Joint Stock Company
"PNB BANKA"

Unaudited Consolidated and Separate Financial statements
prepared in accordance with International
Financial Reporting Standards
as adopted by the European Union
for the year ended 31 December 2018

CONTENTS

REPORT OF THE CHAIRMAN OF THE SUPERVISORY COUNCIL AND THE CHAIRMAN OF THE MANAGEMENT BOARD

Dear Shareholders, Clients and Partners!

2018 was a year of turbulence and change in the Latvian market. After the release of the FinCEN report on AB.LV Bank in February 2018, and the arrest of the Governor of the Bank of Latvia, there was significant pressure on the banking sector. Coupled with 4-5 months of political uncertainty as to what would change in the regulatory basis around AML, the first half of 2018 was very stressful for our clients and our employees. The second half of 2018 was more certain; the Bank implemented an updated AML strategy; reviewed and revised its entire customer portfolio based on this; reinforced its Latvian business strategy (a focus on Seniors and the underbanked); and rebranded. All of these tasks were organically implemented, well communicated and ensured that our customers were well served throughout.

In 2018 the Bank’s net operating income was 35.4 million euro (in 2017: 44.5 million euro), but net profit was 1.1 million euro (in 2017: losses 43.9 million euro). In comparison with the previous year the Bank’s net operating income decreased by 9.1 million euro (20.4%).

Latvian and Global Economy

The Latvian economy continued to outperform the EU in 2018. GDP growth was markedly higher than the EU average at 4.9% (versus an average of 1.4%). Irrespective of the aforementioned turbulence in the market, the non-financial sectors performed well, with increases in exports of timber products, base metal products, means of transport, food industry products, transport services (both air transport and railway transport services), information and communication services. The impact of Brexit has been felt, but not as strongly as initially expected. Inflation rates were as expected at 2.6%, and are forecast to remain stable at this rate.

2018 saw significant changes to the tax legislation in Latvia. Though this was not welcomed by business, the impact to the economy (and to the State Budget) has, again, been less than forecasted.

2019 is forecast to be another calm year in terms of key economic indicators, with tax policy and Brexit impacts to be less than forecast in 2017. At the same time, however, there is stagnation in foreign direct investment (2018: 237 million euro, 2017: 386 million euro), and if this continues then the long-term economic forecast may have to take a step-down.

The AML Challenge

2018 saw significant turbulence in the market, surrounding issues related to money laundering. Further to the AB.LV scandal in February 2018, further AML crises in Estonia and the neighbouring states ensured that the focus for the Bank’s management throughout 2018 was AML. The key task coming out of this was a full review of the customer portfolio, focusing on the International Business segment initially, and ensuring that it was of a high level of quality to meet new legislative requirements that were brought in in May 2018. Aside from the client review (which continued through to September 2018), the Bank also had to re-work its strategy and defend this with the Latvian regulator (the Financial and Capital Markets Commission, the “FCMC”).

The Bank has seen such challenges before, and with an understanding of the potential reduction in customer flows, the Bank began a cost optimization process that led to a cost saving of 9.1% in compared to the initially planned. However, this was not at the expense (sic) of the systems and personnel in risk or control management.

The Bank pays special attention to AML training of its employees and provided both internal and external training for its employees including international ACAMS certification.

Rebranding

In late 2017 the Management Team had taken the decision to re-brand the Bank in early 2018. However, with turbulence surrounding the AB.LV scandal in February 2018, opacity on regulatory changes through to May 2018, and then general elections in October 2018, the Bank decided to rebrand as PNB Banka in November 2018. There is no specific meaning of the three letters “P”, “N”, “B”, but we like to think that we’ve taken the best of our past with us (“NB – Norvik Banka”), and added something new (“P – People, Personable”). A more personable, friendlier Bank with the same great products and services.

Latvian Banking

Though the AML Challenge was focused on our International Business customers, the efforts of our Latvian Banking team were not reduced. In 2018 we continued developing our Senior segment strategy, with the goal of becoming the number one bank for Seniors and the underbanked in Latvia. In cooperation with the Latvian Pensioners’ Federation, the Bank took part in a number of workshops, seminars, and lectures on banking services for the Senior segment, and helped to improve the level of financial education in this customer group.

The Bank currently employs 12 Seniors in the branch network, and they are a valuable customer service team, and provide some of the most effective front-line feedback.

2018 was a centenary jubilee for the Latvian Republic, and as part of these celebrations, the Bank also congratulated 10 centenarians on their birthdays throughout the year.

Branch Network

The Bank continued to optimise its branch network by opening new or redesigning existing customer service centres in accordance with the bank’s new interior design concept, and new brand. At the end of the reporting period, there were 44 customer service centres and branches.

Winergy - Business

SIA Winergy continues to service the loans issued to the company and since becoming part of the Group has repaid 1.4 million euro. The Bank continues to treat this asset as “For Sale”, and has a number of interested buyers. However, in September 2018, and in early 2019, the government has indicated that it will remove feed-in tariffs from green energy electricity providers. Though this does not impact the forecast financials significantly, investment appetite has been reduced. The sale of the asset will have a significant impact on the Bank / Group balance sheet and will make it possible to significantly reduce the risk assets and increase the Bank / Group capital adequacy ratio.

Winergy - Legal

The criminal case, wherein seven persons were accused of large-scale fraud in connection with the implementation of SIA Winergy project, was forwarded to the court at the beginning of 2018. The Bank is recognized as a victim in a criminal case.

The Bank’s international investment claim against the Republic of Latvia

On 12 December 2017, the Bank and its controlling shareholders (the Claimants) filed an arbitration claim, under the UK-Latvia bilateral investment treaty, against the Republic of Latvia at the

International Centre for Settlement of Investment Disputes (ICSID). ICSID, which is a part of the World Bank Group and has been established to resolve international investment disputes between investors and States. The Claimants commenced the arbitration to obtain compensation for the unfair, arbitrary, and unreasonable regulation of the Bank by the FCMC in violation of the Latvia's obligations under international law.

An ICSID Tribunal was initially constituted in July 2018 to consider the claims lodged by the Claimants. It was, however, reconstituted on 29 September 2018 following Latvia's challenge to the arbitrator appointed by the Claimants. The Tribunal has to date addressed a number of preliminary matters that have arisen in the proceedings. The Tribunal heard argument in December 2018 on the Claimants' application for interim relief and Latvia's application for bifurcation of the proceedings. Both decisions are pending. In due course, the Tribunal will adopt a final decision on the merits of the Claimants' case based on international law. This decision will be binding and immediately enforceable. The Claimants' attempts to negotiate a settlement with Latvia, both prior to, and after the filing of the claim, have been unsuccessful. The Claimants still hope to reach a mutually acceptable settlement agreement with Latvia. The arbitration in no way affects the Bank's performance plans.

Reputation Risk Management

In October 2018 Sigma Ratings Inc. announced its first-ever Sigma Rating for a Latvian banking institution: PNB Banka achieved a rating outlook of BB+ (Stable), which places it within reach of the "Industry Leader" segment (BBB and above).

By means of this independent rating on financial crime vulnerability and governance, PNB Banka is demonstrating the differentiated strength of its compliance controls and efforts to uphold global financial transparency standards.

Sigma assessed the Bank's financial crime risk as "MODERATE" with control effectiveness as "ESTABLISHED". The rating notes that the bank broadly has strong financial crime controls in place and has made considerable progress in strengthening its risk posture. The Bank is the first Latvian bank to receive a rating of this kind.

Participation in Events and Conferences

The Bank continues to be the face of Latvian banking in the International Business segment; talking part in seminars and conferences across the CIS, with a focus on Moscow and Kiev. In 2018, the Bank's senior team attended Intax Expo, Intax Private Capital Forum, Intax Forum Ukraine, WealthPro, InvestPro, Business aviation club and "Level Up" (Deloitte) conferences in Moscow, Kiev, Almaty and Limassol (Cyprus).

However, the most interesting conference was in Riga – the Bank was a major sponsor for the Digital Freedom Festival in late November 2018. The Bank hosted several discussions during the Festival, with a focus on blockchain technologies, cryptocurrencies, modern financial technologies and cybersecurity.

Pension fund management business

Tier II pension fund management business (AS Norvik Ieguldījumu Pārvaldes Sabiedrība, PNB Asset Management (PNB.AM)) continued to evolve successfully, however the number of clients dropped by almost 2 thousand persons.

The number of members of pension plans managed by PNB.AM was 81 445 persons (as of 31 December 2017 – 83 319 persons), while the amount of assets under its management increased up to 135.83 million euro (in 2017 – 134.73 million euro).

ПАО "Норвик Банк" (Russian Federation)

In 2017, the Bank concluded an agreement for the sale of ПАО "Норвик Банк" (Russian Federation), as a result of which in 2018 the Group lost control over the subsidiary. This transaction was concluded within the framework of the policy of the Group aimed at the reduction of exposure in the Russian Federation. The sale of the subsidiary resulted in a significant reduction in the Group's capital requirements, and, as a result, improved the Group's capital adequacy ratio.

Financial results

The Bank’s main balance sheet figures are as follows:

- total assets as of 31 December 2018 was 569.5 million euro, a decrease of 219.6 million euro comparing to the indicators of as of 31 December 2017, which was mainly determined by the outflow of client’s deposits;
- the clients’ loan portfolio at the end of 2018 amounted to 179.2 million euro (a 34.4 million euro decrease year-on year);
- the liquidity ratio at the end of the reporting period reached 64.61% (as of 31 December 2017 – 61.33%).

The Bank follows a liquidity management strategy that provides a high rate of return balanced for the risk assumed, whilst purposefully maintaining significantly higher than the minimum required level of reserves (the minimum required liquidity ratio is 50.00%).

From the Bank’s income statement, key highlights are as follows:

- net interest income in 2018 decreased to 2.9 million euro comparing with 7.3 million euro in 2017, following a reduction in the balance sheet of the Bank;
- net fee and commission income remained at last year level of 21.9 million euro;
- in 2018 impairment gain on loans and investments were recognized in amount of 2.4 million euro (in 2017 impairment losses were 51.9 million euro), that includes reverse of impairment losses on financial assets in amount of 3.0 million euro.

Thus, the Bank’s net profit before tax in 2018 was 1.6 million euro (comparing to losses in amount of 43.3 million euro in 2017).

The remuneration to the Bank’s sworn auditor SIA PricewaterhouseCoopers in the reference year was calculated in the amount of 572 thousand euro, in particular:

- audit of the annual report – 275 thousand euro;
- non-audit fees – 297 thousand euro.

The amount of remuneration of members of the Council and the Board, as well as the total amounts of transactions concluded with the Bank are given in Notes 41 to this report. The Bank has no obligations related to pension payments to the former members of the Board and the Council.

The Bank’s total comprehensive losses during the reporting period was 16 800 thousand euro, while comprehensive losses accumulated during the previous periods were 70 201 thousand euro.

As regards shares/equity, key highlights are as follows:

- the Bank’s capital adequacy ratio as of 31 December 2018 was 12.48% compared to 14.24% in December 2017 and the minimum regulatory requirements in the amount of 14.00%;
- the Group’s capital adequacy ratio as of 31 December 2018 was 11.26% compared to 10.41% in December 2017 and the minimum regulatory requirements in the amount of 13.55%.

No dividends were paid in the reporting period, and no distribution is planned in 2019.

One of the main tasks in the Bank’s daily operation is risk assessment – mainly credit, market and liquidity risks (*information on the risks the Bank/Group are exposed to is given in Notes 7 to this report*). The Bank permanently controls cash flow liquidity ensuring the Bank’s mandatory ability to fulfil its obligations towards depositors and creditors under the circumstances of an economic environment with high mobility. The Bank’s management improves and enhances the efficiency of policies, approaches and procedures the lending sphere and in relation to activities on the financial markets, reducing the Bank’s and the Group’s exposure to inherent risks when performing these activities.

In 2019, the Bank plans to improve its capital adequacy ratio, reduce its large exposure ratios and ensure a more profitable year.

Events after the Reporting Period

In March 2019 Natalija Ignatjeva was appointed to the position of Member of the Management Board, responsible for anti-money laundering.

AS PNB Banka is a joint stock company registered in the Republic of Latvia and operating according to the laws of the Republic of Latvia and pursuant to the licence No.30 issued by the Bank of Latvia on 27 April 1992. Registration No.40003072918. AS PNB Banka’s legal address: 15-2 Elizabetes Street, Riga, LV-1010, Latvia. Information on the composition of the Group and investments in the equity of subsidiaries is given in Note 3 to this report.

The composition of the Council and of the Board as of 31 December 2018 and changes thereto are given on Page 16 of this financial report.

At the beginning of 2018 the Group employed 1 364 staff members (including the Bank – 614), while as of 31 December 2018 the Group employed 891 staff members, (including the Bank – 538).

Loyalty rewards!

Member of the Supervisory Council A. F. Rasmussen	Chairman of the Management Board O.R.Bramwell

Riga XX July 2019

NON-FINANCIAL STATEMENT

Business Model

PNB Banka (the “Bank”) is a Latvian universal bank with approximately 100 000 customers, of which 96% are Latvian residents, while the remaining 4% are international customers. The Bank provides a full range of services to both of its customer segments, from ensuring daily utilities payments to complex financial products, including insurance products offered in cooperation with the Bank’s partners.

In 2018, the Bank proceeded with the implementation of its previously adopted strategy by focusing greater attention on the Latvian business segment, and on the servicing of senior customers in particular. It is a customer segment where we are aware of our competitive advantage, supported by the largest customer service network in Latvia and knowledge of the financial needs of senior customers acquired over the years.

The Bank offers financial solutions to everyone that needs them, irrespective of their financial position, social status or age. The Bank cares for those customers that need financial guidance the most, and whose financial needs are not always understood and met by other banks. The Bank does this by offering a wide range of products, adapted to its customer’s needs and thus raising their standard of living.

The Bank respects each client – from those looking to use a modern internet bank and mobile phone applications to those that feel safer when settling daily money matters at a branch in the way and in the language that they understand. While other banks optimise their resources and limit their face-to-face accessibility, the Bank is able to provide services to customers in the most customer-friendly manner, paying diligent attention to their habits and needs; a large number of people still choose to carry out their financial transactions in person.

In 2018, the Bank proceeded with the modernisation of its customer service centres to ensure that the design would be attractive to customers and provide an even more convenient service. To improve face-to-face availability of the Bank’s services and paying due attention to customer convenience, the Bank still has a large branch network, with 44 customer service centres throughout Latvia.

The Bank services the following client segments: private retail customers; corporate retail customers; municipalities; international retail and corporate customers; VIP customers. The Bank offers the following products to its customers: current accounts; internet bank; credit and debit cards (also premium-level); customer service sets (bundled product offering); 2nd pension pillar funds management; investment products; securities trading services; currency exchange; cash operations; transaction banking (both local and international); short-term lending products; trade finance solutions; guarantee services; brokerage services; marginal trading; safety deposit boxes, as well as a wide range of partners’ offers provided on more advantageous terms. During 2018, new insurance products were introduced, such as OCTA, Zaļā karte (Green Card), health insurance and sport insurance.

In 2018, the Bank started cooperation with Air Baltic, under which it granted loans to Air Baltic Pilot Academy’s students aspiring to become the company’s future pilots for them to cover their tuition fees. Taking into account the fact that the tuition fee of the training course “Integrated Airline Transport Pilots” in Latvia for one student costs EUR 69 thousand, the Bank has offered the students the best and most favourable terms of lending.

Cooperation with the municipalities segment is also worth noting separately – in 2018, cooperation was started with and accounts were opened for 28 municipalities. In total, the Bank is already cooperating successfully with 30 municipalities, ensuring mainly incoming Real Estate Property Tax payments. In 2018, cooperation with Jelgava City Council was started regarding the introduction of a

NON-FINANCIAL STATEMENT

Citizen Card. Currently, using the Bank’s Citizen Card, Jelgava’s citizens have the possibility to receive subsidies offered by the municipality and a more favourable price for using public transport in the city. Moreover, a number of municipality companies started successful cooperation and opened accounts with the Bank. Cooperation with the Rezekne Social Service has also been established, under which the citizens of Rezekne have the possibility to receive municipality allowances at the Bank’s Rezekne branch in cash or via payment transfer to their bank account.

In continuation of servicing of its core customer group, i.e. Latvian seniors, in 2018 the Bank developed products specifically for these clients’ needs, e.g. consumer loans to seniors, allowing them to receive additional funds at the age of up to 80 years old, as well as health insurance for seniors.

In 2018, the Bank changed the operational model of its contact centre, turning to a more pro-active customer servicing model and providing customers with the possibility to apply for certain banking services remotely, e.g. insurance products or the customer service bundles most appropriate for the customer.

Additionally, in 2018 cooperation with a number of strategic partners was started. To expand the Bank’s services for legal entities and ensure the acceptance of cards in points-of-sale, a cooperation agreement with Nets was concluded. Nets is one of the largest providers of card transaction processing services in Europe. Moreover, in autumn 2018, the Bank joined the Credit Information Office’s database to assess its clients’ creditworthiness, promote fair borrowing and motivate customers to fulfil their debt obligations.

At the end of 2018, there was a significant event in the bank’s operation – on 09 November, Norvik Banka changed its name to PNB Banka. The change of the Banks’ name was the next logical stage in the development of the Bank following on from the change of the strategy, focus on Latvian Banking, and strengthening of the management team. In the new name PNB Banka, the Bank added a new value – a “P”erson because a person, personal service and a human-touch, is and will be the Bank’s priority. Along with the change of the name, the Bank demonstrated once again its availability to everyone who appreciates the most advantageous financial services that are most adequate to their needs. The key values of the Bank’s business did not change – the Bank continues to provide financial services to everyone without distinction as to the customer’s wealth, status or age.

In parallel with the introduction of the new name, the Bank improved its customer servicing process by introducing new quality standards at all levels of the Bank’s operations, including employee trainings.

The change of the Bank’s name to PNB Banka will be implemented across the branch network gradually throughout 2019.

The second major line of business is International Business. 2018 was not an easy year for the Latvian banking sector in this segment. Changes in the regulatory requirements and legislation significantly restricted the possibility to work with international customers and specifically those with “shell” companies. These changes, though welcome, have substantially reduced the international customer share in the Latvian banking sector.

The International Business is aimed at large corporate clients and private persons with high level of incomes that has fully adapted to the new reality. During the last years, the Bank has fully complied with the policy of refusing service to high-risk customers. The work of the International Business is fully guided by the standards of OECD, FATF, as well as the legislation of the Republic of Latvia in the sphere of the prevention of money laundering and terrorism financing. The Bank complies with not only Latvian and European AML requirements, but also with the standards of the US Bank Secrecy Act and the best global practice of working with international customers.

The Bank provides a full range of banking services for its international business customers, both legal entities and individuals, and the Bank offers: opening and servicing of multi-currency accounts; 24/7 remote services; multi-currency money transfers; a wide choice of payment cards; term deposits; investment services; brokerage; asset purchase and sale transactions; private banking and more.

The Bank regularly participates in CIS and European business conferences, organised by large event operators such as Deloitte, Bosco-Conference, Intax-Group, CIS Wealth and others.

Sharing Competence

At the beginning of the 2nd quarter of 2018, the Bank started a partnership with Forbes Latvia by contributing a column 'Story of Experienced Entrepreneur', the aim of which is to provide useful business advice to the younger generation of entrepreneurs by senior entrepreneurs that are ready to share their experience and inspire. Within the framework of this cooperation 12 entrepreneurs in video interviews shared their business philosophy, achievements and mistakes to encourage the potential business starters to strive for and attain their own goals. In 2018, four interviews were created; the cooperation will continue in 2019 as well.

In the 2nd quarter of 2018, the Chairman of the Board of the Bank led a guest lecture cycle at *Riga Business School*, during which students were told about topical issues in the financial sphere, reacting to the developments in the banking sector in Latvia and what consequences it may have to individual banks and the services they provide, as well as about international trends in the financial sector. In 2019 the guest lecture cycle will continue.

May 2018 was important to the banks because on May 25, 2018 the General Data Protection Regulation (GDPR) came into force. The Bank organised a seminar to which its corporate customers were invited with the aim to explain the last nuances regarding the introduction of GDPR. The Data Protection Officer of the Bank participated in the meeting of the Data Protection Advisory Support Council established by the Government of Latvia, during which many issues regarding the application of GDPR in reality were discussed. In the autumn of 2018, at the meeting organised by the Ministry of Justice and the Finance Latvia Association to exchange experience, the Bank's Data Protection Officer met officials of the National Centre for the Personal Data Protection of Moldova, to share experience regarding the introduction of personal data protection rules in banking.

In the 3rd quarter of 2018, the Bank conducted a survey on payment habits in society, and it showed that most of the seniors aged 60-85 use payment cards in their everyday life, but that only slightly over half (55%) recognise them as their main payment means. The survey identified that the seniors who prefer settlements in cash were concerned that their money could disappear from the card or be wrongly debited at the moment of payment. To encourage seniors to use a modern means of payment, in August and September 2018 the Bank, in cooperation with Mastercard, launched an educational campaign aimed at educating the seniors about the use of digital services and payment cards. The Bank invited the children of the seniors to get involved and help them learn how to use this convenient form of payment, while the branches of the Bank invited seniors to learn how to use the internet bank.

In the 4th quarter of 2018, the Chairman of the Board of the Bank gave a presentation "Blockchains as the Instrument of Trust" at the conference "Cryptocurrency & Blockchains: Where is the Money?" organised by the magazine "Kapitāls". Around 200 participants attended the conference – opinion leaders, business leaders, regulators and consultants, looking to learn more about topics such as cryptocurrencies and find out what the possibilities of blockchain technology are and which businesses are using it already.

At the end of the year, the Bank participated in the event dedicated to the Independence Day of Kazakhstan and the Day of the First President of Kazakhstan. The Bank was a key partner at the event. The Chairman of the Board of the Bank congratulated the participants of the event and expressed a hope about the further development of business relations between Latvia and Kazakhstan. Mr Bramwell pointed out that cooperation with companies of Kazakhstan is one of the most important directions within the Bank’s international business segment. The event was attended by well-known political figures, entrepreneurs, journalists and representatives of the cultural community.

Procedures and policies

To present itself as a socially responsible company, the Bank sets the respective operational standards in its internal documents.

Personnel Policy

The goal of Personnel policy is to ensure efficient practice of solution of personnel management issues at the Bank in compliance with its existing corporate values, ethical standards and long-term interests in order to successfully achieve goals of the Bank and implement its strategy not encouraging risk taking that exceeds risk tolerance determined by the Bank and ensuring corresponding capital adequacy.
The Policy set the guidelines to the personnel management processes: personnel planning, selection of employees, integration of new employees, personnel motivation, remuneration system, work evaluation, personnel training and development, personnel career management.

Bank’s Standards of Professional Conduct and Ethics and Conflicts of Interest Management Policy

By this Policy the Bank determines the Bank’s corporate values and standards of professional conduct and ethics and sets the following goals regarding prevention of conflicts of interest:

- to create an efficient and effective internal control system, so that the Bank is able to fulfil all requirements regarding prevention of conflicts of interest, as set in the regulatory acts effective in the Republic of Latvia;
- to minimize all possible risks and losses that are connected with conflicts of interest and that can adversely effect the Bank’s activity and reputation;
- to identify and prevent conflicts of interest, so that the Bank’s activity complies with the high standards of integrity, by ensuring a fair attitude to all clients, in order to realise this goal.

Policy on Prevention of Conflicts of Interest in Providing Investment Services and Ancillary Investment Services

This document helps to the Bank to determine and identify the key circumstances that may give rise to conflict of interest in the course of provision of investment services and ancillary investment services, that, in turn, may constitute a hazard or harm for the interests of one or more clients, as well as to identify actions to be performed in order to prevent or reduce to the extent possible a possible conflict of interest and it’s negative consequences.

Gift acceptance Policy

This Policy is developed in order to assist the employees take the impartial and fair decision on a gift or benefit offer acceptance, and do not let the employee to affect the Bank’s reputation with any actions resulting from this decision.
The policy defines the gift and benefit offers acceptance or rejection criteria, principles and limits.

Compliance risk management Policy

The goal of this document is to create an effective compliance-risk management policy so that the Bank is able to fulfill compliance law, rules, and standards and, therefore, avoid the risk of, material financial loss, legal or regulatory sanctions, or risk of damage of the Bank's reputation because of occurrence of compliance risk.

Anti-money laundering and counter-terrorism financing and sanctions compliance policy

The Policy is developed in compliance with the statutory requirements and the good practice in the AML/CTF and Sanctions Compliance area.

With this Policy the Bank defines the following goals:

- to establish an efficient internal control system to enable fulfilment of all the requirements laid down in the regulatory enactments of the RL in the AML/CTF and Sanctions Compliance area;
- to minimize the possible risks and losses incurred as a result of money laundering and terrorism financing and violation of Sanctions, which may have a negative impact on the Bank's business activity;
- to bring the Bank's practice more in line with the international standards of good practice in the AML/CTF and Sanctions Compliance area.

Reputation risk management Policy

The purpose of this Policy is to create the Bank's reputation risk management system in order to:

- create, support and protect the good reputation of the Bank,
- comply with laws, regulations and standards which regulate the activity of the Bank,
- ensure accordance with the legal interests of the clients, shareholders, depositors and partners of the Bank.

Operational Risk Management Policy

The purposes of the Policy are to minimize the Bank's possible losses that could arise due to inadequate or unsuccessful internal processes, or that could result from other people's actions, system errors or from external events. The Policy defines the Bank's Operational risk sources and objects, as well as sets and establishes efficient principles and methods for Operational risk management.

Anti-Bribery and Corruption Policy

The Bank joins and follows Anti-Bribery and Corruption Policy developed by Finance Latvia Association.

In accordance with this document, the Bank undertakes not to tolerate corruption in our own operations as well as ensure that it is not involved in any financial transactions that are associated with corruption, including commercial corruption.

The Bank identify corruption risks and take them into consideration for developing internal procedures, monitor the probability of such risks, train employees to prevent their engagement into corruptive behavior during performance of their professional duties and to identify the potential cases of corruption in the operations of their customers. The Bank organize it everyday business operations in accordance with the best corporate standards for preventing corruption. The Bank undertakes to maintain political neutrality.

Digital Development

This has been the third recurrent year that the Bank has been the official bank of the Digital Freedom Festival, the biggest digital technology event in Riga. *DigitalFreedomFestival* took place on 30 November and 1 December with the main theme being devoted to the topic of Human&Machine. The conference included lectures and discussions on artificial intelligence, cyber security, smart cities and digital detox gathering more than 1500 start-ups, investors, representatives of corporations and policy-makers from around the world.

On 30 November, the Investor Day, sponsored by the Bank, took place where investors, corporations and start-ups networked for future co-operation. On the Investor Day the following gave investor presentations and contributed to the pitch competitions and discussions: the world-leading accelerator *500 Start-ups* (USA); European Investor and Mentor Collective *Rockstart* (the Netherlands); the University of Latvia Student Business Incubator, *EIT Climate-KIC* start-up. For the third year in a row, *500 Start-ups* organised a competition in Riga for the best European seed-stage start-ups with the winner promised a place in the finals of the accelerator program and investment of 150 000 US dollars.

At the closure of the Investor Day, start-up / investor speed-dating took place. The start-ups had a few minutes of face-to-face time to meet the investors interested in their specific start-up sector.

In 3rd quarter of 2018, the Bank presented its **new internet bank**. Significant improvements had been made to the on-line bank for it to be even more user-friendly, functional and available. The habits and needs of seniors were taken into account specifically so that all the transactions would be convenient, simple to use and clear, making the internet bank the most senior friendly on-line bank.

Having tested the solutions for more convenient remote access to the bank's services, the Bank launched its new authorisation tool – **Google Authenticator**. It is a modern, secure and free mobile application making it possible to register with, approve payments and documents in the internet bank. In 2018, the number of users has tripled.
Further to this, lots of effort was invested in the development of the iOS application which turned out to be convenient and quick to use to our customers. In the first half of year 2019 it is planned to develop a similar Android OS version.

At the end of the year the Bank presented its **new homepage** whose functionality makes it possible for customers to use ever more services of the Bank remotely, increasing availability of its financial solutions.

In order to meet the needs of its customers and simplify bureaucracy, the customer service and product agreements were simplified throughout 2018 making them easier to understand for the Bank's customers. By limiting the agreements to one A4 sheet of paper, the Bank has saved several thousand sheets of paper year-on-year.

Since 2018, the Bank has offered the latest contactless cards to its customers. Over the last year, the number of contactless payments has increased by 380%.

Employer

The Bank has been declared the 6th most desired workplace in Latvia. The survey was conducted by the leading recruitment company CV-Online Latvia, and almost 8,000 people took part in voting for the best employers.

To create a solid team and a positive internal atmosphere, the Bank also develops its internal culture to ensure a work-life balance. Throughout the year, all employees are invited to take part in a number of national holidays, sporting events and internal celebrations such as the Bank's anniversary, together.

To encourage employees to live a healthy life and to go in for sporting activities outside of working hours, the Bank has a football team, in which the bank's employees train regularly and participate in various local competitions. The Bank's team has shown excellent results every year in the futsal tournament for commercial banks and other financial institutions in Latvia.

Moreover, for a number of years running (sic), the Bank's employees participate in the Lattelecom Riga Marathon where they choose running either the "fun run" of 6 km, or for the more serious athletes, the 10km, half-marathon, or full marathon race.

The Bank's HR team has introduced a weekly "Fruit Day" initiative, with free fresh fruit available for all employees.

At least once every two months, the HR team arranges a Business Breakfast where all new employees are able to have a quick breakfast with the Board, and other leading specialist employees. Usually the Business Breakfast is an introductory meeting to the Bank, with a chance for new employees to ask the Board any questions or raise any concerns, and often features a guest lecture on topical issues for the Bank.

Social responsibility

In 2018, the Bank continued to cooperate with the Latvian Pensioners' Federation by not only providing financial support to the Federation, but by also participating actively in the arrangement of various events for seniors, providing financial guidance and implementing other initiatives aimed at improving the quality of seniors' life.

There were a number of events held throughout 2018. The Bank provided meaningful, valuable support with the arrangement of seniors' fairs on Easter and Christmas holidays. Unlike in previous years, many more craftsmen than usually could join the events, where seniors' handicrafts were traded for five days. The fairs were enriched with fabulous performances of folk music groups and senior bands. Such fairs help seniors to demonstrate their individual skills and is a way to make them feel appreciated and needed and gain recognition.

In the mid-summer 2018, the Bank took part in the festival "Zelta Ritmi" (Golden Rhythms). During the event, the Bank saw how seniors indeed inspire, are active and joyful and how this great energy can be better harnessed. Throughout the festival, the Bank's team were on-hand to ensure that seniors could raise any questions and concerns they had about banking products, and the Bank's employees could offer them the appropriate financial solutions.

In 2018, the Bank's senior employment program was still of great importance, where 12 senior consultants provided other seniors with financial guidance on a daily basis and in the language that they understand. The senior employment program has helped to strengthen the Bank's relations with existing customers, promote understanding of the range of the Bank's services and attract new customers. Over a one-year period, the senior consultants have delivered more than 26 000 consultations resulting in customers being better able to select the most suitable financial solutions.

For the second year in a row, the Bank's senior consultants together with the most active seniors from the Latvian Pensioners Federation prepared traditional Christmas gifts for the Bank's customers and partners. Gingerbread cooked with sincere emotions together with the knitted Christmas presents were given to customers and cooperation partners in person. The Bank and its senior consultants wanted to underline that time spent together is the most important thing during holidays, and not the presents.

A survey conducted by the Bank in the third quarter 2018 showed that most of Latvian seniors wanted to work and be helpful. Half of the seniors (52%) who will reach retirement age in the near future or have just started receiving a pension want to re-join the labour market. The main motivation is their willingness to gain additional income (35%), be in public and socialise (19%). Remarkably, almost one fifth (19%) of the seniors over 60 are still working and, of course, many want to stay active.

The Bank is proud of its customers, most of them being past retirement age. The Bank is especially proud of its customer-centenarians. In 2018 the Bank continued with the well-established tradition – to **greet the bank’s customer-centenarians** on their grand jubilee. The managers of the Latvian Banking business personally greeted the customers who reached and even passed this important figure.
In the fourth quarter of 2018, the Bank developed a special service for **low-income families.** This allows the receipt of state benefits granted by the municipalities and accompanying account statements required for the receipt thereof at a reduced price or even at no cost. This will be a significant saving for more than 30 thousand low-income families in Latvia. Low-income persons is one of the least protected groups in society, and their well-being rests to a large extent on the shoulders of the municipalities. According to the data of the Ministry of Welfare, in 2017 more than 34 thousand low-income families received various types of benefits and allowances granted by the municipalities. Most often these families preferred to receive the benefits (even if they were some tens of euro worth) at a bank branch. The Bundle for the Receipt of Benefits developed by the Bank will allow this group of customers to settle their money matters more conveniently and advantageously, using a number of benefits along with the receipt of banking services required on a daily basis. The most important advantages for the benefit recipients will be a no-charge receipt of an account statement required to maintain the status of a low-income person and the execution of a bank power of attorney if the benefit recipient cannot visit the Bank himself to receive the benefit.

Charity

In 2018, the Bank’s employees took part in their own initiative project, supporting people staying in the social care centre in Kalupe who received Christmas gifts presented by the Bank’s employees. According to the Bank’s survey, despite the fact that society in general likens Christmas and the New Year’s Eve to family spirit and that the holidays are being waited for with joy and hopes, elderly people on the eve of the holidays feel lonely, and more rarely enjoy a festive family dinner and attend public festive events. Therefore, on New Year’s Eve the Bank invited the society to get involved and remember the close ones by visiting them to moderate the sense of loneliness among the seniors.

Culture Support

In cooperation with the Latvian Pensioners' Federation, the Bank had the honour to be a partner of a special event – **seniors’ song festival** that took place in K. Ulmanis’ museum Pikšas on 18 August 2018. This was the first song festival of the national senior bands “Latvian seniors – for the centenary of the state”. Vocal bands, folk music groups and choirs from across Latvia took part in the festival. Five groups from Latgale, 21 groups from Vidzeme, five groups from Kurzeme and 12 groups from Zemgale performed before the audience. This event brought together several thousands of participants and visitors and was called a Small Song Festival.

At the end of the year, with the holidays approaching, the Bank had the pleasure to support **Marija Naumova’s concert tour** “Pa īstam” (For real) across Latvia. In total, there were 11 fundraising concerts to support seniors. It is important for the Bank to take part in projects supporting the least supported part of the society, i.e. seniors, and promote their welfare. Therefore, it was a particular pleasure to support seniors on Christmas 2018 together with Marija Naumova.

At the end of the year, the Bank started a new tradition – to pay tribute to senior cultural workers who devoted their life to art and theatre. The Bank had the honour to host the distinguished senior stage actors of the Mikhail Chekhov Riga Russian Theatre to thank them for their contribution and set the stage for celebration of the coming Christmas holidays.
Detailed information on operation is presented in the PNB Bank Group's financial report for 2018.

SUPERVISORY COUNCIL AND MANAGEMENT BOARD

Supervisory Council as at 31 December 2018

Name	Position	Date of initial appointment
G.Guselnikov	Chairman of the Supervisory Council	19/12/2013
Anders Fogh Rasmussen	Deputy Chairman of the Supervisory Council	05/02/2018
Dr. August Gustav Paul Hanning	Member of the Supervisory Council	16/06/2017
Peter Michael Odintsov	Member of the Supervisory Council	24/11/2017

During the reporting period, following persons have resigned:
On 20/11/2018 Member of the Supervisory Council I.Smolin resigned from the position.

During the reporting period, Anders Fogh Rasmussen was appointed to the position of Deputy Chairman of the Supervisory Council.

Management Board as at 31 December 2018

Name	Position	Date of initial appointment
O.R.Bramwell	Chairman of the Management Board	19/12/2013
A.Verbicka	Member of the Management Board	10/11/2015
A.Kutyavin	Member of the Management Board	29/12/2015
D.Kalmykov	Member of the Management Board	05/08/2016

During the reporting period, following persons have resigned:
On 09/03/2018 Member of the Management Board L.Poča-Rozenblūma resigned from the position.

During the reporting period, there were no persons appointed as Member of the Management Board, but Mr. Oliver Ronald Bramwell was re-elected as the Chairman of the Management Board for a new period commencing 06/12/2018.

On behalf of the Supervisory Council and the Management Board:

Member of the Supervisory Council A. F. Rasmussen	Chairman of the Management Board O.R.Bramwell

Riga XX July 2019

STATEMENT OF MANAGEMENT`S RESPONSIBILITIES

The Management of JSC “PNB Banka” (the Bank) is responsible for preparing the Consolidated Financial Statements of the Bank and its subsidiaries (the Group) and Separate Financial Statements of the Bank.

The Consolidated and Separate Financial Statements are prepared in accordance with the source documents and present fairly the financial position of the Group as of 31 December 2018 and the results of its operations and cash flows for the financial year ended 31 December 2018, as well as the financial position of the Bank as of 31 December 2018 and the results of its operations and cash flows for the financial year ended 31 December 2018.

The management confirms that suitable accounting policies have been used and applied consistently and reasonable and prudent judgments and estimates have been made in the preparation of the Consolidated and Separate Financial Statements for the year ended 31 December 2018 set out on pages 19 to 157. The management also confirms that applicable International Financial Reporting Standards as adopted by the EU have been followed and that the Consolidated and the Separate Financial Statements have been prepared on a going concern basis and comply with the Regulations on the Preparation of Financial Statements of Banks issued by the Latvian Financial and Capital Market Commission in all material respects.

The Bank’s management is also responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the Group and of the Bank and to prevent and detect fraud and other irregularities. They are also responsible for operating the Bank in compliance with the Law on Credit Institutions, Regulations issued by the Latvian Financial and Capital Market Commission (FCMC) and other legislation of the Republic of Latvia in all material respects.

On behalf of the Supervisory Council and the Management Board:

Member of the Supervisory Council A. F. Rasmussen	Chairman of the Management Board O.R.Bramwell

Riga XX July 2019

INCOME STATEMENT

		2018		2017	
		Group	Bank	Group	Bank
	Notes	EUR'000	EUR'000	EUR'000	EUR'000
Interest and similar income		7 047	7 901	14 673	15 348
Interest and similar income from financial assets at fair value through other comprehensive income		1 514	1 514	-	-
Interest and similar expense		(6 522)	(6 486)	(8 009)	(8 072)
Net interest income	8	**2 039**	**2 929**	**6 664**	**7 276**
Fee and commission income	9	28 283	27 231	28 086	26 040
Fee and commission expense	9	(5 306)	(5 289)	(4 283)	(4 266)
Dividend income	27	75	2 170	57	2 897
Net trading income	10	6 390	7 686	8 847	10 463
Net (loss) from sales of financial assets at fair value through other comprehensive income (OCI)	11	(1 485)	(1 485)	-	-
Net gain from sales of available-for-sale financial assets	11	-	-	1 701	1 469
Net gain/(loss) from sales of non financial assets		(47)	248	(445)	-
Other operating income	12	32 337	2 785	32 392	1 979
Other operating expense	12	(17 791)	(849)	(17 920)	(1 365)
Administrative expenses	13	(45 939)	(33 968)	(46 568)	(33 438)
Depreciation and amortization	23,25	(5 620)	(2 487)	(5 342)	(2 229)
Release of other provisions		160	160	-	-
Changes in fair value of investment property	24	(1 605)	(1)	(18 040)	(158)
Impairment loss on intangible assets		(1 500)	-	-	-
Impairment gain on financial assets at fair value through OCI	20	212	212	-	-
Impairment loss on available for sale financial assets	20	-	-	(2 548)	(43 817)
Impairment gain/(loss) on financial assets at amortised cost	19	(6 185)	3 002	-	-
Impairment loss on financial assets	19	-	-	(13 694)	(8 078)
Impairment loss on held-to-maturity financial assets		-	-	(8)	(8)
Impairment loss on assets held for sale		-	-	(156)	(96)
Impairment loss on tangible fixed assets	25	(13)	-	(158)	-
Impairment loss on other assets		(1 328)	(765)	(822)	-
Profit/(loss) before tax		**(17 323)**	**1 579**	**(32 237)**	**(43 331)**
Income tax expense	14	(474)	(512)	143	(583)
Profit/(loss) for the year from continuing operations		**(17 797)**	**1 067**	**(32 094)**	**(43 914)**
Discontinued operations					
Profit/(loss) for the year from discountinued operations	27	292	-	(15 621)	-
Profit/(loss) for the year		**(17 505)**	**1 067**	**(47 715)**	**(43 914)**
Attributable to:					
Owners of the parent					
Profit/(loss) for the year from continuing operations		(17 797)	-	(32 127)	-
Profit/(loss) for the year from discountinued operations	27	292	-	(15 621)	-
(Loss) for the year attributable to owners of the parent		**(17 505)**	**-**	**(47 748)**	**-**
Non-controlling interests					
Profit for the year from continuing operations		-	-	33	-
Basic and Diluted Earnings per share (EUR)	36	(0.08)		(0.22)	**-**

The accompanying notes on pages 27 to 157 form an integral part of these consolidated and separate financial statements.

