IPAS CBL Asset Management

Annual Report

for 2019

Prepared in accordance with the International Financial Reporting Standards as adopted by the European Union

CBL Asset Management

CONTENTS

GENERAL INFORMATION

Name of the Company	CBL Asset Management
Legal status	Investment management joint stock company
Number, place and date of registration with the Enterprise Register	40003577500 Riga, 11 January 2002
Registered office	Republikas laukums 2a, Rīga, Latvia, LV-1010
Shareholder	AS Citadele banka (100%) Republikas laukums 2a Rīga, Latvia, LV-1522
Equity investments	OOO Mizush Asset Management Ukraina (100%) Gorkogo 172, Kiev, Ukraine AAS CBL Life (100%) Republikas laukums 2a, Riga, Latvia
Members of the Board and their positions	Chairman of the Board – Kārlis Purgailis – appointed on 8 September 2017 Member of the Board – Zigurds Vaikulis – appointed on 19 April 2018 Member of the Board – Andris Kotāns – appointed on 11 May 2015 Member of the Board – Lolita Sičeva – appointed on 11 May 2015
Council members and their positions	Chairman of the Council – Juris Jākobsons – appointed on 15 September 2016 Deputy Chairman of the Council – Vladimirs Ivanovs – appointed on 15 September 2016 Member of the Council – Peter Meier – appointed on 15 September 2016
Reporting year	1 January 2019 to 31 December 2019
Auditors	Rainers Vilāns Certified Auditor Certificate No. 200 AS KPMG Baltics Vesetas iela 7 Rīga, Latvia, LV-1013 Licence No. 55

MANAGEMENT REPORT

Line of business

CBL Asset Management IPAS (the Company) was established on 11 January 2002. The registered and office address is Republikas laukums 2A, Riga, LV-1010, unified registration No. 40003577500. License to provide investment management services was issued on 15 February 200 and reregistered on 10 December 2004, 30 September 2005, 5 December 2005, 5 August 2010, 19 February 2014 and 19 January 2015 under No. 06.03.07.098/367. The license to operate as an alternative investment fund was issued on 10 January 2014 and re-registered on 19 January 2015 under No. 06.13.08.098/369. The license to manage state funded pension scheme funds was issued on 20 September 2002.

The Company's operating activity in 2019 was related to the management of state-funded pension scheme funds, establishment and management of investment funds, individual management of customer financial instruments portfolios as well as management of private pension fund pension scheme funds.

For the list of members of the Board and Council refer to section 'General information'.

Highlights of 2019

In global financial markets, 2019 began with a sharp rise in share and bond prices, recovering from the fall at the end of 2018. The world's leading central banks played a major role in changing the course of monetary policy by 180 degrees, moving back to a monetary stimulus regime. Base interest rates were lowered worldwide, including the United States and Eurozone. In addition, the world's two leading central banks resumed growing their balance sheets. After an inexpressive mid-year, which the financial markets spent without a notable trend, fluctuating depending on the news from the front of the global trade wars, the risk favourable mood prevailed again in the autumn. Stock markets resumed rapid growth and risk premiums declined on the back of continued support for monetary policy, positive surprises in corporate financial performance and macroeconomic performance, and improved US-China relations with the two countries entering into a so-called "Phase 1" trade agreement.

As a result, although the world's major economic regions grew more slowly in 2019 than a year earlier, 2019 became one of the best in terms of financial market returns in the past decade. All main asset classes performed positively. Impressive performance was demonstrated by investment rating securities with fixed income, which were helped by both the fall of benchmark rates caused by central bank operations and reductions in risk premiums. The above factors were even stronger in the higher-risk bond segments in both developed and developing countries, where the narrowing of risk premiums was even greater. Given the favourable investment climate and the growing risk appetite of investors, we saw the highest returns among share markets in the United States, followed by Europe. Lower but still impressive returns among major investment regions were demonstrated by the stock markets of developing countries.

Taking into account the view of relatively attractive valuations of financial assets in early 2019, the Company rushed to take advantage of the opportunities raised in its managed funds, pension plans and individual portfolios, increasing the risk component of portfolios. During the second half of the year, with the aim of fixing profit, the risk assets in the portfolios were reduced by moving to relatively cautious investment tactics. Among the main challenges are the relatively high ratings in both the stock market and securities with fixed income segments. Finally, the high-uncertainty and global risk factor is the coronavirus that broke out shortly after the end of the year.

As a result of internal shocks, the failure of circumstances and weak external demand, Latvia's economic growth in 2019 was one of the slowest in the last 10 years, and GDP in 2019 increased by only 2.2%. Meanwhile, growth in Lithuania, as well as in Estonia, remained at 4% last year. Among internal factors, Latvia's economic growth during 2019 was negatively affected by a reduction in transit cargo, problems in the banking sector, changes in Estonia's excise rates, adverse effects of dry weather on electricity generation, as well as a sharp reduction in wood prices and restrictive fiscal policy. As a result, the output of the transport and storage sector decreased by 4% in 2019, while the output of the financial sector decreased by 8.8%. These declines in 2019 were compensated by stable domestic consumption and strong growth in exports of business and other services. Thus, in 2019, sales grew by 4.2%, output of accommodation and catering services by 8.1%, while output of professional services by 6.5%. In addition, construction volumes also increased by 3%. This growth also contributed to a further decline in the unemployment rate, which dropped to 6.3% in Latvia at the end of 2019, while the average salary in Latvia increased by 7.2%.

In 2019, the Company managed the following investment funds:

CBL Equity Funds:
CBL Baltic Sea Equity Fund
CBL Russian Equity Fund

CBL Bond Funds:
CBL Eastern European Bond Fund Klase R Acc USD
CBL Eastern European Bond Fund Klase R Acc EUR (hedged)
CBL Global Emerging Markets Bond Fund R Acc USD
CBL Global Emerging Markets Bond Fund R Acc EUR (hedged)

CBL Fund Funds:
CBL Prudent Opportunities Fund - EUR
CBL Optimal Opportunities Fund - EUR

CBL Optimal Opportunities Fund - USD

CBL Alternative Investment Fond:
SAIF Baltic Pearl Real Estate Fund

In the reporting year the funds managed by the Company continued to receive high-grade international awards. The internationally renowned financial research company Morningstar, as at the period end rated the performance of 'CBL Eastern European Bond Fund R Acc USD' with the highest possible rating – five stars (overall rating), while the performance of 'CBL Global Emerg Mkts Bond R Acc EUR Hdg', 'CBL Prudent Opportunities Fund' and 'CBL Optimal Opportunities EUR' was rated with three stars.

In the reporting year, the Company established a new investment plan for state funded pension schemes 'CBL Ilgtspējīgu iespēju ieguldījumu plāns'. The objective of the plan is to achieve long-term capital appreciation with a particular focus, during portfolio creation and selection of securities, on environmental, social and corporate governance factors. As at the reporting date, the Company managed four investment plans for state funded pensions: IP 'CBL Aktīvais ieguldījumu plāns', IP 'CBL Universālais ieguldījumu plāns', IP 'CBL dzīves cikla plāns Millennials' and IP 'CBL Ilgtspējīgu iespēju ieguldījumu plāns', with total assets as at 31 December 2019 amounting to EUR 570 million.

Financial results

The customer base of the Company is diversified as our services are used by both private individuals and companies from Latvia and other countries. At the reporting date, total assets under management by the Company amounted to EUR 831 million, and the largest share of them, 69% or EUR 570 million, were funds of the state funded pension scheme while net assets of the investment funds managed by the Company amounted to EUR 78 million or 9.4% of total net assets. Other assets under management were assets of private individuals, legal persons and insurance companies; in total 228 customer portfolios with a total value of net assets of EUR 135 million and net assets of private pension funds with a total value of EUR 48 million.

