are consistent with those of the prior year.

NOTE 29 CAPITAL MANAGEMENT

The primary objective of the Bank's capital management is to ensure that the Bank complies with externally imposed capital requirements (i.e. European Parliament and Council, Financial and Capital Market Commission's regulations and IFRS) and that the Bank maintains healthy capital ratios and equity, both in terms of elements and composition, to an extent sufficient for covering significant risks inherent in the Bank's current and planned operations.

Capital adequacy refers to the sufficiency of the Bank's capital resources to cover credit risk, operational risk and market risks. The Bank applies the standardised approach and the basic indicator approach to calculate the capital requirement for credit risk and operational risk respectively.

In assessing its overall capital adequacy, the Bank calculates the capital adequacy for the following risks:

- Credit risk. The Bank has estimated that in 2017 the capital required to cover credit risk should be at least in line with the results of stress tests performed under the basic scenario.
- Operational risk. In determining the required capital level, the Bank considers the capital requirement calculated according to European Parliament and of the Council Regulation (EU) No.575/2013 (26 June 2013) on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No.648/2012, described fundamentals approach to calculate their capital requirements, as well as the results of the internal operational risk assessment and stress testing.
- Market risks:
    - In order to assess total capital required for foreign currency risk coverage in 2017, comparison between capital requirement calculated used standardised approach and capital requirement under base case scenario with fluctuations of currency position by 12 percent against euro was made and currency position was calculated as a result of currency fluctuations;
    - The Bank on a monthly basis analyses how the market risk exposure is affected by liquidity of the market for financial instruments. All instruments included into the Bank's financial assets measured at fair value through other comprehensive income portfolio were traded on liquid markets without applying any significant discounts. Taking into consideration plans of the Bank to increase significantly the financial assets measured at fair value through other comprehensive income portfolio, without major changes to the term structure and quality of portfolio and assuming that new investments (replacing those that were sold or expired) will be made into financial instruments with similar maturity and making prudent assumptions about the quality of these investments, the Bank has modelled the amount of capital requirements;
    - Capital required for settlement risk purposes in accordance with the European Parliament and of the Council Regulation (EU) No 575/2013 (26 June 2013) on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No.648/2012, as at 31.12.2018 was 0 EUR, and the Bank assesses that there is no need to maintain separate capital to cover this risk.
- Interest rate risk in the banking book. The Bank assumes that for interest rate risk in the banking book the Bank will have to maintain capital at least in line with the results of stress tests performed under the basic scenario;
- Concentration risk. The Bank applies the simplified approach according to Regulations No.

199 on the Internal Capital Adequacy Assessment Process issued by the Financial and Capital Market Commission on 29 November 2016 to determine the relevant adequate capital.

The analysis of concentration risk for the loan portfolio includes:

- Individual concentration risk analysis,
- Sector concentration risk analysis,
- Collateral concentration risk analysis,
- Currency mismatch risk analysis.

The total capital needed to cover concentration risk is determined by aggregating the results of all individual calculations. In analysing separate concentration risks, the Bank assesses the exposure concentration for the entire loan portfolio, securities portfolio and deposits with other financial institutions.

- For anti-money laundering and terrorism financing prevention (AML) risk – as part of capital adequacy process, the Bank evaluates AML risk and evaluated capital requirement for coverage of this risk using two methods, namely, the simplified approach described in the Regulations No. 199 on the Internal Capital Adequacy Assessment Process issued by the Financial and Capital Market Commission on 29 November 2016 and the internal calculation method. Capital requirement for AML risk is set as largest of two;
- For reputation risk – with the aid of reputation risk assessment model, it is determined to keep capital requirement as 0.75% of the Bank's equity;
- For business model risk – based on the results of business model risk assessment model, it was determined that required capital level is 0.75% of the Bank's equity;
- For other risks – other risks requiring additional capital requirement analysis based on the Bank's assessment of significant risks are country risk, residual risk, compliance risk, excessive leverage risk and systemic risk. Pursuant to Regulations No. 199 on the Internal Capital Adequacy Assessment Process issued by the Financial and Capital Market Commission on 29 November 2016, the Bank applies the simplified approach to define the capital requirements and total capital requirement to cover other risks is determined as 5% of the total minimum capital requirements

Total capital requirement for the Bank is determined by summarising all individual capital requirements for risks that are determined during capital adequacy evaluation process. Additional capital requirements are determined for potential risks ensuring that capital of the Bank is sufficient in case of adverse economic developments; to ensure that capital of the Bank is sufficient throughout the economic cycle, i.e. during economic upturn the Bank creates capital reserve for coverage of losses that may arise during period of economic downturn. Amount of additional capital reserve is determined based on stress testing results performed by the Bank.