The consolidated and separate financial statements on pages 19 to 157 were approved by the Supervisory Council and the Management Board on XX July 2019:

Member of the Supervisory Council	Chairman of the Management Board
A. F. Rasmussen	O.R.Bramwell

COMPREHENSIVE INCOME

		2018		2017	
	Notes	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Profit/(loss) for the year		**(17 505)**	**1 067**	**(47 715)**	**(43 914)**
Items that will not be reclassified subsequently to profit or loss:					
Gain on revaluation of property, net of tax	25	68	-	1 070	-
Other changes		-	-	629	(43)
Reclassification of deferred tax, related to tangible fixed assets, due to changes in the legislation		-	-	1 771	792
Reclassification of financial assets due to IFRS implementation	19	(408)	(408)	-	-
Revaluation of financial assets at fair value through OCI		1 831	(16 932)	-	-
		1 491	**(17 340)**	**3 470**	**749**
Items that may be reclassified subsequently to profit or loss:					
Translation gain/(loss) from foreign operations					
Translation (loss) arising during the year		(3 998)	-	(6 508)	-
		(3 998)	**-**	**(6 508)**	**-**
Financial assets at fair value through OCI					
Revaluation	20	(1 800)	(1 800)	-	-
Net loss from sales of financial assets at fair value through OCI	11, 20	1 485	1 485	-	-
Impairment (gain)	20	(212)	(212)	-	-
		(527)	**(527)**	**-**	**-**
Available- for-sale financial assets					
Revaluation		-	-	91	(43 088)
Impairment loss	20	-	-	2 548	43 817
Net (gain) from sales of available-for-sale financial assets	11	-	-	(1 701)	(1 469)
		-	**-**	**938**	**(740)**
Other comprehensive income/(losses)		**(3 034)**	**(17 867)**	**(2 100)**	**9**
Total comprehensive (losses) for the year		**(20 539)**	**(16 800)**	**(49 815)**	**(43 905)**
Attributable to:					
Equity holders of the owners of the parent		(20 515)	-	(49 778)	-
Non-controlling interests		(24)	-	(37)	-

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The consolidated and separate financial statements on pages 19 to 157 were approved by the Supervisory Council and the Management Board on XX July 2019:

Member of the Supervisory Council A. F. Rasmussen	Chairman of the Management Board O.R.Bramwell

BALANCE SHEET AND OFF-BALANCE SHEET ITEMS

		31.12.2018		31.12.2017	
	Note	Group EUR’000	Bank EUR’000	Group EUR’000	Bank EUR’000
Assets					
Cash and balances with the central banks	15	103 027	103 024	131 978	131 977
Financial assets at amortised cost, including		159 484	191 493	243 326	284 113
Loans to and receivables from banks	*16*	*12 779*	*12 278*	*54 041*	*53 755*
Loans to and receivables from customers	*18*	*146 705*	*179 215*	*172 580*	*213 653*
Bonds	*22*	-	-	*16 705*	*16 705*
Derivative financial instruments	17	69	69	384	384
Financial assets at fair value through other comprehensive income (OCI)	20	76 747	232 676	-	-
Available-for-sale financial assets	20	-	-	142 559	318 249
Non-trading financial assets mandatorily at fair value through profit or loss		2 933	2 933	-	-
Prepaid corporate income tax		56	1	110	-
Investment property	24	74 963	6 127	67 086	6 150
Tangible fixed assets	25	89 434	17 248	93 214	37 302
Goodwill	21	407	-	407	-
Intangible assets	23	4 936	1 210	6 325	1 114
Assets held for sale	26	5 282	4 551	1 143	445
Assets held for sale (subsidiary)	27	-	-	205 037	-
Other assets	28	22 692	10 198	26 550	9 359
Total assets		**540 030**	**569 530**	**918 119**	**789 093**

The accompanying notes on pages 27 to 157 form an integral part of these consolidated and separate financial statements.

The consolidated and separate financial statements on pages 19 to 157 were approved by the Supervisory Council and the Management Board on XX July 2019:

Member of the Supervisory Council
A. F. Rasmussen

Chairman of the Management Board
O.R.Bramwell

BALANCE SHEET AND OFF-BALANCE SHEET ITEMS

		31.12.2018		31.12.2017	
	Note	**Group EUR'000**	**Bank EUR'000**	**Group EUR'000**	**Bank EUR'000**
Liabilities					
Due to the central bank and other banks	30	939	939	2 059	2 062
Derivative financial instruments	17	79	79	1 199	1 199
Customer deposits	31	434 744	464 912	613 468	662 293
Subordinated deposits	32	20 785	20 785	21 309	21 309
Subordinated debt securities	33	37 700	37 700	37 096	37 096
Deferred tax liabilities	14	37	-	117	-
Liabilities related to assets held for sale	27	-	-	172 343	-
Other liabilities	34	15 604	4 104	18 213	4 223
Total liabilities		**509 888**	**528 519**	**865 804**	**728 182**
Equity attributable to equity holders of the Bank					
Share capital	35	131 102	131 102	131 102	131 102
Reserves		10	10	10	10
Revaluation reserve of tangible fixed assets		7 639	902	9 662	4 898
Fair value changes of financial instruments measured at fair value through OCI	20	378	(8 130)	-	-
Revaluation reserve of available-for-sale financial assets		-	-	(360)	9 895
Revaluation reserve of foreign currency translation		(12 723)	-	(23 383)	-
Accumulated losses		(96 364)	(82 873)	(65 570)	(84 994)
Total equity attributable to equity holders of the Bank		**30 042**	**41 011**	**51 461**	**60 911**
Non-controlling interests		100	-	854	-
Total equity		**30 142**	**41 011**	**52 315**	**60 911**
Total liabilities and equity		**540 030**	**569 530**	**918 119**	**789 093**
Off-balance sheet items					
Commitments and contingencies					
Contingent liabilities		1 533	1 533	3 249	3 249
Commitments		1 849	1 852	3 553	3 556
Total commitments and contingencies	38	**3 382**	**3 385**	**6 802**	**6 805**
Return on assets (ROA), %		(2,40)	0,16	(4,97)	(5,27)

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The consolidated and separate financial statements on pages 19 to 157 were approved by the Supervisory Council and the Management Board on XX July 2019:

Member of the Supervisory Council
A. F. Rasmussen

Chairman of the Management Board
O.R.Bramwell

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Attributable to owners									
Group	**Note**	**Share capital EUR'000**	**Reserve EUR'000**	**Revaluation reserve of tangible fixed assets EUR'000**	**Revaluation reserve of available-for-sale financial assets EUR'000**	**Fair value changes of financial instruments measured at fair value through OCI EUR'000**	**Revaluation reserve of foreign currency translation EUR'000**	**Accumula-ted losses EUR'000**	**Total EUR'000**	**Non-controlling interests EUR'000**	**Total Groups' equity EUR'000**
As at 1 January 2017		**131 102**	**10**	**6 697**	**(1 298)**	**-**	**(17 066)**	**(18 206)**	**101 239**	**952**	**102 191**
Revaluation of available-for-sale financial assets	20	-	-	-	938	-	-	-	**938**	-	**938**
Foreign currency translation of foreign subsidiaries*		-	-	(121)	-	-	(6 317)	-	**(6 438)**	(70)	**(6 508)**
Revaluation of tangible fixed assets	25	-	-	1 070	-	-	-	-	**1 070**	-	**1 070**
Reclassification of deferred tax, related to tangible fixed assets, due to changes in the legislation		-	-	1 771	-	-	-	-	**1 771**	-	**1 771**
Other changes		-	-	629	-	-	-	-	**629**	-	**629**
Other comprehensive income		**-**	**-**	**3 349**	**938**	**-**	**(6 317)**	**-**	**(2 030)**	**(70)**	**(2 100)**
(Loss)/profit for the year		-	-	-	-	-		(47 748)	**(47 748)**	33	**(47 715)**
Total comprehensive income for the year		**-**	**-**	**3 349**	**938**	**-**	**(6 317)**	**(47 748)**	**(49 778)**	**(37)**	**(49 815)**
Dividends paid		-	-	-	**-**	**-**	**-**	**-**	**-**	(62)	**(62)**
Amortization of revaluation reserve of tangible fixed assets		-	-	(384)	-	-	-	384	**-**	1	**1**
As at 31 December 2017		**131 102**	**10**	**9 662**	**(360)**	**-**	**(23 383)**	**(65 570)**	**51 461**	**854**	**52 315**
Changes due to IFRS9 implementation		**-**	**-**	**-**	**360**	(518)	-	(837)	**(995)**	**-**	**(995)**
As at 1 January 2018 restated with IFRS 9 effect		**131 102**	**10**	**9 662**	**-**	**(518)**	**(23 383)**	**(66 407)**	**50 466**	**854**	**51 320**
Revaluation of financial assets at fair value through OCI	20	-	-	-	-	896	-	-	**896**	-	**896**
Foreign currency translation of foreign subsidiaries*		-	-	(35)	-	-	(3 939)	-	**(3 974)**	(24)	**(3 998)**
Revaluation of tangible fixed assets	25	-	-	68	-	-	-	-	**68**	-	**68**
Other comprehensive income		**-**	**-**	**33**	**-**	**896**	**(3 939)**	**-**	**(3 010)**	**(24)**	**(3 034)**
(Loss) for the year		-	-	-	-	-	-	(17 505)	**(17 505)**	-	**(17 505)**
Total comprehensive income for the year		**-**	**-**	**33**	**-**	**896**	**(3 939)**	**(17 505)**	**(20 515)**	**(24)**	**(20 539)**
Sale of assets and liabilites held for sale (subsidiary)		-	-	(1 452)	-	**-**	14 599	(13 147)	**-**	(830)	**(830)**
Increase in share capital		-	-	-	-	**-**	**-**	**-**	**-**	100	**100**
Amortization of revaluation reserve of tangible fixed assets		-	-	(604)	-	-	-	604	**-**	-	**-**
Net gain/(loss) from sales of financial assets at fair value through OCI	20	-	-	-	-	-	-	91	**91**	-	**91**
As at 31 December 2018		**131 102**	**10**	**7 639**	**-**	**378**	**(12 723)**	**(96 364)**	**30 042**	**100**	**30 142**

* Translation reserve on consolidation of the subsidiaries that have functional currency another than euro.

STATEMENT OF CHANGES IN EQUITY

Bank	Note	Share capital EUR'000	Reserve EUR'000	Revaluation reserve of tangible fixed assets EUR'000	Revaluation reserve of available-for-sale financial assets EUR'000	Fair value changes of financial instruments measured at fair value through OCI EUR'000	Accumu-lated losses EUR'000	Total EUR'000
As at 1 January 2017		**131 102**	**10**	**4 488**	**10 635**	**-**	**(41 419)**	**104 816**
Revaluation of available-for-sale financial assets	20	-	-	-	(740)	-	-	**(740)**
Reclassification of deferred tax, related to tangible fixed assets, due to changes in the legislation		-	-	792	-	-	-	**792**
Other changes	25	-	-	(43)	-	-	-	**(43)**
Other comprehensive income		**-**	**-**	**749**	**(740)**	**-**	**-**	**9**
Loss for the year		**-**	**-**	**-**	**-**	**-**	(43 914)	**(43 914)**
Total comprehensive income for the year		**-**	**-**	**749**	**(740)**	**-**	**(43 914)**	**(43 905)**
Amortization of revaluation reserve of tangible fixed assets		-	-	(339)	-	-	339	-
As at 31 December 2017		**131 102**	**10**	**4 898**	**9 895**	**-**	**(84 994)**	**60 911**
Changes due to IFRS9 implementation		-	-	-	(9 895)	9 737	(837)	**(995)**
As at 1 January 2018 restated with IFRS 9 effect		**131 102**	**10**	**4 898**	**-**	**9 737**	**(85 831)**	**59 916**
Revaluation of financial assets at fair value through OCI	20	-	-	-	-	(17 867)	-	**(17 867)**
Other comprehensive income		-	-	**-**	**-**	**(17 867)**	-	**(17 867)**
Profit for the year		-	-	-	-	-	1 067	**1 067**
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**(17 867)**	**1 067**	**(16 800)**
Tangible fixed assets disposal		-	-	(3 657)	-	-	3 657	-
Amortization of revaluation reserve of tangible fixed assets		-	-	(339)	-	-	339	-
Net gain/(loss) from sales of financial assets at fair value through OCI	20	**-**	**-**	**-**	**-**	**-**	(2 105)	**(2 105)**
As at 31 December 2018		**131 102**	**10**	**902**	**-**	**(8 130)**	**(82 873)**	**41 011**

The accompanying notes on pages 27 to 157 form an integral part of these consolidated and separate financial statements.

The consolidated and separate financial statements on pages 19 to 157 were approved by the Supervisory Council and the Management Board on XX July 2019:

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Member of the Supervisory Council
A. F. Rasmussen

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Chairman of the Management Board
O.R.Bramwell

CASH FLOW STATEMENT

		2018		2017	
	Note	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Cash flow from operations					
Loss before corporate income tax from continuing operations		(17 323)	1 579	(32 237)	(43 331)
Profit/loss before corporate income tax from discontinuing operations		292	-	(15 621)	-
Adjustments for:					
Depreciation of intangible and tangible fixed assets and write off		6 026	2 665	5 792	2 676
Increase in provisions for impairments losses on financial investments	19	-	-	13 918	8 302
(Decrease)/increase in provisions for impairments losses on financial assets at amortised cost	19	7 766	(2 675)	-	-
Impairment losses of held to maturity financial assets		-	-	8	8
Impairment losses of available-for-sale financial assets		-	-	2 548	43 817
Impairment (gain) on financial assets at fair value through OCI	20	(212)	(212)	-	-
Impairment losses on assets held for sale		-	-	156	96
Impairment of other intangible assets	23	1 500	-	9 858	-
Impairment of tangible fixed assets	25	13	-	158	-
Impairment loss on other assets	19	1 328	765	822	-
Interest income	8	(8 561)	(9 415)	(14 673)	(15 348)
Interest expense	8	6 522	6 486	8 009	8 072
Dividend income		(75)	(2 169)	(57)	(2 897)
(Profit) from available-for-sale financial assets	11	-	-	(1 701)	(1 469)
Loss from financial assets at fair value through other OCI	11	1 485	1 485	-	-
(Profit) from non-trading financial assets mandatorily at fair value through profit or loss		(94)	(94)	-	-
Loss from assets held for sale		-	-	38	-
(Profit)/loss from non financial assets		47	(248)	-	-
(Profit)/loss from foreign exchange revaluation	10	1 190	(119)	(11 744)	(13 252)
Non-realized loss from non-trading financial assets mandatorily at fair value through profit or loss		533	533	-	-
Non-realized loss from investment property	24	1 605	1	18 040	158
Operating cash flow before changes in operating assets and liabilities		**2 042**	**(1 418)**	**(16 686)**	**(13 168)**
Decrease in financial assets at amortised cost (loans to banks)		598	598	-	-
Decrease in loans and receivables to banks		-	-	1 528	1 490
Decrease in trading financial assets		-	-	7 121	-
Decrease in derivatives financial assets		315	315	433	379
Decrease in financial assets at amortised cost (loans to and receivables from customenrs)		28 032	27 913	-	-
Decrease in loans and receivables to customers		-	-	20 783	20 918
(Increase) in assets held for sale		-	-	(759)	-
Decrease/(increase) in other assets		1 465	(1 442)	173	(4 937)
(Decrease) in due to banks		(1 120)	(1 123)	(5 304)	(5 305)
(Decrease) in customer deposits		(179 167)	(179 955)	(5 581)	(25 170)
(Decrease)/increase in derivatives financial liabilities		(1 120)	(1 120)	881	881
(Decrease)/increase in other liabilities		(2 667)	(177)	(365)	176
Cash generated from (used in) operating activities		**(151 622)**	**(156 409)**	**2 224**	**(24 736)**
Interest received		7 646	8 500	12 502	13 177
Interest (paid)		(5 980)	(5 944)	(6 982)	(7 045)
Dividend received		75	2 169	57	2 897
Dividend (paid) to minority shareholders		-	-	(62)	-
Corporate income tax (paid)		(500)	(513)	(682)	(583)
Net cash generated from (used in) operating activities		**(150 381)**	**(152 197)**	**7 057**	**(16 290)**

CASH FLOW STATEMENT

		2018		2017	
	Note	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Cash generated from (used in) investing activities					
Acquisition of intangible and tangible fixed assets		(2 652)	(2 181)	(5 677)	(4 655)
Sale of intangible and tangible fixed assets		3	-	-	-
Decrease in financial assets at amortised cost (bonds)		16 240	16 240	-	-
Decrease in held-to-maturity financial assets		-	-	472	472
Acquisition of investment property		(4 948)	-	(1 467)	-
Sale of investment property		2 233	18	4 358	-
Sale of assets and liabilites held for sale (subsidiary)		7 803	6 000	-	-
Decrease in available-for-sale financial assets		-	-	298 838	313 800
(Increase) in available-for-sale financial assets		-	-	(350 275)	(350 275)
Decrease in financial assets at fair value through OCI		188 473	218 192	-	-
(Increase) in financial assets at fair value through OCI		(110 235)	(140 078)	-	-
Net cash generated from (used in) investing activities		**96 917**	**98 191**	**(53 751)**	**(40 658)**
Cash generated from (used in) financing activities					
Increase in subordinated deposits		-	-	400	400
(Decrease) in subordinated deposits		(1 263)	(1 263)	(17 607)	(12 873)
Net cash generated from (used in) financing activities		**(1 263)**	**(1 263)**	**(17 207)**	**(12 473)**
Net (decrease) in cash and cash equivalents		**(54 727)**	**(55 269)**	**(63 901)**	**(69 421)**
Cash and cash equivalents at the beginning of the period		184 695	184 408	254 245	232 949
Cash equivalent decrease from discountinued operations		-	-	(24 580)	-
Impairment on cash and cash equivalents		14	14	-	-
Effect of exchange changes on cash and cash equivalents		(14 891)	(14 566)	18 931	20 880
Cash and cash equivalents at the end of the period	37	**115 091**	**114 587**	**184 695**	**184 408**

The accompanying notes on pages 27 to 157 form an integral part of these consolidated and separate financial statements.

The consolidated and separate financial statements on pages 19 to 157 were approved by the Supervisory Council and the Management Board on XX July 2019:

Member of the Supervisory Council
A. F. Rasmussen

Chairman of the Management Board
O.R.Bramwell

1. GENERAL INFORMATION

“PNB Banka” (“the Bank”) is a joint stock company incorporated in the Republic of Latvia acting in accordance with Latvian legislation and License No. 30 issued by the Bank of Latvia on 27 April 1992.
The legal address of JSC “PNB Banka” is 15-2 Elizabetes Street, Riga, LV-1010 Latvia.
The Bank on 31 December 2018 has 44 customers servicing centers and a representative office in the United Kingdom (on 31 December 2017 54 customers servicing centers). The main banking operations are local and international money transfers, the issuance of loans, securities operations and foreign currency transactions.

In accordance with the Commercial Law of the Republic of Latvia the shareholders' meeting has the right and obligation to make decisions on approval of the annual financial statements.
Group publishes Information Disclosure report prepared in accordance with the Regulation (EU) Nr. 575/2013 of the European Parliament and of the Council requirements on Bank’s web page www.pnbbank.eu.
These financial statements were prepared based on the going concern assumption.

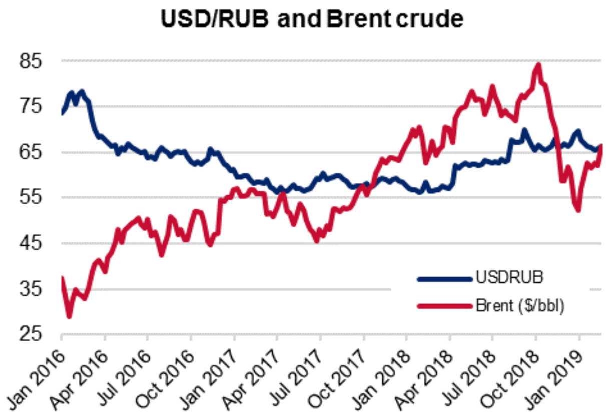
2. OPERATING ENVIRONMENT OF THE GROUP

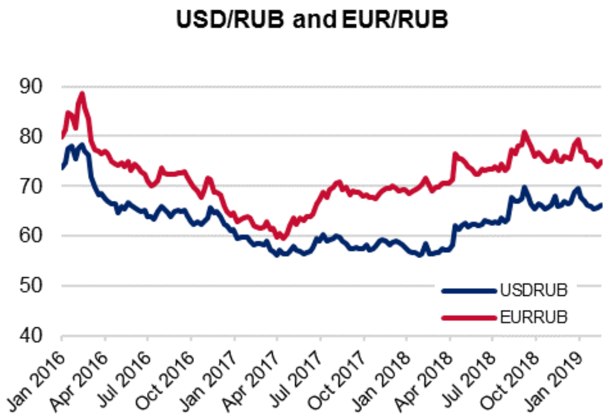
Exposure to the Russian Federation

Macroeconomic conditions in Russia have showed signs of progress in 2018. Economic environment is recovering after the slump in 2015-2016 following the introduction of Western sanctions against Russia and the crash in oil prices in 2014. The economy sustained a steady improvement and real GDP growth accelerated to 2.3% YoY compared to 1.6% YoY in 2017. Rosstat, the official statistical agency, issued a sizable revision to GDP data for the previous two years. It revised the 0.2% drop in output in 2016 to growth of 0.3%. It also upgraded the 2017 growth number by 0.1 ppt to 1.6%. After a record low inflation in 2017 at 2.5%, prices rose 4.3% in 2018. This is close to the official target inflation level of 4.0%, and is the second best registered inflation data in history. The Central bank of Russia hiked rates for the first time since 2014 to mitigate an uptick in prices. Key rate now stands at 7.75% after two hikes in September and December.

One of the reasons for faster than previously estimated growth is an upsurge in Rosstat’s measurement of the increase in construction activity. The agency initially estimated a rise for January through November at 0.5%, but a revised estimate put the increase at 5.3% for the full year. Higher net exports have also contributed to better growth numbers.
Russian economy showed greater resilience to changes in oil prices. The recovery was underway despite Brent crude declining by 19.5% to $53.8/bbl last year. From two-year lows in December Brent crude bounced back to above $65/bbl. OPEC+ countries stay on course in complying with agreed production quotas.

In 2018, the ruble depreciated against both the dollar and the euro by 16.7% and 12.5% respectively. Performance of the Russian currency to the dollar and euro reflected the general sentiment towards emerging market currencies last year. USDRUB rate is holding the range 65.0-70.0. On several instances EUR/RUB rate spiked to 80.0, but by end of 2018 the ruble has stabilized above 74.0 level against the euro. Russia's gold and foreign exchange reserves have substantially increased. In 2017, reserves rose from $432 billion to $466, and kept rising in 2019 reaching $475 billion, the highest level since 2014.





As of 31 December 2018 the Group has material assets that are not related to the primary banking operations (non-core assets), held primarily in closed investment fund Nākotnes Īpašumu Fonds in the amount of 114 720 thousand euro (as of 31 December 2017 was 132 388 thousand euro). These assets are classified as financial assets at fair value through other comprehensive income and include also assets of Russian origin (See below).

The following section discloses the Group’s operations in the Russian Federation (RF) and full related exposure, both core and non-core.

At the end of 2017 an agreement was concluded about sale of the majority ownership of ПАО "Норвик Банк” (Russia). The transaction was effected within the framework of the measures for reducing of the exposure to the assets of the Russian Federation and was co-ordinated with the Financial and Capital Market Commission of the Republic of Latvia and RF Central Bank. The transaction was finalised in February 2018 and resulted in the Bank selling 85% of the shares of the subsidiary bank and losing control over it. The Bank kept 15% of the shares to be transferred to the new owner over the course of 5 years. The impact of RF geopolitical risks on the Bank decreased. Sale of the asset will allow, among other things, to reduce significantly large exposures.

In 2018 the Bank retained a major part of assets of Russian origin, in particular:

1) closed investment fund Nākotnes Īpašumu Fonds including assets located in Russia with book value of 27 458 thousand euro (as of 31 December 2017 was 24 332 thousand euro).
2) loans and accounts receivable granted to Russian developers of commercial real estate with the total net exposure of 75 million as of 31 December 2018 and 84 million euro as of 31 December 2017, including hotels, operating in several major Russian cities:

	31.12.2018	31.12.2017
	EUR’000	EUR’000
Moscow and Moscow region	34 558	37 406
Perm	6 138	7 086
Kirov	14 332	16 568
Yekaterinburg	14 392	16 614
Tomsk	5 726	6 490
Total net exposure	**75 146**	**84 164**

The following asset is included in the total exposure to the Russian Federation - an unfinished construction of the hotel “4Elements Borodino Hotel and Spa”. It is a five-star resort SPA hotel with 160 rooms located 100 km away from the Moscow Automobile Ring Road in an environmentally pristine district of the localities near Moscow spread over 9 hectares. At the Bank level, the respective balance is reflected in the “Assets at fair value through other comprehensive income” in the amount of 17.250 million euro. At the Group level, it is reflected in the “Investment property” section in the amount of 17.250 million euro in value terms. At the moment, the hotel is not commissioned for occupation.

Currently selling of the assets and refinancing of the loans are in the process. Refinancing of a part of the Russian loans will allow, among other things, to reduce significantly large exposures.

Sensitivity analysis

As of 31 December 2018 the Bank’s balance sheet position “Loans to and receivables from customers” includes a net exposure of 41.7 million euro to wind energy industry (2017: 44.3).

The Group’s management has assessed the recoverable amount of the loan on the basis of the enterprise value determined by an independent valuation expert excluding cash flows attributable to Corporate Income Tax payments.

The key assumption used in this valuation is as follows:
Pre-tax discount rate for existing wind park – 6.29% (2017: 6.41%);
Pre-tax discount rate for developing wind park – 8.00% (2017: 8.49%);
Electricity price is based on SKM Market Predictor electricity price forecast; the existing wind park is eligible for Feed in Tariff (FIT) for up to 50,447 MWh per year through 2032.

But if Pre-tax discount rate increased by 1% for existing wind park to 7.29% and by 0.56% for developing wind park to 8.56%, the enterprise value would decrease from 41.3 to 36.2 million euro. This would lead to increase of provisions for loans by 5.5 million euro; (2017: if Pre-tax discount rate increased by 1% - for existing wind park to 7.41% and for developing wind park to 9.49%, the enterprise value would decrease from 46.48 to 42.06 million euro. This would lead to increase of provisions for loans by 2.23 million euro).

If Pre-tax discount rate decreased by 1 % for existing wind park to 5.29% and by 0.56% for developing wind park to 7.44%, the enterprise value would increase from 41.3 to 46.9 million euro. This would allow to reverse the provisions for loans by 3.3 million euro; (2017: If Pre-tax discount rate decreased by 1 % - for existing wind park to 5.41% and for developing wind park to 7.49%, the enterprise value would increase from 46.48 to 51.59million euro. This would allow to reverse the provisions for loans by 3.32 million euro).

As of 31 December 2018 the Bank’s and the Group’s balance sheet position “Loans to and receivables from customers” includes a gross exposure of 40.9 million euro and in "Financial assets at fair value through OCI" in amount of 17.2 million euro to hotel operations in Russia (in 2017: 58.8 million euro and 12.4 million euro investment). The Group's management has assessed the recoverable amount of these exposures on the basis of the valuations of independent valuation experts.

The key assumptions used in this valuation are as follows:
ADR (Average Daily Rate) per room – from EUR 48 to EUR 79 (2017: from EUR 54 to EUR 122);
Occupancy rate – from 60% to 72.6%; (2017: from 40% to 72.6%)
Discount rate – from 14.88% to 15.52%, multiplier rate – 4.21%. (2017: from 14.15% to 16.17%, multiplier rate – 4.21%.)

If ADR (Average Daily Rate) decreased by 5%, this might further lead to the increase of provisions for loans by 2.3 million euro. But if ADR increased, this might further lead to the reversal of provisions for loans by 2.2 million euro.

In 2017: If ADR decreased, this might further lead to the increase of provisions for loans by 4.9 million euro. But if ADR increased, this might further lead to the reversal of provisions for loans by 3.7 million euro.

As of 31 December 2018 the Bank's and the Group's balance sheet position "Loans to and receivables from customers" includes a gross exposure of 63.0 million euro to commercial property in Russia (in 2017: 64.9 million euro). The Group's management has assessed the recoverable amount of these exposures on the basis of the valuations of independent experts.

The key assumptions used in these valuations are as follows:
Annual Rent rate per sq. m. – from EUR 61 to EUR 408 (2017: from EUR 71 to EUR 473);
Sale price per sq. m. – from EUR 495 to EUR 3942 (in 2017: from EUR 510 to EUR 4444);
Discount rate – from 13.2% to 15.49%; capitalization rate - from 10.0% to 12.0%. (in 2017 the same figures)

If Annual Rent rate per sq. m. and Sale price per sq. m would decreased by 5%, the collateral valuations would be change by 1.9 million euro. If Annual Rent rate per sq. m. increase, this might lead to the collateral valuations increase by 2.2 million euro.

If Annual Rent rate per sq. m and Sale price per sq. m decreased by 5%, this would lead to the increase of provisions for loans by 0.98 million euro. If the Annual Rent rate per sq. m and Sale price per sq. m increased by 5%, this might further lead to the reversal of provisions for loans by 0.78 million euro.

In 2017: If Annual Rent rate per sq. m and Sale price per sq. m decreased by 5%, this would lead to the increase of provisions for loans by 0.74 million euro. If the Annual Rent rate per sq. m and Sale price per sq. m increased by 5%, this might further lead to the reversal of provisions for loans by 0.72 million euro.

Fluctuation of the Russian ruble might have an impact on the Bank's and the Group's total amount of the provisions to "Loans to and receivables from customers".

As of 31 December 2018 the Bank's and the Group's balance sheet position "Loans to and receivables from customers" includes a gross exposure of 116.6 million euro to loans in Russia and 17.2 in "Financial assets at fair value through OCI" (in 2017: 137.5 million euro to loans in Russia and "Available-for-sale financial assets" in amount 12.4 million euro).

The weakening of the Russian ruble exchange rate by 10% would lead to the following increase of the provisions for loans as follows:
- hotel operations by 2.9 million euro;

- commercial property by 2 million euro;

The strengthening of the Russian ruble exchange rate by 10% would lead to reverse of the provisions for loans as follows:

- hotel operations by 3.5 million euro
- commercial property by 1.9 million euro.

In 2017 the weakening of the Russian ruble exchange rate by 10% would lead to the following increase of the provisions for loans as follows:

- hotel operations by 3.57 million euro;
- commercial property by 1.45 million euro;

The strengthening of the Russian ruble exchange rate by 10% would lead to reverse of the provisions for loans as follows:

- hotel operations – by 3,9 million euro
- commercial property by 3.6 million euro.

3. SIGNIFICANT ACCOUNTING PRINCIPLES

Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of tangible fixed assets (Class Land and building), investment properties, financial instruments at fair value through other comprehensive income (FVOCI) and financial instruments at fair value through profit or loss (FVPL). The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

Apart from the accounting policy changes resulting from the adoption of IFRS 9 and IFRS 15 effective from 1 January 2018, these policies have been consistently applied to all the periods presented, unless otherwise stated.

The following new and amended IFRS and interpretations as adopted by EU became effective in 2018, and had significant impact on the operations of the Group and the Bank and these financial statements:

IFRS 9 Financial instruments

The Group and the Bank has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Group and the Bank did not early adopt any of IFRS 9 provision in previous periods.

As permitted by the transitional provisions of IFRS 9, the Group and the Bank elected not to restate comparative figures. Any adjustment to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings of the current period.

The adoption of IFRS 9 has resulted in changes in accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets.

Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

Impairment of financial assets

Impairment of financial instruments under IFRS 9 fundamentally changed the methodology of credit loss recognition. The standard replaced the IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. The Group is required to recognize an allowance for expected losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts.

Compared with IAS39, the impairment change under IFRS9 are more volatile than under IAS39 and results in an increase in the total level of current impairment allowances. With the shift from IAS39 approach to IFRS9 the, incurred loss model was replaced by expected credit loss (ECL) model.

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies.

The agreed IFRS 9 impairment methodology is documented in internal procedures, applied in daily life. In general, IFRS 9 impairment model allows to perform earlier recognition of credit losses for the respective items and to increase the total amount of loss allowances recognized for these items. However, the impairment calculations under IFRS 9 are more volatile and pro-cyclical than under IAS 39.

Elements of the ECL models that are considered accounting judgements and estimates include are as follows:

- evaluating of criteria for assessment of significant increase in credit risk and allocation of loans to stage 1, 2 or 3;
- evaluating on credit risk criteria for the assessment of those with unlikely to pay status;
- assessment of the accounting interpretations and modelling assumptions used to build the models for ECL calculation, including various formulas and the choice of input data;
- the modelling and calculation of key parameters of ECL model, including probability of default (PD), recovery rate (RR), loss given default (LGD) and exposure at default (EAD);
- determination of macro-economic indicators and incorporation of forward-looking information into the ECL model;
- estimation of the above mentioned indicators for reliable future period and for three different scenarios (baseline, optimistic and pessimistic) and assigning probabilities to those scenarios; and
- estimation of ECL under base case and risk case scenarios for Stage 3 individual assessments and assignation of probabilities to those scenarios

Capital management

The new expected loss approach model had a negative impact on the Bank's regulatory capital. Upon the decision of the Management Board of PNB Bank AS the Bank did apply transitional arrangements allowed by EU Regulation 2017/2395[1] and recognised the 5% effect of the implementation of IFRS 9 from 1 January 2018.

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Group and the Bank.

[1] EU Regulation 2017/2395 amends the CRR by introducing Art. 473a on transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds

Classification and measurement of financial instruments

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at January 2018 are compared as follows:

Group

Financial assets	Original measurement category under IAS 39	New measurement category under IFRS 9	IAS 39 carrying amount 31 December 2017 EUR'000	New carrying amount under IFRS9 1 January 2018 EUR'000
Cash and cash equivalents	L&R	AC	**14 939**	**14 939**
Mandatory cash balances with the Central Bank	L&R	AC	**117 039**	**117 033**
Investments in debt securities	AFS	FVOCI	128 616	128 365
Investments in debt securities	HTM	AC	16 705	16 705
Total investments in debt securities			**145 321**	**145 070**
Investments in equity securities	AFS	FVOCI	8 948	8 948
Investments in equity securities	AFS	FVPL	4 995	4 995
Total investments in equity securities			**13 943**	**13 943**
Due from other banks	L&R	AC	**54 041**	**53 865**
Loans and advances to customers	L&R	AC	161 973	161 160
Financial leasing	L&R	AC	10 607	10 607
Total loans and advances to customers			**172 580**	**171 767**
Other financial assets	L&R	AC	3 110	3 110
Total other financial assets			**3 110**	**3 110**
Total financial assets			**520 973**	**519 727**

Bank

Financial assets	Original measurement category under IAS 39	New measurement category under IFRS 9	IAS 39 carrying amount 31 December 2017 EUR’000	New carrying amount under IFRS9 1 January 2018 EUR’000
Cash and cash equivalents	L&R	AC	**14 938**	**14 938**
Mandatory cash balances with the Central Bank	L&R	AC	**117 039**	**117 033**
Investments in debt securities	AFS	FVOCI	128 616	128 365
Investments in debt securities	HTM	AC	16 705	16 705
Total investments in debt securities			**145 321**	**145 070**
Investments in equity securities	AFS	FVOCI	184 638	184 638
Investments in equity securities	AFS	FVPL	4 995	4 995
Total investments in equity securities			**189 633**	**189 633**
Due from other banks	L&R	AC	**53 755**	**53 579**
Loans and advances to customers	L&R	AC	213 124	212 311
Financial leasing	L&R	AC	529	529
Total loans and advances to customers			**213 653**	**212 840**
Other financial assets	L&R	AC	1 777	1 777
Total other financial assets			**1 777**	**1 777**
Total financial assets			**736 116**	**734 870**

where:
- L&R - Loans to and receivables from customers,
- AFS – Available for sale financial assets,
- HTM – Held to maturity financial assets,
- AC – Assets measured at amortized cost
- FVOCI - Assets measured at fair value through other comprehensive income,
- FVPL - Assets measured at fair value through profit and loss

Financial assets previously classified as available for sale have been reclassified to new category “Financial assets at fair value through other comprehensive income” under IFRS9 as their previous category under IAS39. were “retired”, with no changes to their measurement basis.

There were no changes for classification and measurement of financial liabilities.

Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018:

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Group

Financial assets	IAS 39 carrying amount 31 December 2017	Reclassifi-cations	Remeasure-ments	IFRS 9 carrying amount 1 January 2018
Amortised cost				
Cash and balances with central banks				
Opening balance under IAS 39	131 978	-	-	-
Remeasurement (ECL allowances)	-	-	(6)	-
Closing balance under IFRS 9	-	-	-	131 972
Due from banks and other credit institutions				
Opening balance under IAS 39	54 041	-	-	-
Remeasurement (ECL allowances)	-	-	(176)	-
Closing balance under IFRS 9	-	-	-	53 865
Loans and advances to customers				
Opening balance under IAS 39	172 580	-	-	-
Remeasurement (ECL allowances)	-	-	(813)	-
Closing balance under IFRS 9	-	-	-	171 767
Investments in debt securities				
Opening balance under IAS 39 and closing balance under IFRS 9	16 705	-	-	16 705
Other financial assets				
Opening balance under IAS 39 and closing balance under IFRS 9	3 110	-	-	3 110
Financial assets measured at amortised cost – total	**378 414**	**-**	**(995)**	**377 419**
Non-trading financial assets at fair value through profit or loss				
Opening balance under IAS 39 and closing balance under IFRS 9	-	4 995	-	4 995
Derivative financial instruments				
Opening balance under IAS 39 and closing balance under IFRS 9	384	-	-	384
Financial assets at fair value through profit or loss – total	**384**	**4 995**	**-**	**5 379**
Fair value through other comprehensive income				
Equity instruments				
Opening balance under IAS 39 and closing balance under IFRS 9	13 943	(4 995)	-	8 948
Debt instruments				
Opening balance under IAS 39	128 616	-	-	-
Remeasurement (ECL allowances)	-	-	(251)	-
Closing balance under IFRS 9	-	-	-	128 365
Assets at fair value through other comprehensive income – total	**142 559**	**(4 995)**	**(251)**	**137 313**
Total impact on equity			**(995)**	

Bank

Financial assets	IAS 39 carrying amount 31 December 2017	Reclassifi-cations	Remeasure-ments	IFRS 9 carrying amount 1 January 2018
Amortised cost				
Cash and balances with central banks				
Opening balance under IAS 39	131 977	-	-	-
Remeasurement (ECL allowances)	-	-	(6)	-
Closing balance under IFRS 9	-	-	-	131 971
Due from banks and other credit institutions				
Opening balance under IAS 39	53 755	-	-	-
Remeasurement (ECL allowances)	-	-	(176)	-
Closing balance under IFRS 9	-	-	-	53 579
Loans and advances to customers				
Opening balance under IAS 39	213 653	-	-	-
Remeasurement (ECL allowances)	-	-	(813)	-
Closing balance under IFRS 9	-	-	-	212 840
Investments in debt securities				
Opening balance under IAS 39 and closing balance under IFRS 9	16 705	-	-	16 705
Other financial assets				
Opening balance under IAS 39 and closing balance under IFRS 9	1 777	-	-	1 777
Financial assets measured at amortised cost – total	**417 867**	**-**	**(995)**	**416 872**
Non-trading financial assets at fair value through profit or loss				
Opening balance under IAS 39 and closing balance under IFRS 9	-	4 995	-	4 995
Derivative financial instruments				
Opening balance under IAS 39 and closing balance under IFRS 9	384	-	-	384
Financial assets at fair value through profit or loss – total	**384**	**4 995**	**-**	**5 379**
Fair value through other comprehensive income				
Equity instruments				
Opening balance under IAS 39 and closing balance under IFRS 9	189 633	(4 995)	-	184 638
Debt instruments				
Opening balance under IAS 39	128 616	-	-	-
Remeasurement (ECL allowances)	-	-	(251)	-
Closing balance under IFRS 9	-	-	-	128 365
Assets at fair value through other comprehensive income – total	**318 249**	**(4 995)**	**(251)**	**313 003**
Total impact on equity			**(995)**	

Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles the prior period’s closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2018:

Group

Financial assets	Loss allowance under IAS 39	Reclassifi-cations	Remeasure-ments	Credit loss allowance under IFRS 9
Amortised cost				
Cash and balances with central banks	-	-	(6)	(6)
Due from banks and other credit institutions	-	-	(176)	(176)
Loans and advances to customers	(41 302)	-	(689)	(41 991)
Investments in debt securities	-	-	(251)	(251)
Total	**(41 302)**	**-**	**(1 122)**	**(42 424)**
Contingent liabilities	-	-	-	-
Commitments	-	-	(124)	(124)
Total	**-**	**-**	**(124)**	**(124)**

Bank

Financial assets	Loss allowance under IAS 39	Reclassifi-cations	Remeasure-ments	Credit loss allowance under IFRS 9
Amortised cost				
Cash and balances with central banks	-	-	(6)	(6)
Due from banks and other credit institutions	-	-	(176)	(176)
Loans and advances to customers	(41 263)	-	(689)	(41 952)
Investments in debt securities	-	-	(251)	(251)
Total	**(41 263)**	**-**	**(1 122)**	**(42 385)**
Contingent liabilities	-	-	-	-
Commitments	-	-	(124)	(124)
Total	**-**	**-**	**(124)**	**(124)**

The following new and amended IFRS and interpretations as adopted by EU became effective in 2018, but had no significant impact on the operations of the Group and the Bank and these financial statements:

Amendments to IFRS 2 “Share-based Payment” (effective for annual periods beginning on or after 1 January 2018);

Amendments to IFRS 4 “Insurance Contracts” – Applying IFRS 9 “Financial statements” with IFRS 4 “Insurance contracts” (effective for annual periods beginning on or after 1 January 2018);

Amendments to IAS 40 “Investment Property” – Transfers of investment property (effective for annual periods beginning on or after 1 January 2018).