Compared to 2018, in 2019 commission income decreased by 2.5% and amounted to EUR 4.95 million primarily due to reduced commission rates on management of the state funded pension scheme. Commission expenses increased by 314% and amounted to EUR 0.90 million mainly due to increased commission fee for customer acquisition under state funded pension plans. As a result, net commission income decreased by 17% and amounted to EUR 4.05 million. Total administrative and personnel expenses in 2019 decreased by 8.5% compared to 2018.

The financial result of the reporting year is a profit of EUR 1.83 million (2018: EUR 2.52 million).

The Company does not plan to distribute dividends.

As concerns customer acquisition and servicing, the Company maintains close cooperation with parent company AS Citadele banka. A number of operating processes of the Company are outsourced to the parent company. This approach has contributed to highly satisfactory financial performance in 2019 and it will be continued in the future.

Subsequent events

COVID-19 has continued to spread worldwide since the last day of the reporting year. The World Health Organization declared the outbreak of the disease a pandemic. Many countries began to introduce quarantine measures, restricted the movement of people, and even banned international passenger transport. These events affected the global financial markets, where prices of risk assets such as shares, bonds with a risk-related component, raw materials, etc. are experiencing a sharp decline. As the situation continues to develop, it is difficult to accurately estimate the impact of these events on the global economy.

In order to ensure uninterrupted operations, the Company uses all technological possibilities so that employees can fully perform their work duties remotely from their places of residence. The negative revaluation of the pension plans and portfolios managed by the Company will affect the amount of commission income received. The Company's management does not anticipate that the impact of these circumstances on the Company's ability to continue as a going concern is material, given that it is expected that, albeit at a reduced level, the Company will continue to receive commission income as well as its high liquidity position.

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Kārlis Purgailis
Chairman of the Board

For the date refer to the time stamp.

STATEMENT OF THE MANAGEMENT'S RESPONSIBILITIES

The Board of the Company (hereinafter - management) is responsible for the preparation of the financial statements of the Company in accordance with the laws and regulations of the Republic of Latvia which prescribe that investment management companies are to prepare their financial statements according to the International Financial Reporting Standards as adopted by the European Union.

The financial statements on pages 7 to 28 are prepared based on source documents and present fairly the financial position of the Company as at 31 December 2019 and the results of its operations and cash flows for the year then ended.

The financial statements are prepared on a going concern basis in accordance with the International Financial Reporting Standards as adopted by the European Union. Appropriate accounting methods have been consistently applied in the reporting period.

Prudent and reasonable judgements and estimates have been made by the Management in the preparation of the financial statements.

The management of the Company is responsible for the maintenance of a proper accounting system, safeguarding the Company's assets, and the prevention and detection of fraud and other irregularities in the Company. The company is responsible for the fulfilment of the legislation of the Republic of Latvia and regulations by the FCMC applicable to the Company.

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Chairman of the Board

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STAND-ALONE INCOME STATEMENT

	Note	2019 EUR	2018 EUR
Commission and fee income	3	4 950 208	5 076 346
Commission and fee expense	4	(897 864)	(216 843)
Net fee and commission income		**4 052 344**	**4 859 503**
Foreign exchange transaction result, net	5	325	1 297
Other income		18	306
Net operating income		**4 052 687**	**4 861 106**
Administrative and other expenses	6	(516 191)	(608 117)
Personnel expenses	7	(1 611 311)	(1 717 308)
Amortisation and depreciation	10,11	(26 251)	(13 385)
Amortisation of leased tangible assets	11	(73 438)	-
Impairment losses		-	(5 719)
Profit before corporate income tax		**1 825 496**	**2 516 577**
Corporate income tax for the reporting year		-	-
Profit for the reporting year		**1 825 496**	**2 516 577**
Total comprehensive income attributable to shareholders		**1 825 496**	**2 516 577**

The accompanying notes on pages 11 to 28 form an integral part of these financial statements.

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Vladimirs Ivanovs
Deputy Chairman of the Council

Kārlis Purgailis
Chairman of the Board

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STAND-ALONE BALANCE SHEET

	Note	31/12/2019 EUR	31/12/2018 EUR
Assets			
Non-current assets			
Long-term financial investments	9	4 268 615	4 268 615
Right-of-use assets	11	220 315	-
Intangible assets	10	71 603	65 303
Property and equipment	11	1 714	422
Total non-current assets		**4 562 247**	**4 334 340**
Current assets			
Balances due from credit institutions	8	6 141 535	5 720 128
Deferred expense and accrued income	12	451 762	431 036
Overpaid corporate income tax	19	-	250 988
Other assets	13	8 776	6 750
Total current assets		**6 602 073**	**6 408 902**
Total assets		**11 164 320**	**10 743 242**
Equity and Liabilities			
Share capital	18	5 904 918	5 904 918
Retained earnings		4 342 074	4 063 635
Total equity and reserves		**10 246 992**	**9 968 553**
Accrued liabilities	14	137 968	166 172
Provisions	15	539 618	598 143
Liabilities for leased tangible assets	16	221 467	-
Other liabilities	17	18 275	10 374
Total liabilities		**917 328**	**774 689**
Total liabilities		**11 164 320**	**10 743 242**
Memorandum item			
Assets under Management	24	830 546 797	697 828 648

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Vladimirs Ivanovs
Deputy Chairman of the Council

Kārlis Purgailis
Chairman of the Board

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STAND-ALONE STATEMENT OF CASH FLOWS

	Note	2019 EUR	2018 EUR
Cash flows from operating activities			
Profit before income tax		1 825 496	2 516 577
Adjustments for			
Amortisation and depreciation	10,11	26 251	17 401
Amortization of right-of-use assets	11	73 438	-
Impairment of investments		-	5 719
Cash flow from operating activities before changes in assets and liabilities		**1 925 185**	**2 539 697**
(Decrease)/increase in provisions and accrued expenses		(86 730)	(236 773)
Decrease in deferred expense and accrued income		(20 726)	1 263 942
(Decrease)/ increase in other assets		(2 025)	39 649
(Decrease)/increase in other liabilities		7 902	(9 258)
Increase in cash and cash equivalents from operating activities before corporate income tax and interest income and expenses		**1 823 606**	**3 597 257**
Corporate income tax received/paid		250 988	(216 777)
Interest income received in the reporting period		-	-
Net cash flows from operating activities		**2 074 594**	**3 380 480**
Cash flow from investing activities			
Additions of property plant and equipment and intangible assets		(33 844)	(42 285)
Investments in subsidiary		-	(137 814)
Net cash used in investing activities		**(33 844)**	**(180 099)**
Cash flows from financing activities			
Dividends paid		(1 547 0 57)	(2 456 885)
Lease payments	11	(72 286)	-
Net cash flows from financing activities		**(1 619 343)**	**(2 456 885)**
Net cash flow for the period		**42 14 07**	**74 34 96**
Cash and cash equivalents at the beginning of the year		5 720 128	4 976 632
Cash and cash equivalents at the end of the year	**8**	**6 141 535**	**5 720 128**

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Vladimirs Ivanovs Deputy Chairman of the Council	Kārlis Purgailis Chairman of the Board

For the date refer to the time stamp.

STAND-ALONE STATEMENT OF CHANGES TO THE SHAREHOLDERS' EQUITY

	Share capital	Retained earnings	Total shareholders' equity
	EUR	EUR	EUR
As at 31 December 2017	**5 904 918**	**4 003 943**	**9 908 861**
Profit of the reporting year	-	2 516 577	2 516 577
Dividends paid	-	(2 456 885)	(2 456 885)
Balance as at 31 December 2018	**5 904 918**	**4 063 635**	**9 968 553**
Profit of the reporting year	-	1 825 496	1 825 496
Dividends paid	-	(1 547 057)	(1 547 057)
Balance as at 31 December 2019	**5 904 918**	**4 342 074**	**10 246 992**

The accompanying notes on pages 11 to 28 form an integral part of these financial statements.

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Vladimirs Ivanovs
Deputy Chairman of the Council

Kārlis Purgailis
Chairman of the Board

For the date refer to the time stamp.

