Signet Bank AS
Annual report for year ended **31 December 2019**

SIGNET PRIVATE BANK

Content

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Management report on the Group and the Bank's operations during 2019

2019 was a year of transformation for Signet Bank AS (further - the Bank). Following the decision to adjust its business model, the Bank together with its subsidiaries (further - the Group) expanded its activities in the domestic market, focusing on High Net Worth (further - HNW) and affluent individuals and businesses owned by such individuals. During the year the Group has managed to substantially increase business volumes on the local market, increasing the number of clients, volume of deposits and growing its domestic loans portfolio. As a result, the share of business with clients from Latvia, EU and OECD member countries has substantially increased and reached 70% of the deposit base and 67% of the Group's overall revenue. In 2020, we plan to complete the transformation of our business model.

As before, our core product line is (and will remain) built around servicing the capital of HNWs and affluent individuals, and businesses owned by such individuals, with primary focus on investment management and club deals which syndicate funding for debt and private equity transactions. Our services will continue to focus on bringing together our clients' available resources and investment opportunities available through capital markets and private lending transactions. We are constantly working on improving existing products of the Group as well as introducing new solutions.

Lending and other financing products have become the most important drivers of future growth of the Group. In 2019 we successfully arranged the first bond issue for our client Sun Finance, raising 10m EUR from private and institutional clients of the Group. We believe that the market offers excellent opportunities for arranging new bond placements, and will be working hard to make this financing product more popular among our existing and potential domestic clients. As financing for local businesses becomes less available from internationally owned banks operating in Latvia, we have more opportunities to attract new clients looking to arrange financing for their businesses and projects. The Group plans to capture these opportunities, so we plan to arrange new financing transactions worth 80m EUR in 2020.

In 2020 we plan to launch the first two mutual funds managed by Signet Asset Management IPAS. These funds will complement portfolio management services currently provided by Signet Asset Management IPAS to private clients and also to the largest 3rd pillar corporate pension fund in Latvia. We also plan to expand our custody service offering and to start servicing institutional clients.

Technological development will be a major priority for the Group in 2020. We plan to invest time and resources in improving clients' servicing and services usage experience, especially in terms of more convenient remote usage of banking services, as well as in the development of new products and IT infrastructure overall. We realise that being up to speed with the latest trends in the financial sector where dynamic changes are currently taking place is crucial to further successful development of the Group.

2019 was a key year for restoring the international reputation of the financial sector in Latvia. The coordinated efforts of government, lawmakers, Financial Intelligence Unit, FCMC, law enforcement agencies and financial institutions has led to irreversible de-risking of Latvian banking sector, which now commands AML/CTPF standards fully up-to-date with the international best practice. It is important to note that changes in AML/CTPF culture were accomplished not only in the Latvian banking sector, but in the economy at large and these changes have been recognised by international experts – first the Council of Europe's Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (further – Moneyval) in January

2020, followed by the FATF in February 2020. Latvia has become the first member state under the supervision of Moneyval to successfully implement all 40 FATF recommendations. This is the best evidence of the progress Latvia made in tackling AML/CTPF issues within a very short period of time. We are convinced that these efforts, and the real progress achieved so far, will lead to restoring the Latvian financial sector's reputation on the international arena.

With this background, the Group continues to pay great attention to AML/CTPF compliance, constantly enhancing its internal controls in line with the changing regulatory environment and international best practice. We are investing in IT and human resources to maintain risk management and controls consistent with the chosen business model.

Sustainability is becoming an increasingly significant aspect of the financial industry, reflecting the resolution on the Agenda for Sustainable Development adopted by UN General Assembly in 2015. The greatest resonance so far has been caused by the environmental factor, with ambitious goals defined for environmental protection and restoration both globally and nationally. The Bank intends to accentuate sustainable finance as a priority, integrating its three dimensions - environmental, social and governance – into operational strategy, investment decision-making, development of financial instruments, and provision of investment services to clients of the Bank.

In terms of financial performance the Group had a fairly successful year. Net fee income increased in 2019 compared to 2018 by 34% (from 3.4m EUR to 4.6m EUR), while net interest income has increased by 14% (from 3.4m EUR in 2018 to 3.9m EUR in 2019). Administrative expenses have increased slightly (+2% – from 7.1m EUR in 2018 to 7.2m EUR in 2019), but net comprehensive income reached 1.1m EUR (compared to net comprehensive expense of 57 thousand EUR in 2018).

Client deposits increased by 52m EUR (+51%), while the total amount of client funds under the Group management and administration has increased from 624m EUR to 1,093m EUR (+75%).

We see many opportunities as the banking sector of Latvia continues to undergo structural changes. At Group, we see a clear opportunity to grow our private banking and investment banking businesses. Having access to our clients' substantial capital, we are able not only to arrange loans on our balance sheet, but also to syndicate sizeable debt financing transactions with our clients in the form of both loans and bond issues.