IFRIC 22 “Foreign Currency Transactions and Advance Consideration” (effective for annual periods beginning on or after 1 January 2018).

Annual improvements to IFRS’s 2016. The amendments include changes that affect 2 standards:

- IFRS 1 “First-time Adoption of International Financial Reporting Standards” (effective for annual periods beginning on or after 1 January 2018;

- IAS 28 "Investments in Associates and Joint Ventures" (effective for annual periods beginning on or after 1 January 2018).

IFRS 15 Revenue from Contracts with Customers

The new standard introduces the core principle that revenue must be recognized 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 recognized, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognized if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalized and amortized over the period when the benefits of the contract are consumed. In accordance with the transition provisions in IFRS 15 the Group has elected simplified transition method with the effect of transition to be recognized as at 1 January 2018 in the consolidated financial statements for the year ending 31 December 2018 which is the first year when the Group applies IFRS 15.

Due to structure of the Group's revenues, implementation of IFRS 15 has not had any significant impact on the revenue recognition timing, transaction price and recognition of discounts, rebates and bonuses. The Group has assessed that relevant accounting policy change concerns recognition and measurement of costs incurred to secure contracts, which, if any, previously were expensed immediately, while under IFRS 15 will be capitalized and amortized over the period when the benefits of the contract are consumed. No such significant costs have been incurred during 2018.
The Group has not changed presentation of assets and liabilities related to contracts with customers and continues to present them as Trade and other receivables and Trade and other payables.

Certain new standards and interpretations have been published that become effective for the accounting periods beginning on 1 January 2019 or later periods or are not yet endorsed by the EU:

IFRS 16 "Leases" (effective for annual periods beginning on or after 1 January 2019).
The main impact the Group's and the Bank's financial statements will come from the accounting of property leases. Such leasing contract will be accounted for on the balance sheet to a larger extent than today.
As at 1 January 2019 the bank recognized the right-of-use asset in the amount of 1 874 thousand EUR and lease liability in the amount of 1 874 thousand EUR, the Group recognized the right -of-use asset in the amount of 1 030 thousand EUR and lease liability in the amount of 1 030 thousand EUR.

IFRIC 23 "Uncertainty over Income Tax Treatments" (effective for annual periods beginning on or after 1 January 2019).

Amendments to IFRS 9 "Financial instruments" – Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019).

Amendments to IAS 28 "Investments in Associates and Joint Ventures" – Long-term Interests in Associates and Joint Ventures (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”.

Plan Amendment, Curtailment or Settlement - Amendments to IAS 19 (effective for annual periods beginning on or after 1 January 2019, not yet endorsed in the EU).

Amendments to the Conceptual Framework for Financial Reporting (effective for annual periods beginning on or after 1 January 2020, not yet endorsed in the EU)

Amendments to IFRS 3 “Business Combinations” - Definition of a business (effective for annual periods beginning on or after 1 January 2020, not yet endorsed in the EU)

Amendments to IAS 1 “Presentation of Financial Statement” and IAS 8 “Accounting Polices, Changes in Accounting Estimating and Errors” - Definition of materiality (effective for annual periods beginning on or after 1 January 2020, not yet endorsed in the EU)

IFRS 17 “Insurance contracts” (effective for annual periods beginning on or after 1 January 2021, not yet endorsed in the EU).

Amendments to IFRS 10 “Consolidated financial statements” and IAS 28 “Investments in Associates and Joint Ventures” - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective date to be determined by the IASB, not yet endorsed in the EU)
The Group and the Bank has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Group and the Bank anticipates that the adoption of all other standards, revisions and interpretations will have no material impact on the financial statements of the Group and the Bank in the period of initial application.

Basis of Consolidation
In accordance with IFRS 10 “Consolidated financial statements” and the requirements of FCMC the Bank has prepared consolidated financial statements for the Group and separate financial statements of the Bank.

In the separate financial statements the Bank has recognized investments in subsidiaries share capital at fair value and classified them in Financial assets at fair value through other comprehensive income balance sheet line.
Subsidiaries are those investees that the Group controls because the Group:

- has the power to direct relevant activities of the investees that significantly affect their returns,
- has exposure, or rights, to variable returns from its involvement with the investees,
- has the ability to use its power over the investees to affect the amount of investor’s returns.

Subsidiaries are consolidated from the date on which control is transferred to the Group, and are deconsolidated from the date on which control ceases.
Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group’s policies.

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets on a transaction by fair value.

Goodwill. Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill, and are not larger than an operating segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the disposed operation, generally measured on the basis of the relative values of the disposed operation and the portion of the cash-generating unit which is retained.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Bank. Non-controlling interest forms a separate component of the Group's equity.

The Bank and following companies make up a group of entities controlled either directly by the Bank or through Bank's investment funds ("the Group") and are consolidated in Group financial statements:

PNB Group 31.12.2018							
Name	Holding company name	Accumulated equity interest (%), 31.12.2018	Accumulated equity interest (%), 31.12.2017	Country	Address	Economic sector	Registration number
NORVIK LIQUIDATION UNIVERSAL CREDIT ORGANISATION CJSC	AS PNB Banka	100	100	AM	Yerevan, 12 Saryan str., Armenia	Financial service activities	NR. 14
PNB APDROŠINĀŠANAS BROKERIS SIA	AS PNB Banka	100	100	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Activities of insurance agents and brokers	40003950355
NORVIK BANKA UK LIMITED	AS PNB Banka	100	100	GB	London, 46/48 Grosvenor Gardens, 1st floor, SW1W 0EB, United Kingdom	Financial service activities	8940522
IPAS PNB ASSET MANAGEMENT	Norvik Banka UK Limited	100	100	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Fund management activities	40003411599
SPORT LEASING SIA	AS PNB Banka	100	100	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Financial leasing	40203018685
CALLERI LIMITED	AS PNB Banka	100	0	IM	IM15PD, Fort Anne Douglas, Isle of Man	Real estate activities	120273C
PHARM FINANCE SIA	AS PNB Banka	100	0	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Administrative and support service activities	50203188581
BU21 FITNESS SIA	AS PNB Banka	100	0	LV	Rīga, E.Birznieka-Upīša 21E, LV-1011	Real estate activities	40203183972
BU21 SIA	AS PNB Banka	100	0	LV	Rīga, E.Birznieka-Upīša 21E, LV-1011	Real estate activities	50203184081
EL15 SIA	AS PNB Banka	100	0	LV	Rīga, Elizabetes iela 15-3, LV-1010	Real estate activities	40203183987
NORVIK IPS AS SIF NĀKOTNES ĪPAŠUMU FONDS	AS PNB Banka	100	100	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Financial service activities	40003411599
A5 & M3 SIA	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	100	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Real estate activities	40103713508
ACTON SIA	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	100	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Real estate activities	40103220030
ALFA TIMBER SIA	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	100	LV	Rīga, Daugavgrīvas šoseja 8, LV-1016	Real estate activities	50103384551
BALTIJAS NAFTAS GRUPA SIA	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	100	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Real estate activities	50103484321

Name	Holding company name	Accumulated equity interest (%), 31.12.2018	Accumulated equity interest (%), 31.12.2017	Country	Address	Economic sector	Registration number
CITY ESTATES SIA	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	100	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Real estate activities	40103219898
EKO FORUMS PLUSS SIA	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	100	LV	Rīga, Gardenes iela 11, LV-1002	Real estate activities	40003884083
KRASTA SIA	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	100	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Real estate activities	40103669801
LANORA SIA	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	100	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Real estate activities	40103214316
LAT ESTATE SIA	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	100	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Real estate activities	40103214388
MAGNUM ESTATE SIA	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	100	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Real estate activities	40103295514
Пресес Намс Балтия ООО	Magnum Estate SIA	99	99	BY	г.Минск, Логойский тракт, дом 22А, помещение 171, офис 3, Республика Беларусь	Wholesale trade, except of motor vehicles and motorcycles	192241788
Пресес Намс Балтия ООО	Magnum Estate SIA	99.9	99.9	RU	182113, Псковская обл., г.Великие Луки, наб.Лейтенанта Шмидта, дом 1, к.1, Россия	Wholesale trade, except of motor vehicles and motorcycles	1107746214245
MERKURS RIGANTE PLUSS SIA	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	100	LV	Rīga, Zemaišu iela 3, LV-1002	Real estate activities	40103283110
NBT1 ENERGY SIA	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	100	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Electricity, gas, steam and air conditioning supply	40103688179
NBT3 ENERGY SIA	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	100	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Electricity, gas, steam and air conditioning supply	40103696477
NBT AGRO SIA	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	100	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Wholesale trade, except of motor vehicles and motorcycles	40103692121
NBT AGRO2 SIA	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	100	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Administrative and support service activities	40103217168
NBT ENERGY SIA	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	100	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Electricity, gas, steam and air conditioning supply	40103680940
OSTAS 1 SIA	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	100	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Real estate activities	40003934350

Name	Holding company name	Accumulated equity interest (%), 31.12.2018	Accumulated equity interest (%), 31.12.2017	Country	Address	Economic sector	Registration number
PALETES SIA	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	100	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Real estate activities	40003370229
PILNSKALNA 911 SIA	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	100	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Real estate activities	40103667035
RELOCATION SIA	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	100	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Real estate activities	40103220079
SOLUM ESTATE SIA	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	100	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Real estate activities	40103295641
VISALIA SIA	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	100	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Real estate activities	40103220115
WINERGY SIA	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	100	LV	Rīga, E.Birznieka-Upīša 20A-25, LV-1050	Electricity, gas, steam and air conditioning supply	40103194486
UKU INVESTMENTS SIA	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	100	LV	Rīga, E.Birznieka-Upīša 20A-25, LV-1050	Real estate activities	40103551673
NORWIND SIA	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	100	LV	Rīga, E.Birznieka-Upīša 20A-8, LV-1050	Professional, scientific and technical activities	40103966460
TOP ESTATE SIA	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	0	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Real estate activities	40103220007
IKSOV CJSC	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	100	AM	Yerevan, 375010, Tpagrihner 9 Kentron, Armenia	Real estate activities	286.120.05894
LAN LTD	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	100	AM	Yerevan, 12 Saryan str., Armenia	Real estate activities	286.110.06690
PRINT MANAGEMENT AS	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	99.26	0	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Activities of holding companies	40203178581
PNB PRINT SIA	PRINT MANAGEMENT AS	100	100	LV	Jāņsili, Silakrogs, Ropažu nov., LV-2133	Printing and reproduction of recorded media	40103219845
INTALE LIMITED	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	0	CY	Cyprus, Nicosia, Lamprou Katsoni 27, Irini Court-102, 1082	Activities of holding companies	HE369646
Lendoner OOO	INTALE LIMITED	100	100	RU	Московская область, Можайский район, Борисовский с.о., дер. Заречье	Real estate activities	1057747139306

Name	Holding company name	Accumulated equity interest (%), 31.12.2018	Accumulated equity interest (%), 31.12.2017	Country	Address	Economic sector	Registration number
EYESURF LIMITED	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	100	CY	Cyprus, Limassol, Agiou Andreou,332 Patrician CH, 3035	Activities of holding companies	HE343592
Орион ООО	EYESURF LIMITED	99.9999975	99.9999975	RU	1190049, г.Москва, ул.Шаболовка дом 10, Россия	Real estate activities	5077746753497
DAYS SIA*	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	0	0	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Real estate activities	50103219851
LANATA SIA *	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	0	0	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Real estate activities	40103214284
MADORA SIA *	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	0	0	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Real estate activities	40103214354
SERENITY SIA*	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	0	0	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Real estate activities	40103296045
ПАО Норвик Банк	AS PNB Banka	sold	97.75	RU	610000, г.Киров, ул.Преображенская, дом 4, Россия	Bank operations	1024300004739
COLEUM INC LIMITED	AS PNB Banka	sold	100	CY	Cyprus, Nicosia, Lamprou Katsoni 27, Irini Court-102	Financial service activities	HE 372093
Cecily Holdings Limited	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	sold	100	CY	Cyprus, Nicosia, Sophouli str. 2, 8th floor, 1096	Financial service activities	HE 275512
TRUST HOLDING SIA	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	liquidated	100	LV	Rīga, E.Birznieka-Upīša 20A-25, LV-1050	Real estate activities	40003769469

* Companies were included in the Bank’s consolidation group as the Bank controls the entity in accordance with IFRS 10 paragraph 6 (the Bank has rights to variable returns from companies and has the ability to affect those returns through its power over the companies).

Financial assets and financial liabilities

Classification and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on settlement date, the date on which the asset is delivered to or by the Group and the Bank.

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

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

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

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

Subsequent measurement of financial assets depends on the classification performed by the Group and the Bank at initial recognition.

At initial recognition, financial assets can be classified into one of the following categories:

- Financial assets measured at fair value through profit or loss (FVPL),
- Financial assets measured at fair value through other comprehensive income (FVOCI),
- Financial assets at amortised cost (AC).

Classification is performed based on both the Group’s and the Bank’s business model for managing financial assets and the characteristics of contractual cash flows of the financial assets.
The financial assets are measured at amortised cost if the following two conditions are met:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect ontractual cash flows, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on principal amount outstanding.

Financial assets are measured at fair value through other comprehensive incomes (i.e., capital reserve), if the following conditions are met:

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

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

However, financial assets that meet the amortised cost or fair value through other comprehensive income measurement criteria, may be designated on initial recognition by the Group and the Bank to fair value through profit or loss measurement option, provided that particular qualifying criteria are met.

Bank has made irrevocable choice to value equity investments at FVOCI, excluding Bank's investment in mutual fund, which was reclassified from Available for Sale Assets to the category Non-Trading Financial Assets mandatorily at fair value through profit or loss, because the said investment did not meet the conditions of classification referred to in Paragraph 4.1.2A of IFRS 9.

On initial recognition, financial liabilities are classified into one of the following categories:

- Financial liabilities measured at amortised cost,
- Financial liabilities measured at fair value through profit or loss.

Financial liability is classified as measured at fair value through profit or loss if:

- It meets the definition of held for trading and
- It is designated upon initial recognition to fair value through profit or loss measurement option.

All other financial liabilities are classified as measured at amortised cost.

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

Securities for liquidity

Securities which were acquired for liquidity management purposes and are within held to collect and sell business model are initially recognised at fair value, which is based on quoted bid prices. All related realised and unrealised gains and losses are included in net gain (loss) on transactions with securities. Dividends received are included in dividend income.
FVTPL option was elected for those securities because it leads to significant reduction or elimination of accounting mismatch.

Derivative financial instruments

Derivative financial instruments including foreign exchange forwards, swaps, options (both written and purchased) and other derivative financial instruments are initially recognised at fair value and subsequently remeasured at fair value. Fair values are determined according to the model, based on market observable inputs. All derivatives are carried as financial assets when fair value is positive and as financial liabilities when fair value is negative. Changes in the fair value of derivatives are included in net trading income.

Derivatives may be embedded in another contractual arrangement (a "host contract"). An embedded derivative is separated from the host contract and it is accounted for as a derivative if, and only if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, a separate instrument with the same terms as

the embedded derivative would meet the definition of a derivative; and the combined instrument is not measured at fair value with changes in fair value recognized in the statement of comprehensive income. Derivatives embedded in financial assets or financial liabilities at fair value through profit or loss are not separated.
Although the Group and the Bank trades with derivative instruments for risk hedging purposes, the Group and the Bank does not adopt hedge accounting.

Financial assets measured at fair value through other comprehensive income

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer’s perspective, such as loans, government and corporate bonds.

The Group and the Bank classifies its debt instruments into the measurement category:
Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the asset’s cash flow represents solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instruments amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified fro equity to profit or loss. Interest income from these financial assets is included in “Interest income” using the effective interest method.

Equity instruments

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

The Group and the Bank subsequently measure all equity investments at fair value through profit or loss, except where the Bank’s management has elected, at initial recognition, to irrevocably measure an equity investment at fair value through other comprehensive income. The Group’s and the Bank’s policy is to designate equity investments at fair value through other comprehensive income when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investment and the right to receive payments is established, is recognised in profit or loss.

Financial assets measured at amortised cost

Loans and advances

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

- they are held within the business model, which aim is achieved by collecting contractual cash flows (“Held to collect” business model);

- their contractual cash flows represent solely payments of principal and interest on outstanding principal
- the Group does not designate them on initial recognition to fair value through profit or loss measurement option

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

Financial liabilities measured at amortised cost

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

Amortised cost and effective interest rate

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

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

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

Impairment of financial instruments

The following financial instruments are subject to IFRS 9 impairment requirements:

- financial assets measured at amortised cost,
- lease receivables,
- contract assets,
- loan commitments and financial guarantee contracts.

For trade receivables including trade receivables with a significant financing component and contract assets the Bank and the Group applly the simplified approach permitted by IFRS 9, which uses lifetime expected losses to be recognized from initial recognition of the financial assets. The Bank and the Group use a provision matrix in which allowance for impairment losses is calculated for trade receivables falling into different ageing or overdue periods.

For financial instruments, which are in scope of impairment model, loss allowances for expected credit losses are calculated in the following way:

- Financial instruments with no significant increase in credit risk since the initial recognition (or financial instruments which are considered to have low credit risk) – loss allowances for expected credit losses are calculated at an amount equal to 12-month expected credit losses,
- Non credit-impaired financial instruments with significant increase in credit risk since the initial recognition -– loss allowances for expected credit losses are calculated at an amount equal to lifetime expected credit losses,
- Credit-impaired financial instruments – loss allowances for expected credit losses are calculated at an amount equal to lifetime expected credit losses,
- Purchased or originated credit-impaired assets (POCI) – loss allowances for expected credit losses are calculated at an amount equal to lifetime expected credit losses regardless of the changes in credit risk during the lifetime of financial assets.

Credit loss is the difference between all contractual cash flows that are due in accordance with the contract and all the cash flows that the Group and the Bank expects to receive (i.e. all cash shortfalls), discounted at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets). The Group and the Bank estimates cash flows by considering all contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) through the expected life of that financial instrument. The cash flows that are considered includes cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

Expected credit losses are the weighted average of credit losses with the respective risks of a default occurring as the weights. Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of a financial instrument. 12-months expected credit losses are the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

The Group and the Bank assesses at each reporting date whether the credit risk on a financial instrument has increased significantly since initial recognition by analysing the change in the risk of a default occurring over the expected life of the financial instrument. To make that assessment, the Group and the Bank compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition.

The Group applies low credit risk exemption to the institutions and issuers, that must fulfil the condition of having credit rating indicating investment grade.

For a financial asset that is credit-impaired at the reporting date, but that is not a purchased or originated credit-impaired financial asset, the Group and the Bank measures the expected credit losses as the difference between the asset’s gross carrying amount and the present value of estimated future cash flows discounted at the financial asset’s original effective interest rate. Any adjustment is recognised in profit or loss as an impairment gain or loss.

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

- significant financial difficulty of the issuer or the borrower;

- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event — instead, the combined effect of several events may have caused financial assets to become credit-impaired.

Financial guarantees and loan commitments are also within the scope of expected credit loss model. For loan commitments, the Group and the Bank considers changes in credit risk of the loan to which a loan commitment relates. For financial guarantee contracts, the Group and the Bank considers the changes in the risk that the specified debtor will default on the contract.

Finance lease

A finance lease is a lease that transfers substantially all the risks and rewards incident to ownership to the lessee at the inception of the lease. Receivables arising from finance lease are recognized as loans granted to clients. Received lease payments less principal amount are recognized as interest income based on a pattern reflecting a constant periodic return on the net investment.

Reverse repurchase agreements

Securities purchases under agreements to resell at a specified future date ("reverse repo") are not recognized on the balance sheet. The corresponding cash paid including accrued interest is recognized on the balance sheet as a Loans to and receivables from customers. The difference between the purchase and resale price is treated as interest income and is accrued over the life of the agreement using the effective interest rate method.

Derecognition of financial assets and liabilities

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

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

When the Group and the Bank has transferred the rights to receive cash flows from an asset or has entered into a pass-through arrangement and have neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's and the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group and the Bank could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group’s and the Bank’s continuing involvement is the amount of the transferred asset that the Group and the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group’s and the Bank’s continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

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

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

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

Modifications of loan

The Group sometimes renegotiates or otherwise modifies the contractual chash flows of loans to customers. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

- In the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Group derecognises the original financial asset and recognises a ‘new’ asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in the credit risk has occurred. However, the Group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

Write-off policy

The Group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators thet there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Group's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.
The Group may write-off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written off during the year ended 31 December 2018 was CU 41,000. The Group still seeks to recover amounts it is legally owed in full, but which have been partially written off due to no reasonable expectation of full recovery.

Offsetting

Financial assets and liabilities may be offset and the net amount is reported in the statement of financial position when the Bank or Group has a legally enforceable right to set off the recognized amounts and the transactions are intended to be reported in the statement of financial position on a net basis.

The Bank and Group does not offset any financial assets and financial liabilities.

Inventory

Raw materials, materials and goods for sale in the financial report are assessed using a FIFO method. The inventory is presented on the balance sheet at the lower of the two values: at the net realisable value or the cost. The cost covers the costs of basic materials, as well as direct labour costs and other costs which have occurred when bringing the inventory to its present location and condition. The net sale value is a sale value from which estimated completion costs and the required sale costs are deducted.

Inventory is recorded following the method of continued inventory records. If required, the value of obsolete, low-turnover or damaged inventory is derecognised or provisions are made in the amount set by the management.

Investment property

The Group holds real estate (land and buildings) as an investment property with the purpose to earn rental income or for value appreciation, including properties that is being constructed or developed for future use as investment property. Initially investment property is measured at cost.
The fair value model of accounting is used for subsequent measurement of investment property. Fair value of investment property reflects market conditions at the balance sheet date. See Note 24 for more detailed information with respect to the Group's investment property. Gains or losses arising from changes in the fair value of investment property are included in the income statement in "Changes in fair value of investment property" in the period in which they arise.

Intangible (except for goodwill) and tangible fixed assets

All fixed tangible and intangible assets except for goodwill and real estate (class Land and building) are accounted at their cost less accumulated depreciation and amortization. Depreciation and amortization is calculated on a straight-line basis using the following depreciation and amortization rates:

Intangible assets:	*Annual charge*
Licenses	20%
Software	20%
Tangible fixed assets:	
Buildings	3%
Other	7%-33%

Intangible assets with finite lives are amortized over the useful life. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each (financial) year-end. The depreciation and amortization expense on tangible fixed and intangible assets with finite lives is recognized in the income statement line "Depreciation and amortization".

To avoid significant differences between book value and fair value of its real estate the Bank carries its land and buildings at revalued amounts, with the exception of buildings that belong to class of tangible assets "historically significant buildings" which fair value is difficult to determine due to their uniqueness, therefore they are accounted for at amortized cost. Revaluations are performed with sufficient regularity. Fair value is determined based on valuator reports done by independent certified valuators. The increase of building value as the result of revaluation is recognized in equity and included in the comprehensive income report. If such increases cancel previous revaluation decreases then it is recognized in the statement of profit or loss. The decrease of a building's fair value that appeared during revaluation is recognized in the statement of profit or loss except where such a decrease cancels a previous revaluation increase that is shown in equity (and included in the comprehensive income report), in that case the decrease is recognized in equity and included in the other comprehensive income report. After building revaluation the Bank depreciates its value in accordance with Bank's depreciation rates.

Assets held for sale and Discontinued Operations

Assets held for sale relate to foreclosed properties and equipment held for sale. These assets are carried at the lower of their carrying amount and fair value less costs to sell. The changes in the asset value are recorded in the profit or loss statement.

Discontinued Operation relate to a subsidiary that is excluded from the Group by sale in 2018. These assets are carried at fair value less costs to sell (see Note 27). Earnings and cash flows of discontinued operations, if any, are disclosed separately from continuing operations with comparatives being re-presented.

Interest and fee income and expense recognition

Interest current income and expenses are recognized in the income statement on an accrual basis of accounting using the effective interest rate method. Interest income and expense include the amortization of any difference (discount premium or other) between the initial carrying amount of the interest-bearing financial asset or liability and its maturity amount calculated on an effective interest rate (including deals with negative interest rate) foundation. Negative interest on the financial assets is recognized within interest expense.

Interest income includes coupons earned on bonds and other fixed income securities.

For financial assets that are originated or purchased credit-impaired, the effective interest rate is the rate that discounts the expected cash flows (including the initial expected credit losses) to the fair value on initial recognition (normally represented by the purchase price). As a result, the effective interest is credit adjusted.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for (i) financial assets that have become credit impaired (Stage 3), for which interest revenue is calculated by applying the effective interest rate to their amortised cost net of the expected credit loss (ECL) provision, and (ii) financial assets that are purchased or originated credit impaired, for which the original credit adjusted effective interest rate is applied to the amortised cost.

Fee and commission income and expense consist of fees and commissions received/paid by the Bank for providing financial services other than those related to the origination of a financial asset or liability, which form a part of the effective interest income/expense. Fees and commissions arise on financial services provided by the Bank, including payment services, brokerage services, investment advice and financial planning, investment banking services and asset management services. Fee and commission income is recognized when the corresponding service is provided or completed.

Recognition of other income and other expenses (Goods sold and services provided)

Revenue is recognized based on the price specified in the contract, net of value added taxes, volume rebates granted, returns and discounts. Accumulated experience is used to estimate and provide for the discounts, using the expected value method, and revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur. The Group does not expect to have any contracts where the period between the transfer of the goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

Revenues earned by the Group are recognized on the following bases:

(i) Sales of goods and services

Printing and energy sales are recognized when control of the products has transferred to the customer, which is usually when the Group has sold or delivered goods to the customer, the customer has accepted the goods and collectability of the related receivable is reasonably assured. A receivable is recognized when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Sales of services are recognized in the accounting period in which the services are rendered, Major part of services relates to sale of goods and accordingly service revenues are recognized at a point in time in the same patter as the revenue from sale of goods is recognized.

Timing of revenue recognition for other services, if provided for prolonged time periods, is “Over time”.

(ii) Rental income arising on operating leases is recognized on a straight-line basis over the lease term.

Cash and cash equivalents

Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Cash and cash equivalents include balances on nostro accounts with other banks, interbank deposits with original maturities of less than three months. Funds restricted for a period of more than three months as of the moment of origination thereof are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortized cost.

The cash flow statement reflects an analysis of the cash flow from operating investing and financing activities for the period. Cash flows from operating activities are presented using the indirect method. Cash flows from investing and financing activities are presented based on gross receipts and payments made during the reporting period.

Taxes

From January 1, 2018, the corporate income tax is levied on profit that arose after 2017 if it is distributed. Corporate income tax on distributed profit has to be recognized when the shareholders of the Bank make a decision about profit distribution. Additionally tax can be levied on several Bank’s expenses, which are not deemed to be related with the commercial activity for application of the tax. For example, expenses for additional benefits to employees, representation expenses.

The tax base is calculated dividing the tax object with coefficient 0,8. Applicable tax rate is 20%.

The tax calculation does not create temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets and liabilities are not recognized.

The Bank has rights to utilise the unused tax losses accumulated by December 31, 2017, during next five taxation years, that is by year 2022 (incl.). Tax losses can be utilised to reduce the tax payable on distributed profits by no more than 50% each year.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event it is probable that the Group will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation its carrying amount is the present value of those cash flows.

The Group creates provisions for guarantees issued and other off balance sheet items based on individual review of off balance sheet items. The management uses its judgement and estimates as the probability of an outflow of economic resources and makes assessment of the value of security and collateral held and the amounts and timings of such outflows and recoveries if any.

Other liabilities

Other payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortized cost.

Financial instruments are classified into the following categories (policy applicable before 1 January 2018):

Financial assets and liabilities held for trading

Financial assets and liabilities held for trading are those that have been acquired or have arisen mainly for the purpose of earning a profit from short-term price fluctuations. These include trading debt securities, equity instruments. Trading securities are initially recorded in the balance sheet at fair value. Subsequently these securities are recorded at their fair value based on quoted market price. Any realized and unrealized profit or loss is recorded in the income statement as net profit or loss from trading securities. Interest earned by the Group from held for trading securities is recognized as interest income. Dividends received are recorded as dividend income. The Group recognizes purchase or sale of trading securities using settlement date accounting.

Derivatives recorded at fair value through profit or loss

Derivative financial instruments are accounted for on a trade date basis and are initially measured at fair value and at subsequent reporting dates also at fair value. Fair values are obtained from quoted market prices, and/or discounted cash flow models. The Group and the Bank operates with derivative financial instruments such as future currency agreements (forwards), currency exchange agreements (swaps) and options. All derivatives are carried as assets if their fair value is positive and as liabilities if their fair value is negative. Fair value of derivative transactions is included in the balance sheet as “Derivatives financial instruments”. Changes in the fair value of derivatives are included in the income statement in “Net trading income” on a daily basis.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets not classified as loans and receivables, held-to-maturity financial assets or financial assets at fair value through profit and loss. Available-for-sale financial assets include certain bonds, investments in funds, investments in jointly controlled entities and investments in subsidiaries.

Available-for-sale financial assets are initially recorded at their fair value (including expenses on purchase of the assets). The Group recognizes purchase or sale of available-for-sale financial assets using settlement date accounting. Subsequently assets are measured at their fair value based on quoted market prices where available. If financial assets are not quoted in an active market their fair value is measured using alternative methods (for example, prices of similar investments, net asset value calculation, or valuation performed by a certified valuator).

Available-for-sale assets for which the market price is not quoted and which fair value is not possible to measure by using other previously mentioned alternative methods are initially recorded at their fair value and subsequently measured at cost less allowance for impairment when appropriate.

Unrealized gains or losses on available-for-sale financial assets are recognized directly in other comprehensive income except for impairment losses and foreign currency exchange gains and losses arising from monetary assets until the financial asset are derecognized at which time the cumulative gain or loss previously recognized in equity is recognized in the income statement.

Loans and receivables to banks and to customers

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

Loans are measured at amortized cost using the effective interest rate method. The amortized cost of a loan is the amount at which the loan is measured at initial recognition minus principal repayments plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and minus any reduction (through the use of an allowance account) for impairment or uncollectibility.

Finance lease

A finance lease is a lease that transfers substantially all the risks and rewards incident to ownership to the lessee at the inception of the lease. Receivables arising from finance lease are recognized as loans granted to clients. Received lease payments less principal amount are recognized as interest income based on a pattern reflecting a constant periodic return on the net investment.

Assets held for sale

Assets held for sale relate to foreclosed properties and equipment held for sale. These assets are carried at the lower of their carrying amount and fair value less costs to sell. The changes in the asset value are recorded in the profit or loss statement.

Reverse repurchase agreements

Securities purchases under agreements to resell at a specified future date (“reverse repo”) are not recognized on the balance sheet. The corresponding cash paid including accrued interest is recognized on the balance sheet as a Loans to and receivables from customers. The difference between the purchase and resale price is treated as interest income and is accrued over the life of the agreement using the effective interest rate method.

Financial liabilities measured at amortized cost

Included in balance sheets as “Due to banks”, “Customer deposits”, “Subordinated debt securities” and “Subordinated debt” are financial liabilities measured at amortized cost.

After initial measurement these financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate. The amortization is included in “Interest and similar expense” in the income statement.

Derecognition of financial assets and financial liabilities

A financial asset is derecognized where:

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

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expired.

Offsetting

Financial assets and liabilities may be offset and the net amount is reported in the statement of financial position when the Bank or Group has a legally enforceable right to set off the recognized amounts and the transactions are intended to be reported in the statement of financial position on a net basis.

Identification and measurement of impairment (policy applicable before 1 January 2018):

Impairment of financial assets

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and for all overdue loans regardless of the balance of the outstanding principal. Assets that are individually assessed for impairment are not included in the collective assessment of impairment.

If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred the amount of the loss is measured as the difference between the asset's carrying value and the present value of expected future cash flows discounted at the financial instrument’s original effective interest rate.

For the measurement of collective impairment the Group assumes that all contractual cash flows will be received and recognizes impairment losses based on historical loss experience which is adjusted on the basis of currently available data.

Allowances are assessed collectively on portfolios with similar features - credit cards portfolio and unsecured consumer loans portfolio. The main criterion for assessment is settlement discipline and the calculation of necessary allowances on portfolio is based on experience and previous period’s statistics.

The carrying amount of the asset is reduced through the use of an allowance and the increase/decrease in the amount of the impairment loss is recognized in the income statement. If any loan and receivable cannot be recovered they are written off from the balance sheet accounts and charged against allowance for credit losses.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event it is probable that the Group will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation its carrying amount is the present value of those cash flows.

The Group creates provisions for guarantees issued and other off balance sheet items based on individual review of off balance sheet items. The management uses its judgement and estimates as the probability of an outflow of economic resources and makes assessment of the value of security and collateral held and the amounts and timings of such outflows and recoveries if any.

Foreign currency translation

Transactions and balances

Euro is the functional currency of the Bank and the entities based in the Latvia. Rouble is the functional currency of the entities based in Russia. The presentation currency of these financial statements is the Euro.

Transactions in foreign currencies (i.e. other than functional currency) are translated to the functional currency using the foreign exchange rate promulgated by the official European Central Bank and ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the closing foreign exchange rate ruling at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction. Foreign exchange differences arising on translation are recognised in profit or loss as “Profit/loss from revaluation of open position net”.

All realized gains and losses are recorded in the income statement in the period in which they arise. Unrealized gains and losses at reporting dates are credited or charged to the income statement.

Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates in which case income and expenses are translated at the dates of the transactions);
- All resulting exchange differences are recognized as a separate component of equity *“Revaluation reserve of foreign currency translations”.*

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to other comprehensive income.

The foreign currency exchange rates for the principal currencies that were used as of the end of the period were as follows:

	31 December 2018	**31 December 2017**
USD/EUR	1.145	1.1993
RUB/EUR	79.7153	69.392

4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The presentation of consolidated financial statements in conformity with IFRS as adopted by the EU requires the entity to make estimates and assumptions that affect the recognized amounts for assets liabilities and disclosure of contingent assets and liabilities as of the date of balance sheet date as well as recognized income and expenses for the reporting period. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates may significantly differ from related actual results.

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

The most significant judgments and estimates representing most probable sources of uncertainty existing in current financial and economical market are presented below:

Going concern considerations

The Group and the Bank finished 2018 with a net loss of 17 505 thousand euro and net profit 1 067 thousand euro respectively. As of 31 December 2018, the Group’s and the Bank’s Tier 1 capital ratios were 6.28% and 7.56% respectively, while the Group’s and the Bank’s total capital ratios were 11.26% and 12.48% respectively. Thus, by the end of the year the Group and the Bank did not meet minimum requirements for Tier 1 capital ratio set by the FCMC in the amount of 10.788% and 11.125%, respectively, and the minimum total capital ratio set by the FCMC in the amount of 13.55% at the Group level. As of the end of the year, the Group and the Bank were also in breach of large exposures limits.

The Bank is taking the following measures to ensure compliance with the set limits for the Tier 1 and total capital ratios and reduce large exposures.

The Bank keeps working on the sale of shares or assets of its subsidiary SIA Winergy by pursuing the course of action started during the previous periods. Unfortunately, the sale process was negatively influenced by a number of factors. A few significant developments have taken place in Latvia that negatively affected the interest of potential investors interested in the acquisition of such assets. In February 2018, a FinCEN report was published about ABLV Banka, which resulted in the process of self-liquidation of ABLV Banka. After the accusations made against ABLV Banka, as well as considering the turbulence in the financial sector of the Republic of Latvia, some of the investors suspended the acquisition process despite their interest in the company and the fact that they had already started the process of examination of SIA Winergy’s assets. The second important factor that has negatively affected the sale process was public announcements, calls for action and promises made by the Latvian politicians regarding the cancellation of quotas for “green energy”. Unpredictable policy of the government of the Republic of Latvia does not foster the interest of investors who are willing to buy such asset. Despite the above, the Bank’s management continue negotiations with potential investors and are determined to sell SIA Winergy’s assets in the near future. The Bank’s management keep working on the reduction of the Russian exposure. The Bank continues to develop a prospectus for the issue of the Bank’s perpetual bonds. The perpetual bonds will be used to increase the Bank’s Tier 1 capital (for detailed information please see Note 6). To further strengthen the Bank’s capital, the management also consider the possibility of merging with another credit institution in Latvia.

In light of the latest developments in Latvia concerning non-resident clients and the regulatory uncertainty concerning the non-resident business, the following lists a few points concerning the Bank’s business model and strategic plans.

In 2018, the Bank continued the improvement of the internal control system in the field of prevention of money laundering and terrorism financing (AML/CTF) by implementing an action plan developed based on the Administrative Agreement in the field of AML/CTF concluded between the Bank and the FCMC in 2017. Under the Action Plan, the Bank improved its automated IT system that is used by the Bank to manage the ML/TF risk, provided internal and external trainings, introduced procedures for exercising control over the quality of control mechanisms and took other measures. At the same time, in response to various market developments and new regulatory requirements in the field of AML/CTF, in 2018 the Bank carried out actively *de-risking* activities. Following the amendments to the Law on the Prevention of Money Laundering and Terrorism Financing of 9 May 2018, which lay down a prohibition for financial institutions to maintain business relationship or to execute any transactions with shell companies registered under a jurisdiction where they are not obliged to submit annual financial statements to competent authorities and with shell companies that cannot provide the Bank with documentary evidence of their daily business activities (in particular, cannot submit to the Bank a financial statement certified by an independent auditor), the Bank carried out an extraordinary due diligence and verification of its customers. As a result of the aforementioned *de-risking* activities, the number of the Bank’s customers-shell companies has reduced approximately by half, and, consequently, the specific weight of the credit turnover of shell companies in the total customer turnover fell from approx. 60% to approx. 30% as of the end of 2018; thus, the Bank ensured that the specific weight of the shell companies reduced at a much faster rate than it was provided for in the Administrative Agreement.

In autumn 2018, the world’s leader of non-credit risk ratings Sigma Ratings Inc assigned to the Bank a BB+ Business Integrity rating with a stable rating outlook, which places the Bank within reach of the “Industry Leader” segment (BBB and above).

We expect that, in view of the requirements set by Moneyval and other international organisations, the regulator will put forward increasingly stringent requirements as to the transparency of the financial system. Therefore, the Bank's management declare their readiness to improve the ML/TF risk control systems by investing in it the required information technologies and human resources, as well as ensuring zero tolerance towards any financial crimes and attempts to circumvent sanctions.

2018 was not an easy year for the banks of Latvia, specialising in servicing of international clients. Changes in the legislation of Latvia, restricting the possibility to work with shell companies, have substantially decreased the non-resident share in the banking sector of Latvia. PNB Banka conducted an unscheduled revision of the existing customer base to ensure compliance with the changes made to the Law on the Prevention of Money Laundering and Terrorism Financing that are in effect as from 9 May 2018 and the global tendencies of the NILLTFN regulation. As a result of the revision, the Bank has ended relationships with more than 900 customers that are registered under the jurisdiction that does not oblige them to submit financial statements to relevant institutions and that have not submitted documents in full to confirm their real economic activity in compliance with the amendments introduced to the Regulations No 3 of the FCMC (for instance, the audited financial statements). PNB Banka's International Banking, which is aimed at large corporate clients and private persons with high level of income, has fully adapted to the new realities. In 2019, the International Banking of PNB Banka will continue to focus on the high-quality customers (i.e. from Forbes-500) and large international corporations.

In 2018, the Bank paid increasing attention to the development of the Latvian Banking, in particular – to the servicing of senior clients. This is the client segment where we are aware of our competitive advantage supported by a vast service network and knowledge of the financial needs of senior clients acquired over the years. In 2018, the Bank succeeded in maintaining the widest branch network in the country – we have 44 customer service centres and almost 100 000 customers, of which 96% are Latvian residents, of whom two thirds are seniors.

The Bank's ability to continue as a going concern is substantially dependent on resolving compliance with prudential ratios (capital adequacy ratios and large exposure limits) and on the execution of the Recovery Plan within the set time limits, as well as on its ability to implement the revised strategy as described above. The Group's and the Bank's financial statements are prepared on the going concern basis and do not include any adjustments (including the valuation of assets and liabilities) that may be required if the going concern assumption would not be applicable.

As part of the regular (at least annual) stress testing under the internal capital adequacy assessment process (ICAAP) as well as under the new internal liquidity adequacy assessment process (ILAAP), stress testing of the liquidity of the Bank's portfolio is conducted. Both the severe short term and mild medium-term testing shows that the Bank is able to liquidate short and medium-term assets, such as securities and overnight financial pledges, to ensure depositor payments. This has been demonstrated by the market turbulence from mid-February 2018, and the Bank has further stress-tested the liquidity ratios at the presentation delivered to the FCMC on 5 April 2018. The management of the Bank are confident that in the long term, if required, it could liquidate additional assets through early repayment or sale of loans, though potentially at a discount to book value depending on the market situation.