NOTES TO THE STAND-ALONE FINANCIAL STATEMENTS

1.GENERAL INFORMATION ABOUT THE COMPANY

The investment management joint stock company was established on 11 January 2002 as ‘Citadele Asset Management’.

The Company is engaged in individual management of customer financial instruments, issue of investment fund investment certificates and management of these funds, management of pension capital of the state funded pension scheme, and consulting of customers on investment matters. The sole shareholder is AS ‘Citadele banka'. The registered address of investment management joint stock company ‘CBL Asset Management’ is Republikas laukums 2a, Riga, LV-1010, Latvia.

These stand-alone financial statements of IPAS ‘CBL Asset Management’ were approved for issue by the Board on 30 March 2020.

2.SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the EU, which includes standards and interpretations approved by the International Accounting Standards Board (IASB) and the International Accounting Standards (IAS) approved by the International Accounting Standards Committee (IASC) and interpretations of the Standing Interpretations Committee (IFRIC). Certain notes were prepared in accordance with the requirements set by the Financial and Capital Market Commission.

The financial statements were prepared on the historical cost basis.

These notes disclose the accounting policies consistently applied in 2018 and 2019, as well as the new standards and interpretations, including the IFRS 16, adopted by the Company that have had effect on these financial statements.

Changes in accounting policies

The Company has applied accounting policies consistently to all periods presented in these financial statements, except as described in IFRS 16 below.

New standards and interpretations

New accounting and financial statements standards, interpretations and amendments which were not applicable to the previous annual financial statements have been issued. Certain standards became effective in 2019, while others will become effective in subsequent reporting periods. This section describes the standards applicable to the Company. Where the implementation impact was or is expected to be reasonably material it is disclosed.

New requirements effective for 2019

IFRS 16 – Leases (replaces IAS 17, IFRIC 4, SIC-15, SIC-27). The Company initially applied IFRS 16 using the modified retrospective approach, under which the comparative information is not restated and the Company elected to apply the new standard by not affecting retained earnings at 1 January 2019.

A lease is a contract, or a part of a contract, that conveys the right to use an asset (the lease asset) for a period of time in exchange for consideration. According to the new standard for qualifying lease assets, upon lease commencement, a lessee has to recognise a right-of-use asset and a lease liability. The right-of-use asset is initially measured at the amount of the lease liability plus any initial direct costs. Subsequently the right-of-use asset is measured using a cost model. A right-of-use asset is measured at cost less any accumulated depreciation and impairment. The lease liability is initially measured as a discounted value of payments agreed over the lease term. A discount rate which discounts future payments to estimated present value is applied. The Company presents right-of-use assets in the same line items in which it presents assets of the same nature that it owns. Lease liabilities are presented within other liabilities. The Company has elected not to recognise right-of-use assets and lease liabilities for low-value assets, but to expense lease payments for low-value assets over the lease term.

When estimating lease term, the Company’s intentions as well as contractual early termination and extension options of the lessee and lessor are considered. When a previously recognised lease is modified and scope of the lease increases and increase in compensation is commensurate, a new separate lease is recognised; if increase in compensation is not commensurate or scope of lease decreases the current right-of-use asset and corresponding lease liability is re-measured. In case of decrease in scope of the lease a gain or loss (if any) is recognised in the income statement.

The key lease agreement for the Company as a lessee is that on the lease of office premises used for operating activities. The three year lease term applied to the rent of office is linked to the business planning horizon of AS Citadele banka. The incremental borrowing rate at the date of initial application was set at 1.05% and was based on the deposit rate of AS Citadele Bank with an additional 0.5% risk spread added to account for the lack of deposit guarantees for leases. The Company uses the practical expedient available for low value items where any item generating cash outflows of less than EUR 5 thousand during the lease term is outscoped.

As at the date of adoption of the new standard the Company recognised a right-of-use asset of EUR 221 467. A corresponding lease liability was recognised. During the reporting period, the Company recognised amortisation of the right-of-use asset of EUR 73 438.

Future minimum lease payments under non-cancellable operating leases as of 31 December 2018 (IAS 17)	**18 756**
Short term and low value asset leases	-
Recognised lease term beyond non-cancellable lease period	206 314
Effect from discounting at the incremental borrowing rate	(3 603)
Lease liabilities as of 1 January 2019 (IFRS 16)	**221 467**

New standards, amendments to standards and interpretations which did not have a significant effect on the Company:
IFRIC 23 – Uncertainty over Income Tax Treatment
Amendments to IFRS 9 – Prepayment Features with Negative Compensation
Amendments to IAS 28 – Long-term Interests in Associates and Joint Ventures
Amendments to IAS 19 – Plan Amendments, Curtailment or Settlement
Annual Improvements to IFRSs 2015-2017 Cycle – Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

IFRS 15 Revenue from contracts with customers (applicable from 1 January 2018)

The fee for asset management services is calculated based on a fixed percentage of the value of assets managed and is deducted from the customer's account on a monthly basis. In addition, as accounts are opened the Company charges a non-recurring and non-refundable upfront fee.

Revenue from asset management is recognised as the services are provided. Non-refundable upfront fees give rise to a material right to receive further services and are recognised as revenue in the period during which the customer is expected to continue to receive asset management services.

Revenue recognised from contracts with customers is disaggregated into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. Categories to use to disaggregate revenue are selected applying the guidance in IFRS 15.B87–B89.

Future requirements that have no impact on the financial data for 2019

A number of new standards, interpretations and amendments to existing standards have become effective for the financial periods beginning on or after 1 January 2019 which are not yet endorsed by the EU. These standards were not applied in the preparation of these financial statements. The Company does not plan to adopt these standards early. The Company is in the process of evaluating the potential effect, if any, of changes arising from these new standards and interpretations.

IFRS 17 - Insurance Contracts. Effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted as long as IFRS 9 and IFRS 15 are also applied. The upcoming standard combines current measurement of the future cash flows with the recognition of profit over the period that services are provided under the contract. Groups of insurance contracts have to be measured at a risk-adjusted present value of the future cash flows adjusted for unearned profits or losses. Profit from a group of insurance contracts is recognised over the period the insurance cover is provided, and as the risk is released; loss from a group of contracts is recognised immediately. The standard requires presenting insurance service results separately from insurance finance income or expenses and requires to make an accounting policy choice of whether to recognise all insurance finance income or expenses in profit or loss or to recognise some of that income or expenses in other comprehensive income.

Amendments to References to Conceptual Framework in IFRS Standards
Amendments to IFRS 3 – Definition of a Business
Amendments to IAS 1 and IAS 8 – Definition of Material

Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

Reporting currency

Items included in the financial statements of the investment company are measured using the currency of the primary economic environment in which the Company operates ("the functional currency"). The financial statements are presented in euro (EUR), which is the Company's presentation and functional currency.

Consolidation

Since the parent company AS Citadele Banka prepares consolidated financial statements comprising also the financial statements of the Company and its subsidiaries, the Company does not prepare its consolidated financial statements. The consolidated financial statements of the parent company AS Citadele Banka are available at the headquarters of AS Citadele Banka at Republikas laukums 2a, Riga and www.citadele.lv.

Recognition of income and expenses

Interest income and expense items are recognised on an accrual basis using the effective interest rate.

Commission and fee income related to asset management and trading with fund shares is charged to the income statement as earned.

The Company determines the commission fee for the management of each UCITS (Undertakings Collective Investment in Transferable Securities) investment fund, alternative investment fund and state funded pension scheme, considering the investment policy, region and complexity of transactions of each fund and/or plan. Commission fees and their calculation is established and published in prospectuses of state funded pension schemes, which are approved and registered with FCMC. To determine the commission fees for the management of state funded pension schemes, the Company considers the maximum contribution as set by the Cabinet Regulations No 765 (until 31.12.2017 Cabinet Regulations No 615).