The regulations of the European Parliament and Council require that Latvian banks maintain a capital adequacy ratio based on financial statements prepared under IFRS as adopted by the EU of 8% of risk-weighted assets. In 2018 the Bank determined that its target capital adequacy ratio is 16%. As at 31 December 2018, the Bank's capital adequacy ratio calculated in accordance with the above requirements was 22.28% (31.12.2017: 21.59%)

The Bank's eligible capital also exceeds the adequate capital to cover all significant risks defined during the capital adequacy assessment process.

The Bank applies the definitions set out in European Parliament and Council Regulation (EU) No. 575/2013 (26 June 2013) on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012 related to equity and equity calculation methodology, which is included in the Bank's equity capital and equity requirements calculation procedure according to the instruments held by the Bank. Namely, the equity capital in the calculation is comprised of the first-level elements, which include paid-in capital, capital reserves, retained earnings, including current year profit, not subject to dividend payment, net of negative revaluation reserve of available-for-sale financial assets and intangible assets, and the second-level element, namely subordinated capital.

Capital adequacy assessment is governed by a Bank's internal document named the Capital Adequacy Assessment Policy.

The capital adequacy calculation of the Bank can be disclosed as follows:

		31.12.2018.	31.12.2017.
1.	**Equity** *(1.1.+1.2.)*	**27 802**	**26 669**
1.1.	1. level capital *(1.1.1.+1.1.2.)*	27 802	26 669
1.1.1.	*First level base capital*	27 802	26 669
1.1.2.	*First level additional capital*	-	-
1.2.	2. level capital	-	-
2.	**Total risk exposure value** *(2.1.+2.2.+2.3.+2.4.+2.5.+2.6.+2.7.)*	**124 794**	**123 529**
2.1.	Risk- weighted exposure amount for credit risk, counterparty credit risk, dilution risk and unpaid delivery risk *(2.1.1.+2.1.2.+2.1.3.+2.1.4.+2.1.5.)*	95 793	99 524
2.1.1.	*Central goverments and central banks*	1 914	735
2.1.2.	*Authorities*	14 419	20 231
2.1.3.	*Companies*	42 349	36 347
2.1.4.	*Secured by real estate mortgage*	23 118	23 006
2.1.5.	*Other assets*	13 993	19 205
2.2.	Total exposure value of settlement / delivery	-	-
2.3.	Total exposure value for position risk, foreign exchange risk and commodity risk	1 566	1 191
2.4.	Total exposure value for operational risk	27 432	22 814
2.5.	Total exposure value of credit value adjustments	3	-
2.6.	Total exposure value associated with large exposures in the trading portfolio	-	-
2.7.	Other risk values	-	-
3.	**Ratio of capital and capital levels**		
3.1.	1.level base capital ratio *(1.1.1./2.*100)*	22.28%	21.59 %
3.2.	1.level base capital surplus (+)/ deficit (-) *(1.1.1.-2.*4.5%)*	22 186	21 110
3.3.	1. level ratio *(1.1./2.*100)*	22.28%	21.59 %
3.4.	1. level surplus (+)/deficit (-) *(1.1.-2.*6%)*	20 314	19 257
3.5.	**Total capital ratio** *(1./2.*100)*	**22.28%**	**21.59 %**
3.6.	Total capital surplus (+)/ deficit (-) *(1.-2.*8%)*	17 818	16 787
4.	**Total requirement of capital reserve** *(4.1.+4.2.+4.3.+4.4.+4.5.)*	**3 236**	**3 189**
4.1.	Capital conservation reserve (%)	**3 120**	3 088
4.2.	Specific countercyclical capital reserve for institution (%)	**-**	-
4.3.	Systemic risk capital reserve (%)	**59**	49
4.4.	Systemically important institution's capital reserve (%)	**57**	52
4.5.	Other systemically important institution's capital reserve (%)	**-**	-
5.	**Capital ratios taking into account corrections made**		
5.1.	Correction related to provisions or value of assets, arising from application of special policy for capital adequacy calculation purposes	-	-
5.2.	First level base capital ratio, taking into account correction made in line 5.1	22.28%	21.59%
5.3.	First level capital ratio, taking into account correction made in line 5.1	22.28%	21.59%
5.4.	**Total capital ratio, taking into account correction made in line 5.1**	**22.28%**	**21.59 %**

NOTE 29 EVENTS AFTER REPORTING DATE

During the period between the last day of the reporting period and the date of signing the financial statements there have been no events that would require adjustment to the financial statements.