Based on the above, the management of the Bank conclude that the going concern principle is applicable to the preparation of the financial statements. However, a material uncertainty still exists that may cast significant doubt on the Bank's ability to continue as a going concern. This is due to the fact that the Bank has to take a number of measures to improve its prudential ratios in a very short period of time, and due to a concern as to the Bank's ability to implement the Bank's revised Strategy. The implementation of the Strategy depends on the ability to reduce the non-core asset exposure in a short period of time and attract additional investments to the Bank's equity, as well as to ensure it earns sufficient profit from its core banking activities.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recognized on the balance sheet cannot be obtained from active markets, fair value is determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible a degree of judgment is required in establishing fair values depending on liquidity concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. See Note 39.
The Banks/Group's management believes that the fair value of the assets and liabilities presented in these financial statements is measured reliably.

Expected credit losses

Starting from 1st January 2018 the Group and the Bank implemented and followed the requirements of IFRS 9 for loss allowance assessment for expected credit losses.

Based on the applied impairment methodology "Methodology for asset valuation and impairment" financial instruments are grouped into Stage 1, Stage 2 and Stage 3.

- Stage 1 – performing assets and assets that are not credit-impaired. Stage 1 includes assets where there has been no significant increase in credit risk since initial recognition or which are classified as low risk (rating categorised as "Investment grade" or higher). The Bank recognizes an allowance based on twelve months expected credit losses. The change increases the impairment allowance.
- Stage 2 – performing and not credit-impaired assets that experienced significant increase in credit risk since initial recognitions. The Bank records an allowance for the lifetime expected credit losses. Since this is a new concept compared to IAS39, it results in substantial additional increase in the allowance as most such assets are not considered to be credit-impaired under IAS39.
- Stage 3 – non-performing and credit-impaired (defaulted) assets. The Bank recognizes the lifetime expected credit losses. Significant Stage 3 assets are tested for impairment on an individual basis, while for insignificant assets a collective assessment is performed.

As regards the borrowers (lending operations), when carrying out the valuation of assets and off-balance sheet liabilities and making provisions for expected credit losses, the Bank and Group use the internal credit ratings based on the "Internal Credit Rating Methodology" developed and approved by the Bank, but as regards the counterparties (investment activities, transactions on the interbank market) - external credit assessments.

In addition, the Bank uses information from its internal economic experts in a combination with published external information from governments and private economic forecasting services.

a) Significant increase in credit risk (SICR).

Assessment of increase in credit risk and recognition of its significance is applied to all financial assets in aggregate, without dividing them into components.
Generally the financial asset is treated as the one that experienced significant increase in credit risk if at least one of the following SICR indicators are identified since the initial recognition of the financial instrument under condition they were not present as of its origination:

1. Reduction in the Bank's internal credit rating: borrowers – from A to C and from B by 1 step, counterparties and issuers – reduction of the risk group by 1 step.

2. The following factors that indicat considerable deterioration of the business partner's creditworthiness were identified:
    - Actual and expected changes in operational results (deterioration);
    - Actual and expected adverse changes in commercial, financial and economic conditions;
    - Actual and expected adverse changes in legal, economic and technological conditions (such as, decline in demand for realisable products due to technology changes).
3. Check list status as of reporting date.
4. More than 30 days past due as of the reporting date.
5. Increase in the credit risk for other liabilities.
6. The Borrower has informed the Bank of his willingness to change the terms of the agreement, which is classified as the restructured asset.
7. Issuer's suggestion to revise the issue prospectus.
8. Significant changes in the value of collateral underlying the contractual relations or in the quality of guarantees of the third parties, or in improvement of the credit quality, which is expected to reduce the debtor's economic incentive to make the planned payments under the contract or otherwise affect the possibility of default.
9. Significant changes in the quality of the guarantee provided by the shareholder (or the parent company).
10. Significant increase of 12-month PD since initial recognition until reporting date.

b) Default definition.

The Bank and the Group identify a default when either or both of the following default indicators have materialized:
- The customer is past due more than 90 days on any material obligation to the Group;
- The customer is considered unlikely to pay in relation to its credit obligations to the Group.

In order to identify those that can be classified unlikely to pay, the following indicators are assessed:
- Financial assets are assigned nonaccrual status;
- Financial was assets were sold / are sold with significant economic losses (above 10%) from the amortized value of the financial asset;
- Due to financial difficulties, issuer looses active market;
- Financial asset is purchased or created at a high discount reflecting the credit losses incurred
- The Bank agrees to the restructuring of financial assets caused by financial difficulties, if this would result in a reduction of contractual obligations, achieved through partial withdrawal of principal, interest payments or, where appropriate, servicing charges or deferral of repayment thereof;
- The Bank has requested recognition of the debtor's bankruptcy or issuance of a similar order in respect of the debtor's contractual obligations towards the Bank or the Group;
- The debtor has requested declaration of its bankruptcy, or it is subject to bankruptcy proceedings or similar protection, which may result in a failure to repay the contractual obligations to the Bank or a delay in the repayment
- Loss of stable source of income;
- Doubts that a stable and sufficient cash flow will be generated in the future;
- Considerable increase in liabilities;
- Violations of the terms of agreement (covenants);
- Sale of collateral (including guarantees);
- Default on its liabilities by the guarantor, or the companies owned by the guarantor;
- Significant fulfilment delays on other liabilities;
- Field of activity crisis, combined with a weak position in the field. Crisis in action combined with a weak position in this area of activity

Return to a non-defaulted status is possible not earlier than after 3 months when all default triggers case to be met. During those 3 months of the probation period the timely payments by a customer should be ensured. The exemption from the general rule of probation is the distressed restructuring where at least 1 year need to pass since the moment of extending restricting measures and the moment when a customer is deemed to have an ability to comply with the post-restructuring conditions.
The following tables present an analysis of stages of loans and receivables of the Group and the Bank as of 31 December 2018:

31.12.2018

Group, EUR'000	Loans over 10 million to private companies	Loans from 2 to 10 million to private companies	Loans less than 2 million to private companies	Other loans to private individuals	Receivables	Total
1 stage	**26 253**	**4 648**	**7 712**	**6 287**	**18 695**	**63 595**
no past due	26 253	4 648	6 793	6 025	18 695	**62 414**
less than 30 days overdue	-	-	919	262	-	**1 181**
2 stage	**12 365**	**4 370**	**173**	**56**	**-**	**16 964**
less than 30 days overdue	12 365	4 370	151	10	-	**16 896**
31 to 60 days overdue	-	-	22	37	-	**59**
61 to 90 days overdue	-	-	-	9	-	**9**
3 stage	**68 750**	**22 274**	**11 295**	**9 448**	**2 638**	**114 405**
less than 30 days overdue	12 443	3 361	2 799	175	2 638	**21 416**
31 to 60 days overdue	-	-	227	70	-	**297**
61 to 90 days overdue	-	-	180	6	-	**186**
91 to 180 days overdue	33 240	7 659	965	64	-	**41 928**
over 180 days overdue	23 067	11 254	7 124	9 133	-	**50 578**
(Provisions)	(28 826)	(5 397)	(5 016)	(7 983)	(1 037)	**(48 259)**
Total	**78 542**	**25 895**	**14 164**	**7 808**	**20 296**	**146 705**

31.12.2018

Bank, EUR'000	Loans over 10 million to private companies	Loans from 2 to 10 million to private companies	Loans less than 2 million to private companies	Other loans to private individuals	Receivables	Total
1 stage	**26 253**	**-**	**3 969**	**6 105**	**18 677**	**55 004**
no past due	26 253	-	3 049	5 843	18 677	**53 822**
less than 30 days overdue	-	-	920	262	-	**1 182**
2 stage	**31 377**	**17 744**	**367**	**56**	**-**	**49 544**
less than 30 days overdue	31 377	17 744	345	10	-	**49 476**
31 to 60 days overdue	-	-	22	37	-	**59**
61 to 90 days overdue	-	-	-	9	-	**9**
3 stage	**68 750**	**22 274**	**11 160**	**8 967**	**2 638**	**113 789**
less than 30 days overdue	12 443	3 361	2 799	175	2 638	**21 416**
31 to 60 days overdue	-	-	227	70	-	**297**
61 to 90 days overdue	-	-	180	6	-	**186**
91 to 180 days overdue	33 240	7 659	965	64	-	**41 928**
over 180 days overdue	23 067	11 254	6 989	8 652	-	**49 962**
(Provisions)	(19 704)	(5 397)	(5 031)	(7 953)	(1 037)	**(39 122)**
Total	**106 676**	**34 621**	**10 465**	**7 175**	**20 278**	**179 215**

Impairment losses breakdown by stages is represented in Note 19.

Fair value of investment property and tangible fixed assets (class Land and building)

Valuation of investment properties and tangible fixed assets (class Land and building) using income capitalisation method. Investment property and tangible fixed assets (class Land and building) are stated at its fair value based on reports prepared by an international valuation company at the end of each reporting period.

For these properties, the valuation was based principally on discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The principal assumptions underlying the estimation of the fair value are those relating to: the receipt of contractual rentals; expected future market rentals; void periods; maintenance requirements; and appropriate discount rates. These valuations are regularly compared to actual market yield data and actual transactions by the Group, and those reported by the market.

5. LEGAL PROCEEDINGS

(a)

The company Parmas Corporation LLC has filed a claim with the St. Petersburg Court of Arbitration against the borrower SIA L-Serviss regarding the recovery of an unpaid loan amount of 3 391 thousand euro. The company Parmas Corporation LLC substantiates the claim rights with an assignment agreement dated 29 October 2012 whereby Norvik Malta Sicav Plc. has transferred its claim rights towards SIA L-Serviss to the company Parmas Corporation LLC. The decision of 29 December 2017 passed by St. Petersburg Court of Arbitration acknowledged the claim of the company Parmas Corporation LLC in full. The defendant SIA L-Serviss submitted an appeal, which was dismissed. On 12.09.2018, SIA L-Serviss filed a cassation complaint with the Judicial Board for Economic Disputes of the Supreme Court of the Russian Federation.

Based on the ruling passed by a judge of the Supreme Court of the Russian Federation, it was resolved to refuse to refer the matter to the judicial tribunal of the Supreme Court.

The liquidator of Norvik Malta Sicav Plc has filed a claim with the London Court of International Arbitration (LCIA) against the company Parmas Corporation LLC seeking annulment of the assignment agreement.

Having regard to the award granted by LCIA, currently Norvik Malta Sicav Plc is in a proces of preparing a claim against Parmas Corporation LLC to be submitted to the court of the Russian Federation regarding the recovery proceedings from Parma Corporation LLC's on its claim rights against SIA L-Serviss as a pledged property. As of 31 December 2018, Parmas Corporation LLC has not taken any actions to enforce the decision of the Russian court.

The Bank believes that provisions for this legal case are not necessary.

(b)

In March 2017, a business partner of SIA Winergy filed a claim with an arbitration court against SIA Winergy on collection of a penalty in the amount of 250 thousand euro. According to the judgement of the arbitration court of 5 June 2017, a penalty in the amount of 250 thousand euro and arbitration costs in the amount of 19.6 thousand euro were imposed from SIA Winergy in favor of the claimant, the total amount is 269.6 thousand euro. SIA Winergy considers the judgement to be completely unfounded and will object to the issuance of a writ of execution for the enforcement of the judgement. As of the date of preparation of the report, the claimant has not applied to the court for the issuance of the writ of execution for the enforcement of the arbitration court's judgement. As regards the said case of the arbitration court, SIA Winergy – considering the agreement on the arbitration clause and agreement amendments providing for penalty to be void – brought action against this business partner regarding invalidation of the arbitration agreement and of the amendments to the agreement. On 23.05.2018, Winergy's claim was satisfied in full. SIA Winergy's business partner (as a defendant) appealed the judgement. Based on the judgement of the Collegium of Civil Cases of the Latgale Regional Court of 28.12.2018, the appeal was dismissed, while SIA Winergy's claim was satisfied in full. However, a cassation complaint was filed but as of the date of preparation of the report, the Supreme Court has not taken a decision about consideration thereof in cassation.

The Bank believes that provisions for this legal case are not necessary.

(c)

The Ministry of Environmental Protection and Regional Development (MEPRD) has filed an application with the Administrative Court against SIA Winergy regarding the implementation and correctness of execution of the concluded agreement, and regarding the imposition of an obligation on SIA Winergy to repay the funding received in the amount of 2 134 thousand euro. Based on the

judgement of the Administrative Regional Court, MEPRD's application was satisfied and SIA Winergy was obliged to repay the MEPRD the funding received in the amount of 2 134 thousand euro. SIA Winergy has filed a cassation complaint regards the above judgement with the Department of Administrative Cases of the Supreme Court, which at an executive session has resolved to refer the cassation complaint for consideration on the merits. As of the date of preparation of the report, the cassation complaint has not been considered. In relation to the receipt of the aforementioned funding, criminal proceedings against the former officials of SIA Winergy are being considered in court. Within the criminal case, the MEPRD has applied for a monetary compensation in the amount of reclaimed funding and, based on the decisions of a person directing the proceedings, attachment has been imposed on SIA Winergy's funds in the amount of 1 343 thousand euro.
The Bank believes that provisions for this legal case are not necessary.

(d)
In July 2018, a claim against SIA Winergy was filed with the Latgale Regional Court of Riga regarding the collection of a debt in the amount of 1 531 thousand euro arising from the loan agreements concluded in April 2012. The claimant has obtained the claim rights towards SIA Winergy from the creditor's company under liquidation registered in Swiss Confederation. Review of the case is re-scheduled for 18.04.2019.
The Bank believes that provisions for this legal case are not necessary.

(e)
In November 2018, a claim was filed with Vidzeme Regional Court of Riga against the Bank, under which the Bank's client contests and does not recognise the transfer in the amount of 357 thousand euro made from the said client's account.
The Bank believes that provisions for this legal case are not necessary.

6. CAPITAL ADEQUACY AND FURTHERS PLANS

In 2018, the Bank submitted to the Financial and Capital Market Commission an updated plan for strengthening of the Bank's/ Group's capital. The Bank provided for several development scenarios in this plan. The core measures of the plan were as follows:

- the sale of the Group's asset (SIA Winergy). SIA Winergy's operation is related to the production and sale of electricity;
- the issue of the Bank's perpetual bonds that can be converted into Tier 1 capital;
- the sale of non-core assets according to the approved schedule;
- the sale of pension funds;
- conversion of the subordinated deposits;
- attraction of new investors.

Within the period as from the moment the asset entered the Group and to the end of 2018, the principal amount of the energy sector's loans of 8.6 million euro was discharged and the interest income of 2.5 million euro was paid. The Bank has previously informed about its plans regarding this asset and, in line with its decision taken in 2017, it took measures aimed at preparing the asset for sale and at the search for potential investors. The sale of the asset will have a material impact on the balance sheet of the Bank/Group and will allow both a substantial alleviation of the strain on the risk-bearing assets and the increase of the Bank's/Group's capital adequacy ratio.

A considerable part of the Bank’s/Group’s exposure is concentrated on the territory of the Russian Federation. The intense volatility of the Russian Rouble, observed over the recent years, had a material influence on the Bank’s/Group’s financial indicators in the previous periods. The Bank’s management took a decision to reduce these exposures. In 2017, one of the Bank’s primary objectives was the refinancing of the loans granted against the pledge of real estate assets located in Russia, as well as the sale of the Group’s assets located in Russia. In early 2018, the Bank sold one of such assets, i.e. 85% of the Bank’s shares of its subsidiary bank PAO Norvik Bank, planning to sell the outstanding 15% within 5 years. As a result of the sale of 85% of the shares, the Bank waived all the asset-related benefits and risks, as well as the control over it. An investment in the related company in the amount of 15% of the initial investment remains on the Bank's balance sheet, but the Bank does not carry out consolidation procedures anymore. The sale of the said assets has had an impact on the Bank’s financial results and Bank’s/Group’s capital adequacy ratio.

Currently, the Bank continues to prepare the prospectus for the issue of the Bank’s perpetual bonds. According to the prospectus, the perpetual bonds are to be used to increase the Bank’s/ Group’s Tier 1 capital. The goal of the issue of each series of the bonds is to attract funds to be used by the Issuer to finance its core business, including but not limited to:

- to improve the term structure of the Issuer’s assets and liabilities;
- to attract funds to additionally increase the Issuer’s Tier 1 capital, and to supplement and maintain the amount of liquidity required for the Issuer’s business activity.

The Bank continues to use the subordinated capital: in 2018, the book value of the subordinated deposits was 20.8 million euro and subordinated bonds was 37.7 million euro.

According to Basel III standard, the use of Tier 2 capital to calculate the exposure limits is limited to 1/3 of Tier 1 capital in 2018 and to 1/3 of Tier 1 capital in 2019. Currently, the Bank has no plans to increase Tier 2 capital, while the capital strengthening plans provide for the gradual reduction of the subordinated deposits. The amount of subordinated deposits and bonds will decrease by 5.9 million EUR by the end of 2019.

In 2018, one of the Bank’s priority tasks was the sale of the taken-over assets, some of which were sold. The value of the assets sold in 2018 was 2.2. million euro. In 2018, the Bank’s management started working on the sale of its business – pension plan management. As of today, the Bank’s subsidiary IPAS PNB Asset Management manages three pension plans:

- PNB Konservatīvais Ieguldījumu Plāns Daugava (conservative investment plan),
- PNB Aktīvais Ieguldījumu Plāns GAUJA (active investment plan),
- PNB Sabalansētais Ieguldījumu Plāns VENTA (balanced investment plan).

As of 31.12.2018, the pension plan portfolio was 135.8 million euro (+0.82% up on 31.12.2017). The total number of members as of 31.12.2018 was 81 445 (-2.25% down on 31.12.2017).

Despite the difficult circumstances on financial markets in 2018, Tier 2 investment plans managed by IPAS PNB Asset Management are still among the best in terms of results on the market, and over the last 10 years their average profitability has been 4% per annum (IP Gauja 4.9%, IP Venta 4.32% and IP Daugava 4.01%).

Currently, the Bank’s management coordinates the final version of the agreement with a buyer. It should be noted that the sale process is related to obtaining certain permissions from the State Social Insurance Agency (VSAA) and the Financial and Capital Market Commission (FCMC). The sale of the business will have a positive impact on the Bank/Group’s capital adequacy.

Over the last year, the Bank continued to introduce significant changes to the Bank’s operation – in summer 2018, the Bank started paying much more attention to the development of the Latvian

Banking, placing particular emphasis on the financial needs of seniors, since the Bank maintains that this customer group does not receive enough attention and customised financial solutions on the banking market. Customers of the senior segment appreciate that the Bank is able to provide services in the widest branch network across Latvia. In 2018, PNB Banka continued its cooperation with the Latvian Pensioners' Federation. Considering ambitious revenue-increasing goals, the Latvian Banking’s team not only continued to work actively on the customer attraction by implementing large-scale cooperation projects (e.g. with airBaltic) or by activating cooperation with the municipalities segment (having opened accounts to 28 municipalities in 2018) but also made substantial efforts to improve the effectiveness of the Bank’s products and processes (by, for instance, shortening agreement forms to one A4 page, thus optimising the Bank’s resources).

In 2018, the Bank plans to adhere to the previously approved strategy as regards the corporate and retail lending, i.e. to maintain a conservative position as to the credit risk management.

As of the end of 2018, the Bank’s total capital adequacy ratio was 12.48% (the Group’s capital adequacy ratio – 11.26%). The Bank continues to work on the attraction of investors and, thus, on the increase of the share capital, which is the main element of Tier 1 capital and lays the groundwork for business development. Additional Tier 1 capital will provide an opportunity to gain additional profit.

In early 2019, two minority shareholders joined the shareholding structure. Currently, the Bank’s management conducts negotiations with the minority investors regarding additional investments in the Bank’s/Group’s capital.

7. RISK MANAGEMENT

Upkeeping and improvement of the risk management system commensurate with the nature and volume of the operations, profile of the assumed risks of the Bank and Group, compliant with future development needs of the business of the Bank and Group is among the regular and most important tasks of the Bank. This task is implemented through involvement of all levels of the Bank's management; the risk management strategy is an integral part of the overall development strategy of the Bank.
The Bank assesses the current risk profile on regular grounds and highlights those types of risks that exert the most substantial impact on the Bank’s operations – credit risk, market risks, liquidity risk, concentration risk, operational risk, anti-money laundering risk (AML risk), also compliance risk, reputation risk.
The risk management function at the Group and the Bank’s level is separated from the business structures and is integrated in the framework of the Bank`s and Group`s internal control based on the effective bank supervision requirements laid down by the Financial and Capital Market Commission and the Basel Committee on Banking Supervision.
For purposes of risk management, which includes risk identification, assessment, monitoring and control, are developed relevant risk management policies and other internal regulations, the primary purpose of which is to achieve the goals set in the risk strategy and which define key risk management principles and processes, functions and responsibilities of units, risk limits, as well as control and reporting system.
The system of risk limits established at the Group and the Bank’s level includes all of the significant types of risk.

Since 2015, the Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 has been applied on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms and the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms.

Risk management structure

The Supervisory Council and the Management Board of the Bank are responsible for establishment and effective functioning of risk management system.

Supervisory Council

- reviews and approves risk management and capital adequacy assessment policies.
- determines Bank and Group overall development strategy, incl. risk strategy and capital adequacy strategy as well as monitoring the implementation of these strategies.
- At least annually review and approve the results of the risk management and internal capital adequacy assessment process.
- Take decisions related to risk management and capital adequacy.

Management Board

The Management Board is responsible for the overall risk management approach, for the establishment of risk management principles and structure, as well as for the approval of methodologies and procedures to ensure implementation of risk management policies.

Assets and Liabilities Committee

The Assets and Liabilities Committee is responsible for the monitoring of asset and liability management and sets limits on counterparties and securities issuers, open currency positions and interest rates, sets funding and deposit pricing. The Committee manages liquidity, foreign exchange risk and interest rate risk and make a decision on the provisions to the impairment assets with impairment and / or write-down of assets.

Credit Committees

The Credit Committees (2 Committees) are responsible for the approval of an exposure within their competence and the analysis of quality of the loan portfolio.

Non-Profile Asset Management Committee

The Non-Profile Assets Management Committee is responsible for the matters related to the Bank’s repossessed assets (for example, real estate, commercial property, etc).

Chief Risk Officer

- performs overall risk control functions, supervises the risk management system and coordinates the activity of the Bank’s units involved in risk management.
- 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 Supervisory Council and the Management Board and other officers according to the internal policies;
- Advises and provides support to the Supervisory Council and to the Management Board on risk management and capital adequacy related issues and decision-making.

Risk Management Division

- Is responsible for the operation of the risk management system and the capital adequacy assessment process.
- Ensures the development of the Internal Capital Adequacy Assessment process (ICAAP), incl, stress testing
- Regularly reviews and, if necessary, develops normative documents for the implementation of the requirements of the risk management system in accordance with changes in the Bank's and the Group's operations and external circumstances.

Resource Management Department

The Resource Management Department is responsible for liquidity management and cash management.

Capital Markets Department

The Capital Markets Department is responsible for the foreign currency exchange business, foreign currency exchange operations, brokerage business and for the management of the Bank’s securities portfolios.

Compliance monitoring division

The key goal of the Compliance monitoring division is identification, measurement, and management of compliance risk.

Internal Audit Department

The Internal Audit Department audits risk management processes annually and examines both the adequacy of policies and procedures and the compliance with the internal and external requirements. The Internal Audit discusses the results of inspections with the management and submits reports on inspection results with necessary recommendations to the Supervisory Council and the Management Board and the related units. The Internal Audit performs follow-up engagements to check whether recommendations are followed and implemented.

Heads of the Bank’s structural units, Members of the Committees and other employees of the Bank are aware of their duties and responsibilities related to routine risk management and participate in the risk identification, assessment and monitoring process.

LIQUIDITY RISK

Liquidity risk is the risk that the Bank / Group might not be able to meet its lawful obligations on time and fully. The major sources of the liquidity risk are: mismatch of the funds’ attraction and assets’ placement maturities, volatility of the resource base used by the Bank / Group, impossibility to realise the financial assets within the preferred deadlines without major losses in the circumstances of inactive or shallow market.

The aim of the liquidity and liquidity risk management is to maintain the optimum balance between the maturities, volumes of asset placement and attraction of funds at which the Bank guarantees, on the one hand, timely execution of its obligations and compliance with internal and external regulatory enactments, on the other hand - achieves optimisation of its profitability and risk level parameters through engaging in the transactions actively.

The “Liquidity and liquidity risk management policy” accepted by the Supervisory Council and the “Liquidity risk management procedure” accepted by the Management Board set the key principles and processes of liquidity and liquidity risk management, tasks of management and structural units and their responsibilities in liquidity management and maintenance, methods and conditions, asset and liability management procedure, reporting and disclosure procedure.

A wide range of measurement and assessment methods is used in liquidity and liquidity risk management (the method of coefficients, method for analysis of the term structure of the balance sheet, cash flow forecasting method, method for establishment of limits and stress testing) that provides for timely identification, analysis and management of the liquidity risk at the respective periods of time (including intra-day).

To limit this risk, the Bank as the Group’s liquidity manager places its assets so as to ensure settlement of their creditors' legal claims at any time (liquidity). The Bank maintains marketable securities portfolio which can be liquidated or pledged in unforeseen situations. Additionally, the Bank maintains an obligatory reserve deposit with the Central Bank of Latvia.

The Bank does not use derivatives for management of the liquidity risk.

The Resource department manages liquidity on a daily basis ensuring execution of intra-day payment obligations; calculates the liquidity buffer and the possible requirements for liquid assets based on the client structure of the Banka; manages liquidity portfolio to ensure long-term liquidity positions and to maintain the Bank’s ability to meet all obligations under stress scenario; calculates and analyzes early warning indicators that help identify adverse trends that may impact the Group`s and Bank`s liquidity; as well as submits reports to the management,

The Resource Department performs liquidity stress testing and submits stress testing results to the Board and the Supervisory Council as well as Internal Liquidity Adequacy Assessment report (ILAAP).

The Risk Management Division measures and monitors the liquidity risk.

The Bank pays particular attention to compliance with regulatory indicators

The Bank monitors and ensures the liquidity ratio set by the Financial and Capital Market Commission: the Bank maintains liquid assets that are sufficient for settling liabilities in the amount of no less than 50% of the total current liabilities of the Bank (liquidity ratio).

Liquidity ratio is calculated as liquid assets divided by all liabilities with the remaining contractual maturity of 30 days or less. Liquid assets for the purpose of the calculation are cash, balances due from the Bank of Latvia and solvent credit institutions placed on demand and for up to 30 days, and investments in securities that can be sold in short time or pledged to obtain a loan. Current liabilities are on-demand liabilities and liabilities with a residual maturity of no more than 30 days.

The liquidity ratio during the year was as follows:

	2018	**2017**
	%	**%**
31 December	64.61	61.33
Average during the period	58.56	62.23
Highest	68.32	68.20
Lowest	52.44	57.76

In addition to a Latvia individuals liquidity ratio, the Financial and Capital Market Commission (FCMC) has also introduced a minimum requirement for a Basel III proposed Liquidity Coverage Ratio (LCR). Regulation (EC) No 575/2013 introduced the concept of liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) as measurements of the Bank’s and the Group’s liquidity position. Since 1 October 2016 LCR is calculated according to Commission Delegated Regulation (EU) 2015/61.

Bank	**31.12.2018 EUR’ 000**	**31.12.2017 EUR’ 000**
Liquidity buffer	162 009	256 355
Net liquidity outflow	56 554	69 031
Liquidity coverage ratio (%)	286%	371%

MATURITY ANALYSIS OF ASSETS AND LIABILITIES

To ensure long-term liquidity, the Bank evaluates and plans the term structure of its assets and liabilities on a regular basis.

The Group's experience shows that demand deposit balance is a stable source of funding, so, despite the fact that holders have a right to get the demand deposits at any time without any penalties, deposits with an original "on demand" maturity are shown in the liabilities maturity analysis by maturity breakdown, which corresponds to the Group and the Bank’s historical experience about the actual holding period of these deposits. According to the Group's experience, the breakdown of demand deposits by their maturity does not exceed 5 years.

The table below presents the maturity structure of the Group’s assets, liabilities and off-balance sheet liabilities based on their contractual maturity, except for demand deposits the breakdown of the maturity of which corresponds to the Group's historical experience related to the actual term of holding of such deposits.

Group As at 31 December 2018	Up to 1 month EUR'000	From 1 to 3 months EUR'000	From 3 to 6 months EUR'000	From 6 months to 1 year EUR'000	From 1 to 5 years EUR'000	From 5 years and over EUR'000	No stated matutiry * EUR'000	Total EUR'000
Financial assets								
Cash and balances with the central bank	103 027	-	-	-	-	-	-	**103 027**
Financial assets at amortised cost, including	14 323	2 940	7 561	4 113	58 209	55 660	16 678	**159 484**
Loans to and receivables from banks	*12 064*	-	-	-	-	-	*715*	***12 779***
Loans to and receivables from customers	*2 259*	*2 940*	*7 561*	*4 113*	*58 209*	*55 660*	*15 963*	***146 705***
Derivatives financial instruments	61	-	-	8	-	-	-	**69**
Financial assets at fair value through OCI	66 397	-	-	-	5 102	5 248	-	**76 747**
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	-	-	-	2 933	-	**2 933**
Other assets	1 971	-	-	-	-	-	1 341	**3 312**
Non-financial assets								
Prepaid corporate income tax	55	-	-	-	1	-	-	**56**
Investment property	-	-	-	-	-	-	74 963	**74 963**
Tangible fixed assets	-	-	-	-	-	-	89 434	**89 434**
Goodwill	-	-	-	-	-	-	407	**407**
Intangible assets	-	-	-	-	-	-	4 936	**4 936**
Assets held for sale	-	-	-	4 837	445	-	-	**5 282**
Other assets	8 050	307	320	2 292	5 526	2	2 883	**19 380**
Total assets	**193 884**	**3 247**	**7 881**	**11 250**	**69 283**	**63 843**	**190 642**	**540 030**
Financial liabilities								
Due to the central bank and other banks	36	30	-	-	-	-	873	**939**
Derivatives financial instruments	58	18	-	3	-	-	-	**79**
Customer deposits	142 536	51 915	28 599	56 056	155 286	340	12	**434 744**
Subordinated deposits	3	1 929	731	3 945	14 177	-	-	**20 785**
Subordinated debt securities	-	-	-	-	37 700	-	-	**37 700**
Other liabilities	722	-	-	-	-	2 943	-	**3 665**
Non-financial liabilities								
Deferred tax liabilities	-	-	-	-	-	-	37	**37**
Other liabilities	8 989	147	143	1 300	572	788	-	**11 939**
Total liabilities	**152 344**	**54 039**	**29 473**	**61 304**	**207 735**	**4 071**	**922**	**509 888**
Financial guarantees	47	-	-	-	-	-	-	**47**
Credit related commitments	1 629	-	-	-	-	-	-	**1 629**
Net liquidity (total assets - total liabilities - off-balance sheet items)	**39 864**	**(50 792)**	**(21 592)**	**(50 054)**	**(138 452)**	**59 772**	**189 720**	
Cumulative liquidity	**39 864**	**(10 928)**	**(32 520)**	**(82 574)**	**(221 026)**	**(161 254)**	**28 466**	

Group As at 31 December 2017	Up to 1 month EUR'000	From 1 to 3 months EUR'000	From 3 to 6 months EUR'000	From 6 months to 1 year EUR'000	From 1 to 5 years EUR'000	From 5 years and over EUR'000	No stated matutiry * EUR'000	Total EUR'000
Financial assets								
Cash and balances with the central bank	131 978	-	-	-	-	-	-	**131 978**
Loans to and receivables from banks	*52 973*	*-*	*-*	*-*	*-*	*-*	*1 068*	***54 041***
Loans to and receivables from customers	*11 961*	*1 915*	*5 196*	*21 702*	*60 539*	*51 525*	*19 742*	***172 580***
Bonds	*-*	*-*	*-*	*-*	*-*	*-*	*16 705*	***16 705***
Derivatives financial instruments	351	33	-	-	-	-	-	**384**
Available-for-sale financial assets	128 616	-	-	-	5 102	8 841	-	**142 559**
Other assets	764	-	-	-	-	-	2 346	**3 110**
Non-financial assets								
Prepaid corporate income tax	110	-	-	-	-	-	-	**110**
Investment property	-	-	-	-	-	-	67 086	**67 086**
Tangible fixed assets	-	-	-	-	-	-	93 214	**93 214**
Goodwill	-	-	-	-	-	-	407	**407**
Intangible assets	-	-	-	-	-	-	6 325	**6 325**
Assets held for sale	-	-	-	1 143	-	-	-	**1 143**
Assets held for sale (subsidiary)	-	205 037	-	-	-	-	-	**205 037**
Other assets	11 163	329	2 097	806	6 091	4	2 950	**23 440**
Total assets	**337 916**	**207 314**	**7 293**	**23 651**	**71 732**	**60 370**	**209 843**	**918 119**
Financial liabilities								
Due to the central bank and other banks	475	-	-	-	-	-	1 584	**2 059**
Derivatives financial instruments	1 132	67	-	-	-	-	-	**1 199**
Customer deposits	166 199	27 838	54 410	94 548	270 139	228	106	**613 468**
Subordinated deposits	-	615	100	549	15 064	4 981	-	**21 309**
Subordinated debt securities	-	-	-	-	37 096	-	-	**37 096**
Other liabilities	721	-	-	-	3 538	-	2	**4 261**
Non-financial liabilities								
Deferred tax liabilities	-	-	-	-	-	-	117	**117**
Liabilities related to assets held for sale	-	172 343	-	-	-	-	-	**172 343**
Other liabilities	9 151	990	45	1 390	1 490	886	-	**13 952**
Total liabilities	**177 678**	**201 853**	**54 555**	**96 487**	**327 327**	**6 095**	**1 809**	**865 804**
Credit related commitments	3 181	-	-	-	-	-	-	**3 181**
Net liquidity (total assets - total liabilities - off-balance sheet items)	**157 057**	**5 461**	**(47 262)**	**(72 836)**	**(255 595)**	**54 275**	**208 034**	
Cumulative liquidity	**157 057**	**162 518**	**115 256**	**42 420**	**(213 175)**	**(158 900)**	**49 134**	

Bank As at 31 December 2018	Up to 1 month EUR'000	From 1 to 3 months EUR'000	From 3 to 6 months EUR'000	From 6 months to 1 year EUR'000	From 1 to 5 years EUR'000	From 5 years and over EUR'000	No stated matutiry * EUR'000	Total EUR'000
Financial assets								
Cash and balances with the central bank	103 024	-	-	-	-	-	-	**103 024**
Financial assets at amortised cost, including	13 246	2 940	7 560	4 111	99 559	47 399	16 678	**191 493**
Loans to and receivables from banks	*11 563*	-	-	-	-	-	*715*	***12 278***
Loans to and receivables from customers	*1 683*	*2 940*	*7 560*	*4 111*	*99 559*	*47 399*	*15 963*	***179 215***
Derivatives financial instruments	61	-	-	8	-	-	-	**69**
Financial assets at fair value through OCI	66 397	-	-	-	5 102	161 177	-	**232 676**
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	-	-	-	2 933	-	**2 933**
Other assets	1 979	-	-	-	-	-	-	**1 979**
Non-financial assets								
Prepaid corporate income tax	-	-	-	-	1	-	-	**1**
Investment property	-	-	-	-	-	-	6 127	**6 127**
Tangible fixed assets	-	-	-	-	-	-	17 248	**17 248**
Intangible assets	-	-	-	-	-	-	1 210	**1 210**
Assets held for sale	-	-	-	4 106	445	-	-	**4 551**
Other assets	3 190	-	4	-	4 941	2	82	**8 219**
Total assets	**187 897**	**2 940**	**7 564**	**8 225**	**110 048**	**211 511**	**41 345**	**569 530**
Financial liabilities								
Due to the central bank and other banks	36	30	-	-	-	-	873	**939**
Derivative financial instruments	58	18	-	3	-	-	-	**79**
Customer deposits	146 350	52 248	29 228	58 020	156 968	340	21 758	**464 912**
Subordinated deposits	3	1 929	731	3 945	14 177	-	-	**20 785**
Subordinated debt securities	-	-	-	-	37 700	-	-	**37 700**
Other liabilities	722	-	-	-	-	-	-	**722**
Non-financial liabilities								
Other liabilities	2 696	-	-	686	-	-	-	**3 382**
Total liabilities	**149 865**	**54 225**	**29 959**	**62 654**	**208 845**	**340**	**22 631**	**528 519**
Financial guarantees	47	**-**	**-**	**-**	**-**	**-**	**-**	**47**
Credit related commitments	1 632	-	-	-	-	-	-	**1 632**
Net liquidity (total assets - total liabilities - off-balance sheet items)	**36 353**	**(51 285)**	**(22 395)**	**(54 429)**	**(98 797)**	**211 171**	**18 714**	
Cumulative liquidity	**36 353**	**(14 932)**	**(37 327)**	**(91 756)**	**(190 553)**	**20 618**	**39 332**	

Bank **As at 31 December 2017**	**Up to 1 month EUR'000**	**From 1 to 3 months EUR'000**	**From 3 to 6 months EUR'000**	**From 6 months to 1 year EUR'000**	**From 1 to 5 years EUR'000**	**From 5 years and over EUR'000**	**No stated matutiry * EUR'000**	**Total EUR'000**
Financial assets								
Cash and balance with the central bank	131 977	-	-	-	-	-	-	**131 977**
Loans to and receivables from banks	*52 687*	-	-	-	-	-	*1 068*	***53 755***
Loans to and receivables from customers	*11 242*	*1 910*	*5 192*	*29 235*	*66 456*	*79 876*	*19 742*	***213 653***
Bonds	-	-	-	-	-	-	*16 705*	***16 705***
Derivative financial instruments	351	33	-	-	-	-	-	**384**
Available-for-sale financial assets	128 616	31 814	-	-	5 102	152 717	-	**318 249**
Other assets	773	-	-	-	-	-	1 004	**1 777**
Non-financial assets								
Investment property	-	-	-	-	-	-	6 150	**6 150**
Tangible fixed assets	-	-	-	-	-	-	37 302	**37 302**
Intangible assets	-	-	-	-	-	-	1 114	**1 114**
Assets held for sale	-	-	-	445	-	-	-	**445**
Other assets	3 180	-	-	-	4 311	-	91	**7 582**
Total assets	**328 826**	**33 757**	**5 192**	**29 680**	**75 869**	**232 593**	**83 176**	**789 093**
Financial liabilities								
Due to the central bank and other banks	478	-	-	-	-	-	1 584	**2 062**
Derivative financial instruments	1 132	67	-	-	-	-	-	**1 199**
Customer deposits	169 853	27 932	54 655	95 389	273 237	228	40 999	**662 293**
Subordinated deposits	-	615	100	549	15 064	4 981	-	**21 309**
Subordinated debt securities	-	-	-	-	37 096	-	-	**37 096**
Other liabilities	721	-	-	-	-	-	2	**723**
Non-financial liabilities								
Other liabilities	2 688	-	-	812	-	-	-	**3 500**
Total liabilities	**174 872**	**28 614**	**54 755**	**96 750**	**325 397**	**5 209**	**42 585**	**728 182**
Credit related commitments	3 181	-	-	-	-	-	-	**3 181**
Net liquidity (total assets - total liabilities - off-balance sheet items)	**150 773**	**5 143**	**(49 563)**	**(67 070)**	**(249 528)**	**227 384**	**40 591**	
Cumulative liquidity	**150 773**	**155 916**	**106 353**	**39 283**	**(210 245)**	**17 139**	**57 730**	

* - In particular, bonds un receivables from banks and finance companies pledged as collateral for deals with financial instruments and payment card settlements, as well as overdue receivables from customers.

MATURITY ANALYSIS OF FINANCIAL LIABILITIES

The tables below present the maturity structure of the Group and the Bank's liabilities and off-balance sheet liabilities based on their contractual maturity, except for demand deposits the breakdown of the maturity of which corresponds to the Group and the Bank's historical experience related to the actual term of holding of such deposits.