For the service – individual management of investors' financial instruments portfolios in accordance with the investors' authorisation (Portfolio management service), contribution to the company for individual management of portfolio is determined in accordance with the General price list of the company published on the website www.cblam.lv. Upon individual agreement, the Company and the Client may establish their special price list in the contract on investment portfolio management. Calculation and payment of contribution for the management of investment portfolios is determined in the General investment portfolio managements regulations published on the website www.cblam.lv
Commission fee for the management of private pension funds established by the Company is included in the individual Pension Plan regulations, considering the investment policy, region and complexity of transactions of each plan. Amount and calculation of contributions to the Company as the pension plan manager is established and published in the Pension plan regulation, approved and registered with FCMC.

If the return on investment exceeds the plan's benchmark (12 months EURIBOR, USD 12 months LIBOR for the active plan), the fund manager may be provided with additional or variable consideration of up to 10% of the excess profit on investment of the pension plan assets. Excess profit can be withheld only if all the following conditions are met:
-the return on investment exceeds the performance of the adjustments to comparatives in the relevant reporting period (month);
-the return on investment exceeds the performance of the adjustments to comparatives since the start of the plan;
-in the total (cumulative) profit of the plan during the reporting period is above the highest total (cumulative) profit ever recorded (High Watermark principle). Additional or variable consideration is calculated once a month.

Foreign currency revaluation

The official currency unit of the Republic of Latvia Euro (EUR) is the functional currency of the Company which is used in these financial statements. Foreign currency transactions are revalued into euros at the official exchange rate set by the Bank of Latvia at the transaction date. All monetary assets and liabilities denominated in foreign currencies are translated to EUR according to the exchange rate of the ECB on the last day of the reporting year. Non-monetary items of assets and liabilities , are revalued to euros in accordance with the reference exchange rate published by the European Central Bank on the transaction date. Differences arising on payments in currencies or disclosures of assets and liabilities using exchange rates other than those used for initial booking of transactions are recognized in the profit and loss statement at net amount.

Currency exchange rates (one unit of currency vs EUR 1)

	31/12/2019	**31/12/2018**
Foreign currency	**EUR**	**EUR**
USD	1.1234	1.1450

Taxation

Income tax

On 1 January 2018 the Law on Enterprise Income Tax of the Republic of Latvia entered into force and set out a new regime for paying taxes. The tax rate is 20%, and the taxable base, determined by dividing the value of the amount taxable with corporate income tax by coefficient 0.8, includes:

-distributed profit (dividends calculated, payments equivalent to dividends, conditional dividends) , and

-conditionally or theoretically distributed profit (non-operating expenses and other specific cases provided for by the law).

The new tax regime is not applicable to the distribution of dividends from profit accumulated to 31 December 2017 and taxed under the previous taxation regime. If profit for 2018 and 2019 was distributed as dividends it would be taxed with corporate income tax of EUR 1.1 million.

Intangible assets

Intangible assets are carried at cost amortized over the useful life of the asset on a straight line basis. The annual rate of amortization is 33%.

Term deposits

Term deposits are initially recognised at fair value and subsequently carried at amortised cost determined in line with the amount of cash placed as a term deposit plus capitalised and accrued interest income using the effective interest rate. Interest income on term deposits is recognised on an accrual basis, i.e. in proportion to the period of time from the date of placement of the deposit to the reporting date.

Investments in subsidiaries and associates

Investments in subsidiaries (i.e. an entity in which the Company holds more than 50% of share capital or which is controlled in any other way) are carried at cost. Subsequent to initial recognition, investments in subsidiaries are recognized at cost net of impairment losses. Should any events or changes in circumstances indicate that the carrying amount of investments in subsidiaries and associates could not be recoverable the respective investments in subsidiaries and associates assets are reviewed for impairment. Dividends received from the subsidiaries and associates are recognized when the legal right to receive them has been established.

Property and equipment

Property and equipment is recorded at historical cost less accumulated depreciation less any impairment losses. Should the recoverable amount of an asset become lower than its carrying amount for circumstances other than temporary the asset is written down to its recoverable amount.

Depreciation is calculated on a straight-line basis over the useful life of the asset. Depreciation rates range from 20% to 50% p.a.

Maintenance and repair expenses are charged to the income statement as incurred.

Profit or loss from disposal of an asset is calculated as the difference between the carrying amount of the asset and proceeds from sale, and is recognised in the income statement as incurred.

Assets under management

Assets managed by the Company on behalf of customers, funds and other institutions are not regarded as assets of the Company. As such these assets are not reflected on the Company's balance sheet. Assets under management are presented in these financial statements only for disclosure purposes.

Fair value of financial assets and liabilities

Financial assets of the Company are carried at amortised cost. Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market and include trade and other receivables and cash and cash equivalents. Financial liabilities that include trade accounts payable and other financial liabilities arising from the operating activities of the Company are classified as other liabilities measured at amortised cost.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Company have access at that date. The fair value of liabilities represents the risk of default.

IFRS introduces a fair value hierarchy for the measurement of financial assets and liabilities, based on whether or not observable market data are used in the measurement of the fair value of financial assets and liabilities. The balance sheet of the Company does not include assets and liabilities at fair value. Fair values of financial assets and liabilities not measured at fair value may be classified in the following fair value hierarchy levels:

Cash and cash equivalents are included in Level 1. The Company believes that the fair value of these financial assets matches their initial nominal value and the carrying amount at any future date.

The Company has no financial assets and liabilities categorised as Level 2 and 3.

Given the short term nature of settlements the carrying amounts of financial assets and liabilities are not materially different from their fair values.

Cash and cash equivalents

Cash and cash equivalents represent cash in bank and short-term deposits with initial maturities below three months.

Employee benefits

Employee entitlements to the annual leave are recognized when the vacation days have been accrued to the employees. Accruals for employees' annual leave pay are estimated based on days of unused annual leave of the employees up to the reporting date. The Company pays social security contributions to the state funded pension scheme on behalf of its employees in accordance with the laws and regulations of Latvia. The state funded pension scheme is a defined contribution plan under which the Company is to pay fixed contributions determined by law. The Company has no additional legal or constructive obligations to pay further contributions if the state funded pension scheme is unable to honour its liabilities towards the employees. State social security contributions are accrued in the year in which the associated services are rendered by the employees of the Company.

Other receivables

Trade receivables are recognized and carried at contractual amounts less allowances for doubtful receivables. Doubtful debt allowances are recognised when recovery of the entire amount of the receivable is no longer reasonably expected. Receivables are written off when their recoverability is considered impossible.

Operating lease - the Company as a lessee

Leases of assets under which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. For qualifying lease assets, upon lease commencement, a lessee recognises a right-of-use asset and a lease liability. The right-of-use asset is initially measured at the amount of the lease liability plus any initial direct costs. Subsequently the right-of-use asset is measured using a cost model. A right-of-use asset is measured at cost less any accumulated depreciation and impairment. The lease liability is initially measured as a discounted value of payments agreed over the lease term. An incremental borrowing rate which discounts future payments to estimated present value is applied. The Company presents right-of-use assets in the same line items in which it presents assets of the same nature that it owns. Lease liabilities are presented within other liabilities.

The three year lease term applied to the rent of the Company's office is linked to the business planning horizon of AS Citadele banka. The incremental borrowing rate derived from the deposit rate of AS Citadele banka adjusted for a risk spread to account for the absence of deposit guarantees for leases is used for transactions.

IFRS 16 was applied by the Company using the modified retrospective approach, under which comparatives for 2018 were not restated and presented according to IAS 17. Previously leases of assets under which substantially all the risks and rewards of ownership were retained by the lessor were classified as operating leases. Lease payments under an operating lease were recognised as expenses over the lease term and included into administrative expenses.

Use of estimates

In the preparation of the financial statements in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and as adopted by the EU, the management has relied on certain estimates and assumptions that impact certain balance sheet and income statement items, and the amount of potential liabilities. The significant areas of estimation used in the preparation of the accompanying financial statements relate to the measurement of recoverable amounts, depreciation and accruals for unused vacations, provision for the liquidation of the Ukrainian subsidiary in relation to determining the lease term and discount rate under IFRS 16.