* * *

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Independent Auditor's Report

To "LPB Bank" AS shareholders

Translation from Latvian

Our Opinion on the Financial Statements

We have audited the accompanying financial statements of LPB Bank AS (the Bank) for the year ended 31 December 2018, set out on pages 9 to 83 of the accompanying annual report, which comprise: the statement of comprehensive income for the year ended 31 December 2018, the statement of financial position as at 31 December 2018, the statement of changes in equity and reserves, the cash flow statement and the notes to the financial statements for the year ended 31 December 2018.

In our opinion, the accompanying financial statements give a true and fair view of the "LPB Bank" AS financial position as of December 31, 2018 and of it's operating results and cash flows for the year ended 31 December 2018, in accordance with International Financial Reporting Standards as endorsed by European Union (hereinafter IFRS).

Basis for Opinion

In accordance with the Law of Audit Services of the Republic of Latvia ("Audit Services Law"), we conducted our audit in accordance with International Standards on Auditing (hereinafter – ISA), recognized in the Republic of Latvia. Our responsibilities under these standards are described below in the Auditor's Responsibility for Auditing the Financial Statements section of our report.

We are independent of the Bank in accordance with the requirements of the Professional Accountant's Code of Ethics (IASB) and the Independence Requirements of the Audit Services Law applicable to our audit of our financial statements in the Republic of Latvia. We have also complied with the other principles of professional ethics and objectivity as set forth in the Audit Services Act.

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

Emphasis of matter

We draw attention to note 1 of the notes to the financial statements. During year 2017 and 2018 the Finance and Capital Market Commission (FCMC) performed review of Anti Money Laundering (AML) system in the Bank and applied administrative penalty due to issues identified and additionally to other requirements, required the Bank to perform independent external AML audit. In 2019 external AML audit was performed which resulted in action plan to resolve AML issues, which was submitted to FCMC. Bank's compliance with AML laws and regulations, which can impact going concern applicability, depends on its ability to successfully implement the abovementioned action plan and to address weaknesses in the AML area.

We do not qualify our opinion regarding this matter.

Key Audit Matters

Key audit matters are those matters that, based on our professional judgement, were most significant in the audit of the current financial statements. These issues were generally addressed in the context of the audit of the financial statements and the drafting of an opinion on the financial statement, so 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:

The key audit matter	**Measures taken**
Assumptions and estimates concerning the valuation of loans	
The recognition and measurement of financial instruments under IFRS 9 Financial instruments is a relatively new and complex area requiring significant consideration in order to determine the required amount of provisions for the reduction of the value of loans.	Our audit procedures included but were not limited to: • We have involved the verification of the correctness of the methodology for

The main areas of consideration are: • Interpretation of the requirements for the reduction in the value of loans established in accordance with IFRS 9 "Financial instruments", as reflected in the Bank's expected credit loss model (CLM) • Identification of loans that have a significant deterioration in the quality of the credit. • Assumptions to be used in the CLM model, such as expected future cash flows and future macro-economic factors.	evaluating financial instruments and the related calculations applied by IFRS experts. • We assessed whether the Bank's accounting policy for the classification and measurement of financial assets complies with IFRS. • We conducted interviews with specialists involved in evaluating the Bank's management and evaluation of financial instruments. • We assessed whether the Bank correctly classifies loans at amortized cost with a business model "Held solely for principal and interest" when handling loan agreements on sample basis and assessing the associated commissions ' ability to be commensurate with this business model. • We have assessed whether the Bank classifies loans in categories according to their credit risk. • We evaluated the compliance of loss given default (LGD) and Exposure at Default (EAD) calculations with IFRS. • On sample basis we dealt in detail with individual loans individually and assessed the management assessment of the recoverable amount of these loans. We examined the underlying assumptions for the reduction of loan value, including future cash flow forecasts, the valuation of the underlying collateral and the assessment of recoverable amount in the event of default.