The liabilities presents undiscounted cash flows based on historical experience:

Financial liabilities **As at 31 December 2018 - Group**	**Up to 1 month EUR'000**	**From 1 to 3 months EUR'000**	**From 3 to 6 months EUR'000**	**From 6 months to 1 year EUR'000**	**From 1 to 5 years EUR'000**	**From 5 years and over EUR'000**	**Total EUR'000**
Due to the central bank and other banks	939	-	-	-	-	-	**939**
Derivative financial instruments	27	15	-	10	-	-	**52**
- Contractual amounts payable	*65 243*	*366*	-	*890*	-	-	***66 499***
- Contractual amounts receivable	*(65 216)*	*(351)*	-	*(880)*	-	-	***(66 447)***
Customer deposits	148 801	45 436	28 759	56 969	158 821	207	**438 993**
Subordinated debt	74	2 080	953	4 438	10 782	4 927	**23 254**
Subordinated debt securities	100	1 035	380	729	39 883	-	**42 127**
Other financial liabilities	3 665	-	-	-	-	-	**3 665**
Total undiscounted financial liabilities	**153 606**	**48 566**	**30 092**	**62 146**	**209 486**	**5 134**	509 030
Financial guarantees	1 533	-	-	-	-	-	**1 533**
Credit related commitments	1 849	-	-	-	-	-	**1 849**
Total	**3 382**	**-**	**-**	**-**	**-**	**-**	3 382

Financial liabilities **As at 31 December 2017 - Group**	**Up to 1 month EUR'000**	**From 1 to 3 months EUR'000**	**From 3 to 6 months EUR'000**	**From 6 months to 1 year EUR'000**	**From 1 to 5 years EUR'000**	**From 5 years and over EUR'000**	**Total EUR'000**
Due to the central bank and other banks	2 062	-	-	-	-	-	**2 062**
Derivative financial instruments	824	15	-	-	-	-	**839**
- Contractual amounts payable	*291 621*	*12 076*	-	-	-	-	***303 697***
- Contractual amounts receivable	*(290 797)*	*(12 061)*	-	-	-	-	***(302 858)***
Customer deposits	165 922	28 346	54 231	96 138	272 326	98	**617 061**
Subordinated deposits	82	815	333	1 011	17 233	5 313	**24 787**
Subordinated debt securities	100	999	380	729	41 482	-	**43 690**
Other financial liabilities	4 261	-	-	-	-	-	**4 261**
Total undiscounted financial liabilities	**173 251**	**30 175**	**54 944**	**97 878**	**331 041**	**5 411**	692 700
Financial guarantees	3 249	-	-	-	-	-	**3 249**
Credit related commitments	3 553	-	-	-	-	-	**3 553**
Total	**6 802**	-	-	-	-	-	6 802

Financial liabilities **As at 31 December 2018 - Bank**	**Up to 1 month EUR’000**	**From 1 to 3 months EUR’000**	**From 3 to 6 months EUR’000**	**From 6 months to 1 year EUR’000**	**From 1 to 5 years EUR’000**	**From 5 years and over EUR’000**	**Total EUR’000**
Due to the central bank and other banks	939	-	-	-	-	-	**939**
Derivative financial instruments	27	15	-	10	-	-	**52**
- Contractual amounts payable	*65 243*	*366*	-	*890*	-	-	***66 499***
- Contractual amounts receivable	*(65 216)*	*(351)*	-	*(880)*	-	-	***(66 447)***
Customer deposits	153 167	45 769	39 204	70 347	160 503	207	**469 197**
Subordinated deposits	74	2 080	953	4 438	10 782	4 927	**23 254**
Subordinated debt securities in issue	100	1 035	380	729	39 883	-	**42 127**
Other financial liabilities	722	-	-	-	-	-	**722**
Total undiscounted financial liabilities	**155 029**	**48 899**	**40 537**	**75 524**	**211 168**	**5 134**	**536 291**
Financial guarantees	1 533	-	-	-	-	-	**1 533**
Credit related commitments	1 852	-	-	-	-	-	**1 852**
Total	**3 385**	-	-	-	-	-	**3 385**

Financial liabilities **As at 31 December 2017 - Bank**	**Up to 1 month EUR’000**	**From 1 to 3 months EUR’000**	**From 3 to 6 months EUR’000**	**From 6 months to 1 year EUR’000**	**From 1 to 5 years EUR’000**	**From 5 years and over EUR’000**	**Total EUR’000**
Due to the central bank and other banks	2 062	-	-	-	-	-	**2 062**
Derivatives financial instruments	824	15	-	-	-	-	**839**
- Contractual amounts payable	*291 621*	*12 076*	-	-	-	-	***303 697***
- Contractual amounts receivable	*(290 797)*	*(12 061)*	-	-	-	-	***(302 858)***
Customer deposits	170 331	68 552	55 044	96 429	275 470	98	**665 924**
Subordinated deposits	82	815	333	1 011	17 233	5 313	**24 787**
Subordinated debt securities	100	999	380	729	41 482	-	**43 690**
Other financial liabilities	723	-	-	-	-	-	**723**
Total undiscounted financial liabilities	**174 122**	**70 381**	**55 757**	**98 169**	**334 185**	**5 411**	**738 025**
Financial guarantees	3 249	-	-	-	-	-	**3 249**
Credit related commitments	3 556	-	-	-	-	-	**3 556**
Total	**6 805**	-	-	-	-	-	**6 805**

The tables below present the maturity profile of the Bank’s and Group’s financial liabilities by the remaining maturities: principal payment and/or interest payments under agreements. The amounts of the liabilities disclosed in the table are the contractual undiscounted cash flows.

The liabilities presents undiscounted cash flows based on contractual maturities:

Financial liabilities As at 31 December 2018 - Group	Up to 1 month EUR’000	From 1 to 3 months EUR’000	From 3 to 6 months EUR’000	From 6 months to 1 year EUR’000	From 1 to 5 years EUR’000	From 5 years and over EUR’000	Total EUR’000
Due to the central bank and other banks	939	-	-	-	-	-	**939**
Derivative financial instruments	27	15	-	10	-	-	**52**
- Contractual amounts payable	*65 243*	*366*	-	*890*	-	-	***66 499***
- Contractual amounts receivable	*(65 216)*	*(351)*	-	*(880)*	-	-	***(66 447)***
Customer deposits	271 814	29 284	13 257	47 446	76 985	207	**438 993**
Subordinated deposits	74	2 080	953	4 438	10 782	4 927	**23 254**
Subordinated debt securities	100	1 035	380	729	39 883	-	**42 127**
Other financial liabilities	3 665	-	-	-	-	-	**3 665**
Total undiscounted financial liabilities	**276 619**	**32 414**	**14 590**	**52 623**	**127 650**	**5 134**	509 030
Financial guarantees	1 533	-	-	-	-	-	**1 533**
Credit related commitments	1 849	-	-	-	-	-	**1 849**
Total	**3 382**	-	-	-	-	-	**3 382**

Financial liabilities As at 31 December 2017 - Group	Up to 1 month EUR’000	From 1 to 3 months EUR’000	From 3 to 6 months EUR’000	From 6 months to 1 year EUR’000	From 1 to 5 years EUR’000	From 5 years and over EUR’000	Total EUR’000
Due to the central bank and other banks	2 062	-	-	-	-	-	**2 062**
Derivative financial instruments	824	15	-	-	-	-	**839**
- Contractual amounts payable	*291 621*	*12 076*	-	-	-	-	***303 697***
- Contractual amounts receivable	*(290 797)*	*(12 061)*	-	-	-	-	***(302 858)***
Customer deposits	495 803	11 438	20 644	53 109	35 969	98	**617 061**
Subordinated deposits	82	815	333	1 011	17 233	5 313	**24 787**
Subordinated debt securities	100	999	380	729	41 482	-	**43 690**
Other financial liabilities	4 261	-	-	-	-	-	**4 261**
Total undiscounted financial liabilities	**503 132**	**13 267**	**21 357**	**54 849**	**94 684**	**5 411**	692 700
Financial guarantees	3 249	-	-	-	-	-	**3 249**
Credit related commitments	3 553	-	-	-	-	-	**3 553**
Total	**6 802**	-	-	-	-	-	**6 802**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Financial liabilities **As at 31 December 2018 - Bank**	**Up to 1 month EUR'000**	**From 1 to 3 months EUR'000**	**From 3 to 6 months EUR'000**	**From 6 months to 1 year EUR'000**	**From 1 to 5 years EUR'000**	**From 5 years and over EUR'000**	**Total EUR'000**
Due to the central bank and other banks	939	-	-	-	-	-	**939**
Derivative financial instruments	27	15	-	10	-	-	**52**
- Contractual amounts payable	*65 243*	*366*	-	*890*	-	-	***66 499***
- Contractual amounts receivable	*(65 216)*	*(351)*	-	*(880)*	-	-	***(66 447)***
Customer deposits	278 888	29 284	23 273	60 560	76 985	207	**469 197**
Subordinated deposits	74	2 080	953	4 438	10 782	4 927	**23 254**
Subordinated debt securities in issue	100	1 035	380	729	39 883	-	**42 127**
Other financial liabilities	722	-	-	-	-	-	**722**
Total undiscounted financial liabilities	**280 750**	**32 414**	**24 606**	**65 737**	**127 650**	**5 134**	536 291
Financial guarantees	1 533	-	-	-	-	-	**1 533**
Credit related commitments	1 852	-	-	-	-	-	**1 852**
Total	**3 385**	-	-	-	-	-	**3 385**

Financial liabilities **As at 31 December 2017 - Bank**	**Up to 1 month EUR'000**	**From 1 to 3 months EUR'000**	**From 3 to 6 months EUR'000**	**From 6 months to 1 year EUR'000**	**From 1 to 5 years EUR'000**	**From 5 years and over EUR'000**	**Total EUR'000**
Due to the central bank and other banks	2 062	-	-	-	-	-	**2 062**
Derivatives financial instruments	824	15	-	-	-	-	**839**
- Contractual amounts payable	*291 621*	*12 076*	-	-	-	-	***303 697***
- Contractual amounts receivable	*(290 797)*	*(12 061)*	-	-	-	-	***(302 858)***
Customer deposits	502 340	51 550	21 211	53 109	37 616	98	**665 924**
Subordinated deposits	82	815	333	1 011	17 233	5 313	**24 787**
Subordinated debt securities	100	999	380	729	41 482	-	**43 690**
Other financial liabilities	723	-	-	-	-	-	**723**
Total undiscounted financial liabilities	**506 131**	**53 379**	**21 924**	**54 849**	**96 331**	**5 411**	738 025
Financial guarantees	3 249	-	-	-	-	-	**3 249**
Credit related commitments	3 556	-	-	-	-	-	**3 556**
Total	**6 805**	-	-	-	-	-	**6 805**

CREDIT RISK

Credit risk is possibility of the Bank / Group sustaining losses should the borrower or counterparty be incapable of or refuse to meet its obligations towards the Bank/Group as per the provisions of the concluded contracts. The major sources of the credit risks are lending operations (provision of funds on the terms of repayment and maturity), investment activities (including investments in securities), transactions on the interbank market. There is also credit risk in financial instruments such as guarantees, letters of credit and payment cards` overdraft commitments. There is a delivery risk.

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 has established the required system of the internal regulatory documents that outline the procedures for identification, measurement, assessment and monitoring of the credit risk.

Both the Group and the Bank manage the overall credit risk, including country risk, in accordance with the Credit Policy, Investment policy, Financial Risk Management and Control Policy and the Country Risk Management.

The credit risk management system established by the Bank is based on the following key elements:

- 1st element – Availability of risk measurement method. The Bank has developed and consistently applies methods for assessing creditworthiness of the borrowers / issuers.
- 2nd element – Decision making procedure for granting a loan. Decisions on granting a loan are made collectively and the limits of authority are distributed across various levels in accordance with the respective competence levels.
- 3rd element – Diversification of the portfolio, i.e. establishment of limits and restrictions. Setting limits and restrictions is regarded as a tool for minimization of the credit risk and for elimination of potential losses.
- 4th element – Monitoring of compliance with established limits and restrictions.
- 5th element – Creation of adequate loan loss provisions to cover expected credit losses that might appear in the course of transactions. Created provisions are regarded as an instrument that would allow the Bank and Group to cover future expected credit losses resulting from loan transaction risks, thus protecting the Bank’s and Group`s financial stability from any negative impact.

Exposures to credit risk are managed through regular analysis of the ability of the existing and potential borrowers / issuers to meet interest and principal repayment obligations and by changing lending limits were appropriate. The counterparty`s financials analysis (creditworthiness), the analysis of external rating and analysis of business environment of counterparties is taken into consideration for such decision-making, as well as market-based indicators. Sovereign bonds are assessed similarly, but with an emphasis on different fundamental factors, including the county`s economic strength, institutional strength, financial strength of the government, political risks and other relevant factors.

The Group and the Bank identify and control the credit risk by establishing the acceptable exposure limits for:

- individual borrowers / issuers and groups of interrelated counterparties;
- economic sectors;
- different types of exposures;
- types of collateral;
- unsecured loans;
- loans issued in the currency other than borrower’s income currency.

Control of compliance with credit risk concentration limits is the responsibility of the Risk management division.

The Bank and Group takes into account the impact of the concentration risk on the credit risk it assumes. The Bank and Group attempts to diversify adequately both the individual requirements towards the borrowers / issuers / investment objects and requirements towards the segments of the appropriate portfolios (by way of establishing the control limits, restrictions and monitoring them regularly).

In order to mitigate the credit risks occurring as a result of the lending transactions, the Bank and Group accepts collaterals; also, in order to curb the negative effect of the possible occurrence of the credit risk, the Bank and Group builds provisions for the potential losses whose amount depends on the financial asset’s classification category (in line with IFRS 9), probability of default, estimated share of losses in the event of the borrower’s (issuer’s) default. The Bank and Group, when carrying out the valuation of assets and off-balance sheet liabilities and making provisions for expected credit losses, for borrowers (lending operations) use internal credit ratings based on the Bank developed and approved "Internal Credit Rating Methodology", for counterparties (investment activities, transactions on the interbank market) are used external credit assessments.

The Bank and Group does not use derivatives for management of the credit risk.

After a loan is issued or a fixed income security is acquired, the customer's financial position and the issuers' risk indicators, such as credit rating changes, are monitored on a regular basis in order to timely identify potential credit quality deterioration. The loan monitoring process covers monitoring of financial results, financial position and cash flows of the borrower, loan repayment discipline and assessment of collateral quality.

Credit risk is managed by the Supervisory Council, the Management Board, the Credit Committees (Credit Committee and Small Credit Committee for Retail) and the Assets and Liabilities Committee.

Supervisory Council:

- Defines the basic principles of credit risk management.
- Monitor and control how the Management Board manages credit risk and whether the activities of the Bank`s Management Board are in line with the corporate strategy and policies.
- Approves decisions of the Management Board on the credit risk exposures to the borrower or a group of related borrowers that include the borrower when the exposure exceeds 1 million euro.

The Management Board approves the bank's internal regulations for implementation of the Credit Policy, considers and accepts new loan exposures to the related parties when the exposure exceed 50 thousand euro, approves the measures for mitigating the risk related to the loan portfolio, performs control over the Credit Committees, approves exposures when the amount exceed 1 million euro.

The main function of the Credit Committee is to make decisions in the framework of the implementation of the Bank`s Credit Policy with the aim of ensuring an optimal balance between credit risk and credit portfolio yield.

The Credit Committee is competent to:

- Make decisions on granting loans to the borrower or group of connected borrowers in the amount of up to 1 million euro.
- Approve mass / standardized lending programs.
- Continuously monitor the quality of the credit portfolio and / or analyze the quality of individual loans, approve the necessary measures to mitigate credit risk and improve quality, in cases where the risk of deterioration or quality is reduced.
- Approve the standard and individual conditions for credit products.
- Make decisions on the maturity of the loan, the alienation of collateral and / or additional encumbrance, repayment procedure, credit restructure and other essential conditions, the initiation or termination of debt recovery.

The Small Credit Committee for Retail is responsible for making decisions on consumer credit, payment card credits (legal and individuals) and mortgage loans to individuals up to 10 000 EUR, excluding exposures to the related parties.

The decisions on setting the limits for counterparties and securities issuers are made by the Assets and Liabilities Committee in respect to each type of exposure and maximum maturity. The Assets and Liabilities Committee makes decisions on the classification of loans, creation provisions for bad debts and write-off of irrecoverable loans.

MAXIMUM EXPOSURE TO CREDIT RISK

The amount of the Group's maximum exposure to credit risk (without taking into account of any collateral) is represented by the carrying amount of each category of financial assets in the balance sheet and off-balance sheet items.

	31.12.2018		31.12.2017	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Credit risk exposure relating to on-balance sheet assets	**242 545**	**429 150**	**389 379**	**604 523**
Financial assets at amortised cost, including	159 484	191 493	-	-
Loans to and receivables from banks	*12 779*	*12 278*	*54 041*	*53 755*
Loans to and receivables from customers	*146 705*	*179 215*	*172 580*	*213 653*
Bonds	-	-	*16 705*	*16 705*
Derivative financial instruments	69	69	384	384
Financial assets at fair value through OCI	76 747	232 676	-	-
Available-for-sale financial assets	-	-	142 559	318 249
Non-trading financial assets mandatorily at fair value through profit or loss	2 933	2 933	-	-
Other financial assets	3 312	1 979	3 110	1 777
Credit risk exposure relating to off-balance sheet items	**3 382**	**3 385**	**6 802**	**6 805**
Guarantees	1 533	1 533	3 249	3 249
Credit related commitments	1 849	1 852	3 553	3 556
Maximum exposure	**245 927**	**432 535**	**396 181**	**611 328**

The Group's and Bank's financial assets are held in the following geographical regions according to the customer's legal registration:

At 31 December 2018 – Group	Latvia EUR'000	OECD countries EUR'000	Russia EUR'000	Other countries EUR'000	Total EUR'000
Credit risk exposure relating to on-balance sheet assets	**63 618**	**62 838**	**40 621**	**75 468**	**242 545**
Financial assets at amortised cost, including	44 079	16 607	40 618	58 180	**159 484**
Loans to and receivables from banks	*119*	*10 503*	*1 866*	*291*	***12 779***
Loans to and receivables from customers	*43 960*	*6 104*	*38 752*	*57 889*	***146 705***
Derivative financial instruments	68	-	-	1	**69**
Financial assets at fair value through OCI	15 155	44 305	-	17 287	**76 747**
Non-trading financial assets mandatorily at fair value through profit or loss	2 933	-	-	-	**2 933**
Other financial assets	1 383	1 926	3	-	**3 312**
Credit risk exposure relating to off-balance sheet items	2 776	213	59	334	**3 382**
Total	**66 394**	**63 051**	**40 680**	**75 802**	**245 927**

At 31 December 2017 – Group	Latvia EUR’000	OECD countries EUR’000	Russia EUR’000	Other countries EUR’000	Total EUR’000
Credit risk exposure relating to on-balance sheet assets	**59 395**	**149 816**	**65 893**	**114 275**	**389 379**
Loans to and receivables from banks	*527*	*39 752*	*7 103*	*6 659*	***54 041***
Loans to and receivables from customers	*41 672*	*14 206*	*41 714*	*74 988*	***172 580***
Bonds	-	*16 705*	-	-	***16 705***
Derivative financial instruments	333	19	3	29	**384**
Available-for-sale financial assets	15 365	77 614	16 989	32 591	**142 559**
Other financial assets	1 498	1 520	84	8	**3 110**
Credit risk exposure relating to off-balance sheet items	5 224	974	136	468	**6 802**
Total	**64 619**	**150 790**	**66 029**	**114 743**	**396 181**

At 31 December 2018 - Bank	Latvia EUR’000	OECD countries EUR’000	Russia EUR’000	Other countries EUR’000	Total EUR’000
Credit risk exposure relating to on-balance sheet assets	**220 665**	**71 899**	**40 423**	**96 163**	**429 150**
Financial assets at amortised cost, including	67 967	16 606	40 420	66 500	**191 493**
Loans to and receivables from banks	*14*	*10 502*	*1 668*	*94*	***12 278***
Loans to and receivables from customers	*67 953*	*6 104*	*38 752*	*66 406*	***179 215***
Derivative financial instruments	68	-	-	1	**69**
Financial assets at fair value through OCI	149 647	53 367	-	29 662	**232 676**
Non-trading financial assets mandatorily at fair value through profit or loss	2 933	-	-	-	**2 933**
Other financial assets	50	1 926	3	-	**1 979**
Credit risk exposure relating to off-balance sheet items	2 779	213	59	334	**3 385**
Total	**223 444**	**72 112**	**40 482**	**96 497**	**432 535**

At 31 December 2017 - Bank	Latvia EUR’000	OECD countries EUR’000	Russia EUR’000	Other countries EUR’000	Total EUR’000
Credit risk exposure relating to on-balance sheet assets	**214 847**	**159 181**	**105 140**	**125 355**	**604 523**
Loans to and receivables from banks	*523*	*39 752*	*6 996*	*6 484*	***53 755***
Loans to and receivables from customers	*65 669*	*14 206*	*49 254*	*84 524*	***213 653***
Bonds	-	*16 705*	-	-	***16 705***
Derivative financial instruments	333	19	3	29	**384**
Available-for-sale financial assets	147 756	87 379	48 803	34 311	**318 249**
Other financial assets	566	1 120	84	7	**1 777**
Credit risk exposure relating to off-balance sheet items	5 227	974	136	468	**6 805**
Total	**220 074**	**160 155**	**105 276**	**125 823**	**611 328**

An industry sector analysis of the Group's and Bank's financial assets before taking into account any collateral held or other credit enhancements is as following:

	31.12.2018		31.12.2017	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Credit risk exposure relating to on-balance sheet assets	**242 545**	**429 150**	**389 379**	**604 523**
Financial services	45 047	201 009	77 248	263 332
Banks	12 842	12 342	88 544	86 916
Processing industry	4 604	35 941	16 125	49 713
Governments	66 397	66 397	127 483	127 483
Private individuals	19 610	18 977	9 357	8 655
Trade	3 138	168	4 115	468
Transport	7 536	7 536	11 942	11 942
Building	-	-	2 764	2 762
Other	83 371	86 780	51 801	53 252
Credit risk exposure relating to off-balance sheet items	3 382	3 385	6 802	6 805
Total	**245 927**	**432 535**	**396 181**	**611 328**

The additional information about the financial asset types is also presented in Notes 16, 18, 19, 20 and 22.

Collateral and other credit enhancements

Exposure to the credit risk is also managed by obtaining collateral, as well as corporate and personal guarantees. The Group considers collateral as an element mitigating the credit risk. The acceptable types of collateral and the methods of evaluation thereof are established in the Credit Policy and the Procedure for Supervision of the Loans.

The main acceptable types of collateral are the following: real estate mortgage, ship mortgage, commercial pledge, financial pledge, risk insurance. The management controls the market value of the collateral paying special attention to the real estate property and adjusting the value in accordance with the recent market prices.

The assessment of the real estate property is performed by independent certified valuators. The Bank adjusts the market value made by the valuators if considers that any substantial risk factors were omitted. Such adjusted market value is used in calculations of adequacy of collateral.

The Bank considers the unsecured exposures (which mainly are consumer loans, including cards) as a group of loans with the same purpose and similar credit risk that has been analysed, assessed and accepted while implementing the respective loan instrument.

Credit quality of loans and receivables

The Group and the Bank are constantly monitoring the creditworthiness of the borrowers, adequacy of the collateral and measurement of its fair value.

To monitor the loans quality, credit officers produce regular reports based on a structured analysis focusing on the corporate customers' business and financial performance. Based on the monitoring results the watch list is made and reported to the Credit Committee. The exposure to private individuals is mainly monitored by means of ageing analysis. Any significant exposure to clients with deteriorating creditworthiness is also reviewed by the Management Board.

The Bank classifies the loans on a quarterly basis or every time when it receives the information about substantial deterioration of the quality of any loan. The classification is made to assess the quality and risk grade of the issued loans, indemnity measurement of expected credit losses and creation of sufficient provisions.

The loan assessment is made by the Credit Committees and the Assets and Liabilities Committee. The committees observe the principles of conservatism and discretion in their assessments and estimations, in order not to decrease the amount of assets and earnings or not to increase the amount of liabilities and costs so that the financial report remains reliable.

The loan portfolio quality is reported to the Management Board and the Supervisory Council regularly.

The determination of impairment indication is based on comparison of the financial instrument’s carrying value and fair value. Due to the volatility on financial and capital markets the market price is not always a reliable source for impairment indication. If available the Group uses valuation models based on quoted market prices of similar products.

For the purposes of impairment loss measurement the Bank’s management makes estimates of any expected changes in future cash flows from a specific financial instrument based on analysis of financial position of the issuer of the financial instrument.

The detailed information on the provisions is presented in Note 19 “Impairment losses on financial assets”.

Ageing analysis of past due but not impaired loans and receivables to customers

One of the key evidence of potential impairment is past due. The Group monitors and follows up on past due balances.
The tables below represents the Group’s and the Bank’s analysis of past due but not impaired loans, impaired and neither past due nor impaired as at 31 December 2018 and 31 December 2017:

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

31.12.2018

Group, EUR'000	Mortgage loans	Industrial loans	Commercial loans	Consumer loans	Credit card balances	Reverse Repo transactions	Finance leases	Other	Receivables	Total
Neither past due nor impaired, of which:	**31 766**	**165**	**110**	**1 468**	**1 968**	**692**	**8 632**	**1 193**	**18 695**	**64 689**
Loans over 10 million to private companies	*26 254*	-	-	-	-	-	-	-	-	***26 254***
Loans from 2 to 10 million to private companies	-	-	-	-	-	-	*4 648*	-	*5 143*	***9 791***
Loans less than 2 million to private companies	*3 955*	*165*	*110*	-	*4*	*692*	*3 802*	-	*1 735*	***10 463***
Other loans to private individuals	*1 557*	-	-	*1 468*	*1 964*	-	*182*	*1 193*	*11 817*	***18 181***
Past due but not impaired	**1 759**	**15 385**	**155**	**2**	**7**	**-**	**3**	**4 370**	**-**	**21 681**
less than 30 days overdue	*153*	*12 364*	-	*2*	*7*	-	-	*4 370*	-	***16 896***
31 to 60 days overdue	-	-	*21*	-	-	-	-	-	-	***21***
over 180 days overdue	*1 606*	*3 021*	*134*	-	-	-	*3*	-	-	***4 764***
Impaired individual	**12 370**	**81 312**	**3 969**	**5 430**	**2 159**	**-**	**433**	**103**	**2 638**	**108 414**
less than 30 days overdue	-	*16 673*	*902*	-	-	-	*35*	-	*2 638*	***20 248***
31 to 60 days overdue	*40*	-	*9*	-	-	-	*218*	-	-	***267***
61 to 90 days overdue	-	-	-	-	-	-	*180*	-	-	***180***
91 to 180 days overdue	-	*41 858*	-	*40*	*31*	-	-	-	-	***41 929***
over 180 days overdue	*12 330*	*22 781*	*3 058*	*5 390*	*2 128*	-	-	*103*	-	***45 790***
(Provisions)	(6 296)	(31 805)	(1 801)	(4 970)	(1 977)	-	(45)	(103)	(1 037)	**(48 034)**
Total	**39 599**	**65 057**	**2 433**	**1 930**	**2 157**	**692**	**9 023**	**5 563**	**20 296**	**146 750**

31.12.2018

Bank, EUR'000	Mortgage loans	Industrial loans	Commercial loans	Consumer loans	Credit card balances	Reverse Repo transactions	Finance leases	Other	Receivables	**Total**
Neither past due nor impaired, of which:	**31 743**	**165**	**110**	**1 468**	**1 968**	**692**	**-**	**1 252**	**18 677**	**56 075**
Loans over 10 million to private companies	*26 254*	-	-	-	-	-	-	-	-	***26 254***
Loans from 2 to 10 million to private companies	-	-	-	-	-	-	-	-	*5 143*	***5 143***
Loans less than 2 million to private companies	*3 932*	*165*	*110*	-	*4*	*692*	-	*59*	*1 717*	***6 679***
Other loans to private individuals	*1 557*	-	-	*1 468*	*1 964*	-	-	*1 193*	*11 817*	***17 999***
Past due but not impaired	**1 302**	**47 773**	**213**	**2**	**7**	**-**	**3**	**4 370**	**-**	**53 670**
less than 30 days overdue	*153*	*44 752*	*192*	*2*	*7*	-	-	*4 370*	-	***49 476***
31 to 60 days overdue	-	-	*21*	-	-	-	-	-	-	***21***
over 180 days overdue	*1 149*	*3 021*	-	-	-	-	*3*	-	-	***4 173***
Impaired individual	**12 369**	**81 312**	**3 969**	**5 430**	**2 159**	**-**	**433**	**103**	**2 638**	**108 413**
less than 30 days overdue	-	*16 673*	*902*	-	-	-	*35*	-	*2 638*	***20 248***
31 to 60 days overdue	*40*	-	*9*	-	-	-	*218*	-	-	***267***
61 to 90 days overdue	-	-	-	-	-	-	*180*	-	-	***180***
91 to 180 days overdue	-	*41 858*	-	*40*	*31*	-	-	-	-	***41 929***
over 180 days overdue	*12 329*	*22 781*	*3 058*	*5 390*	*2 128*	-	-	*103*	-	***45 789***
(Provisions)	(6 296)	(22 684)	(1 801)	(4 970)	(1 977)	**-**	(45)	(118)	(1 037)	**(38 928)**
Total	**39 118**	**106 566**	**2 491**	**1 930**	**2 157**	**692**	**391**	**5 607**	**20 278**	**179 230**

31.12.2017

Group, EUR’000	Mortgage loans	Industrial loans	Commercial loans	Consumer loans	Credit card balances	Reverse Repo transactions	Finance leases	Other	Receivables	Total
Neither past due nor impaired, of which:	**33 239**	**17 171**	**1 255**	**636**	**2 266**	**848**	**10 077**	**11 301**	**17 849**	**94 642**
Loans over 10 million to private companies	*28 182*	*13 465*	-	-	-	-	-	-	-	***41 647***
Loans from 2 to 10 million to private companies	-	-	-	-	-	-	*5 466*	*9 182*	*8 960*	***23 608***
Loans less than 2 million to private companies	*3 505*	*3 706*	*1 255*	-	*5*	*848*	*4 565*	*10*	*8 889*	***22 783***
Other loans to private individuals	*1 552*	-	-	*636*	*2 261*	-	*46*	*2 109*	-	***6 604***
Past due but not impaired	**6 970**	**6 659**	**364**	**97**	**156**	**-**	**8**	**113**	**-**	**14 367**
less than 30 days overdue	*211*	-	-	*97*	*156*	-	-	-	-	***464***
31 to 60 days overdue	-	-	-	-	-	-	-	-	-	**-**
61 to 90 days overdue	*6*	*3 486*	-	-	-	-	-	*113*	-	***3 605***
91 to 180 days overdue	*1 578*	*268*	-	-	-	-	*8*	-	-	***1 854***
over 180 days overdue	*5 175*	*2 905*	*364*	-	-	-	-	-	-	***8 444***
Impaired individual	**12 130**	**79 379**	**4 151**	**6 049**	**2 308**	**-**	**579**	**97**	**-**	**104 693**
less than 30 days overdue	*11 415*	*54 654*	*15*	*42*	-	-	*10*	-	-	***66 136***
31 to 60 days overdue	-	*15 169*	-	-	-	-	-	-	-	***15 169***
61 to 90 days overdue	*40*	*3 099*	-	-	-	-	-	-	-	***3 139***
91 to 180 days overdue	-	*2 989*	-	*5 991*	*2 308*	-	*4*	-	-	***11 292***
over 180 days overdue	*675*	*3 468*	*4 136*	*16*	-	-	*565*	*97*	-	***8 957***
(Provisions)	(5 417)	(26 337)	(1 743)	(5 474)	(2 077)	-	(58)	(98)	-	**(41 204)**
Total	**46 922**	**76 872**	**4 027**	**1 308**	**2 653**	**848**	**10 606**	**11 413**	**17 849**	**172 498**

31.12.2017

Bank, EUR’000	Mortgage loans	Industrial loans	Commercial loans	Consumer loans	Credit card balances	Reverse Repo transactions	Finance leases	Other	Receivables	**Total**
Neither past due nor impaired, of which:	**33 206**	**50 971**	**1 459**	**636**	**2 266**	**848**	**-**	**11 371**	**17 849**	**118 606**
Loans over 10 million to private companies	*28 182*	*33 255*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	***61 437***
Loans from 2 to 10 million to private companies	*-*	*13 981*	*-*	*-*	*-*	*-*	*-*	*9 182*	*8 960*	***32 123***
Loans less than 2 million to private companies	*3 472*	*3 735*	*1 459*	*-*	*5*	*848*	*-*	*80*	*8 889*	***18 488***
Other loans to private individuals	*1 552*	*-*	*-*	*636*	*2 261*	*-*	*-*	*2 109*	*-*	***6 558***
Past due but not impaired	**6 304**	**6 659**	**234**	**97**	**156**	**-**	**8**	**113**	**-**	**13 571**
less than 30 days overdue	*209*	*-*	*-*	*97*	*156*	*-*	*-*	*-*	*-*	***462***
31 to 60 days overdue	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	***-***
61 to 90 days overdue	*-*	*3 486*	*-*	*-*	*-*	*-*	*-*	*113*	*-*	***3 599***
91 to 180 days overdue	*1 578*	*268*	*-*	*-*	*-*	*-*	*8*	*-*	*-*	***1 854***
over 180 days overdue	*4 517*	*2 905*	*234*	*-*	*-*	*-*	*-*	*-*	*-*	***7 656***
Impaired individual	**29 999**	**79 379**	**4 151**	**6 049**	**2 308**	**-**	**579**	**98**	**-**	**122 563**
less than 30 days overdue	*29 284*	*54 654*	*15*	*42*	*-*	*-*	*10*	*-*	*-*	***84 005***
31 to 60 days overdue	*-*	*15 169*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	***15 169***
61 to 90 days overdue	*40*	*3 099*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	***3 139***
91 to 180 days overdue	*-*	*2 989*	*-*	*5 991*	*2 308*	*-*	*4*	*-*	*-*	***11 292***
over 180 days overdue	*675*	*3 468*	*4 136*	*16*	*-*	*-*	*565*	*98*	*-*	***8 958***
(Provisions)	(15 744)	(16 016)	(1 743)	(5 474)	(2 077)	-	(58)	(98)	-	**(41 210)**
Total	**53 765**	**120 993**	**4 101**	**1 308**	**2 653**	**848**	**529**	**11 484**	**17 849**	**213 530**

Renegotiated (forborne) loans

Renegotiation or Forbearance is a concession granted to the borrowers in a difficult financial situation.

Concession may exist in the form of:

- modification of the previous (the original) terms and conditions, e.g. extension of the maturity, postponement of credit repayment, interest capitalisation, reduction of the original interest rate;
- the foreclosure of the pledge or other assets for partial credit repayment;
- interest capitalisation by adding the accrued interest to the principal amount of the credit or repayment of interest from the newly issued credit.

The decision on the loan forbearance is made by the Credit Committee, and for exposure exceeding the power of the Credit Committee the approval from the higher level of Management is required.

The net amount of forborne loans of Group and Bank as of 31 December 2018 is 17 347 thousand euro (2017: 17 780 thousand euro).

Quality of other financial assets

In addition to the credit risk, which is inherent in the loan portfolio and fixed income securities portfolio, the Bank and the Group is also exposed to credit risk as a result of its banking relationships with credit institutions and counterparties (brokerage companies)

The Risk management division is responsible for the exposure to commercial banks and brokerage companies control on a regular basis by monitoring the counterparty`s financials analysis (creditworthiness), credit rating of such institutions, conducting due diligence of their credit profiles and business environment.

The credit risk of counterparties and securities issuers, as well as the limits set thereon, are monitored by the Risk management division and reviewed by the Assets and Liabilities Committee regularly.

The group uses the same credit policies in assuming conditional obligations as it does for on-balance sheet financial instruments, through established credit approvals, risk control limits and monitoring procedures.

Analysis by credit quality of Bank and Group assets outstanding at 31 December 2018 and 31 December 2017 is as follows:

31.12.2018

Group, EUR'000	Cash and balances with the central bank	Financial assets at amortised cost (Loans to and receivables from banks)	Derivatives financial instruments	Financial assets at fair value through OCI	Non-trading financial assets mandatorily at fair value through profit or loss	Other financial assets	Total
Gross amount	**103 027**	**12 843**	**69**	**76 747**	**2 933**	**3 312**	**198 931**
From Aaa to Aa3	-	*6*	-	*39 056*	-	-	***39 062***
From A1 to A3	*86 955*	*211*	-	*25 000*	-	*1 911*	***114 077***
From Baa1 to Baa3	-	*9 651*	-	*5 062*	-	-	***14 713***
From Ba1 to Ba3	-	*1 563*	-	*1 030*	-	*3*	***2 596***
From B1 to B3	-	*271*	*1*	-	-	-	***272***
From Caa1 and lower	-	*188*	-	*1 423*	-	-	***1 611***
No rating	*16 072*	*953*	*68*	*5 176*	*2 933*	*1 398*	***26 600***
(Provisions)	-	(64)	-	-	-	-	**(64)**
Total net assets	**103 027**	**12 779**	**69**	**76 747**	**2 933**	**3 312**	**198 867**

31.12.2018

Bank, EUR'000	Cash and balances with the central bank	Financial assets at amortised cost (Loans to and receivables from banks)	Derivatives financial instruments	Financial assets at fair value through OCI	Non-trading financial assets mandatorily at fair value through profit or loss	Other financial assets	Total
Gross amount	**103 024**	**12 342**	**69**	**232 676**	**2 933**	**1 979**	**353 023**
From Aaa to Aa3	-	*6*	-	*39 056*	-	-	***39 062***
From A1 to A3	*86 955*	*211*	-	*25 000*	-	*1 911*	***114 077***
From Baa1 to Baa3	-	*9 651*	-	*5 062*	-	-	***14 713***
From Ba1 to Ba3	-	*1 563*	-	*1 030*	-	*3*	***2 596***
From B1 to B3	-	*73*	*1*	-	-	-	***74***
From Caa1 and lower	-	*1*	-	*1 423*	-	-	***1 424***
No rating	*16 069*	*837*	*68*	*161 105*	*2 933*	*65*	***181 077***
(Provisions)	-	(64)	-	-	-	-	**(64)**
Total net assets	**103 024**	**12 278**	**69**	**232 676**	**2 933**	**1 979**	**352 959**

31.12.2017

Group, EUR'000	Cash and balances with the central bank	Loans to and receivables from banks	Derivatives financial instruments	Available-for-sale financial assets	Held-to-maturity financial assets	Other financial assets	Total
Neither past due nor impa	**131 978**	**54 041**	**384**	**142 559**	**16 705**	**3 110**	**348 777**
From Aaa to Aa3	-	*2 691*	*1*	*59 616*	*16 705*	*20*	***79 033***
From A1 to A3	*117 039*	*35 733*	-	*27 779*	-	-	***180 551***
From Baa1 to Baa3	-	*7 470*	-	*18 703*	-	-	***26 173***
From Ba1 to Ba3	-	*5 914*	-	*17 167*	-	*5*	***23 086***
From B1 to B3	-	*1 595*	*25*	*6 192*	-	-	***7 812***
From Caa1 and lower	-	*3*	-	*2 920*	-	-	***2 923***
No rating	*14 939*	*635*	*358*	*10 182*	-	*3 085*	***29 199***
Impaired (No rating)	-	-	-	-	-	13	**13**
(Provisions)	-	-	-	-	-	(13)	**(13)**
Total net assets	**131 978**	**54 041**	**384**	**142 559**	**16 705**	**3 110**	**348 777**

31.12.2017

Bank, EUR'000	Cash and balances with the central bank	Loans to and receivables from banks	Derivatives financial instruments	Available-for-sale financial assets	Held-to-maturity financial assets	Other financial assets	Total
Neither past due nor impa	**131 977**	**53 755**	**384**	**318 249**	**16 705**	**1 777**	**522 847**
From Aaa to Aa3	-	*2 691*	*1*	*59 616*	*16 705*	*20*	***79 033***
From A1 to A3	*117 039*	*35 732*	-	*27 779*	-	-	***180 550***
From Baa1 to Baa3	-	*7 471*	-	*18 703*	-	-	***26 174***
From Ba1 to Ba3	-	*5 914*	-	*17 167*	-	*5*	***23 086***
From B1 to B3	-	*1 314*	*25*	*6 191*	-	-	***7 530***
From Caa1 and lower	-	*2*	-	*2 920*	-	-	***2 922***
No rating	*14 938*	*631*	*358*	*185 873*	-	*1 752*	***203 552***
Impaired (No rating)	-	-	-	-	-	13	**13**
(Provisions)	-	-	-	-	-	(13)	**(13)**
Total net assets	**131 977**	**53 755**	**384**	**318 249**	**16 705**	**1 777**	**522 847**

MARKET RISK

Market risk is the risk that the Bank’s and Group`s income/expenses (and equity capital) may change as a result of unfavourable changes in the market prices of the financial instruments, commodity prices, foreign exchange rates and interest rates. The Group classifies exposures to market risk into either trading or non-trading portfolios. The trading portfolio includes the positions arising from market-making transactions where the Bank acts as principal with clients or with the market and are managed by the Bank’s Capital Markets Department according to the Investment Policy and the Financial Risk Management and Control Policy within limits and restrictions set by the Management Board and the Assets and Liabilities Committee.

The Bank and the Group have determined the following components of market risk:

- interest rate risk
- foreign exchange risk
- market price risk
- commodity price risk

Market risk is managed by the Assets and Liabilities Committee and are reported on a regular basis to the Management Board and the Supervisory Council.

Interest rate risk

For the Bank and the Group the most important component of the market risk is the risk of the interest rates. This type of risk occurs due to uncertainty of the interest rates whose fluctuations may reduce the net interest income or conditional form of this indicator – net interest margin, cash flow and economic value in the short run, but in the long run - impair the market value of the equity of the Bank and the Group.

In order to measure and estimate the interest rate risk the Bank uses the methods of GAP analysis, duration and stress testing. Based on the results of the respective analysis the entities authorised by the Bank approve the parameters of the interest rate policy and structural limits - on investment portfolios, on interest rate total and net positions, and debt securities duration.