The three year lease term applied to the lease transactions is linked to the business planning horizon of AS Citadele banka. The incremental borrowing rate at the date of initial application was set at 1.05% and was based on the deposit rate of AS Citadele Bank with an additional 0.5% risk spread added to account for the lack of deposit guarantees for leases.

The following are key assumptions concerning the uncertainties at the balance sheet date about significant events and conditions that have a significant risk of causing a material adjustment to balance values of assets and liabilities within the next financial year.

The impairment of investment in subsidiaries is calculated on the basis of the recoverable amount of the investment. Where the recoverable amount is less than the carrying amount, an impairment loss is recognized for the investment.

Future events may impact assumptions that were used as the basis for estimates. Any impact from changes in the estimates is reflected in the financial statements as determined. Taking into account the decision made by the AS "Citadele banka" group on the liquidation of the subsidiary in Ukraine, the process is started, as a result of which the Ukrainian subsidiary has no income that would cover the expenses of this company during the liquidation. Consequently, the liquidation expenses are reimbursed by the Company by investing in the capital of the subsidiary. As it will not be possible to recover these investments, a 100% allowance was recognised for the amount of these investments (see Note 9).

In connection with the liquidation process of the subsidiary in Ukraine, provisions for legal expenses totally amounted to EUR 485 000 were made in 2015 and 2016, the amount of which was determined according to the estimates made by the management. In 2019, EUR 17 252 was spent, and at the end of the reporting year, provisions of EUR 365 305 remained.

Financial risk management

The Company has approved a risk management policy that forms the basis for the management and hedging of risks.

The conditions that underlie stress testing of capital adequacy were revised in light of instability in the global and Latvian financial markets and economy. The calculation of market risk relies on increasing the reliability of the models.

The key financial risks related to the Company's financial instruments are currency risk, interest rate risk, credit risk, liquidity risk and capital adequacy risk.

Currency risk

Financial assets and liabilities of the Company that are exposed to currency risk include cash and cash equivalents, other receivables and other liabilities. The Company is primarily exposed to currency risk in relation to the US dollar (see Note 22).

The following table demonstrates the sensitivity to a reasonably possible change in the USA dollar exchange rate, with all other variables held constant, of the Company's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Company's equity.

2019 EUR

Increase/decrease in USD exchange	Effect on profit/loss before tax	Effect on equity
+11%	**5 727**	**5 727**
-11%	**(5 727)**	**(5 727)**

2018 EUR

Increase/decrease in USD exchange	Effect on profit/loss before tax	Effect on equity
+11%	**5 006**	**5 006**
-11%	**(5 006)**	**(5 006)**

Liquidity risk

Liquidity risk relates to the Company's ability to settle its payment liabilities according to the investment management policy. The Company manages liquidity risk by maintaining appropriate amounts of cash and cash equivalents. In order to maintain sufficient cash balances the Company plans its cash flow and analyses the actual performance on a regular basis.

The maturity profile of the Company's financial assets and liabilities as at 31 December 2019 is disclosed in Note 22.

Credit risk

Credit risk is the likelihood of incurring losses if a client fails to meet its contractual liabilities. The Company is exposed to credit risk in relation to receivables, accrued income, cash and cash equivalents. The maximum credit risk exposure as at 31 December 2019 on these assets was EUR 6 568 535 (2018: EUR 6 136 547). The Company has no assets that are impaired or past due. It should be noted that although the Company applies IFRS 9 and its expected credit loss model, the Company's management estimates that the impact of expected credit risk losses would be insignificant.

In accordance with the Company's investment policy, funds are placed in term deposits based on the credit institution's credit rating and the interest rate offered.

Credit risk is managed by the Company by monitoring receivables on an ongoing basis to ensure that the Company's exposure to bad debts is minimized.

Interest rate risk

The Company is not exposed to a significant interest rate risk. The Company generates interest income from cash in term deposits at fixed interest rates.

Capital adequacy

The Company maintains sufficient equity to be able to compensate losses incurred by customers due to the Company's fault. The amount of required capital is determined according to Regulation 575/2013 of the European Parliament and of the Council of 26 June 2013. As at 31 December 2019, the minimum ratio of equity against risk weighted assets and memorandum items as determined by the FCMC is disclosed in Note 20.

3.FEE AND COMMISSION INCOME

	2019	2018

	EUR	EUR
Management of investment funds	3 456 225	3 937 277
Management of individual portfolios*	1 465 918	1 023 251
Commission income from counterparties	-	103 337
Issuance of investment certificates	683	4 778
Commission income from investment consultations	27 382	7 703
Total	**4 950 208**	**5 076 346**

* in 2019 includes an additional or variable compensation of EUR 605 thousand.

4. FEE AND COMMISSION EXPENSES

	2019 EUR	2018 EUR
Distribution of investment certificates and other products	882 788	201 499
Custodian bank fees	478	163
Servicing of accounts	14 598	15 181
	897 864	**216 843**

5.NOTE FOREIGN EXCHANGE TRANSACTION RESULT, NET

	2019 EUR	2018 EUR
Profit/(loss) from revaluation of foreign currency	344	(1 142)
(Loss)/profit from foreign exchange transactions, net	(19)	2 439
Total	**325**	**1 297**

6.NOTE ADMINISTRATIVE AND OTHER EXPENSES

	2019 EUR	2018 EUR
Rent of premises	25 144	126 928
Interest expenses on lease liabilities	2 737	-
Advertising	58 289	34 944
Business trips	21 163	31 964
Non-deductible VAT	33 240	37 884
IT and telecommunications	130 700	129 132
Representation and marketing expenses	5 367	27 903
FCMC charges	98 623	93 014
Professional services	9 888	19 696
Other expenses	131 040	106 652
Total	**516 191**	**608 117**

Operating lease expenses previously presented as expenses on lease of premises according to IFRS 16 (Leases) in 2019 are presented as 'Amortisation of leased tangible assets'. Similarly the implied interest expense on lease liabilities is presented as interest expense. The new standard does not require retrospective application of the new presentation requirements, thus comparatives are not restated. All public utility expenses are disclosed under rent of premises.

7.PERSONNEL COSTS

	2019 EUR	2018 EUR

Remuneration	948 758	1 098 819
Remuneration to the board members	355 142	294 175
Compulsory state social security contributions	307 213	324 110
Business risk state duty	198	204
Total	**1 611 311**	**1 717 308**

	2019	2018
The average number of staff in the reporting year	44	49

8.NOTE BALANCES DUE FROM CREDIT INSTITUTIONS

	31/12/2019 EUR	31/12/2018 EUR
Demand deposits with credit institutions*	6 141 535	5 720 128
Cash and cash equivalents	6 141 535	5 720 128
Balances due from credit institutions	**6 141 535**	**5 720 128**

* Interest is not calculated on cash deposits on demand with AS Citadele banka.

9.NOTE LONG TERM FINANCIAL INVESTMENTS

Related parties	Holding 31/12/2019 %	31/12/2019 EUR	Holding 31/12/2018 %	31/12/2018 EUR
OOO Mizush Asset Management Ukraina (Ukraine)	100%	2 124 105	100%	2 124 105
Provision recognized OOO Mizush Asset Management Ukraina (Ukraine)		(2 124 105)		(2 124 105)
AAS CBL Life (Latvia)	100%	4 268 615	100%	4 268 615
Total related parties		**4 268 615**	**100%**	**4 268 615**

Provisions as at 31.12.2018	**2 124 105**
Increase of provisions:	-
Provision recognized OOO Mizush Asset Management Ukraina (Ukraine)	-
Provisions as at 31.12.2019	**2 124 105**

In 2012, the Company decided to liquidate its subsidiary OOO “Mizush Asset Management Ukraina” (Ukraine) (formerly OOO “Citadele Asset Management”).