The key audit matter	**Measures taken**
Compliance with laws and regulations – compliance with AML requirements	
As mentioned in the paragraph "Emphasis of Matter" and the financial statement note 1, during year 2017 and 2018 the Finance and Capital Market Commission (FCMC) performed review of Anti Money Laundering (AML) system in the Bank and applied administrative penalty due to issues identified and additionally to other requirements, required the Bank to perform independent external AML audit. In 2019 external AML audit was performed which resulted in action plan to resolve AML issues, which was submitted to FCMC. Audits of supervisory authorities and any subsequent actions related to the prevention of money laundering and terrorist financing should be considered as a key audit issue not only in relation to the management estimates for existing and possible future fines, but also in the context of the eventual impact on the going concern principle.	Our audit procedures included but were not limited to: • We have get familiar with the procedures and controls used to prevent money laundering. • We tested the controls used in establishing relationships with new customers and ensuring compliance with the legal requirements for anti-money laundering. • We examined the application of the Bank's procedures for the prevention of money laundering and terrorist financing relating to sample of depositors and their transactions. • We discussed with the Bank's representatives the strategy used to terminate the business relationship with customers immediately after the changes of AML law. • We checked the FCMC report on the weaknesses in the anti-money laundering and terrorist financing shortcomings identified in its review.

	• We checked the Bank's and the FCMC correspondence, including the FCMC decision to impose sanctions and measures for the Bank. • We checked the external AML audit report and related remediation action plan and associated correspondence with the FCMC. • We compared our observations with FCMC and external AML audit observations. • We discussed these issues with the Bank's responsible employees for the enforcement of the anti-money laundering requirements, the plan for improvement in this area and its implementation. • We reviewed the observations made by the FCMC and met with the FCMC representatives to discuss the results of the last inspection and their impact on the Bank's operations.

Reporting on Other Information

The Bank's management is responsible for other information. Other information consists of:

- The management report provided on page 3-7 of the accompanying annual report;
- Information on Council and board members provided on page 8 of the accompanying annual report;
- Statement of management responsibility provided on page 9 of the accompanying annual report.

Our opinion on the financial statement does not cover the other information contained in the annual report and we do not provide any proof of it except as stated in our report under other reporting requirements under the Law of the Republic of Latvia Requirements.

In the context of the audit of the financial statements, we are obliged to look at other information and, in doing so, to assess whether this other information is materially different from the information in the financial statements or from our knowledge that we obtained in the course of the audit, and whether it contains other major discrepancies.

If, on the basis of the work carried out and taking into account the information and understanding of the Bank and its operating environment gained during the audit, we conclude that other information contains significant discrepancies, it is our duty to report such circumstances. There are no circumstances in our attention that should be reported.

Other reporting requirements under the legislation of the Republic of Latvia

In addition, under the Audit Services Act, we are obliged to give an opinion on whether the management report has been prepared in accordance with the provisions of its Regulatory Act, the financial and Capital Market Commission Regulation No. 46. "Requirements of the annual accounts of credit institutions, investment firms and investment management companies and of the consolidated Annual report".

Based solely on the procedures conducted under our audit, we believe that:

- The information provided in the management report for the reporting year for which the financial statement is drawn up is consistent with the financial statements, and
- The management notice is drawn up in accordance with the provisions of the financial and capital market 46. "Requirements for the annual accounts of credit institutions, investment firms and investment management companies, and for regulatory provisions for the consolidated Annual report".

Responsibility of the management and persons entrusted with the supervision of the Bank for the financial statements

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

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

The persons entrusted with the supervision of the Bank are responsible for supervising the financial reporting process of the Bank.

Auditor's responsibility for auditing the financial statements

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

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

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

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

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

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves 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 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 notices and approvals to be included in the auditor's report in accordance with the requirements of regulatory acts of the Republic of Latvia and the European Union in the provision of audit services to companies that are public-interest entities

On 3 April 2019 we were appointed to carry out the audit of the financial statements of AS "LPB Bank" for the year ended on 31 December 2018. The total continuous uninterrupted period of engagement is 1 year and includes reference periods from the year ending on 31 December 2018.

We confirm that:

- Our auditor's opinion is consistent with the additional report submitted to the Audit Committee of the Bank;

- As stated in article 37.6 of the Latvian Audit Service Law, we did not provide to the Bank non-audit-related prohibited services (NASs) referred to in article ES (1) of Regulation (ES) No 537/2014. We also maintained independence from the Bank during our audit.

The sworn auditor responsible for the audit project, which results in an independent auditor's report, is Ingrida Latimira.

SIA „Grant Thornton Baltic Audit"
License No. 183

Silvija Gulbe
Member of the Board

Ingrida Latimira
Sworn Auditor
Certificate No 47

Riga,
2nd September, 2019