The Risk Management Division controls compliance with the set limits and measures the interest rate risk level monthly. The results of the assessment are communicated to the Chief Risk Officer.

The table below demonstrates sensitivity of the Group’s income statement and equity to reasonable possible changes in interest rates on the condition that all other variables are constant.

The methods employed in the analysis of interest rate risk sensitivity have remained unchanged compared to the year 2017.

The sensitivity of the financial results is the effect of the assumed changes in interest rates on the net interest income (with equal effect on pre-tax profit) for one year based on the result of mismatches between interest-bearing assets and liabilities in terms of volumes and repricing or maturity dates.

The sensitivity of revaluation through equity is calculated by revaluating financial assets at fair value through other comprehensive income (debt securities) held as of 31 December 2018 and is based on the assumption that there are parallel shifts in the yield curve discounting future cash flows by amended interest rate.

The Bank and the Group didn`t held the debt securities as financial assets at amortized cost as of 31 December 2018.

The Bank held the debt securities from held-to-maturity portfolio as of 31 December 2017 denominated in USD only and the sensitivity of profit/losses was calculated based on the assumption that the Bank decides to sell them and there are parallel shifts in the yield curve discounting future cash flows by amended interest rate.

There was the same effect on the sensitivity of profit\losses of the Group as only the Bank had held-to-maturity financial instruments.

Possible parallel interest rate shift in basis points has been set to 100 bps for the USD and EUR currencies (100bp in 2017). The reason is that the Bank believes that there will be no dramatic increases in the interest rates of these currencies, given the current situation of stagnation at historical lows.

At 31 December 2018		Bank	Group	Sensitivity revaluation through the equity				
Currency	Increase in basis points	Sensitivity of financial result EUR’000	Sensitivity of financial result EUR’000	0 to 6 months EUR’000	6 months to 1 year EUR’000	More than 1 year EUR’000	Total EUR’000	Sensitivity of income statement EUR’000
EUR	100	(1 056)	(990)	-	-	(1 457)	(1 457)	-
USD	100	(270)	(269)	-	-	(983)	(983)	-

At 31 December 2018		Bank	Group	Sensitivity revaluation through the equity				
Currency	Decrease in basis points	Sensitivity of financial result EUR’000	Sensitivity of financial result EUR’000	0 to 6 months EUR’000	6 months to 1 year EUR’000	More than 1 year EUR’000	Total EUR’000	Sensitivity of income statement EUR’000
EUR	(100)	1 056	990	-	-	1 457	1 457	-
USD	(100)	270	269	-	-	983	983	-

At 31 December 2017		Bank	Group	Sensitivity revaluation through the equity				
Currency	Increase in basis points	Sensitivity of financial result EUR’000	Sensitivity of financial result EUR’000	0 to 6 months EUR’000	6 months to 1 year EUR’000	More than 1 year EUR’000	Total EUR’000	Sensitivity of income statement EUR’000
EUR	100	(572)	(574)	-	-	(3 039)	(3 039)	-
USD	100	(1 453)	(1 450)	(17)	-	(4 202)	(4 219)	(218)

At 31 December 2017		Bank	Group	Sensitivity revaluation through the equity				
Currency	Decrease in basis points	Sensitivity of financial result EUR’000	Sensitivity of financial result EUR’000	0 to 6 months EUR’000	6 months to 1 year EUR’000	More than 1 year EUR’000	Total EUR’000	Sensitivity of income statement EUR’000
EUR	(100)	572	574	-	-	3 039	3 039	-
USD	(100)	1 453	1 450	17	-	4 202	4 219	218

Foreign currency exchange risk

Foreign currency exchange risk is the risk the Bank and the Group will suffer losses from the revaluation of balance sheet and off-balance sheet items denominated in foreign currencies due to changes in foreign currency exchange rates.

The Group operates in different foreign currencies not only in the functional currency of the Bank or relevant group entity.

The Policy for Management of the foreign exchange risk is based on compliance with restrictions imposed on the open net position in each foreign currency and overall open net position in the foreign currencies of the Bank, as required by internal and external regulatory requirements. In such a way the system of the limits is the basic instrument for mitigation of this type of risks.

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

In order to minimize foreign currency exchange risk, the Assets and Liabilities Committee sets stricter limits on the level of open long or short positions in single currencies.

Additionally, in order to constrain a speculative management of on open position the Assets and Liabilities Committee sets stop-loss and open position limits on the dealer’s positions. To avoid losses arising from adverse changes in exchange rates, the Capital Market Division continuously on a daily basis manages open positions and supervises compliance with the set limits. Open positions are managed by the foreign exchange contracts (mainly spot and swap). The Risk Management Division controls compliance with set limits daily and measures foreign currency exchange risk level monthly.

The following common principles are set to mitigate foreign currency exchange risk:

- In all operations and areas of activity of the Bank, the foreign currency rates set by or agreed with the Capital Markets Divisions t are used; The Capital Markets Divisions sets fixed and current foreign currency rates:
    - fixed exchange rates are used by all organizational units of the Bank in work with the Bank’s clients when conducting cash and non-cash money operations; the fixed rates may be changed during a day,
    - Current exchange rates are used upon mutual agreement between counterparties, as well as in accordance with concluded agreements that provide for usage of a base rate.
- The balance sheet assets and liabilities denominated in any foreign currency are revaluated in euro at the close of each working day. For revaluation purposes, the exchange rates set by the European Central Bank at the day of the conversion are used; provisions for assets and off-balance sheet liabilities are to be made in the same currencies in which these assets and off-balance sheet liabilities are denominated.
- The Bank’s accounting system ensures that at any point in time the calculation of the open currency position fairly reflects the foreign currency risk.
- The Bank ensures timely disclosure of all operations in the balance-sheet.

The methods employed in the analysis of currency risk sensitivity have remained unchanged compared to year 2017.

The tables below indicate the currencies to which the Group had significant exposure as of 31 December 2018 and as of 31 December 2017 on its bank and trading monetary assets and liabilities and its forecasted cash flows. The sensitivity analysis for the Group’s foreign currency exchange risk is presented in the following tables:

As at 31 December 2018- Group	EUR	USD	RUB	Other currencies	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Assets					
Cash and balances with the central banks	91 802	3 643	745	6 837	**103 027**
Financial assets at amortised cost, including	103 431	54 532	966	555	**159 484**
Loans to and receivables from banks	*588*	*10 764*	*891*	*536*	***12 779***
Loans to and receivables from customers	*102 843*	*43 768*	*75*	*19*	***146 705***
Derivative financial instruments	69	-	-	-	**69**
Financial assets at fair value through OCI	36 268	40 479	-	-	**76 747**
Non-trading financial assets mandatorily at fair value through profit or loss	-	2 933	-	-	**2 933**
Prepaid corporate income tax	1	-	-	55	**56**
Investment property	74 963	-	-	-	**74 963**
Tangible fixed assets	89 434	-	-	-	**89 434**
Goodwill	407	-	-	-	**407**
Intangible assets	4 936	-	-	-	**4 936**
Assets held for sale	5 282	-	-	-	**5 282**
Other assets	18 640	196	1 811	2 045	**22 692**
Total assets	**425 233**	**101 783**	**3 522**	**9 492**	**540 030**
Liabilities and equity					
Due to the central bank and other banks	59	878	2	-	**939**
Derivative financial instruments	79	-	-	-	**79**
Customer deposits	345 575	78 075	8 084	3 010	**434 744**
Subordinated deposits	6 604	14 181	-	-	**20 785**
Subordinated debt securities	24 373	13 327	-	-	**37 700**
Deferred tax liabilities	-	-	-	37	**37**
Other liabilities	13 437	60	1 105	1 002	**15 604**
Total liabilities	**390 127**	**106 521**	**9 191**	**4 049**	**509 888**
Share capital and reserves	30 042	-	-	-	**30 042**
Non-controlling interests	100	-	-	-	**100**
Total liabilities and equity	**420 269**	**106 521**	**9 191**	**4 049**	**540 030**
Net balance sheet long/(short) position	**4 964**	**(4 738)**	**(5 669)**	**5 443**	
Spot foreign-exchange contracts long/(short) position	(1 702)	(179)	6 258	(4 377)	
Swap foreign-exchange contracts long/(short) position	(5 116)	6 212	-	(1 096)	
Forward foreign-exchange contracts long/(short) position	279	(193)	598	(684)	
Net open long/(short) currency position	**(1 575)**	**1 102**	**1 187**	**(714)**	
Currency open position in % from capital as of 31/12/2018		**2.10**	**2.26**		

As at 31 December 2017 - Group	EUR	USD	RUB	Other currencies	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Assets					
Cash and due from the central bank	121 815	3 166	865	6 132	**131 978**
Loans to and receivables from banks	3 188	41 272	2 357	7 224	**54 041**
Trading financial assets	-	-	-	-	**-**
Derivative financial instruments	384	-	-	-	**384**
Loans to and receivables from customers	116 038	55 869	583	90	**172 580**
Available-for-sale financial assets	55 965	86 594	-	-	**142 559**
Held to maturity financial assets	-	16 705	-	-	**16 705**
Prepaid corporate income tax	-	-	-	110	**110**
Investment property	67 086	-	-	-	**67 086**
Tangible fixed assets	93 064	-	-	150	**93 214**
Goodwill	407	-	-	-	**407**
Intangible assets	6 318	-	-	7	**6 325**
Assets held for sale	1 143	-	-	-	**1 143**
Assets held for sale (subsidiary)	12 895	22 497	168 127	1 518	**205 037**
Other assets	14 238	1 333	1 785	9 194	**26 550**
Total assets	**492 541**	**227 436**	**173 717**	**24 425**	**918 119**
Liabilities and equity					
Due to the central bank and other banks	17	2 039	3	-	**2 059**
Derivative financial instruments	1 199	-	-	-	**1 199**
Customer deposits	346 356	243 193	9 357	14 562	**613 468**
Subordinated debt	7 510	13 799	-	-	**21 309**
Debt securities	24 373	12 723	-	-	**37 096**
Deferred tax liabilities	45	72	-	-	**117**
Liabilities related to assets held for sale	1 914	3 312	167 112	5	**172 343**
Other liabilities	15 284	104	863	1 962	**18 213**
Total liabilities	**396 698**	**275 242**	**177 335**	**16 529**	**865 804**
Share capital and reserves	51 461	-	-	-	**51 461**
Non-controlling interests	-	-	854	-	**854**
Total liabilities and equity	**448 159**	**275 242**	**178 189**	**16 529**	**918 119**
Net balance sheet long/(short) position	**44 382**	**(47 806)**	**(4 472)**	**7 896**	
Spot foreign-exchange contracts long/(short) position	(17 744)	20 155	483	(2 894)	
Swap foreign-exchange contracts long/(short) position	(55 312)	54 295	1 518	(501)	
Forward foreign-exchange contracts long/(short) position	(521)	(446)	1 382	(415)	
Net open long/(short) currency position	**(29 195)**	**26 198**	**(1 089)**	**4 086**	
Currency open position in % from capital as of 31/12/2017		**33.85**	**1.41**		

The sensitivity analysis for the Group’s foreign currency exchange risk is presented in the following tables: the analysis calculates the effect of a reasonable possible movement of the currency rate against the EUR with all other variables held constant on the income statement.

Possible currency rate fluctuations have been set to 10% (10% in 2017) for USD and 15% (15% in 2017) for RUB. The reason for the same volatility estimation for currencies is the forecast for 2019.

	31.12.2018		31.12.2017	
Group *Currency*	**Change in currency rate** **%**	**Effect on income statement / effect on equity** **EUR’000**	**Change in currency rate** **%**	**Effect on income statement / effect on equity** **EUR’000**
USD	10 *	110	10 *	2 620
	(10) **	(110)	(10) **	(2 620)
RUB	15 *	178	15 *	(163)
	(15) **	(178)	(15) **	163

*foreign currency strengthening
**foreign currency weakening

The tables below indicate the currencies to which the Bank had significant exposure as of 31 December 2018 and as of 31 December 2017 on its bank and trading monetary assets and liabilities and its forecasted cash flows:

As at 31 December 2018 - Bank	**EUR**	**USD**	**RUB**	**Other currencies**	**Total**
	EUR'000	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**
Assets					
Cash and balances with the central banks	91 802	3 641	745	6 836	**103 024**
Financial assets at amortised cost, including	136 518	53 856	768	351	**191 493**
Loans to and receivables from banks	*561*	*10 673*	*693*	*351*	***12 278***
Loans to and receivables from customers	*135 957*	*43 183*	*75*	*-*	***179 215***
Derivative financial instruments	69	-	-	-	**69**
Financial assets at fair value through OCI	192 197	40 479	-	-	**232 676**
Non-trading financial assets mandatorily at fair value through profit or loss	-	2 933	-	-	**2 933**
Prepaid corporate income tax	1	-	-	-	**1**
Investment property	6 127	-	-	-	**6 127**
Tangible fixed assets	17 248	-	-	-	**17 248**
Intangible assets	1 210	-	-	-	**1 210**
Assets held for sale	4 551	-	-	-	**4 551**
Other assets	8 075	196	1	1 926	**10 198**
Total assets	**457 798**	**101 105**	**1 514**	**9 113**	**569 530**
Liabilities and equity					
Due to the central bank and other banks	59	878	2	-	**939**
Derivative financial instruments	79	-	-	-	**79**
Customer deposits	375 440	78 147	8 210	3 115	**464 912**
Subordinated deposits	6 604	14 181	-	-	**20 785**
Subordinated debt securities	24 373	13 327	-	-	**37 700**
Other liabilities	3 328	60	133	583	**4 104**
Total liabilities	**409 883**	**106 593**	**8 345**	**3 698**	**528 519**
Share capital and reserves	41 011	-	-	-	**41 011**
Total liabilities and equity	**450 894**	**106 593**	**8 345**	**3 698**	**569 530**
Net balance sheet long/(short) position	**6 904**	**(5 488)**	**(6 831)**	**5 415**	
Spot foreign-exchange contracts long/(short) position	(1 702)	(179)	6 258	(4 377)	
Swap foreign-exchange contracts long/(short) position	(5 115)	6 211	-	(1 096)	
Forward foreign-exchange contracts long/(short) position	279	(193)	598	(684)	
Net open long/(short) currency position	**366**	**351**	**25**	**(742)**	
Currency open position in % from capital as of 31/12/2018		**0.60**	**0.04**		

As at 31 December 2017 - Bank	EUR	USD	RUB	Other currencies	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Assets					
Cash and due from the central bank	121 814	3 167	865	6 131	**131 977**
Loans to and receivables from banks	3 185	41 006	2 357	7 207	**53 755**
Derivative financial instruments	384	-	-	-	**384**
Loans to and receivables from customers	157 897	55 084	583	89	**213 653**
Available-for-sale financial assets	231 656	86 593	-	-	**318 249**
Held to maturity financial assets	-	16 705	-	-	**16 705**
Investment property	6 150	-	-	-	**6 150**
Tangible fixed assets	37 302	-	-	-	**37 302**
Intangible assets	1 114	-	-	-	**1 114**
Assets held for sale	445	-	-	-	**445**
Other assets	3 676	1 285	11	4 387	**9 359**
Total assets	**563 623**	**203 840**	**3 816**	**17 814**	**789 093**
Liabilities and equity					
Due to the central bank and other banks	17	2 042	3	-	**2 062**
Derivative financial instruments	1 199	-	-	-	**1 199**
Customer deposits	394 942	243 264	9 501	14 586	**662 293**
Subordinated debt	7 510	13 799	-	-	**21 309**
Debt securities	24 373	12 723	-	-	**37 096**
Other liabilities	3 780	97	194	152	**4 223**
Total liabilities	**431 821**	**271 925**	**9 698**	**14 738**	**728 182**
Share capital and reserves	60 911	-	-	-	**60 911**
Total liabilities and equity	**492 732**	**271 925**	**9 698**	**14 738**	**789 093**
Net balance sheet long/(short) position	**70 891**	**(68 085)**	**(5 882)**	**3 076**	
Spot foreign-exchange contracts long/(short) position	(17 744)	20 155	483	(2 894)	
Swap foreign-exchange contracts long/(short) position	(55 312)	54 295	1 518	(501)	
Forward foreign-exchange contracts long/(short) position	(521)	(446)	1 382	(415)	
Net open long/(short) currency position	**(2 686)**	**5 919**	**(2 499)**	**(734)**	
Currency open position in % from capital as of 31/12/2017		**7.21**	**3.04**		

As of 31 December 2018 the Bank's open position was 1.04% of the Tier 1 and Tier 2 of the capital (2017: 7.61%).

The analysis of sensitivity of the Bank to the foreign currency exchange risk is presented in the following tables. The analysis shows the effect of a reasonable possible movement of the currency rate against EUR, with all other variables held constant, on the income statement.

	31.12.2018		31.12.2017	
Bank *Currency*	**Change in currency rate %**	**Effect on income statement / effect on equity EUR'000**	**Change in currency rate %**	**Effect on income statement / effect on equity EUR'000**
USD	10 *	35	10 *	592
	(10) **	(35)	(10) **	(592)
RUB	15 *	4	15 *	(375)
	(15) **	(4)	(15) **	375

*foreign currency strengthening
**foreign currency weakening

Operational risk

Operational risk is a risk of direct or indirect losses that may arise as a result of incorrectly established business processes, as well as due to inefficiency of internal control procedures, technological failures, unauthorized activities performed by the personnel, or as a result of influence of external events, and includes a legal risk.

The Group has developed a complex operational risk management system, which classifies all operational risk incidents, determines procedures for identifying and measuring the operational risk, as well as the operational risk monitoring and reporting system. The Group has a database of operational risk incidents.

The main principles of operational risk management are regulated by the “Operational Risk Management Policy” approved by the Council and a number of internal normative documents.

The Bank`s and the Group’s operational risk management processes are integral to all business activities and are applicable to all employees and members of the Group.

In order to mitigate the operational risk the Bank and the Group use the following basic methods:

- clearly described and defined procedures and job descriptions of the Bank’s employees and their precise observance thereof;
- segregation of authority of the Bank’s employees in the process of fulfilment of their functional duties;
- involvement of the Risk Management Division in the development of new products and the introduction of changes to the existing ones;
- organization of training for the Bank’s personnel, incl. seminars which cover the analysis of mistakes and errors most often committed by the employees and explanation of methods for correcting these errors;
- regular training and education is conducted to employees in key operational risk areas;
- daily control of staff operations;
- limits set for the various Bank's products, activities, transactions, assets, compliance monitoring, property inventory;
- the inclusion of controllers in the operations to reduce the number of personnel errors while also improving control methods;

- regular audits of internal control processes;
- preparation of operational risk reports to the Council, Management Board, Chief Risk Officer, and Vice Presidents;
- operational risk control on a daily basis and registration of incidents in an online database for further analysis;
- regular audits performed by the Internal Audit, including the audits IT systems performed by the IT systems’ auditor.

Additionally, the Group applies the following procedures for mitigation of the operational risk:

- access rights to information systems are severely restricted, user actions are controlled;
- access rights to client information are also restricted;
- data back-ups are performed backed-up data is stored;
- Group’s property, transport and fixed assets are insured.

The Risk Management Division is responsible for measuring and reporting on the Group and the Bank’s operational risk. The risk level is analyzed and reported as follows:

- reports on significant operational risk incidents – to the Board and the Chief Risk Officer monthly; to the Council – quarterly;
- semi-annual reports – to the Board, Chief Risk Officer and Vice Presidents

The Group uses the basic indicator approach to calculate operational risk capital requirements for the capital adequacy calculation purposes.

Reputation risk

Reputation risk is risk that the clients, counterparties, shareholders of the Bank and Group, supervisory institutions and other entities (stakeholders) having interest in the operation of the Bank and Group might form a negative opinion of the Bank and Group that might affect adversely ability of the Bank and Group to maintain the existing or establish new business relations with its clients and other counterparties as well as exert negative impact on availability of the funding for the Bank and Group. As a result of the operational risk events other risks inherent in the operation of the Bank and Group might increase as well (credit risk, liquidity risk, market risks, a.o.) that might affect adversely the profit, equity and liquidity of the Bank and Group.

With regard to the reputation risk the Bank:

- identifies the sources of this type of the risk (external / internal factors);
- performs qualitative and quantitative assessment using various methods (that makes it possible to follow promptly the changes in the level of the risk);
- if needed, the Bank’s authorised entities and employees implement the measures aimed at lowering / shifting of the reputation risk;

implements constant monitoring, updating of the methods and principles used in line with the changing circumstances of the external environment.

Compliance risk

Compliance risk is the risk that the Bank or Group may incur losses or be imposed legal obligations or sanctions or that the Bank’s reputation might suffer due to the Bank or Group breaching or violating the laws, regulations and compliance standards.

One of the goals of the Bank’s risk management system is maintenance of robust compliance-risk management framework, which makes it possible to prevent losses or imposition of legal obligations or legal/regulatory sanctions or deterioration of the Bank’s reputation, as well as ensure that the Bank adheres to compliance laws, rules and standards.

The Bank has formulated and approved (by the Supervisory Council) “Compliance risk management policy” whose purpose is to establish an effective framework for managing compliance risk. The policy sets forth the basic principles of managing and monitoring of compliance risk, establishes for the Bank’s senior management and functional units clear lines of roles/responsibilities and authority for managing compliance risk, the core principles for identifying, measuring and assessing compliance risk, prescribes risk mitigation measures, provides for employee compliance training, and the manner for submitting relevant reports and information. According to the requirements of the policy, the Bank draws up and regularly updates its internal regulatory documents required to ensure a proper management of compliance risk.

Compliance risk management ensures the Management Board of the Bank, but the Supervisory Council supervises the compliance risk management. The Bank manages compliance risk in accordance with annual action plans approved by the Bank’s Management Board.

Compliance control function perform Compliance Monitoring Division, which established as permanent and independent structural unit and in general is responsible for Compliance risk management. Internal Audit assesses the effectiveness and sufficiency of the compliance control function.

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

The Bank uses the following methods to prevent and mitigate the compliance risk:

- drafts and updates the regulatory documents of the Bank in compliance with the effective regulatory enactments of the Republic of Latvia;
- provides for participation of the Bank’s Legal Department in drafting of the Bank’s regulatory documents;
- in the event of identification of the Bank’s operational non-compliance implements swiftly the measures for elimination of the non-compliance;
- standard forms and texts of the agreements, notifications, provisions for providing the services of the Bank and other documents in relations with its customers and prospective customers;
- when necessary, provides training to the employees of the Bank’s structural units on the issues related to the operational compliance risk.

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

Money laundering and terrorist financing risk (AML)

The Bank and the Group manage AML risk in compliance with the “Money laundering and terrorism preventing and sanctions compliance Policy”. The policy establishes the basic principles regarding customer identification, customer due diligence, suspicious and unusual activity reporting, training and record keeping. By means of this policy the Bank has set the following goals regarding customer and financial transactions compliance:

1) to create an efficient internal control system so that the Bank is able to fulfill all requirements set in the effective regulatory acts of the Republic of Latvia and best practice regarding the prevention of money laundering and terrorism financing and compliance with sanctions.

2) to minimize to the utmost all possible risks and losses that are related to money laundering, terrorism financing and non-compliance with sanctions that can detrimentally affect the Bank's activity;
3) to standardize, as best as possible, the Bank's practice to international best practice standards in the field of the prevention of money laundering, terrorism financing and sanction compliance;
4) to enhance the knowledge and competence of Bank employees regarding customer and financial transactions compliance, and the prevention of money laundering and terrorism financing and sanction compliance.

Policy and procedures are based on EU and Latvian legislation, as well as the FCMC regulations, and are based on properly identifying customers and beneficial owners (for corporate customers), using a risk-based approach to assess the type of client or transactions involved, collecting and analyzing information of the client's banking transactions, and regularly reviewing the client's files and activities.

In 2018, PNB Banka was continuously working on strengthening its AML policies and corporate governance in the field of AML. PNB Banka has implemented recommendations of US/BSA audit which was completed in 2016 creating a US/BSA-proof AML environment, and recommendations of international AML audit by Pricewaterhouse completed in 2017.

PNB Banka also focused on implementations of requirements on new legislative acts and recommendations of FCMC including amendments to AML law in May, 2018. Based on requirements of new legislative acts Bank continued de-risking measures and in 2018 PNB Banka significantly reduced portion and turnover of high risk customers.

PNB Banka continued to strengthen its AML IT support by enhancing its internal IT system and specialized AML solution "Siron" developed by FICO-Tonbeller. Siron has full functionality for sanction screening, KYC and transaction monitoring.

PNB Banka pays special attention to AML training of its employees and provided both internal and external training for its employees including international ACAMS certificates.

8. NET INTEREST INCOME

	2018		2017	
	Group EUR’000	Bank EUR’000	Group EUR’000	Bank EUR’000
Interest and similar income	**8 561**	**9 415**	**14 673**	**15 348**
Financial assets at amortised cost, including	6 825	7 679	11 643	12 371
Loans to and receivables from banks	*339*	*338*	*287*	*286*
Loans to and receivables from customers	*6 431*	*7 286*	*11 025*	*11 754*
Bonds	*55*	*55*	*331*	*331*
Trading financial assets	-	-	24	-
Financial assets at fair value through OCI	1 514	1 514	-	-
Available-for-sale securities	-	-	2 896	2 896
Other	222	222	110	81
Interest and similar expense	**6 522**	**6 486**	**8 009**	**8 072**
Customer deposits	2 019	2 086	2 218	2 409
Subordinated deposits	1 104	1 104	1 886	1 886
Subordinated debt securities	2 220	2 220	2 256	2 256
Payments in the Deposit Guarantee Fund	755	755	895	895
Deposits from banks	321	321	626	626
Other	103	-	128	-
Net interest income	**2 039**	**2 929**	**6 664**	**7 276**

As at 31 December 2018 Bank’s and Group’s interest income accrued on impaired loans (3rd stage) to customers amounted to 758 thousand euro (Bank 2017: 798 thousand euro and Group 2017: 729 thousand euro).

9. FEE AND COMMISSION INCOME AND EXPENSE

	2018		2017	
	Group EUR’000	Bank EUR’000	Group EUR’000	Bank EUR’000
Account services and money transfer fees	20 983	20 998	18 712	18 723
Payment cards	2 503	2 504	3 449	3 449
Asset management fees	1 063	-	2 055	-
Commission for public utility payments	690	690	904	904
Cash withdrawal	512	513	584	584
Brokerage services on securities	1 372	1 372	516	518
Commission on letters of credit and collection	88	88	172	172
Fiduciary activities (Note 29)	866	866	855	855
Other	206	200	839	835
Fee and commission income	**28 283**	**27 231**	**28 086**	**26 040**
Payment cards	4 291	4 291	2 963	2 963
Services of correspondent banks	600	600	954	954
Securities purchase and brokerage services	296	296	331	331
Other	119	102	35	18
Fee and commission expense	**5 306**	**5 289**	**4 283**	**4 266**

10. NET TRADING INCOME

	2018		2017	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
(Loss) from trading financial assets net	**-**	**-**	**(65)**	**(47)**
Bonds and other fixed income securities	**-**	**-**	***(18)***	-
Net trading (loss)	-	-	(63)	-
Fair value adjustment	-	-	45	-
Shares and other non- fixed income securities	**-**	**-**	***(47)***	***(47)***
Net trading (loss)	-	-	(47)	(47)
Fair value adjustment	-	-	-	-
(Loss) from Non-trading financial assets mandatorily at fair value through profit or loss	**(439)**	**(439)**	-	-
Net trading profit	94	94	**-**	**-**
Fair value adjustment	(533)	(533)	-	-
(Loss) from financial assets at amortised cost (bonds)	**(81)**	**(81)**	-	-
Net trading (loss)	(81)	(81)	**-**	**-**
Profit/(loss) from derivative instruments and foreign exchanges trading net	**8 100**	**8 087**	**(2 832)**	**(2 742)**
Net trading profit/(loss)	7 276	7 263	(2 321)	(2 231)
Fair value adjustment	824	824	(511)	(511)
Foreign exchange translation gains less loses	**(1 190)**	**119**	**11 744**	**13 252**
Net trading income	**6 390**	**7 686**	**8 847**	**10 463**

11. NET GAIN OR LOSS FROM SALES OF FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (AVAILABLE -FOR-SALE FINANCIAL ASSETS)

	2018		2017	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Bonds and other fixed income securities	(1 485)	(1 485)	1 702	1 702
Investments in equities	-	-	(1)	(233)
Total	**(1 485)**	**(1 485)**	**1 701**	**1 469**

These are the amounts transferred from equity to the income statement on the derecognition of Financial assets at fair value through other comprehensive income (Available -for-sale financial assets) instruments.

12. OTHER OPERATING INCOME AND EXPENSES

	2018		2017	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Income from typography services	22 551	-	23 671	-
Income from sale of energy	5 149	-	5 885	-
Rental income	1 379	512	1 293	512
Other income	3 258	2 273	1 543	1 467
Other operating income	**32 337**	**2 785**	**32 392**	**1 979**
Production costs related to typography	14 074	-	13 966	-
Production costs related to energy	1 879	-	2 470	-
Loan recovery expenses	219	219	429	429
Membership fees	626	619	860	832
Other	993	11	195	104
Other operating expense	**17 791**	**849**	**17 920**	**1 365**

13. ADMINISTRATIVE EXPENSES

	2018		2017	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Personnel expense	**24 182**	**16 117**	**24 900**	**16 489**
Personnel remuneration	17 257	11 115	17 626	11 783
Supervisory Council and Management Board remuneration	2 409	1 922	2 826	1 602
Social security contributions	4 516	3 080	4 448	3 104
Other expense	**21 757**	**17 851**	**21 668**	**16 949**
Professional services	9 839	10 269	8 285	8 055
Computer repair and communications	1 356	1 196	1 636	1 378
Public utilities and maintenance	2 148	927	2 251	1 042
Value added tax	1 650	1 491	1 709	1 213
Penalties	117	6	1 378	1 329
Rent	611	479	777	568
Real estate tax	784	135	748	136
Business trips	889	220	841	208
Security	544	351	494	375
Advertising	806	661	938	684
Other administrative expenses	3 013	2 116	2 611	1 961
Total	**45 939**	**33 968**	**46 568**	**33 438**

During the 2018 the average number of employees in the Group and the Bank was 922, 4 Supervisory Council and 4 Management Board members and 580 employees, 4 Supervisory Council and 4 Management Board members, respectively.

During the 2017 the average number of employees in the Group and the Bank was 1 513 (including 561 in ПАО "Норвик Банк"), 4 Supervisory Council and 5 Management Board members and 620 employees, 4 Supervisory Council and 5 Management Board members, respectively.

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. 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.

14. CORPORATE INCOME TAX

a) Components of corporate income tax charge

	2018		2017	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Corporate income tax expense for the year	150	105	24	-
Corporate income tax paid abroad	407	407	583	583
Change in deferred tax assets	(3)	-	216	-
Change in deferred tax liability	(80)	-	(966)	-
Total	**474**	**512**	**(143)**	**583**

b) Reconciliation of prior year deferred tax balance with that of current period is as follows:

	2018		2017	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Deferred tax assets at the beginning of year	-	-	216	-
Deferred tax assets increase/(decrease) for the year recognized in income statement	3	-	(216)	-
Deferred tax assets at the year end	**3**	**-**	**-**	**-**
Deferred tax liability at the beginning of year	117	-	1 692	-
Deferred tax liability (decrease) for the year	(80)	-	(957)	-
Deferred tax liability (decrease) due to changes in the legislation	-	-	(609)	-
Foreign exchange	-	-	(9)	-
Deferred tax liability at the year end	**37**	**-**	**117**	**-**
Deferred tax recognized directly in other comprehensive income at the beginning of year	-	-	1 771	792
Deferred tax recognized directly in other comprehensive income increase/(decrease) for the year, net	-	-	(1 771)	(792)
Total	**37**	**-**	**117**	**-**

Due to changes in Latvia's corporate income tax regulations, starting from January 1, 2018 the Group companies registered in Latvia do not recognize deferred tax assets and liabilities. In the consolidated Group's financial statement deferred tax of companies registered in other countries is recognized.

15. CASH AND BALANCES WITH THE CENTRAL BANKS

	31.12.2018		31.12.2017	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Cash	16 072	16 069	14 939	14 938
Due from the central banks	86 955	86 955	117 039	117 039
Total	**103 027**	**103 024**	**131 978**	**131 977**

Balances with the Bank of Latvia represent funds held in the Bank’s clearing account. In accordance with the regulations set by the Bank of Latvia the Bank’s average monthly correspondent account balance should not be less than the amount of the statutory reserve which is calculated on the basis of the balance of liabilities included in the reserve base as at the end of each month. As at 31 December 2018 the amount of the statutory reserve of the Bank was 3 882 thousand euro (31 December 2017: 6 278 thousand euro). Bank is compliant with this regulation.

16. LOANS TO AND RECEIVABLES FROM BANKS

	31.12.2018		31.12.2017	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Demand placements with:	**2 805**	**2 304**	**40 466**	**40 180**
Banks of Latvia	123	18	527	523
Banks of OECD countries	532	532	27 242	27 242
Banks of other countries	2 182	1 786	12 697	12 415
Allowance for impairment loss (Note 19)	(32)	(32)	-	-
Loans to and receivables from:	**9 974**	**9 974**	**13 575**	**13 575**
Banks of OECD countries	10 006	10 006	12 510	12 510
Banks of other countries	-	-	1 065	1 065
Allowance for impairment loss (Note 19)	(32)	(32)	-	-
Total	**12 779**	**12 278**	**54 041**	**53 755**

As at 31 December 2018 the Group and the Bank have the following amounts pledged: nil thousand euro for guaranties (31 December 2017: 65 thousand euro); gross amount 746 thousand euro for Forex deals and impairment in amount 31 thousand euro (31 December 2017: 1 million and impairment nil euro).
As at 31 December 2018 the Group and the Bank loans and receivables to banks were not past due nor impaired.

In 2018 the Bank’s average effective interest rates were: USD 1.11%, EUR (0.37)%, RUB 6.28%, GBP 0.20%; in 2017: USD 0.61%, EUR (0.37)%, RUB 7.54%, GBP 0.04%.

17. DERIVATIVE FINANCIAL INSTRUMENTS

The tables below present the fair value of the Group’s and Bank’s derivatives held for trading. Derivative financial instruments are accounted as assets or liabilities together with their notional amounts. The notional amounts are the gross amount of a derivative’s underlying assets. For FX derivative notional amounts are calculated based on Regulation No 575/2013 of the European Parliament and of the Council regulation on calculation of capital adequacy. The notional amounts indicate the volume of transactions outstanding at the year end.

Bank /Group	31.12.2018			31.12.2017		
	Assets EUR’000	Liabilities EUR’000	Notional amount EUR’000	Assets EUR’000	Liabilities EUR’000	Notional amount EUR’000
Foreign exchange contracts						
Swaps	61	45	30 745	362	1 195	132 212
Forwards	8	34	1 593	22	4	3 245
Total	**69**	**79**	**32 338**	**384**	**1 199**	**135 457**

Bank/Group	31.12.2018		31.12.2017	
EUR' 000	Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value
Forwards and swaps - fair value at the end of the reporting year				
USD (+)	1 148	17 424	834	74 183
USD (-)	11 943	594	36 204	271
EUR (+)	12 580	400	33 600	-
EUR (-)	1 147	16 677	958	75 526
RUB (+)	-	602	980	558
RUB (-)	-	-	-	-
Other currencies (+)	-	-	2 756	-
Other currencies (-)	580	1 392	833	-
Net fair value of forwards and swaps	**69**	**79**	**384**	**1 199**

18. FINANCIAL ASSETS AT AMORTISED COST (LOANS TO AND RECEIVABLES FROM CUSTOMERS)

	31.12.2018		31.12.2017	
	Group EUR’000	Bank EUR’000	Group EUR’000	Bank EUR’000
Net loans to:	**117 386**	**158 546**	**144 124**	**195 275**
Private companies	88 167	120 671	58 686	110 544
Individuals	15 609	15 128	17 577	16 831
Finance companies	60 787	60 787	109 105	109 105
Allowance for impairment losses (Note 19)	(47 177)	(38 040)	(41 244)	(41 205)
Financial leasing	**9 023**	**391**	**10 607**	**529**
Private companies	8 886	436	10 619	587
Individuals	182	-	46	-
Allowance for impairment losses (Note 19)	(45)	(45)	(58)	(58)
Receivables from:	**20 296**	**20 278**	**17 849**	**17 849**
Private companies	5	5	-	-
Individuals	11 817	11 817	-	-
Finance companies	9 511	9 493	17 849	17 849
Allowance for impairment losses (Note 19)	(1 037)	(1 037)	-	-
Total loans to and receivables from customers, net	**146 705**	**179 215**	**172 580**	**213 653**

	31.12.2018		31.12.2017	
	Group EUR’000	Bank EUR’000	Group EUR’000	Bank EUR’000
Geographical segmentation of loans and receivables				
Net loans to:	**117 386**	**158 546**	**144 124**	**195 275**
Residents of Latvia	30 199	62 838	39 904	73 979
Residents of OECD countries	22	22	17	16
Residents of other countries	134 342	133 726	145 447	162 485
Allowance for impairment losses (Note 19)	(47 177)	(38 040)	(41 244)	(41 205)
Financial leasing	**9 023**	**391**	**10 607**	**529**
Residents of Latvia	9 068	436	10 665	587
Allowance for impairment losses (Note 19)	(45)	(45)	(58)	(58)
Receivables from:	**20 296**	**20 278**	**17 849**	**17 849**
Residents of Latvia	14 457	14 457	2	2
Residents of OECD countries	6 233	6 233	14 197	14 197
Residents of other countries	643	625	3 650	3 650
Allowance for impairment losses (Note 19)	(1 037)	(1 037)	-	-
Total loans to and receivables from customers, net	**146 705**	**179 215**	**172 580**	**213 653**

	31.12.2018		31.12.2017	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Analysis of loans by type				
Industrial loans	65 057	106 566	76 872	120 993
Mortgage loans	39 568	39 118	46 878	53 765
Commercial loans	2 433	2 491	4 027	4 101
Credit card balances	2 068	2 068	2 695	2 695
Consumer loans	2 005	2 004	1 391	1 389
Finance leases	9 023	391	10 607	529
Reverse Repo transactions	692	692	848	848
Other	5 563	5 607	11 413	11 484
Net loans to customers	**126 409**	**158 937**	**154 731**	**195 804**

The Group and the Bank have received securities at fair value 1 011 thousand euro (at 31 December 2017: 1 235 thousand euro) as collateral for reverse repo deals and the Group is permitted to sell or repledge them. As at 31 December 2018 they have not been sold or repledged (at 31 December 2017: nil euro).

As at 31 December 2018 the Group and the Bank have the following amounts pledged: gross amount 2 933 thousand euro for card transactions and impairment in amount 2 thousand euro (at 31 December 2017: 5 796 and impairment nil euro); gross amount 3 264 thousand euro for Forex deals and impairment in amount 136 thousand euro (at 31 December 2017: 5 853 and impairment nil euro).

As at 31 December 2018 the Bank has unavailable asset in defaulted bank (ABLV Bank, AS) in gross amount 2 638 thousand euro and impairment in amount 874 thousand euro.

During 2018 the Bank's average effective interest rates were: USD 5.74%, EUR 2.63%, RUB 5.94%, GBP 6.01%; in 2017: USD 9.36%, EUR 4.04%, RUB 4.73%, GBP 12.16%.