In connection with the liquidation process of the subsidiary in Ukraine, provisions for legal expenses totally amounted to EUR 485 000 were made in 2015 and 2016, the amount of which was determined according to the estimates made by the management. In 2019, EUR 17 252 was spent, and at the end of the reporting year, provisions of EUR 365 305 remained.

In February 2019, final settlements were made with all OOO “Mizush Asset Management Ukraina “investors of the funds. In September, the liquidation of all funds was completed and the liquidation process of the Company was started. The Company hired AA “PricewaterhouseCoopers Legal” for liquidation. The liquidation is planned to be finished by the end of 2020. The Company has made provisions for liquidation expenses (see Note 15).

Insurance joint-stock company CBL Life offers life insurance services.

Unaudited performance of related companies for 2019 is as follows:

	Total assets	Total liabilities	Total operating	Profit or (loss) of the reporting

Related parties	EUR	EUR	income or (loss) EUR	period EUR
OOO Mizush Asset Management Ukraina (Ukraine)				
2018	25 729	29 724	(7 808)	(171 763)
2019	4 345	68 125	(1 756)	(53 758)
AAS CBL Life (Latvia)				
2018	48 451 689	43 864 471	492 298	(42 171)
2019	61 780 605	55 947 309	1 030 039	479 244

10.INTANGIBLE ASSETS

Licences and software

	2019 EUR	2018 EUR
Historical cost		
As at the beginning of the year	**144 701**	**103 079**
Additions	31 972	41 761
Written off	-	(139)
Year-end	**176 673**	**144 701**
Accumulated amortisation		
As at the beginning of the year	**79 398**	**66 495**
Amortization	25 672	12 903
Written off	-	-
Year-end	**105 070**	**79 398**
Carrying amount		
As at the beginning of the year	**65 303**	**36 584**
Year-end	**71 603**	**65 303**

11.PROPERTY AND EQUIPMENT

	2019 EUR	2018 EUR

	Right-of-use assets	Other fixed assets	Total	Right-of-use assets	Other fixed assets	Total
Historical cost						
As at the beginning of the year	**221 467**	**19 584**	**241 051**	**-**	**31 473**	**31 473**
Additions	72 286	1 872	74 158	-	524	524
Written off	-	-	-	-	(12 413)	(12 413)
Year-end	**293 753**	**21 456**	**315 209**	**-**	**19 584**	**19 584**
Accumulated amortisation						
As at the beginning of the year	**-**	**19 163**	**19 163**	**-**	**27 216**	**27 216**
Amortization	73 438	579	74 017	-	482	482
Written off	-	-	-	-	(8 536)	(8 536)
Year-end	**73 438**	**19 742**	**93 180**	**-**	**19 162**	**19 162**
Carrying amount						
As at the beginning of the year	**221 467**	**421**	**221 888**	**-**	**4 257**	**4 257**
Year-end	**220 315**	**1 714**	**222 029**	**-**	**422**	**422**

12.DEFERRED EXPENSES AND ACCRUED INCOME

	31/12/2019 EUR	31/12/2018 EUR
Financial assets		
Accrued fee and commission income	418 042	409 669
Non-financial assets		
Prepaid expenses	33 720	21 367
Total financial and non-financial assets	**451 762**	**431 036**

Accrued commission and fee income was received shortly after the end of the period, therefore the impairment provision was assessed as not significant.

13.OTHER ASSETS

	31/12/2019 EUR	31/12/2018 EUR
Financial assets		
Guarantee deposits	249	71
Other receivables	230	3 128
Non-financial assets		
Prepayments	7 585	2 839
Overpaid social security contributions, personal income tax	712	712
Total financial and non-financial assets	**8 776**	**6 750**

14.ACCRUED LIABILITIES

	31/12/2019 EUR	31/12/2018 EUR
Financial liabilities		
Professional services	80 394	115 964
Non-financial liabilities		
Accrued liabilities for vacations	57 574	50 208
Total	**137 968**	**166 172**

15.PROVISIONS

	31/12/2019 EUR	31/12/2018 EUR
Non-financial liabilities		
Accruals for bonuses	174 313	215 586
Provision for liquidation expenses of the subsidiary	365 305	382 557
Total	**539 618**	**598 143**

Provisions as at 31.12.2018	**598 143**
Increase of provisions	**101 804**
Variable part of remuneration for 2019	101 804
Liquidation of subsidiary	-
Released	**160 330**
Variable part of remuneration paid out for 2017/2018	143 077
Variable unpaid part of remuneration for 2018 written off	-
Liquidation expenses of the subsidiary used	17 252
Provisions as at 31.12.2019	**539 618**

16.LIABILITIES FOR LEASED TANGIBLE ASSETS

	EUR
Liabilities for leased tangible assets 01/01/2019	**221 467**
Decrease in liabilities	(72 286)
Increase in liabilities	72 286
Liabilities for leased tangible assets 31/12/2019	**221 467**

17.OTHER LIABILITIES

	31/12/2019 EUR	31/12/2018 EUR
Financial liabilities		
Accounts payable to suppliers and other companies	914	3 405
Due to personnel	-	33
Non-financial liabilities		
Due to personnel	-	-
Personal income tax	-	-
Value added tax	17 361	6 936
Total financial and non-financial liabilities	**18 275**	**10 374**

18.SHARE CAPITAL

As at 31 December 2019, share capital of the Company amounted to EUR 5 904 918 and consisted of 5 904 918 ordinary name shares. The nominal value of one share is EUR 1. AS Citadele banka is the sole shareholder of the Company. All shares are fully paid up.

19.TAXES AND STATE SOCIAL SECURITY CONTRIBUTIONS

	Value added tax EUR	Compulsory state social security contributions EUR	Personal income tax EUR	Corporate income tax EUR	Business risk duty EUR	Total shareholders' equity EUR
Payable/(overpaid) 31.12.2018	**6 936**	**(711)**	**(1)**	**(250 988)**	**-**	**(244 764)**
Calculated for 2019	121 788	464 311	245 377	-	214	831 690
Paid in 2019	(111 363)	(464 311)	(245 377)	245 238	(214)	(576 027)
Adjustment	-	-	-	5 750	-	5 750
Payable/(overpaid) 31.12.2019	**17 361**	**(711)**	**(1)**	**-**	**-**	**16 649**

Assets and liabilities of compulsory state social security contributions and personal income tax paid in Latvia and other jurisdictions are presented separately.

20.CAPITAL ADEQUACY

Capital adequacy ratio calculated in accordance with Regulation (EU) No. 575/2013 of the European Parliament and of the European Council of 26 June 2013 and the requirements of the FCMC as at 31 December 2019 and 2018 was as follows:

	31/12/2019 EUR	31/12/2018 EUR
Tier I capital		
Paid-in share capital	5 904 918	5 904 918
Audited retained earnings (not subject to dividend payment)	2 516 577	-
Audited profit of the reporting year (not to be distributed as dividends)	1 825 496	2 516 577
Intangible assets	(71 603)	(65 303)
Total Tier I capital	**10 175 388**	**8 356 192**
(Decrease) in equity		
Significant investments in other credit and financial institutions, insurance companies	(4 268 615)	(4 268 615)
Total (Decrease) in equity	**(4 268 615)**	**(4 268 615)**
Equity to be utilised in the capital adequacy ratio calculation	**5 906 773**	**4 087 577**
Summary of calculations		
Capital requirement equal to 25% of total recurring expenses of the previous year	**(584 703)**	**(645 784)**
Cover of capital requirement	**5 322 070**	**3 441 793**
Capital adequacy ratio %	**80.8%**	**50.6%**
FCMC minimum capital adequacy ratio requirement %	8.0%	8.0%

21.CURRENCY ANALYSIS

The following table presents certain balance sheet items by currency as at 31 December 2019:

	EUR	USD	Other currencies	Total
Assets				
Balances due from credit institutions	6 137 916	979	2 640	**6 141 535**
Deferred expenses and accrued income	367 346	50 696	-	**418 042**
Other assets	301	178	-	**479**
Total financial assets as at 31.12.2019	**6 505 563**	**51 853**	**2 640**	**6 560 056**
Liabilities				
Accrued liabilities	(80 395)	-	-	**(80 395)**
Other liabilities	(914)	-	-	**(914)**
Total financial liabilities as at 31.12.2019	(81 309)	-	-	**(81 309)**
Net long/(short) position as at 31.12.2019	**6 424 254**	**51 853**	**2 640**	**6 478 747**

The following table presents certain balance sheet items by currency as at 31 December 2018:

	EUR	USD	Other currencies	Total
Assets				
Balances due from credit institutions	5 717 190	351	2 587	**5 720 128**
Deferred expenses and accrued income	364 511	45 158	-	**409 669**
Other assets	3 199	-	-	**3 199**
Total financial assets as at 31.12.2018	**6 084 900**	**45 509**	**2 587**	**6 132 996**
Liabilities				
Accrued liabilities	(115 964)	-	-	**(115 964)**
Other liabilities	(3 438)	-	-	**(3 438)**
Total financial liabilities as at 31.12.2018	(119 402)	-	-	**(119 402)**
Net long/(short) position as at 31.12.2018	**5 965 498**	**45 509**	**2 587**	**6 013 594**

22.ASSETS AND LIABILITIES' CONTRACTUAL MATURITY STRUCTURE

The following table presents certain balance sheet items by their remaining maturity as at 31 December 2019:

	To 1 month	1 – 6 months	6 – 12 months	1 – 5 years	Over 5 years and with unlimited term	Total
	EUR	EUR	EUR	EUR	EUR	EUR
Assets						
Balances due from credit institutions	6 141 535	-	-	-	-	**6 141 535**
Deferred expenses and accrued income	418 042	-	-	-	-	**418 042**
Other assets	230	178	-	-	71	**479**
Total financial assets as at 31.12.2019	**6 559 807**	**178**	**-**	**-**	**71**	**6 560 056**
Liabilities						
Accrued liabilities	(40 395)	-	-	(40 000)	-	**(80 395)**
Other liabilities	(914)	-	-	-	-	**(914)**
Total financial liabilities as at 31.12.2019	**(41 309)**	**-**	**-**	**(40 000)**	**-**	**(81 309)**
Liabilities for leased tangible assets	(6 252)	(31 082)	(37 512)	(150 046)	-	(225 070)
Net long/(short) position as at 31.12.2019	**6 512 246**	**(31 082)**	**(37 512)**	**(190 046)**	**71**	**6 253 677**

The following table presents certain balance sheet items by their remaining maturity as at 31 December 2018:

	To 1 month	1 – 6 months	6 – 12 months	1 – 5 years	Over 5 years and with unlimited term	Total
	EUR	EUR	EUR	EUR	EUR	EUR
Assets						
Balances due from credit institutions	5 720 128	-	-	-	-	**5 720 128**
Deferred expenses and accrued income	409 668	-	-	-	-	**409 668**
Other assets	3 128	-	-	-	71	**3 199**
Total financial assets as at 31.12.2018	**6 132 924**	**-**	**-**	**-**	**71**	**6 132 995**
Liabilities						
Accrued liabilities	(37 372)	(38 592)	-	(40 000)	-	**(115 964)**
Other liabilities	(3 438)	-	-	-	-	**(3 438)**
Total financial liabilities as at 31.12.2018	**(40 810)**	**(38 592)**	**-**	**(40 000)**	**-**	**(119 402)**
Net long/(short) position as at 31.12.2018	**6 092 114**	**(38 592)**	**-**	**(40 000)**	**71**	**6 013 593**

23.RELATED PARTY TRANSACTIONS

The Company is a wholly owned subsidiary of AS Citadele banka. Other companies referred to as related parties are Citadele Group companies.

As at 31 December 2019 and 2018 balances due to and from related parties were as follows:

	31/12/2019	31/12/2018
	EUR	EUR
Assets		
Balances due from AS Citadele banka	6 141 535	5 720 128
Balances due from SIA Citadeles moduļi*	220 315	-
Balances due to AAS CBL Life	4 196	3 505
Total	**6 366 046**	**5 723 633**
Liabilities		
Balances due to AS Citadele banka	1 773	1 802
Liabilities due to AAS CBL Life	11 000	7 904
Balances due to AB Citadele bankas	-	2 254
Liabilities due to SIA Citadeles moduļi**	221 467	-
Total liabilities	**234 240**	**11 960**

* IFRS 16 Right-of-use asset

** IFRS 16 Lease liabilities

Income and expense from related parties were as follows:

	2019	2018
Net sales	EUR	EUR
Other income from AS Citadele banka	18	-
Commission income from AAS CBL Life	47 241	34 080
Total income	**47 259**	**34 080**
Expenses		
Commission expenses to AS Citadele banka	829 675	142 249
Commission expenses to AB Citadele bankas	-	26 598
Commission expenses to AAS CBL Life	45 884	33 588
Other expenses to AS Citadele banka	50 489	50 976
Lease and maintenance of premises expense to SIA Citadeles moduļi*	101 321	100 167
Total expenses	**1 027 369**	**353 578**

* Includes all payments related to lease of premises

As at 31 December 2018 and 2019 related party assets under management were as follows:

	31/12/2019	31/12/2018
	EUR	EUR
AAS CBL Life	26 142 204	21 636 434
Total	**26 142 204**	**21 636 434**

24.ASSETS UNDER MANAGEMENT

The table below provides an analysis of total assets under management (including investment funds and pension plans managed by the Company) on behalf of customers by investment type (thous. EUR).

	31/12/2019 THOUS. EUR	%	31/12/2018 THOUS. EUR	%
Debt securities				
Securities of credit institutions	24 156	2.91%	20 945	3.01%
Companies' securities	159 906	19.25%	105 268	15.11%
Central government bonds	69 242	8.34%	71 478	10.26%
Financial institution bonds	14 578	1.76%	14 124	2.03%
Total debt securities and other fixed income securities:	**267 882**	**32.25%**	**211 815**	**30.41%**
Other investments				
Investment funds	415 682	50.05%	416 710	59.82%
Shares	37 227	4.48%	26 593	3.81%
Cash	104 752	12.61%	29 371	4.22%
Term deposits	-	0.00%	7 982	1.14%
Real estate property	4 884	0.59%	4 219	0.61%
Derivatives	120	0.01%	-99	-0.01%
Total other investments:	**562 665**	**67.75%**	**484 776**	**69.59%**
Total debt securities and other investments	**830 547**	**100.00%**	**696 591**	**100.00%**

The table below provides an analysis of the funds managed (including investment funds and pension plans managed by the Company) on behalf of the customers by customer profile (thous. EUR):

	31/12/2019 THOUS. EUR	%	31/12/2018 THOUS. EUR	%
Residents				
Insurance companies, investment and pension funds	109 451	13.18%	97 514	14.00%
Pension plans	617 926	74.40%	496 795	71.32%
Other companies	2 551	0.30%	1 385	0.20%
Private individuals	69 256	8.34%	63 337	9.09%
Total residents	**799 184**	**96.22%**	**659 031**	**94.61%**
Total non-residents	**31 363**	**3.78%**	**37 560**	**5.39%**
Total residents and non-residents	**830 547**	**100.00%**	**696 591**	**100.00%**

The table presents the investment funds and state funded pension plans established and managed by the Company by their net assets (thous. EUR):