	31.12.2018		31.12.2017	
Finance leases	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Gross investments	**9 977**	**413**	**11 867**	**581**
Within 1 year	1 173	357	1 017	179
From 1 year to 5 years	3 033	56	3 630	402
More than 5 years	5 771	-	7 220	-
Unearned income	**954**	**22**	**1 260**	**52**
Within 1 year	147	21	185	33
From 1 year to 5 years	388	1	514	19
More than 5 years	419		561	-
Present value of minimum lease payments	**9 023**	**391**	**10 607**	**529**
Within 1 year	1 026	336	832	146
From 1 year to 5 years	2 645	55	3 116	383
More than 5 years	5 352	-	6 659	-

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

	31.12.2018				
	Over-collateralised loans		Under-collateralised loans		
Group	Net amount of loans	Fair value of collateral	Net amount of loans	Fair value of collateral	Total net loans
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Analysis of loans by type					
Industrial loans	38 437	45 653	26 620	23 868	**65 057**
Mortgage loans	25 196	30 450	14 372	12 970	**39 568**
Commercial loans	2 388	7 119	45	-	**2 433**
Credit card balances	2	171	2 066	1	**2 068**
Consumer loans	65	111	1 940	47	**2 005**
Finance leases	9 006	18 766	17	17	**9 023**
Reverse Repo transactions	692	1 012	-	-	**692**
Other	5 563	10 356	-	-	**5 563**
Net loans to customers	**81 349**	**113 638**	**45 060**	**36 903**	**126 409**

	31.12.2018				
	Over-collateralised loans		Under-collateralised loans		
Bank	Net amount of loans	Fair value of collateral	Net amount of loans	Fair value of collateral	Total net loans
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Analysis of loans by type					
Industrial loans	70 825	90 755	35 741	23 867	**106 566**
Mortgage loans	24 760	29 106	14 358	12 970	**39 118**
Commercial loans	2 446	7 154	45	-	**2 491**
Credit card balances	2	171	2 066	1	**2 068**
Consumer loans	64	110	1 940	47	**2 004**
Finance leases	374	694	17	17	**391**
Reverse Repo transactions	692	1 012	-	-	**692**
Other	5 564	10 356	43	-	**5 607**
Net loans to customers	**104 727**	**139 358**	**54 210**	**36 902**	**158 937**

	31.12.2017				
	Over-collaterised loans		Under-collaterised loans		
Group	Net amount of loans	Fair value of collateral	Net amount of loans	Fair value of collateral	Total net loans
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Analysis of loans by type					
Industrial loans	71 092	78 558	5 780	5 014	**76 872**
Mortgage loans	44 762	53 848	2 116	1 399	**46 878**
Commercial loans	4 011	16 019	16	-	**4 027**
Credit card balances	4	56	2 691	-	**2 695**
Consumer loans	48	243	1 343	17	**1 391**
Finance leases	10 607	16 517	-	-	**10 607**
Reverse Repo transactions	848	1 235	-	-	**848**
Other	10 811	12 355	602	114	**11 413**
Net loans to customers	**142 183**	**178 831**	**12 548**	**6 544**	**154 731**

	31.12.2017				
	Over-collaterised loans		Under-collaterised loans		
Bank	Net amount of loans	Fair value of collateral	Net amount of loans	Fair value of collateral	Total net loans
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Analysis of loans by type					
Industrial loans	104 862	123 658	16 131	5 844	**120 993**
Mortgage loans	51 648	71 217	2 117	1 399	**53 765**
Commercial loans	4 085	14 960	16	-	**4 101**
Credit card balances	4	56	2 691	-	**2 695**
Consumer loans	46	242	1 343	17	**1 389**
Finance leases	529	874	-	-	**529**
Reverse Repo transactions	848	1 236	-	-	**848**
Other	10 811	11 560	673	114	**11 484**
Net loans to customers	**172 833**	**223 803**	**22 971**	**7 374**	**195 804**

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The following tables disclose the changes in the credit loss allowance and gross carrying amount for loans to customers carried at amortised cost between the beginning and the end of the reporting period. For disclosure of information on the changes, the data as of the beginning and end of the 2018 were used.

	Bank Gross carrying amount				Group Gross carrying amount		
EUR'000	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)
Industrial loans							
At 1 January 2018	3 706	16 950	116 353	**137 009**	3 706	16 950	82 553
Movements with impact on credit loss allowance charge for the period:							
Transfers:							
- to lifetime (from Stage 1 to Stage 2)				**-**			
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(1 710)	(3 485)	5 195	**-**	(1 710)	(3 485)	5 195
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-	33 771	(33 771)	**-**	-	-	-
New originated or purchased	29	-	-	**29**	29	-	-
Derecognised during the period	(1 851)	(2 399)	(3 458)	**(7 708)**	(1 851)	(1 009)	(3 430)
Changes in accrued interest	(9)	(84)	13	**(80)**	(9)	(91)	14
Total movements with impact on credit loss allowance charge for the period	**(3 541)**	**27 803**	**(32 021)**	**(7 759)**	**(3 541)**	**(4 585)**	**1 779**
Movements without impact on credit loss allowance charge for the period:							
Write-offs	-	-	-	**-**	-	-	-
At 31 December 2018	**165**	**44 753**	**84 332**	**129 250**	**165**	**12 365**	**84 332**
Mortgage loans							
At 1 January 2018	33 207	209	36 093	**69 509**	33 207	209	18 923
Movements with impact on credit loss allowance charge for the period:							
Transfers:							
- to lifetime (from Stage 1 to Stage 2)	-	-	-	**-**	-	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	-	-	**-**	-	-	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-	1	(1)	**-**	-	1	(1)
New originated or purchased	236	-	-	**236**	236	-	-
Derecognised during the period	(2 624)	(57)	(21 452)	**(24 133)**	(2 624)	(57)	(3 775)
Changes in accrued interest	(8)	-	(44)	**(52)**	(9)	-	25
Total movements with impact on credit loss allowance charge for the period	**(2 396)**	**(56)**	**(21 497)**	**(23 949)**	**(2 397)**	**(56)**	**(3 751)**
Movements without impact on credit loss allowance charge for the period:							
Write-offs	-	-	(146)	**(146)**	-	-	(241)
At 31 December 2018	**30 811**	**153**	**14 450**	**45 414**	**30 810**	**153**	**14 931**

	Bank Gross carrying amount				Group Gross carrying amount		
EUR'000	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**
Commercial loans							
At 1 January 2018	1 223	33	4 588	**5 844**	1 223	33	4 515
Movements with impact on credit loss allowance charge for the period:							
Transfers:							
- to lifetime (from Stage 1 to Stage 2)	-	-	-	**-**	-	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	-	-	**-**	-	-	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-	204	(204)	**-**	-	-	-
New originated or purchased	24	-	-	**24**	24	-	-
Derecognised during the period	(1 197)	(22)	(360)	**(1 579)**	(1 196)	(10)	(357)
Changes in accrued interest	-	-	3	**3**	-	-	3
Total movements with impact on credit loss allowance charge for the period	**(1 173)**	**182**	**(561)**	**(1 552)**	**(1 172)**	**(10)**	**(354)**
Movements without impact on credit loss allowance charge for the period:							
Write-offs	-	-	-	**-**	-	-	-
At 31 December 2018	**50**	**215**	**4 027**	**4 292**	**51**	**23**	**4 161**
Credit card balances							
At 1 January 2018	2 422	36	2 337	**4 795**	2 422	36	2 337
Movements with impact on credit loss allowance charge for the period:							
Transfers:							
- to lifetime (from Stage 1 to Stage 2)	(34)	34	-	**-**	(34)	34	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(44)	(14)	58	**-**	(44)	(14)	58
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	8	(8)	-	**-**	8	(8)	-
New originated or purchased	27	4	36	**67**	27	4	36
Derecognised during the period	(412)	(19)	(150)	**(581)**	(412)	(19)	(150)
Changes in accrued interest	-	-	-	**-**	-	-	-
Total movements with impact on credit loss allowance charge for the period	**(455)**	**(3)**	**(56)**	**(514)**	**(455)**	**(3)**	**(56)**
Movements without impact on credit loss allowance charge for the period:							
Write-offs	-	-	(118)	**(118)**	-	-	(118)
At 31 December 2018	**1 967**	**33**	**2 163**	**4 163**	**1 967**	**33**	**2 163**

	Bank Gross carrying amount				Group Gross carrying amount		
EUR'000	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**
Consumer loans							
At 1 January 2018	704	66	6 123	**6 893**	704	66	6 125
Movements with impact on credit loss allowance charge for the period:							
Transfers:							
- to lifetime (from Stage 1 to Stage 2)	(8)	8	-	**-**	(8)	8	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(122)	(45)	167	**-**	(122)	(45)	167
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	1	(1)	-	**-**	1	(1)	-
New originated or purchased	1 273	14	65	**1 352**	1 273	14	65
Derecognised during the period	(384)	(19)	(506)	**(909)**	(384)	(19)	(507)
Changes in accrued interest	4	(2)	(21)	**(19)**	4	(2)	(21)
Total movements with impact on credit loss allowance charge for the period	**764**	**(45)**	**(295)**	**424**	**764**	**(45)**	**(296)**
Movements without impact on credit loss allowance charge for the period:							
Write-offs	-	-	(267)	**(267)**	-	-	(267)
At 31 December 2018	**1 468**	**21**	**5 561**	**7 050**	**1 468**	**21**	**5 562**
Finance leases							
At 1 January 2018	-	-	587	**587**	10 078	-	587
Movements with impact on credit loss allowance charge for the period:							
Transfers:							
- to lifetime (from Stage 1 to Stage 2)	-	-	-	**-**	-	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	-	-	**-**	-	-	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-	-	-	**-**	-	-	-
New originated or purchased	-	-	-	**-**	-	-	-
Derecognised during the period	-	-	(155)	**(155)**	(1 446)	-	(155)
Changes in accrued interest	-	-	4	**4**	-	-	4
Total movements with impact on credit loss allowance charge for the period	**-**	**-**	**(151)**	**(151)**	**(1 446)**	**-**	**(151)**
Movements without impact on credit loss allowance charge for the period:							
Write-offs	-	-	-	**-**	-	-	-
At 31 December 2018	**-**	**-**	**436**	**436**	**8 632**	**-**	**436**

	Bank Gross carrying amount				Group Gross carrying amount		
EUR'000	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**
Reverse Repo transactions							
At 1 January 2018	848	-	-	**848**	848	-	-
Movements with impact on credit loss allowance charge for the period:							
Transfers:							
- to lifetime (from Stage 1 to Stage 2)	-	-	-	**-**	-	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	-	-	**-**	-	-	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-	-	-	**-**	-	-	-
New originated or purchased	692	-	-	**692**	692	-	-
Derecognised during the period	(845)	-	-	**(845)**	(845)	-	-
Changes in accrued interest	(3)	-	-	**(3)**	(3)	-	-
Total movements with impact on credit loss allowance charge for the period	**(156)**	**-**	**-**	**(156)**	**(156)**	**-**	**-**
Movements without impact on credit loss allowance charge for the period:							
Write-offs	-	-	-	**-**	-	-	-
At 31 December 2018	**692**	**-**	**-**	**692**	**692**	**-**	**-**
Other loans							
At 1 January 2018	2 188	9 296	98	**11 582**	2 117	9 296	98
Movements with impact on credit loss allowance charge for the period:							
Transfers:							
- to lifetime (from Stage 1 to Stage 2)	-	-	-	**-**	-	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	-	-	**-**	-	-	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-	-	-	**-**	-	-	-
New originated or purchased	-	-	77	**77**	-	-	77
Derecognised during the period	(1 011)	(4 918)	-	**(5 929)**	(999)	(4 918)	-
Changes in accrued interest	(3)	(9)	7	**(5)**	(3)	(9)	7
Total movements with impact on credit loss allowance charge for the period	**(1 014)**	**(4 927)**	**84**	**(5 857)**	**(1 002)**	**(4 927)**	**84**
Movements without impact on credit loss allowance charge for the period:							
Write-offs	-	-	-	**-**	-	-	-
At 31 December 2018	**1 174**	**4 369**	**182**	**5 725**	**1 115**	**4 369**	**182**

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	Bank Credit loss allowance				Group Credit loss allowance		
EUR'000	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)
Industrial loans							
At 1 January 2018	-	-	16 016	**16 016**	-	-	26 337
Movements with impact on credit loss allowance charge for the period:							
Transfers:							
- to lifetime (from Stage 1 to Stage 2)	-	-	-	**-**	-	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(334)	(4)	338	**-**	(334)	(4)	338
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-	-	-	**-**	-	-	-
Increase of allowances	184	-	6 488	**6 672**	183	-	6 489
Decrease of allowances	(33)	(7)	(238)	**(278)**	(33)	(6)	(1 440)
IFRS 9 implementation	183	11	-	**194**	183	11	-
Total movements with impact on credit loss allowance charge for the period	-	-	6 588	**6 588**	(1)	1	5 387
Movements without impact on credit loss allowance charge for the period:							
Write-offs	-	-	-	**-**	-	-	-
FX and other movements	-	-	80	**80**	-	-	81
At 31 December 2018	**-**	**-**	**22 684**	**22 684**	**(1)**	**1**	**31 805**
Mortgage loans							
At 1 January 2018	-	-	15 744	**15 744**	-	-	5 461
Movements with impact on credit loss allowance charge for the period:							
Transfers:							
- to lifetime (from Stage 1 to Stage 2)	-	-	-	**-**	-	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	-	-	**-**	-	-	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-	-	-	**-**	-	-	-
Increase of allowances	9	2	1 026	**1 037**	9	2	1 100
Decrease of allowances	(2)	(3)	(10 357)	**(10 362)**	(2)	(3)	(29)
IFRS 9 implementation	7	5	-	**12**	8	4	-
Total movements with impact on credit loss allowance charge for the period	14	4	(9 331)	**(9 313)**	15	3	1 071
Movements without impact on credit loss allowance charge for the period:							
Write-offs	-	-	(146)	**(146)**	-	-	(241)
FX and other movements	-	-	11	**11**	-	-	17
At 31 December 2018	**14**	**4**	**6 278**	**6 296**	**15**	**3**	**6 308**

	Bank Credit loss allowance				Group Credit loss allowance		
EUR'000	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)
Commercial loans							
At 1 January 2018	-	-	1 743	**1 743**	-	-	1 744
Movements with impact on credit loss allowance charge for the period:							
Transfers:							
- to lifetime (from Stage 1 to Stage 2)	-	-	-	**-**	-	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	-	-	**-**	-	-	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-	-	-	**-**	-	-	-
Increase of allowances	1	-	-	**1**	1	-	-
Decrease of allowances	-	-	(1)	**(1)**	-	-	(1)
IFRS 9 implementation	2	-	-	**2**	2	-	-
Total movements with impact on credit loss allowance charge for the period	3	-	(1)	**2**	3	-	(1)
Movements without impact on credit loss allowance charge for the period:							
Write-offs	-	-	-	**-**	-	-	-
FX and other movements	-	-	56	**56**	-	-	56
At 31 December 2018	**3**	**-**	**1 798**	**1 801**	**3**	**-**	**1 799**
Credit card balances							
At 1 January 2018	23	-	2 077	**2 100**	23	-	2 077
Movements with impact on credit loss allowance charge for the period:							
Transfers:							
- to lifetime (from Stage 1 to Stage 2)	-	-	-	**-**	-	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	-	-	**-**	-	-	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-	-	-	**-**	-	-	-
Increase of allowances	-	-	138	**138**	-	-	138
Decrease of allowances	(27)	(2)	(137)	**(166)**	(27)	(2)	(137)
IFRS 9 implementation	120	9	9	**138**	120	9	9
Total movements with impact on credit loss allowance charge for the period	93	7	10	**110**	93	7	10
Movements without impact on credit loss allowance charge for the period:							
Write-offs	-	-	(118)	**(118)**	-	-	(118)
FX and other movements	-	-	3	**3**	-	-	3
At 31 December 2018	**116**	**7**	**1 972**	**2 095**	**116**	**7**	**1 972**

	Bank Credit loss allowance				Group Credit loss allowance		
EUR'000	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**
Consumer loans							
At 1 January 2018	24	3	5 477	**5 504**	24	3	5 477
Movements with impact on credit loss allowance charge for the period:							
Transfers:							
- to lifetime (from Stage 1 to Stage 2)	-	-	-	**-**	-	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(1)	-	1	**-**	(1)	-	1
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-	-	-	**-**	-	-	-
Increase of allowances	40	-	186	**226**	40	-	187
Decrease of allowances	-	(11)	(456)	**(467)**	-	(11)	(457)
IFRS 9 implementation	13	14	23	**50**	13	14	23
Total movements with impact on credit loss allowance charge for the period	52	3	(246)	**(191)**	52	3	(246)
Movements without impact on credit loss allowance charge for the period:							
Write-offs	-	-	(267)	**(267)**	-	-	(267)
FX and other movements	-	-	-	**-**	-	-	-
At 31 December 2018	**76**	**6**	**4 964**	**5 046**	**76**	**6**	**4 964**
Finance leases							
At 1 January 2018	-	-	58	**58**	-	-	58
Movements with impact on credit loss allowance charge for the period:							
Transfers:							
- to lifetime (from Stage 1 to Stage 2)	-	-	-	**-**	-	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	-	-	**-**	-	-	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-	-	-	**-**	-	-	-
Increase of allowances	-	-	2	**2**	-	-	2
Decrease of allowances	-	-	(15)	**(15)**	-	-	(15)
IFRS 9 implementation	-	-	-	**-**	-	-	-
Total movements with impact on credit loss allowance charge for the period	-	-	(13)	**(13)**	-	-	(13)
Movements without impact on credit loss allowance charge for the period:							
Write-offs	-	-	-	**-**	-	-	-
FX and other movements	-	-	-	**-**	-	-	-
At 31 December 2018	**-**	**-**	**45**	**45**	**-**	**-**	**45**

	Bank Credit loss allowance				Group Credit loss allowance		
EUR'000	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**
Other loans							
At 1 January 2018	-	-	98	**98**	-	-	98
Movements with impact on credit loss allowance charge for the period:							
Transfers:							
- to lifetime (from Stage 1 to Stage 2)	-	-	-	**-**	-	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	-	-	**-**	-	-	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-	-	-	**-**	-	-	-
Increase of allowances	14	-	-	**14**	-	-	-
Decrease of allowances	(12)	-	-	**(12)**	(12)	-	-
IFRS 9 implementation	12	-	-	**12**	12	-	-
Total movements with impact on credit loss allowance charge for the period	14	-	-	**14**	-	-	-
Movements without impact on credit loss allowance charge for the period:							
Write-offs	-	-	-	**-**	-	-	-
FX and other movements	-	-	6	**6**	-	-	5
At 31 December 2018	**14**	**-**	**104**	**118**	**-**	**-**	**103**

19. IMPAIRMENT LOSSES ON FINANCIAL ASSETS

The following table presents an analysis of the changes in allowance account for impairment of financial assets of the Group.

Group	At 1 January 2018 EUR'000	IFRS 9 implemen-tation EUR'000	Impairment charge EUR'000	Impairment release EUR'000	Written off EUR'000	Foreign exchange EUR'000	At 31 December 2018 EUR'000
Industrial loans	**26 337**	194	6 672	(1 479)	-	81	**31 805**
Commercial loans	**1 744**	2	1	(1)	-	56	**1 802**
Consumer loans	**5 504**	50	227	(468)	(267)	-	**5 046**
Credit cards	**2 100**	138	138	(166)	(118)	3	**2 095**
Finance leasing	**58**	-	2	(15)	-	-	**45**
Mortgage loans	**5 461**	12	1 111	(34)	(241)	17	**6 326**
Other loans	**98**	12	-	(12)	-	5	**103**
Provisions for loans	**41 302**	**408**	**8 151**	**(2 175)**	**(626)**	**162**	**47 222**
Financial receivables	**-**	281	939	(241)	-	35	**1 014**
Private individuals	**-**	-	23	-	-	-	**23**
Provisions for receivables	**-**	**281**	**962**	**(241)**	**-**	**35**	**1 037**
Bank of Latvia	**-**	6	-	(6)	-	-	**-**
Demand placements in banks	**-**	111	(38)	(87)	-	46	**32**
Loans to and receivables from banks	**-**	65	31	(66)	-	2	**32**
Provisions for banks	**-**	**182**	**(7)**	**(159)**	**-**	**48**	**64**
Commitments	**-**	124	16	(35)	-	-	**105**
Off-balance sheet items	**-**	**124**	**16**	**(35)**	**-**	**-**	**105**
Other liabilities	**-**	-	6	-	-	-	**6**
Other provisions	**-**	**-**	**6**	**-**	**-**	**-**	**6**
Total provisions on financial assets at amortised cost	**41 302**	**995**	**9 128**	**(2 610)**	**(626)**	**245**	**48 434**
Other assets	**229**	-	1 252	(4)	(793)	36	**720**
Total	**41 531**	**995**	**10 380**	**(2 614)**	**(1 419)**	**281**	**49 154**

Group	At 1 January 2018 EUR'000	IFRS 9 implemen-tation EUR'000	Impairment charge EUR'000	Impairment release EUR'000	Written off EUR'000	Transfer EUR'000	Foreign exchange EUR'000	At 31 December 2018 EUR'000
Stage 1								
Provisions for:								
loans	**47**	337	234	(74)	-	(335)	-	**209**
receivables	**-**	281	103	(241)	-	-	19	**162**
banks	**-**	75	(11)	(60)	-	(1)	48	**51**
off-balance sheet items	**-**	123	8	(35)	-	-	-	**96**
other	**-**	-	6	-	-	(3)	-	**3**
Total provisions for stage 1	**47**	**816**	**340**	**(410)**	**-**	**(339)**	**67**	**521**
Stage 2								
Provisions for:								
loans	**4**	37	2	(22)	-	(4)	-	**17**
banks	**-**	107	4	(99)	-	1	-	**13**
off-balance sheet items	**-**	1	1	-	-	-	-	**2**
other	**-**	-	-	-	-	3	-	**3**
Total provisions for stage 2	**4**	**145**	**7**	**(121)**	**-**	**-**	**-**	**35**
Stage 3								
Provisions for:								
loans	**41 251**	34	7 915	(2 079)	(626)	339	162	**46 996**
receivables	**-**	-	859	-	-	-	16	**875**
off-balance sheet items	**-**	-	7	-	-	-	-	**7**
Total provisions for stage 3	**41 251**	**34**	**8 781**	**(2 079)**	**(626)**	**339**	**178**	**47 878**
Total provisions on financial assets at amortised cost	**41 302**	**995**	**9 128**	**(2 610)**	**(626)**	**-**	**245**	**48 434**
Other assets	**229**	-	1 252	(4)	(793)	-	36	**720**
Total	**41 531**	**995**	**10 380**	**(2 614)**	**(1 419)**	**-**	**281**	**49 154**

Group	At 1 January 2017 EUR'000	Impairment charge EUR'000	Impairment release EUR'000	Written off EUR'000	Foreign exchange EUR'000	Reclassifi-cation to discounti-nued operations EUR'000	At 31 December 2017 EUR'000
Industrial loans	**18 576**	13 134	-417	(1 389)	(261)	(3 306)	**26 337**
Commercial loans	**8 353**	19	-1	(259)	(167)	(6 201)	**1 744**
Consumer loans	**8 917**	349	-594	(606)	-	(2 562)	**5 504**
Credit cards	**8 792**	175	-234	(169)	(7)	(6 457)	**2 100**
Finance leasing	**131**	-	-25	(48)	-	-	**58**
Mortgage loans	**4 893**	1 562	-212	(721)	(61)	-	**5 461**
Other loans	**307**	-	-	-	(14)	(195)	**98**
Provisions for loans	**49 969**	**15 239**	**(1 483)**	**(3 192)**	**(510)**	**(18 721)**	**41 302**
Provisions for receivables	**67**	-	-	**-**	-	(67)	**-**
Other provisions	**284**	179	(17)	(56)	1	(162)	**229**
Total	**50 320**	**15 418**	**(1 500)**	**(3 248)**	**(509)**	**(18 950)**	**41 531**

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Group	2018 EUR'000	Group	2017 EUR'000
Impairment loss on financial assets at amortised cost	**(6 185)**	**Result from impairment losses**	**(13 694)**
Increase in allowance	(9 128)	Increase in allowance	(15 418)
Released from allowance	2 610	Released from allowance	1 500
Recovery of previously written-off assets	333	Recovery of previously written-off assets	224

The following table presents an analysis of the change in allowance account for impairment of financial assets of the Bank.

Bank	At 1 January 2018 EUR'000	IFRS 9 implemen-tation EUR'000	Impairment charge EUR'000	Impairment release EUR'000	Written off EUR'000	Foreign exchange EUR'000	At 31 December 2018 EUR'000
Industrial loans	**16 016**	194	6 672	(278)	-	80	**22 684**
Commercial loans	**1 743**	2	1	(1)	-	56	**1 801**
Consumer loans	**5 504**	50	226	(467)	(267)	-	**5 046**
Credit cards	**2 100**	138	138	(166)	(118)	3	**2 095**
Finance leasing	**58**	-	2	(15)	-	-	**45**
Mortgage loans	**15 744**	12	1 037	(10 362)	(146)	11	**6 296**
Other loans	**98**	12	14	(12)	-	6	**118**
Provisions for loans	**41 263**	**408**	**8 090**	**(11 301)**	**(531)**	**156**	**38 085**
Financial receivables	**-**	281	939	(241)	-	35	**1 014**
Private individuals	**-**	-	23	-	-	-	**23**
Provisions for receivables	**-**	**281**	**962**	**(241)**	**-**	**35**	**1 037**
Bank of Latvia	**-**	6	-	(6)	-	-	**-**
Demand placements in banks	**-**	111	(38)	(87)	-	46	**32**
Loans to and receivables from banks	**-**	65	31	(66)	-	2	**32**
Provisions for banks	**-**	**182**	**(7)**	**(159)**	**-**	**48**	**64**
Commitments	**-**	124	16	(35)	-	-	**105**
Off-balance sheet items	**-**	**124**	**16**	**(35)**	**-**	**-**	**105**
Other liabilities	**-**	-	6	-	-	-	**6**
Other provisions	**-**	**-**	**6**	**-**	**-**	**-**	**6**
Total provisions on financial assets at amortised cost	**41 263**	**995**	**9 067**	**(11 736)**	**(531)**	**239**	**39 297**
Other assets	**13**	-	766	(1)	(779)	14	**13**
Total	**41 276**	**995**	**9 833**	**(11 737)**	**(1 310)**	**253**	**39 310**

Bank	At 1 January 2018 EUR'000	IFRS 9 implemen-tation EUR'000	Impairment charge EUR'000	Impairment release EUR'000	Written off EUR'000	Transfer EUR'000	Foreign exchange EUR'000	At 31 December 2018 EUR'000
Stage 1								
Provisions for:								
loans	**47**	337	248	(74)	-	(335)	-	**223**
receivables	**-**	281	103	(241)	-	-	19	**162**
banks	**-**	75	(11)	(60)	-	(1)	48	**51**
off-balance sheet items	**-**	123	8	(35)	-	-	-	**96**
other	**-**	-	6	-	-	(3)	-	**3**
Total provisions for stage 1	**47**	**816**	**354**	**(410)**	**-**	**(339)**	**67**	**535**
Stage 2								
Provisions for:								
loans	**4**	37	2	(22)	-	(4)	-	**17**
banks	**-**	107	4	(99)	-	1	-	**13**
off-balance sheet items	**-**	1	1	-	-	-	-	**2**
other	**-**	-	-	-	-	3	-	**3**
Total provisions for stage 2	**4**	**145**	**7**	**(121)**	**-**	**-**	**-**	**35**
Stage 3								
Provisions for:								
loans	**41 212**	34	7 840	(11 205)	(531)	339	156	**37 845**
receivables	**-**	-	859	-	-	-	16	**875**
off-balance sheet items	**-**	-	7	-	-	-	-	**7**
Total provisions for stage 3	**41 212**	**34**	**8 706**	**(11 205)**	**(531)**	**339**	**172**	**38 727**
Total provisions on financial assets at amortised cost	**41 263**	**995**	**9 067**	**(11 736)**	**(531)**	**-**	**239**	**39 297**
Other assets	**13**		766	(1)	(779)		14	**13**
Total	**41 276**	**995**	**9 833**	**(11 737)**	**(1 310)**	**-**	**253**	**39 310**

Bank	At 1 January 2017 EUR'000	Impairment charge	Impairment release EUR'000	Written off EUR'000	Foreign exchange EUR'000	At 31 December 2017 EUR'000
Industrial loans	**15 228**	9 701	(7 262)	(1 390)	(261)	**16 016**
Commercial loans	**2 193**	2	(43)	(242)	(167)	**1 743**
Consumer loans	**6 355**	343	(594)	(600)	-	**5 504**
Credit cards	**2 335**	175	(234)	(169)	(7)	**2 100**
Finance leasing	**130**	-	(25)	(47)	-	**58**
Mortgage loans	**9 549**	6 414	(212)	-	(7)	**15 744**
Other loans	**112**	-		-	(14)	**98**
Provisions for loans	**35 902**	**16 635**	**(8 370)**	**(2 448)**	**(456)**	**41 263**
Other provisions	**35**	50	(13)	(56)	(3)	**13**
Total	**35 937**	**16 685**	**(8 383)**	**(2 504)**	**(459)**	**41 276**

Bank	2018 EUR'000	Bank	2017 EUR'000
Impairment loss on financial assets at amortised cost	**3 002**	**Result from impairment losses**	**(8 078)**
Increase in allowance	(9 067)	Increase from impairment	(16 685)
Released from allowance	11 736	Released from impairment	8 383
Recovery of previously written-off assets	333	Recovery of previously written-off assets	224

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (AVAILABLE -FOR-SALE FINANCIAL ASSETS)

	31.12.2018		31.12.2017	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Bonds and other fixed income securities	**66 397**	**66 397**	**128 616**	**128 616**
Latvia	15 155	15 155	10 370	10 370
OECD country bonds	39 057	39 057	73 768	73 768
Other country bonds	12 185	12 185	44 478	44 478
Shares and other non-fixed income securities	**10 350**	**125 070**	**13 943**	**146 331**
Funds registered in Latvia	-	114 720	4 995	137 383
Funds registered in EU countries	5 102	5 102	5 102	5 102
Other non-fixed income securities (OECD country residents)	5 248	5 248	3 846	3 846
Investments in subsidiaries	**-**	**41 209**	**-**	**43 302**
Bank (Other country residents)	-	-	-	31 814
Financial institutions (LR residents)	-	2	-	3
Non-financial institutions (LR residents)	-	19 770	-	-
Financial institutions (OECD country residents)	-	9 062	-	9 765
Financial institutions (other country residents)	-	1 530	-	1 720
Non-financial institutions (other country residents)	-	10 845	-	-
Total	**76 747**	**232 676**	**142 559**	**318 249**

The Bank/Group treats available-for-sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists.

During 2017 the Bank/Group recognized impairment losses regarding its investments:

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	31.12.2018		31.12.2017	
	Group	Bank	Group	Bank
Investment in:	EUR'000	EUR'000	EUR'000	EUR'000
Norvik Malta Sicav Plc	-	-	2 548	2 548
Nākotnes Īpašumu Fonds	-	-	-	13 988
ПАО "Норвик Банк"	-	-	-	26 810
"NORVIK" liquidation Universal Credit Organization CJSC	-	-	-	471
Total	**-**	**-**	**2 548**	**43 817**

The following table presents an analysis of the change in revaluation reserve of financial assets at fair value through OCI (2018) / available-for-sale financial assets (2017):

	Group EUR'000	Bank EUR'000
At 31 December 2016	**(1 298)**	**10 635**
Revaluation	91	(43 088)
Impairment loss reclassified to income statement	2 548	43 817
Net (gain) from sales of available-for-sale financial assets	(1 701)	(1 469)
At 31 December 2017	**(360)**	**9 895**
Changes due to IFRS9 implementation	(158)	(158)
Revaluation of equities	(11 634)	(19 445)
Revaluation of bonds	(1 800)	(1 800)
Impairment loss reclassified to income statement	(212)	(212)
Net loss from sales of financial assets at fair value through OCI reflected directly in equity	13 057	2 105
Net loss from sales of financial assets at fair value through OCI in statement of profit or loss	1 485	1 485
At 31 December 2018	**378**	**(8 130)**

As at 31 December 2018 and 2017 the Bank had the following investments in subsidiaries:

Company	Country	Business profile	Balance value (EUR’000)	Bank’s share capital (%)	Balance value (EUR’000)	Bank’s share capital (%)
			as at 31 December 2018	as at 31 December 2018	as at 31 December 2017	as at 31 December 2017
ПАО "Норвик Банк"	RU	Financial services	-	-	31 814	97.75
"Coleum INC" Limited	CY	Financial services	-	-	-	100
"Sport Leasing" SIA	LV	Financial services	2	100	3	100
"NORVIK” liquidation Universal Credit Organization CJSC	AM	Financial services	1 530	100	1 720	100
“Norvik Banka UK” Limited	GB	Financial services	9 062	100	9 765	100
"NORVIK APDROŠINĀŠANAS BROKERIS" SIA	LV	Insurance brokerage services	-	100	-	100
"Calleri" Limited	IM	Real estate activities	10 845	100	-	0
"BU21" SIA	LV	Administrative activities	6 128	100	-	0
"BU21 Fitness" SIA	LV	Administrative activities	5 665	100	-	0
"EL15" SIA	LV	Administrative activities	7 955	100	-	0
"Pharm finance" SIA	LV	Administrative activities	22	100	-	0
Total			**41 209**		**43 302**	

21. GOODWILL

Under IAS 36 *“Impairment of Assets”* goodwill is reviewed for impairment at each balance sheet date or more frequently when there are indications that impairment may have occurred. If such indications exist the Bank estimates the recoverable amount of goodwill. In case if the carrying amount of goodwill is greater than its estimated recoverable amount an impairment loss of goodwill is recognized in the Group’s consolidated income statement.

22. HELD-TO-MATURITY FINANCIAL ASSETS

	31.12.2018		31.12.2017	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Bonds and other fixed income securities				
OECD country bonds	-	-	16 705	16 705
Total	-	-	**16 705**	**16 705**

As at 31 December 2018 the Bank has nil thousand euro pledged for Forex deals (in 2017: 16 705 thousand euro).

23. INTANGIBLE ASSETS

	31.12.2018		31.12.2017	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Software	862	830	1 084	1 054
Other intangible assets	4 074	380	5 241	60
Net book value of other intangible assets	**4 936**	**1 210**	**6 325**	**1 114**

The following tables show the changes in the Group's and Bank's intangible assets for the year ended 31 December 2017 and 31 December 2018:

Group	Software	Other intangible assets	Total
EUR `000			
Cost			
At 31 December 2017	**3 811**	**5 241**	**9 052**
Additions	118	385	**503**
Disposals	(24)	(51)	**(75)**
Impairment loss	-	(1 500)	**(1 500)**
At 31 December 2018	**3 905**	**4 075**	**7 980**
Amortization			
At 31 December 2017	**2 727**	**-**	**2 727**
Charge	334	1	**335**
Disposals	(20)	-	**(20)**
Foreign exchange	2	-	**2**
At 31 December 2018	**3 043**	**1**	**3 044**
Net book value			
At 31 December 2017	**1 084**	**5 241**	**6 325**
At 31 December 2018	**862**	**4 074**	**4 936**

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Group EUR `000	Software	Other intangible assets	Total
Cost			
At 31 December 2016	**3 302**	**5 122**	**8 424**
Additions	525	536	**1 061**
Disposals	(13)	(417)	**(430)**
Foreign exchange	(3)	-	**(3)**
At 31 December 2017	**3 811**	**5 241**	**9 052**
Amortization			
At 31 December 2016	**2 449**	**-**	**2 449**
Charge	294	-	**294**
Disposals	(14)	-	**(14)**
Foreign exchange	(2)	-	**(2)**
At 31 December 2017	**2 727**	**-**	**2 727**
Net book value			
At 31 December 2016	**853**	**5 122**	**5 975**
At 31 December 2017	**1 084**	**5 241**	**6 325**

Bank EUR`000	Software	Other intangible assets	Total
Cost			
At 31 December 2017	**4 507**	**60**	**4 567**
Additions	99	372	**471**
Disposals	(19)	(51)	**(70)**
At 31 December 2018	**4 587**	**381**	**4 968**
Amortization			
At 31 December 2017	**3 453**	**-**	**3 453**
Charge	323	1	**324**
Disposals	(19)	-	**(19)**
At 31 December 2018	**3 757**	**1**	**3 758**
Net book value			
At 31 December 2017	**1 054**	**60**	**1 114**
At 31 December 2018	**830**	**380**	**1 210**

Bank EUR`000	Software	Other intangible assets	Total
Cost			
At 31 December 2016	**4 012**	**122**	**4 134**
Additions	508	355	**863**
Disposals	(13)	(417)	**(430)**
At 31 December 2017	**4 507**	**60**	**4 567**
Amortization			
At 31 December 2016	**3 186**	**-**	**3 186**
Charge	281	-	**281**
Disposals	(14)	-	**(14)**
At 31 December 2017	**3 453**	**-**	**3 453**
Net book value			
At 31 December 2016	**826**	**122**	**948**
At 31 December 2017	**1 054**	**60**	**1 114**

24. INVESTMENT PROPERTY

Investment property is stated at fair value which has been determined close to reporting date based on valuation performed by independent, professionally qualified valuator who has recent experience in valuing similar properties. The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The following table shows the movement in the Group's and Bank's investment property for the year ended 31 December 2018:

	Group EUR'000	Bank EUR'000
As at 31 December 2016	**92 577**	**6 308**
Additions	1 467	-
Reclassification to discountinued operations	(174)	-
Disposal	(4 354)	-
Derecognition	(4)	-
Net change in fair value	(18 040)	(158)
Foreign exchange	(4 386)	-
As at 31 December 2017	**67 086**	**6 150**
Additions	16 015	-
Disposal	(2 280)	(22)
Reclassification	431	-
Net change in fair value	(1 605)	(1)
Foreign exchange	(4 684)	-
As at 31 December 2018	**74 963**	**6 127**

Group’s and Bank’s investment properties types are following:

	31.12.2018		31.12.2017	
	Group EUR’000	Bank EUR’000	Group EUR’000	Bank EUR’000
Unfinished constructions*	21 200	-	21 101	-
Land	21 361	-	23 410	-
Manufacturing facilities and warehouses	5 318	6 127	4 802	6 150
Office buildings	9 793	-	8 762	-
Apartments	14 857	-	5 467	-
Hotels and restaurants	492	-	492	-
Fuel station and oil depot	170	-	1 135	-
Other	1 772	-	1 917	-
Total	**74 963**	**6 127**	**67 086**	**6 150**

* Including unfinished construction of the hotel in Mozhaisk, Russia.

Group’s investment property is stated at fair value. The valuation of Group’s investment properties was performed by certified independent appraisers of the licensed companies. Based on the investment property object (type of asset, location, number of market transactions) various valuation methods were used – market evidence of transaction prices for similar properties, income method or discounted cash flow method.

Rental income from investment property earned by the Group/Bank amounted to 1 379 thousand euro (31 December 2017: 1 293 thousand euro) / 512 thousand euro (31 December 2017: 512 thousand euro). Direct operating expenses (including real estate tax) arising from investment property that generated rental income during the period by the Group/Bank amounted to 893 thousand euro (31 December 2017: 727 thousand euro) / 14 thousand euro (31 December 2017: 14 thousand euro). Direct operating expenses (including real estate tax) arising from investment property that did not generate rental income during the period by the Group amounted to 404 thousand euro (31 December 2017: 633 thousand euro). Part of Group’s investment property is acquired by overtaking collateral from loans issued by the Bank.

25. TANGIBLE FIXED ASSETS

	31.12.2018		31.12.2017	
	Group EUR’000	Bank EUR’000	Group EUR’000	Bank EUR’000
Land and buildings	62 043	6 809	61 214	15 977
Historically significant buildings	15 531	7 649	16 099	16 099
Vehicles	307	274	174	167
Office equipment and other fixed assets	9 997	1 857	11 623	2 113
Prepayments for tangible fixed assets	1 346	659	3 942	2 946
Leasehold improvements	210	-	162	-
Net book value of tangible fixed assets	**89 434**	**17 248**	**93 214**	**37 302**

Group’s tangible fixed asset’s class Land and buildings are stated at revalued amount.

The valuation of Group’s tangibles fixed assets were performed by certified independent appraisers of the licensed companies. Based on the object (type of asset, location, number of market transactions) various valuation methods were used – market evidence of transaction prices for similar properties, income method or discounted cash flow method.

The carrying amount of tangible fixed asset's class *Land and buildings* had the assets been carried under the cost model would be 56 114 thousand euro for Group's tangible fixed assets, 4 478 thousand euro for Bank's tangible fixed assets (2017: 55 829 thousand euro for Group's tangible fixed assets 8 648 thousand euro for Bank's tangible fixed assets).

Part of Group's tangible fixed assets is acquired by overtaking collateral from loans issued by the Bank. In 2018 there were no overtaken collaterals accounted as Group's tangible fixed assets (2017: nil thousand euro).