	31/12/2019 THOUS. EUR	%	31/12/2018 THOUS. EUR	%
State funded pension schemes				
CBL Aktīvais ieguldījumu plāns	416 608	64.31%	338 154	64.09%
CBL Universālais ieguldījumu plāns	144 422	22.29%	115 943	21.97%
CBL dzīves cikla plāns "Millennials"	6 816	1.05%	863	0.16%
CBL Ilgtspējīgu iespēju ieguldījumu plāns *	2 175	0.34%	-	-
Total state funded pension schemes	**570 021**	**87.99%**	**454 960**	**86.22%**
Investment funds				
IF CBL Eastern European Bond Fund R Acc EUR (hedged)	23 507	3.63%	21 258	4.03%
IF CBL Eastern European Bond fund R Acc USD	7 124	1.10%	7 533	1.43%
IF CBL Russian Equity Fund	3 361	0.52%	3 568	0.68%
IF CBL Prudent Opportunities fund EUR	808	0.12%	913	0.17%
IF CBL Optimal Opportunities fund EUR	6 115	0.94%	5 538	1.05%
IF CBL Optimal Opportunities fund USD	353	0.05%	384	0.07%
SAIF Baltic Pearl Real Estate Fund	4 751	0.73%	4 215	0.80%
IF CBL Baltic Sea Equity Fund	2 883	0.45%	3 097	0.59%
IF CBL Global Emerging Markets Bond Fund Klase R Acc EUR (hedged)	25 066	3.87%	22 939	4.36%
IF CBL Global Emerging Markets Bond Fund Klase R Acc USD	3 834	0.59%	3 149	0.60%
Total investment funds	**77 802**	**12.01%**	**72 594**	**13.78%**
Total pension plans and investment funds	**647 823**	**100.00%**	**527 554**	**100.00%**

* 'CBL Ilgtspējas iespēju ieguldījumu plāns' is a new state funded pension plan

25.SUBSEQUENT EVENTS

COVID-19 has continued to spread worldwide since the last day of the reporting year. The World Health Organization declared the outbreak of the disease a pandemic. Many countries began to introduce quarantine measures, restricted the movement of people, and even banned international passenger transport. These events affected the global financial markets, where prices of risk assets such as shares, bonds with a risk-related component, raw materials, etc. are experiencing a sharp decline. As the situation continues to develop, it is difficult to accurately estimate the impact of these events on the global economy.
In order to ensure uninterrupted operations, the Company uses all technological possibilities so that employees can fully perform their work duties remotely from their places of residence. The negative revaluation of the pension plans and portfolios managed by the Company will affect the amount of commission income received.

The Company's management does not anticipate that the impact of these circumstances on the Company's ability to continue as a going concern is material, given that it is expected that, albeit at a reduced level, the Company will continue to receive commission income as well as its high liquidity position.

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Independent Auditors' Report

To the shareholder of IPAS CBL Asset Management

Report on the Audit of the separate Financial Statements

Our opinion on the separate financial statements

We have audited the accompanying separate financial statements of IPAS CBL Asset Management ("Company") as set out on pages 7 to 28 of the accompanying Annual Report. The accompanying separate financial statements include:

- separate balance sheet as at 31 December 2019,
- separate profit and loss statement for the year then ended 31 December 2019,
- separate statement of changes to shareholders' equity for the year then ended 31 December 2019,
- separate statement of cash flows for the year then ended 31 December 2019, and
- separate notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of IPAS CBL Asset Management as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for opinion

In accordance with the "Law on Audit Services" of the Republic of Latvia we conducted our audit in accordance with International Standards on Auditing (hereinafter – ISAs) adopted in the Republic of Latvia. Our responsibilities under those standards are further described in the *Auditors' Responsibility for the Audit of the Financial Statements* section of our report.

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

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

Key Audit Matters

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

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

Existence and accuracy of revenue

The Company's revenue for the year ended 31 December 2019 amounted to EUR 4 950 208 (2018: EUR 5 076 346).

Reference to the financial statements: Note 2 'Income and expense recognition' on page 12 (accounting policy); Note 3 'Commission and fee income' on page 17 (Notes to the financial statements).

Key Audit Matter	*Our response*
As described in Note 1 to the financial statements, the Company provides asset management services for a number of investment funds, state-funded pension schemes and private pension fund pension plans, as well as administers individually managed portfolios for the benefit of third parties. Revenue from this activity is generated as a fixed fee for management services and a variable fee for meeting return criteria. The fixed fee for management services is calculated as a fixed percentage of the net asset value of the managed fund, plan or separately managed portfolios, while the variable fee for meeting certain criteria is calculated using the formula in the fund prospectus and is linked to the growth of fund's asset value. We paid special attention to this area because it involves a large number of day-to-day transactions that affect revenue, as well as operational complexity due to the large number of investments generated and the different fees and conditions that apply to them.	Our audit procedures included, among others: • Documenting, assessing and testing the design, implementation and operating effectiveness of the key internal controls of the Company relating to the calculation and recognition of fee income, and of internal controls over daily revaluation of the net asset values of the investment vehicles under management. • Assessing the design and effectiveness of overall information system processes and controls in relation to calculation of commission income; • We compared the rates and calculation formulas used in the calculation of fees with those provided in the prospectuses of the funds or plans managed by the Company. • For the year ended 31 December 2019: - we developed an independent forecast of fixed fee income by analytically estimating the fees that should be recognized based on the terms of the contracts and amounts of assets under management according to custodian bank statements; - checked the correctness of the calculation of the variable fee income against the conditions of

the fund and plan prospectuses and the value of the assets under management according to custodian bank statements.

- Reviewed on a sample basis income not from the management of investment funds or plans against the applicable conditions, primarily for individually managed portfolios or commissions applicable to services such as the sale or redemption of fund units.
- Evaluated the accuracy and completeness of disclosures on revenue recognition against the requirements of applicable financial reporting standards.

Reporting on Other Information

The Company's management is responsible for the other information. The other information comprises:

- General Information about the Company, as set out on page 3 of the accompanying Annual Report,
- Management Report, as set out on pages 4 and 5 of the accompanying Annual Report,
- the Statement on Management Responsibility, as set out on page 6 of the accompanying Annual Report.

Our opinion on the financial statements does not cover the other information included in the Annual Report, and we do not express any form of assurance conclusion thereon, except as described in the *Other Reporting Responsibilities in Accordance with the Legislation of the Republic of Latvia related to Other Information* section of our report.

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

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

Other Reporting Responsibilities in Accordance with the Legislation of the Republic of Latvia related to Other Information

In addition, in accordance with the 'Law on Audit Services' of the Republic of Latvia, our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of Regulation No. 46 'Regulation on the preparation of annual reports, consolidated annual reports and interim reports of an investment fund and open alternative investment fund' issued by the Financial and Capital Market Commission.

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

- the information given in the Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Management Report has been prepared in accordance with the requirements of Regulation No. 46 of the Financial and Capital Market Commission of the Republic of Latvia.

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

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

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

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

Auditors' Responsibility for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Companies internal control;

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Companies to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.

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

We provide a statement to those charged with governance regarding the fact that we have fulfilled the binding ethical requirements regarding independence and objectivity and to inform on any relationship and other matters that could be reasonably considered to impair our independence and, if necessary, on safety measures to limit such effect.

Of all the matters that we have reported to those charged with governance, we determine the matters that we consider to be the most significant for the audit of the financial statements and that are therefore considered as key audit matters. We address these issues in the auditor's report, unless the law prevents public disclosure of such information, and in very rare cases, when we consider that the respective matter should not be addressed in our report, as it can be reasonably foreseen that the public benefit from the disclosure of such information would not outweigh the negative consequences arising from such disclosure.

Report on Other Legal and Regulatory Requirements

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

We were appointed by those charged with governance on 19 April 2019 to audit the financial statements of IPAS CBL Asset Management for the year ended 31 December 2019. Our total uninterrupted period of engagement is 7 years, covering the periods ended 31 December 2013 to 31 December 2019.

We further confirm that:

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

For the period to which our statutory audit relates, we have not provided any services to the Company in addition to the audit, which have not been disclosed in the Management Report or in the financial statements of the Company.

KPMG Baltics AS
License No. 55

Rainers Vilāns
Partner pp KPMG Baltics AS
Sworn auditor
Certificate No. 200
Riga, Latvia
30 March 2020

This report is an English translation of the original Latvian. In the event of discrepancies between the two reports, the Latvian version prevails