The following table shows the changes in the Group's /Bank's tangible fixed assets for the year ended 31 December 2018 and 31 December 2017:

Group	Land and Buildings	Historically significant buildings	Vehicles	Office equipment and other fixed assets	Prepay-ments for tangible fixed assets	Leasehold improve-ments	Total
EUR'000							
Historical cost/Revalued amount							
At 31 December 2017	**71 661**	**17 339**	**435**	**23 761**	**3 942**	**503**	**117 641**
Additions	3 079	-	210	1 061	1 076	65	**5 491**
Sale	-	-	(17)	(206)	-	-	**(223)**
Revaluation	68	-	-	-	-	-	**68**
Reclassification	(340)	-	-	(17)	(74)	-	**(431)**
Disposals	(6 880)	(664)	-	(977)	(3 587)	-	**(12 108)**
Foreign exchange	-	-	-	-	(11)	-	**(11)**
At 31 December 2018	**67 588**	**16 675**	**628**	**23 622**	**1 346**	**568**	**110 427**
Accumulated depreciation and impairment							
At 31 December 2017	**10 447**	**1 240**	**261**	**12 138**	**-**	**341**	**24 427**
Charge	1 965	568	77	2 658	-	17	**5 285**
Sale	-	-	(17)	(203)	-	-	**(220)**
Impairment loss	13	-	-	-	-	-	**13**
Disposals	(6 880)	(664)	-	(971)	-	-	**(8 515)**
Foreign exchange	-	-	-	3	-	-	**3**
At 31 December 2018	**5 545**	**1 144**	**321**	**13 625**	**-**	**358**	**20 993**
Net book value							
At 31 December 2017	**61 214**	**16 099**	**174**	**11 623**	**3 942**	**162**	**93 214**
At 31 December 2018	**62 043**	**15 531**	**307**	**9 997**	**1 346**	**210**	**89 434**

Group EUR’000	Land and Buildings	Historically significant buildings	Vehicles	Office equipment and other fixed assets	Prepay-ments for tangible fixed assets	Leasehold improve-ments	Total
Historical cost/Revalued amount							
At 31 December 2016	**90 393**	**17 068**	**1 036**	**25 584**	**1 444**	**511**	**136 036**
Additions	-	271	11	1 557	3 500	248	**5 587**
Sale	-	-	-	(6)	-	-	**(6)**
Other changes	(43)	-	-	-	-	-	**(43)**
Revaluation	1 311	-	-	(1)	(17)	(228)	**1 065**
Reclassification to discountinued operations	(18 483)	-	(456)	(1 970)	-	-	**(20 909)**
Reclassification	-	-	(123)	(774)	(12)	12	**(897)**
Disposals	-	-	(47)	(431)	(971)	-	**(1 449)**
Foreign exchange	(1 517)	-	14	(198)	(2)	(40)	**(1 743)**
At 31 December 2017	**71 661**	**17 339**	**435**	**23 761**	**3 942**	**503**	**117 641**
Accumulated depreciation and impairment							
At 31 December 2016	**10 788**	**677**	**730**	**12 531**	**-**	**365**	**25 091**
Charge	2 018	563	58	2 393	-	16	**5 048**
Sale	-	-	-	(6)	-	-	**(6)**
Reclassification to discountinued operations	(2 737)	-	(406)	(1 824)	-	-	**(4 967)**
Reclassification	-	-	(59)	(407)	-	-	**(466)**
Impairment	158	-	-	-	-	-	**158**
Disposals	-	-	(47)	(397)	-	-	**(444)**
Foreign exchange	220	-	(15)	(152)	-	(40)	**13**
At 31 December 2017	**10 447**	**1 240**	**261**	**12 138**	**-**	**341**	**24 427**
Net book value							
At 31 December 2016	**79 605**	**16 391**	**306**	**13 053**	**1 444**	**146**	**110 945**
At 31 December 2017	**61 214**	**16 099**	**174**	**11 623**	**3 942**	**162**	**93 214**

Bank EUR'000	Land and Buildings	Historically significant buildings	Vehicles	Office equipment and other fixed assets	Prepay-ments for tangible fixed assets	Total
Historical cost/Revalued amount						
At 31 December 2017	**23 837**	**17 339**	**401**	**7 008**	**2 946**	**51 531**
Additions	3 079	-	178	624	1 071	**4 952**
Disposals	(18 473)	(8 546)	-	(978)	(3 358)	**(31 355)**
At 31 December 2018	**8 443**	**8 793**	**579**	**6 654**	**659**	**25 128**
Accumulated depreciation and impairment						
At 31 December 2017	**7 860**	**1 240**	**234**	**4 895**	**-**	**14 229**
Charge	654	568	71	870	-	**2 163**
Disposals	(6 880)	(664)	-	(968)	-	**(8 512)**
At 31 December 2018	**1 634**	**1 144**	**305**	**4 797**	**-**	**7 880**
Net book value						
At 31 December 2017	**15 977**	**16 099**	**167**	**2 113**	**2 946**	**37 302**
At 31 December 2018	**6 809**	**7 649**	**274**	**1 857**	**659**	**17 248**

Bank EUR'000	Land and Buildings	Historically significant buildings	Vehicles	Office equipment and other fixed assets	Prepay-ments for tangible fixed assets	Total
Historical cost/Revalued amount						
At 31 December 2016	**23 880**	**17 068**	**437**	**6 370**	**498**	**48 253**
Additions	-	271	11	1 062	3 419	**4 763**
Other changes	(43)	-	-	-	-	**(43)**
Disposals	-	-	(47)	(424)	(971)	**(1 442)**
At 31 December 2017	**23 837**	**17 339**	**401**	**7 008**	**2 946**	**51 531**
Accumulated depreciation and impairment						
At 31 December 2016	**7 153**	**677**	**233**	**4 658**	**-**	**12 721**
Charge	707	563	48	630	-	**1 948**
Disposals	-	-	(47)	(393)	-	**(440)**
At 31 December 2017	**7 860**	**1 240**	**234**	**4 895**	**-**	**14 229**
Net book value						
At 31 December 2016	**16 727**	**16 391**	**204**	**1 712**	**498**	**35 532**
At 31 December 2017	**15 977**	**16 099**	**167**	**2 113**	**2 946**	**37 302**

Revaluation reserve of tangible fixed assets included in equity and is not distributable to shareholders.

26. ASSETS HELD FOR SALE

Under the Assets Held for Sale category the Bank/Group presents real estate items which served as collateral for issued loans but then were disposed of to settle the clients’ obligations.

Management approved a plan to sell all real estates obtained as a loan collateral in amount of 5 282 thousand euro (2017: 1 143 thousand euro) for Group and in amount of 4 551 thousand euro (2017: 445 thousand euro) for Bank. The Group is actively marketing these assets and expects the sale to complete by 31 December 2019.

27. DISCONTINUED OPERATIONS

Discontinued Operation relate to a subsidiary ПАО "Норвик Банк" (Russian Federation) that is disposed from the Group by sale in 2018. These assets are carried at fair value less costs to sell. Fair value is the amount of the discounted sale amount determined in the asset sale agreement.
Below are the details of the assets and liabilities:

	2017
Disposal ASSETS	**205 037**
Cash and balances with the central bank	12 692
Loans to and receivables from banks	16 730
Trading financial assets	89 424
Derivatives financial instruments	2
Loans to and receivables from customers	69 240
Prepaid corporate income tax	162
Investment property	174
Tangible fixed assets	11 100
Assets held for sale	4 808
Other assets	705
LIABILITIES	**172 343**
Customer deposits	170 235
Other liabilities	2 108
Equity	**(16 071)**
Revaluation reserve of tangible fixed assets, net of tax	1 491
Revaluation reserve of foreign currency translation	(7 275)
Fixed assets reserve amortization	45
Retained earnings	4 469
(Loss) for the year	(15 654)
Total equity attributable to equity holders of the Bank	**(16 924)**
Non-controlling interests	**853**

Statement of profit or loss:

	2017
Net interest income	4 480
Net fee and commission income	5 015
Net trading income	3 504
Net other operating income / (-) expenses	(7)
Administrative expenses	(13 362)
Impairment losses	(5 342)
Goodwill impairment	(9 858)
(Loss) before tax	**(15 570)**
Tax expenses	(51)
(Loss) for the year	**(15 621)**
Non-controlling interests	33
Attributable to:	
Equity holders of the owners of the parent	**(15 654)**

Cash flow information of the discontinued operations:

Net cash inflow from operating activities	7 708
Net cash inflow from investing activities	35
Net cash (outflow) from financing activities	(7 600)
Net increase in cash generated by the subsidiary	**143**

In 2018, ПАО "Норвик Банк" paid to the Bank dividends for the amount of 2 095 thousand euro (2017: 2 840 thousand euro).

Based on the Share Purchase Agreement conducted in February 2018, the Bank sold 85% of it's investment in ПАО "Норвик Банк (Russian Federation) to the majority shareholder of the Bank. Therefore as at 31 December 2017 this investment has been classified as a "Discontinued Operations".

28. OTHER ASSETS

	31.12.2018		31.12.2017	
	Group EUR’000	Bank EUR’000	Group EUR’000	Bank EUR’000
Financial assets:				
Spot deals	18	18	179	179
Cards transactions	1 961	1 961	509	508
Other receivables	1 333	-	2 422	1 090
Non-financial assets:				
Inventories	4 081	-	4 583	-
Deferred expenses	1 032	944	1 048	816
VAT	543	64	479	76
Accrued income	887	379	1 964	554
Deferred tax assets	3	-	-	-
Other receivables *	12 834	6 832	15 366	6 136
Total	**22 692**	**10 198**	**26 550**	**9 359**

As of 31 December 2018 there were encumbered amounts among the Financial assets "Other receivables" of the Bank/Group:

- 1 341 thousand euro were arrested on SIA Winergy's account, see Note 5 (in 2017: 1 341 thousand euro);
- nil thousand euro were arrested on the account held with Deutsche Bank Trust Company Americas (in 2017: 1 005 thousand euro).

As of 31 December 2018 there were encumbered amounts among the Non-financial assets "Other receivables" of the Bank/Group: 82 thousand euro were pledged for communal and communication services (in 2017: 91 thousand euro).

* As of 31 December 2018 there is impaired assets in the Group/Bank in amount of 720 thousand euro and 13 thousand respectively fully impaired (2017: 248 thousand euro 13 thousand euro with impairment 229 thousand euro and 13 thousand euro respectively).

29. MANAGED TRUST ASSETS AND LIABILITIES

	31.12.2018		31.12.2017	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Managed trust assets	**56 251**	**56 251**	**49 589**	**49 589**
Loans	56 251	56 251	49 589	49 589
Managed trust liabilities	**56 251**	**56 251**	**49 589**	**49 589**
Private companies	56 251	56 251	49 589	49 589

The financial statements disclose assets and liabilities held by the Bank on behalf of clients. Mentioned assets and liabilities are accounted at carrying value in the off-balance sheet. The Group does not carry credit interest rate or any other risk associated with these managed assets. The Bank receives commission fee for rendering of trust services to clients (see Note 9).

30. DUE TO THE CENTRAL BANK AND OTHER BANKS

	31.12.2018		31.12.2017	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Demand deposits	**65**	**65**	**475**	**478**
Banks registered in Latvia	-	-	445	445
Banks registered in OECD countries	-	-	9	9
Banks registered in other countries	65	65	21	24
Term deposits	**874**	**874**	**1 584**	**1 584**
Banks registered in Latvia	874	874	1 584	1 584
Total	**939**	**939**	**2 059**	**2 062**

During 2018 the Bank's average effective interest rates for a bank's term deposits was: USD 0.01%, in 2017: USD 0.27%, RUB 8.2%.

31. CUSTOMER DEPOSITS

	31.12.2018		31.12.2017	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Current accounts	**249 441**	**253 692**	**460 547**	**463 103**
Private companies	144 128	148 379	334 731	337 287
Individuals	102 850	102 850	123 922	123 922
Public organizations	1 130	1 130	893	893
Government companies	870	870	311	311
Local government	463	463	690	690
Fixed-term deposits	**185 303**	**211 220**	**152 921**	**199 190**
Private companies	38 691	64 608	12 454	58 723
Individuals	146 513	146 513	140 266	140 266
Public organizations	99	99	201	201
Total	**434 744**	**464 912**	**613 468**	**662 293**

	31.12.2018		31.12.2017	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Geographical segmentation of customer deposits				
Current accounts	**249 441**	**253 692**	**460 547**	**463 103**
Residents of Latvia	91 462	95 527	102 520	104 969
Residents of OECD countries	47 858	47 927	130 716	130 740
Residents of other countries	110 121	110 238	227 311	227 394
Fixed-term deposits	**185 303**	**211 220**	**152 921**	**199 190**
Residents of Latvia	152 801	178 718	144 482	190 751
Residents of OECD countries	8 555	8 555	1 085	1 085
Residents of other countries	23 947	23 947	7 354	7 354
Total	**434 744**	**464 912**	**613 468**	**662 293**

During 2018 the Bank’s average effective interest rates for term deposits were: EUR 0.65%, USD 0.31%, RUB 0.23%, GBP 0.15%, CHF 0.01%; in 2017: EUR 0.53%, USD 0.11%, RUB 0.2%, GBP 0.01%, CHF 0.01%.

32. SUBORDINATED DEPOSITS

As at 31 December 2018 and 2017 subordinated debt lenders were as follows:

31.12.2018		Group			Bank		
Lenders:	**Currency**	**EUR'000**	**Rate %**	**Maturity**	**EUR'000**	**Rate %**	**Maturity**
Residents	EUR	1 564	2.70 - 6	2019-2024	1 564	2.70 - 6	2019-2024
Residents	USD	3 353	4 - 7	2019-2020	3 353	4 - 7	2019-2020
Non-residents	EUR	5 040	2.75 - 6	2019-2025	5 040	2.75 - 6	2019-2025
Non-residents	USD	10 828	4 - 6	2019-2024	10 828	4 - 6	2019-2024
Total		**20 785**			**20 785**		

31.12.2017		Group			Bank		
Lenders:	Currency	EUR'000	Rate %	Maturity	EUR'000	Rate %	Maturity
Residents	EUR	1 664	2.70 - 6	2018-2024	1 664	2.70 - 6	2018-2024
Residents	USD	2 773	4 - 7	2019-2020	2 773	4 - 7	2019-2020
Non-residents	EUR	5 847	2.75 - 6	2018-2025	5 847	2.75 - 6	2018-2025
Non-residents	USD	11 025	4 - 6	2018-2024	11 025	4 - 6	2018-2024
Total		**21 309**			**21 309**		

33. SUBORDINATED DEBT SECURITIES

As at 31 December 2018 and 2017 the Group’s and the Bank’s subordinated debt securities were as follows:

31.12.2018

ISIN	Currency	Date of issue	Date of maturity	Coupon rate %	Principal amount EUR'000	Accrued coupon amount EUR'000	Total EUR'000
LV0000801389	EUR	08.08.2014	08.08.2022	6	2 000	18	2 018
LV0000801397	EUR	24.10.2014	24.10.2021	6	1 000	11	1 011
LV0000801637	EUR	19.12.2014	19.12.2022	6	1 300	3	1 303
LV0000801660	USD	27.02.2015	27.02.2020	6.2	12 664	662	13 326
LV0000801678	EUR	27.02.2015	27.02.2020	6	10 000	7	10 007
LV0000802031	EUR	10.03.2016	10.03.2022	6	10 000	35	10 035
						Total:	**37 700**

31.12.2017

ISIN	Currency	Date of issue	Date of maturity	Coupon rate %	Principal amount EUR'000	Accrued coupon amount EUR'000	Total EUR'000
LV0000801389	EUR	08.08.2014	08.08.2022	6	2 000	18	2 018
LV0000801397	EUR	24.10.2014	24.10.2021	6	1 000	11	1 011
LV0000801637	EUR	19.12.2014	19.12.2022	6	1 300	3	1 303
LV0000801660	USD	27.02.2015	27.02.2020	6.2	12 090	632	12 722
LV0000801678	EUR	27.02.2015	27.02.2020	6	10 000	7	10 007
LV0000802031	EUR	10.03.2016	10.03.2022	6	10 000	35	10 035
						Total:	**37 096**

Mentioned subordinated debt securities are unlisted.

34. OTHER LIABILITIES

	31.12.2018		31.12.2017	
	Group EUR’000	Bank EUR’000	Group EUR’000	Bank EUR’000
Financial liabilities				
Spot deals	75	75	255	255
Payments collected on behalf of public utilities services providers	123	123	109	109
Cards transactions	24	24	17	17
Other	3 443	500	3 880	342
Non-financial liabilities				
Accrued liabilities	1 288	686	1 312	812
Accrued expenses	2 780	2 496	2 646	2 335
Deferred income	3 089	123	3 446	205
Other	4 782	77	6 548	148
Total	**15 604**	**4 104**	**18 213**	**4 223**

35. SHARE CAPITAL

	31.12.2018		31.12.2017	
	Quantity`000	EUR’000	Quantity`000	EUR’000
Registered and paid – in share capital	218 504	131 102	218 504	131 102

Voting rights correspond to number of registered shares.

As at 31 December 2018 and 2017 accordingly the Bank’s shareholders were as follows:

	31.12.2018			31.12.2017		
Shareholder (residence)	Number of shares	% of total shares	Paid up share capital EUR’000	Number of shares	% of total shares	Paid up share capital EUR’000
G. Guselnikov (LV)	122 377 119	56.007	73 426	83 705 780	38.309	50 224
G. Guselnikov* (LV)	87 314 000	39.960	52 389	125 985 339	57.658	75 591
Other (each individually less than 5%)	8 812 381	4.033	5 287	8 812 381	4.033	5 287
Total	**218 503 500**	**100**	**131 102**	**218 503 500**	**100**	**131 102**

** indirectly (in accordance with Article 33.[1] (1) 8) of the Credit Institution Law)*

As of 31 December 2018 and 2017, the Bank was ultimately controlled by Mr G.Guselnikov.

36. PROFIT/LOSS PER SHARE

Earnings per share are based on net profit attributable to ordinary equity holders of the parent divided by the weighted average number of issued shares. As of 31 December 2018 and 2017 there is no difference between basic and diluted earnings per share calculation.

	Group 31.12.2018	Group 31.12.2017
Net profit/loss (EUR'000)	(17 505)	(47 748)
Weighted average number of ordinary shares ('000)	218 504	218 504
Profit /loss per share (EUR)	**(0.08)**	**(0.22)**

37. CASH AND CASH EQUIVALENTS

	31.12.2018		31.12.2017	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Cash and balances due on demand from the Central Banks	103 027	103 024	131 978	131 977
Balances due from other banks with original maturity of 3 months or less	12 064	11 563	52 717	52 431
Total	**115 091**	**114 587**	**184 695**	**184 408**

38. COMMITMENTS AND CONTINGENCIES

	31.12.2018		31.12.2017	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Contingent liabilities	**1 533**	**1 533**	**3 249**	**3 249**
Guarantees	1 533	1 533	3 249	3 249
Commitments	**1 849**	**1 852**	**3 553**	**3 556**
Unused credit lines	1 954	1 957	3 328	3 331
Letters of credit	-	-	225	225
Provisions (Note 19)	(105)	(105)	-	-
Total off-balance sheet items gross	**3 382**	**3 385**	**6 802**	**6 805**

In the ordinary course of business the Group provides loan commitments, guarantees and letters of credit. The main purpose of these instruments is to ensure the availability of necessary funds for the clients. Guarantees and letters of credit that include irrevocable liabilities - the ones that the Bank will have to pay in the event of failure by the clients to meet their obligations to third parties - are assigned the same risk as for loans. Letters of credit in accordance with which the Bank has the right on behalf of the client to accept invoices from third parties are secured with goods being transported.

Unused part of credit lines is viewed as an obligation arising from credit lines. As regards the credit risk the Bank is potentially exposed to losses arising also from obligations under unused credit lines.

39. FAIR VALUE OF 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. The Banks and the Group disclose the fair values of assets to compare them with the carrying amounts. Fair value of financial instruments is mostly determined based on prices quoted in an active market.

The following describes the methodologies and assumptions used to determine fair value for those financial instruments which are not recorded at fair value in the financial statements:
- for financial assets and liabilities that have a short term maturity (such as overdrafts money market deals with maturity less than 3 months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits current accounts without a specific maturity and subordinated debts with special conditions which permit for such debts to be eligible as tier 2 capital;
- the fair value of fixed rate financial assets (loans and advanced from customers) and liabilities (fixed-term deposits) carried at amortized cost are estimated as the present value of future cash flows by discounting contractual cash flows using current rates at which similar loans (or attracted deposits) would be transacted by the Group with borrowers with similar credit ratings and/or collateral and for the same remaining maturities;
- no future loan losses adjustments related to future probable loan renegotiating or early repayment considered.

The fair values were calculated for disclosure purposes only. The valuation techniques and assumptions described above provide a measurement of fair value of the Bank’s and Group’s financial instruments accounted for at amortized cost. However, because other institutions may use different methods and assumptions for their fair value estimation such fair value disclosures cannot necessarily be compared from one financial institution to another.

Fair value of real estate (tangible assets - Land and building, Investment property) is determined based on valuator reports done by independent certified valuators.

The following tables show a comparison by class of the Group’s and Bank’s carrying values and fair values of the assets and liabilities and show an analysis of the Group’s and Bank’s assets and liabilities recorded at fair value between those whose fair value is based on quoted market prices those involving valuation techniques where all the model inputs are observable in the market and those where the valuation techniques involves the use of non-market observable inputs. Held to maturity financial assets are presented in this table for illustrative purposes only, on the balance sheet such investments are presented at amortized cost.

Hierarchy of input data for determining the fair value of assets and liabilities.

The Bank and the Group use various sources for determining the fair value of assets and liabilities, which fall under the following three-level hierarchy:

- Level 1: quoted prices in active markets; the level covers liquid securities (bonds and shares), standardised exchange traded derivatives (options) and cash;

- Level 2: models determining the fair value using the data which have a significant effect on the fair value using market data; the level covers securities that do not have an active market (VISA Inc preferential shares), over-the-counter market derivatives (forward, swap), foreign exchange transactions, due to/from other banks with maturity less than 3 months, customers deposits -
Level 3: other methods for determination of the fair value under which the data are used which have impact on the fair value but without using the market data; the level covers loans, investments

in funds, subordinated debts and debt securities and real estate, witch value is determined by an independent valuators using the market data.

(a) Financial instruments not measured at fair value

				31.12.2018	
Group	**Carrying value EUR’000**	**Level 1 EUR’000**	**Level 2 EUR’000**	**Level 3 EUR’000**	**Total fair value EUR’000**
Financial assets					
Cash and cash equivalents	103 027	16 072	86 955	-	**103 027**
Due from other banks	12 779	-	12 779	-	**12 779**
Loans and advanced from customers, of which:	146 705	-	-	147 457	**147 457**
Industrial loans	*65 057*	-	-	*65 278*	***65 278***
Mortgage loans	*39 568*	-	-	*39 865*	***39 865***
Commercial loans	*2 433*	-	-	*2 433*	***2 433***
Credit card balances	*2 068*	-	-	*2 068*	***2 068***
Consumer loans	*2 005*	-	-	*2 122*	***2 122***
Finance leases	*9 023*	-	-	*9 024*	***9 024***
Reverse Repo transactions	*692*	-	-	*692*	***692***
Other	*5 563*	-	-	*5 679*	***5 679***
Receivables	*20 296*	-	-	*20 296*	***20 296***
Other financial assets	3 312	-	-	3 312	**3 312**
Financial liabilities					
Due to the central bank and other banks	939	-	939	-	**939**
Customer deposits, of which:	434 744	-	434 881	-	**434 881**
demand deposits	*249 441*	-	*249 441*	-	***249 441***
fixed-term deposits	*185 303*	-	*185 440*	-	***185 440***
Subordinated deposits	20 785	-	-	20 785	**20 785**
Subordinated debt securities	37 700	-	-	37 700	**37 700**
Other financial liabilities	3 665	-	-	3 665	**3 665**

				31.12.2018	
Bank	**Carrying value EUR'000**	**Level 1 EUR'000**	**Level 2 EUR'000**	**Level 3 EUR'000**	**Total fair value EUR'000**
Financial assets					
Cash and cash equivalents	103 024	16 069	86 955	-	**103 024**
Due from other banks	12 278	-	12 278	-	**12 278**
Loans and advanced from customers, of which:	179 215	-	-	176 978	**176 978**
Industrial loans	*106 566*	-	-	*103 869*	***103 869***
Mortgage loans	*39 118*	-	-	*39 356*	***39 356***
Commercial loans	*2 491*	-	-	*2 483*	***2 483***
Credit card balances	*2 068*	-	-	*2 068*	***2 068***
Consumer loans	*2 004*	-	-	*2 121*	***2 121***
Finance leases	*391*	-	-	*389*	***389***
Reverse Repo transactions	*692*	-	-	*692*	***692***
Other	*5 607*	-	-	*5 722*	***5 722***
Receivables	*20 278*	-	-	*20 278*	***20 278***
Other financial assets	1 979	-	-	1 979	**1 979**
Financial liabilities					
Due to the central bank and other banks	939	-	939	-	**939**
Customer deposits, of which:	464 912	-	-	465 132	**465 132**
demand deposits	*253 692*			*253 692*	***253 692***
fixed-term deposits	*211 220*	-	-	*211 440*	***211 440***
Subordinated deposits	20 785	-	-	20 785	**20 785**
Subordinated debt securities	37 700	-	-	37 700	**37 700**
Other financial liabilities	722	-	-	722	**722**

				31.12.2017	
Group	**Carrying value EUR’000**	**Level 1 EUR’000**	**Level 2 EUR’000**	**Level 3 EUR’000**	**Total fair value EUR’000**
Financial assets					
Cash and cash equivalents	131 978	14 939	117 039	-	**131 978**
Due from other banks	54 041	-	54 041	-	**54 041**
Loans and advanced from customers, of which:	172 580	-	-	186 087	**186 087**
Industrial loans	*76 872*	-	-	*80 841*	***80 841***
Mortgage loans	*46 878*	-	-	*52 213*	***52 213***
Commercial loans	*4 027*	-	-	*4 027*	***4 027***
Credit card balances	*2 695*	-	-	*2 695*	***2 695***
Consumer loans	*1 391*	-	-	*3 492*	***3 492***
Finance leases	*10 607*	-	-	*10 625*	***10 625***
Reverse Repo transactions	*848*	-	-	*848*	***848***
Other	*11 413*	-	-	*13 497*	***13 497***
Receivables	*17 849*	-	-	*17 849*	***17 849***
Held-to-maturity financial assets	16 705	16 672	-	-	**16 672**
Other financial assets	3 110	-	-	3 110	**3 110**
Financial liabilities					
Due to the central bank and other banks	2 059	-	2 059	-	**2 059**
Customer deposits, of which:	613 468	-	613 949	-	**613 949**
demand deposits	*460 547*	-	*460 547*	-	***460 547***
fixed-term deposits	*152 921*	-	*153 402*	-	***153 402***
Subordinated deposits	21 309	-	-	21 309	**21 309**
Subordinated debt securities	37 096	-	-	37 096	**37 096**
Other financial liabilities	4 261	-	-	4 261	**4 261**

Bank	Carrying value EUR'000	Level 1 EUR'000	Level 2 EUR'000	31.12.2017 Level 3 EUR'000	Total fair value EUR'000
Financial assets					
Cash and cash equivalents	131 977	14 938	117 039	-	**131 977**
Due from other banks	53 755	-	53 755	-	**53 755**
Loans and advanced from customers, of which:	213 653	-	-	220 523	**220 523**
Industrial loans	*120 993*	-	-	*129 276*	***129 276***
Mortgage loans	*53 765*	-	-	*53 033*	***53 033***
Commercial loans	*4 101*	-	-	*4 126*	***4 126***
Credit card balances	*2 695*	-	-	*2 695*	***2 695***
Consumer loans	*1 389*	-	-	*1 030*	***1 030***
Finance leases	*529*	-	-	*535*	***535***
Reverse Repo transactions	*848*	-	-	*848*	***848***
Other	*11 484*	-	-	*11 131*	***11 131***
Receivables	*17 849*	-	-	*17 849*	***17 849***
Held-to-maturity financial assets	16 705	16 672	-	-	**16 672**
Other financial assets	1 777	-	-	1 777	**1 777**
Financial liabilities					
Due to the central bank and other banks	2 062	-	2 062	-	**2 062**
Customer deposits, of which:	662 293	-	663 010	-	**663 010**
demand deposits	*463 103*	-	*463 103*	-	***463 103***
fixed-term deposits	*199 190*	-	*199 907*	-	***199 907***
Subordinated deposits	21 309	-	-	21 309	**21 309**
Subordinated debt securities	37 096	-	-	37 096	**37 096**
Other financial liabilities	723	-	-	723	**723**

(b) Financial instruments measured at fair value

As at 31 December 2018- Group	Level 1 EUR'000	Level 2 EUR'000	Level 3 EUR'000	Total EUR'000
Financial assets	**66 397**	**8 175**	**5 177**	**79 749**
Derivative financial instruments	-	69	-	69
Financial assets at fair value through OCI	66 397	5 173	5 177	76 747
Non-trading financial assets mandatorily at fair value through profit or loss	-	2 933	-	2 933
Financial liabilities	**-**	**79**	**-**	**79**
Derivative financial instruments	-	79	-	79

As at 31 December 2017- Group	Level 1 EUR'000	Level 2 EUR'000	Level 3 EUR'000	Total EUR'000
Financial assets	**128 616**	**9 139**	**5 188**	**142 943**
Derivative financial instruments	-	384	-	384
Available -for-sale financial assets	128 616	8 755	5 188	142 559
Financial liabilities	**-**	**1 199**	**-**	**1 199**
Derivative financial instruments	-	1 199	-	1 199

As at 31 December 2018 - Bank	Level 1 EUR'000	Level 2 EUR'000	Level 3 EUR'000	Total EUR'000
Financial assets	**66 397**	**8 175**	**161 106**	**235 678**
Derivative financial instruments	-	69	-	69
Financial assets at fair value through OCI	66 397	5 173	161 106	232 676
Non-trading financial assets mandatorily at fair value through profit or loss	-	2 933	-	2 933
Financial liabilities	**-**	**79**	**-**	**79**
Derivative financial instruments	-	79	-	79

As at 31 December 2017 - Bank	Level 1 EUR'000	Level 2 EUR'000	Level 3 EUR'000	Total EUR'000
Financial assets	**128 616**	**9 139**	**180 878**	**318 633**
Derivative financial instruments	-	384	-	384
Available -for-sale financial assets	128 616	8 755	180 878	318 249
Financial liabilities	**-**	**1 199**	**-**	**1 199**
Derivatives financial instruments	-	1 199	-	1 199

The following table shows changes of Level 3 during 2017 and 2018:

Available-for-sale financial assets in 2017/ Financial assets at fair value through OCI in 2018	**Group**	**Bank**
	Level 3	**Level 3**
EUR'000		
At 31 December 2016	**7 374**	**241 205**
Derecognition	-	(14 960)
Impairment loss	(2 548)	(31 968)
Net profit (loss) from sales	(1)	(233)
Fair value adjustment	363	(13 166)
At 31 December 2017	**5 188**	**180 878**
Acquisition	-	60 566
Derecognition	(42)	(59 479)
Impairment loss	-	-
Net profit (loss) from sales	22	(2 105)
Fair value adjustment	9	(18 754)
At 31 December 2018	**5 177**	**161 106**

(c) Non-financial assets and liabilities measured at fair value

As at 31 December 2018- Group	**Level 1 EUR'000**	**Level 2 EUR'000**	**Level 3 EUR'000**	**Total EUR'000**
Tangible assets (Land and buildings)	-	-	62 043	**62 043**
Assets held for sale	-	-	5 282	**5 282**
Investment property	-	-	74 963	**74 963**

As at 31 December 2017- Group	**Level 1 EUR'000**	**Level 2 EUR'000**	**Level 3 EUR'000**	**Total EUR'000**
Tangible assets (Land and buildings)	-	-	61 214	**61 214**
Assets held for sale (subsidiary)	-	-	205 037	**205 037**
Assets held for sale	-	-	1 143	**1 143**
Investment property	-	-	67 086	**67 086**
Liabilities related to assets held for sale	-	-	172 343	**172 343**

As at 31 December 2018- Bank	**Level 1 EUR'000**	**Level 2 EUR'000**	**Level 3 EUR'000**	**Total EUR'000**
Tangible assets (Land and buildings)	-	-	6 809	**6 809**
Assets held for sale	-	-	4 551	**4 551**
Investment property	-	-	6 127	**6 127**

As at 31 December 2017- Bank	**Level 1 EUR'000**	**Level 2 EUR'000**	**Level 3 EUR'000**	**Total EUR'000**
Tangible assets (Land and buildings)	-	-	15 977	**15 977**
Assets held for sale	-	-	445	**445**
Investment property	-	-	6 150	**6 150**

Non-recurring fair value measurements

Fair value of the Assets held for sale is determined based on values identified by the certified independent valuators. To determine fair value comparable transactions method was used.
Fair value of Discontinued operations (subsidiary ПАО "Норвик Банк”) is determined based on sales price per Share Purchase Agreement.

40. CAPITAL ADEQUACY CALCULATION

The Group’s and the Bank’s capital adequacy calculations for the 31 December 2018 and 2017 have been made in accordance with the requirements of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (CRR).
For credit risk, credit valuation adjustment and market risk requirements calculations the Bank and the Group use a Standard approach and term method for general risk capital requirement for bonds.
For the operational risk capital requirement calculation the Bank uses the Basic indicator approach.

The Group’s and the Bank’s risk weighted assets as of 31 December 2018 has been calculated as follows:

		Group	Group	Bank	Bank
31.12.2018	**Notional risk level**	**Exposure**	**Risk weighted assets**	**Exposure**	**Risk weighted assets**
ASSETS	**%**	**EUR’000**	**EUR’000**	**EUR’000**	**EUR’000**
Central governments or central banks	0%	145 837	-	145 837	-
	10%	5 062	506	5 062	506
	20%	1 030	206	1 030	206
	150%	1 423	2 134	1 423	2 134
Institutions	20%	10 536	2 107	10 536	2 107
	50%	-	-	-	-
Corporates	20%	-	-	-	-
	50%	2 988	1 494	2 988	1 494
	100%	94 052	94 052	89 300	89 300
	150%	234	351	77	115
Retail	75%	2 954	2 215	2 954	2 215
Exposures in default	100%	46 745	46 745	46 745	46 745
	150%	30 106	45 159	29 520	44 280
Items associated with particular high risk	150%	13 221	19 832	13 221	19 832
Collective investments undertakings (CIU)	100%	4 245	4 245	97 220	97 220
	150%	2 933	4 400	2 933	4 400
Equity	100%	93 413	93 413	46 457	46 457
Other items	0%	13 963	-	13 961	-
	20%	2 108	421	2 108	421
	100%	67 912	67 912	36 267	36 267
Total assets and off-balance sheet items		**538 762**	**385 192**	**547 639**	**393 699**

The Group’s and Bank’s risk weighted assets as of 31 December 2017 has been calculated as follows:

31.12.2017	Notional risk level	Group Exposure	Group Risk weighted assets	Bank Exposure	Bank Risk weighted assets
ASSETS	**%**	**EUR’000**	**EUR’000**	**EUR’000**	**EUR’000**
Central governments or central banks	0%	228 697	-	228 697	-
	50%	2 560	1 280	2 560	1 280
	100%	4 505	4 505	4 505	4 505
	150%	2 920	4 380	2 920	4 380
Institutions	20%	46 367	9 273	46 363	9 273
	50%	29	15	29	15
Corporates	20%	5	1	5	1
	50%	54	27	54	27
	100%	140 116	140 116	133 921	133 921
	150%	5 943	8 915	5 780	8 670
Retail	75%	3 327	2 495	3 327	2 495
Exposures in default	100%	29 680	29 680	29 680	29 680
	150%	51 520	77 280	50 772	76 158
Collective investments undertakings (CIU)	100%	5 102	5 102	96 610	96 610
	150%	4 995	7 493	4 995	7 493
Equity	100%	88 733	88 733	47 148	47 148
Other items	0%	14 049	-	14 048	-
	20%	889	177	889	177
	100%	272 051	272 051	64 943	64 943
Total assets and off-balance sheet items		**901 542**	**651 523**	**737 246**	**486 776**

	31.12.2018		31.12.2017	
	Group EUR’000	**Bank EUR’000**	**Group EUR’000**	**Bank EUR’000**
Tier 1				
Paid up capital instruments	131 102	131 102	131 102	131 102
Other reserves	10	10	10	10
Retained earnings	(86 461)	(83 940)	(27 341)	(41 079)
Profit or loss	(3 001)	1 067	(35 891)	(43 914)
Accumulated other comprehensive income	(6 683)	(7 228)	(13 007)	14 793
Value adjustments due to the requirements for prudent valuation	(171)	(236)	(228)	(254)
Goodwill	(407)	-	(407)	-
Other intangible assets	(1 218)	(1 210)	(1 120)	(1 114)
Other transitional adjustments	1 184	1 184	(1 277)	(2 959)
Expected loss on assets	(5 102)	(5 102)	(3 805)	(3 805)
Tier 1 capital	**29 253**	**35 647**	**48 036**	**52 780**

	31.12.2018		31.12.2017	
Tier 2	**Group EUR'000**	**Bank EUR'000**	**Group EUR'000**	**Bank EUR'000**
Paid up capital instruments and subordinated loans	23 238	23 238	33 172	33 172
Expected loss on assets	-	-	(3 805)	(3 805)
Tier 2 capital	**23 238**	**23 238**	**29 367**	**29 367**
Own funds	**52 491**	**58 885**	**77 403**	**82 147**

	31.12.2018		31.12.2017	
Summary	**Group EUR'000**	**Bank EUR'000**	**Group EUR'000**	**Bank EUR'000**
Credit risk capital requirement	30 815	31 496	52 122	38 942
Credit valuation adjustment	6	6	19	19
Market risks capital requirement	275	49	738	500
Operational risk requirement	6 183	6 191	6 608	6 691
Total capital ratio	**11.26%**	**12.48%**	**10.41%**	**14.24%**
Tier 1 capital ratio	**6.28%**	**7.56%**	**6.46%**	**9.15%**

Since FCMC applies increased capital requirements to the banks involved in non-resident deposit servicing, the Total capital adequacy ratio (including capital buffers 2.5%) for the Bank is set at the level of 14.0% and for the Group is set at a level 13.55%, Tier 1 capital adequacy ratio (including capital buffers 2.5%) for the Bank is set at the level of 11.125% and for the Group is set at a level 10.788%.

See Note 4 for more detailed information with respect to the Going concern considerations

41. RELATED PARTIES

Parties are generally considered to be related if the parties are under common control, or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties are shareholders which have control or significant influence over the management policy of the Group, key management - members of the Supervisory Council and the Management Board, other related parties - senior level executives, their immediate family members and undertakings over which they have a controlling interest. Assets and liabilities in relation to related parties are as follows:

Group	31.12.2018 Interest rate (minimal / maximal) %	31.12.2018 Amount EUR'000	31.12.2018 Off-balance sheet items EUR'000	31.12.2018 Total EUR'000	31.12.2017 Interest rate (minimal / maximal) %	31.12.2017 Total EUR'000
Assets		**12 832**	**84**	**12 916**		**2 541**
Loans and receivables, gross		**13 191**	**87**	**13 278**		**2 541**
Key management and shareholder	0 - 12	11 831	37	**11 868**	4 - 26	**724**
Other related parties	5 - 24	1 360	50	**1 410**	0 - 24	**1 817**
Impairment losses on loans and receivables		**(359)**	**(3)**	**(362)**		**-**
Key management and shareholder		(25)	-	**(25)**		**-**
Other related parties		(334)	(3)	**(337)**		**-**
Liabilities		**388**	**-**	**388**		**856**
Deposits		**388**	**-**	**388**		**856**
Key management and shareholder	0	170	-	**170**	0	**437**
Other related parties	0 - 0.1	218	-	**218**	0 - 0.1	**419**

Bank	31.12.2018 Interest rate (minimal / maximal) %	31.12.2018 Amount EUR'000	31.12.2018 Off-balance sheet items EUR'000	31.12.2018 Total EUR'000	31.12.2017 Interest rate (minimal / maximal) %	31.12.2017 Total EUR'000
Assets		**45 457**	**87**	**45 544**		**44 159**
Loans and receivables, gross		**45 831**	**90**	**45 921**		**54 487**
Key management and shareholder	0 - 12	11 831	37	**11 868**	4 - 26	**724**
Subsidiaries	2 - 24	32 640	3	**32 643**	0 - 24	**51 946**
Other related parties	5 - 24	1 360	50	**1 410**	5 - 24	**1 817**
Impairment losses on loans and receivables		**(374)**	**(3)**	**(377)**		**(10 328)**
Key management and shareholder		(25)	-	**(25)**		**-**
Subsidiaries		(15)	-	**(15)**		**(10 328)**
Other related parties		(334)	(3)	**(337)**		**-**
Liabilities		**30 556**	**-**	**30 556**		**49 683**
Deposits		**30 556**	-	**30 556**		**49 683**
Key management and shareholder	0	170	-	**170**	0	**437**
Subsidiaries	0 - 1.48	30 168	-	**30 168**	0 - 1.48	**48 827**
Other related parties	0 - 0.1	218	-	**218**	0 - 0.1	**419**

As at 31 December 2018 the amount of the Bank’s exposure transactions with related parties is 13 038 thousand euro or 27.4% of the sum of eligible capital. According to the Law on Credit Institutions of the Republic of Latvia the total amount of exposure transactions with persons that are associated with the Bank may not exceed 15% of the eligible capital of the Bank.

Transactions between related parties are based on standard interest rates offered by the Bank. The following table presents income and expense resulting from the above-mentioned related parties' transactions and personnel remuneration:

	2018		2017	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Key management, other senior executives and shareholder remuneration (excluding social tax)	(2 415)	(1 928)	(1 951)	(1 786)
Interest income	249	1 252	121	860
Interest expense	-	(67)	(122)	(313)
Dividend income	-	2 095	-	2 840
Fee and commission income	12	41	30	60
Fee and commission expenses	-	-	(1)	(1)
Other operating income	255	785	142	1 256
Net gain/(loss) from sales of non financial assets	-	252	-	-
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	-	-	-	(233)
Impairment (-) or reversal of impairment on financial assets not measured at fair value through profit or loss, net	-	-	-	(14 458)
Provisions (-) or reversal of provisions	(435)	9 878	-	(2 262)
Gains or (-) losses on financial assets and liabilities held for trading, net	20	15	9	102
Other administrative expenses	-	(1 276)	-	(1 686)
Total	**(2 314)**	**11 047**	**(1 772)**	**(15 621)**

42. SUBSEQUENT EVENTS

In March 2019 Natalija Ignatjeva was appointed to the position of Member of the Management Board, responsible for anti-money laundering compliance.

Since 04.04.2019, the ECB has taken over direct supervision of the Bank.

On 28.06.2019, the Bank's majority shareholder Grigory Guselnikov and his family members signed an agreement on the transfer of the controlling interest in the Bank to the European and US shareholders. The Bank's management note as positive this event since the concluded agreement provides for an additional capital support for the Bank/Group by the new shareholders, which is required for the future strategic development of the Bank.

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