The Group has maintained its conservative risk profile – capital adequacy ratio stood at 23.27% at the end of 2019, with a liquidity ratio of 67.59%. We will continue to put more capital to work, mostly through growing our loan portfolio in the local market.

Events of past few weeks related to the COVID-19 pandemic in the world and declared the state of emergency in Latvia have brought certain disruptions to everyone's everyday life. The Group continues to offer full range of services to the clients, and our staff is ready to work in fully remote mode if such need arises. Elevated volatility in the financial markets does not have any substantial impact on our proprietary investment portfolio, which is predominantly comprised of high-grade bonds. We hope that this pandemic subsides very soon, and wish to all of our clients and partners to stay safe and sound in the meantime.

Management of the Group is satisfied with the results achieved in 2019, and is confident that last year's hard work has laid the necessary groundwork for achieving more in the coming years. We believe the Group has an excellent proposition for existing and potential clients, and are full of energy and commitment to realise its vast potential for growing turnover and revenues.

We would like to thank our clients for their continuous trust, our shareholders for their support and strategic guidance, and our employees for their hard work in these exciting times.

On behalf of the management:

Roberts Idelsons *Chairman of the Board*	Tatjana Drobina *Member of the Board*

27 March 2020

The Council and Management of the Bank

Supervisory Council of the Bank

Position	Name, surname
Chairman of the Supervisory Council	Serge Umansky
Deputy Chairman of the Supervisory Council	Irīna Pīgozne
Member of the Supervisory Council	Sergejs Medvedevs
Member of the Supervisory Council	Pavel Kurosh
Member of the Supervisory Council	Thomas Roland Evert Neckmar

There were no changes in the Supervisory Council of the Bank during the reporting period.

Management Board of the Bank

Position	Name, surname
Chairman of the Management Board	Roberts Idelsons
Member of the Management Board	Tatjana Drobina
Member of the Management Board	Sergejs Zaicevs
Member of the Management Board	Jānis Solovjakovs

There were no changes in the Management Board of the Bank during the reporting period.

Statement of Management Responsibility

The management of Signet Bank AS (the Bank) is responsible for the preparation of the financial statements of the Bank and its subsidiary (the Group) that reflect the Bank and the Group's financial position at the end of the reporting period in a clear and actual manner, as well as for the financial results and the movement of monetary assets and liabilities during the reporting period.

The Bank's management confirms that throughout the preparation of pages 8 to 90 of the financial statements of the Bank and the Group for 2019 the corresponding bookkeeping methods have been used consistently, and that the decisions and evaluations of the Bank's management during the preparation of the financial statements have been in all respects sufficient, well-considered and balanced.

The aforementioned financial statements are prepared on a going concern basis in conformity with International Financial Reporting Standards as adopted by the European Union. Prudent and reasonable judgments and estimates have been made by the management in the preparation of the financial statements.

The Bank's management is responsible for the maintenance of proper accounting records, the safeguarding of the Group's assets, and the prevention and detection of fraud or any other irregularities in the Group.

The Bank's management is also responsible for operating the Group and the Bank in compliance with the Law on Credit Institutions of the Republic of Latvia, Regulations of the Bank of Latvia and the Financial and Capital Market Commission of the Republic of Latvia, and other laws of the Republic of Latvia as well as European Union Regulations applicable to credit institutions.

On behalf of the management:

Roberts Idelsons
Chairman of the Board

Tatjana Drobina
Member of the Board

27 March 2020

Group`s Consolidated and Bank’s Separate Statement of Income for the year ended 31 December 2019

’000 EUR	Note	2019 Group	2018 Group	2019 Bank	2018 Bank
Interest income	7	5,444	4,952	5,209	4,952
Interest expense	7	(1,592)	(1,577)	(1,605)	(1,585)
Net interest income		**3,852**	**3,375**	**3,604**	**3,367**
Fee and commission income	8	5,339	3,923	5,121	3,696
Fee and commission expense	9	(789)	(519)	(775)	(508)
Net fee and commission income		**4,550**	**3,404**	**4,346**	**3,188**
Net profit / loss on discontinuing recognition of financial assets and financial liabilities at fair value through profit or loss		(19)	(103)	(19)	(103)
Net profit / loss from financial assets and financial liabilities measured at fair value through profit or loss		(205)	(36)	(205)	(36)
Net foreign exchange income		(148)	872	(153)	860
Net other income		343	114	336	117
Total operating income		**8,373**	**7,626**	**7,909**	**7,393**
General administrative expenses	10	(7,197)	(7,051)	(6,910)	(6,779)
Share of loss of equity-accounted investee, net of tax		(7)	(58)	32	-
Net impairment of investment in subsidiaries	19	(5)	(299)	-	(299)
Other impairment losses	11	(8)	-	(8)	-
Impairment loss	11	(203)	(134)	(271)	(134)
Profit/(loss) before income tax		**953**	**84**	**752**	**181**
Income tax expense	12	(8)	(10)	(8)	(10)
Profit/(loss) for the period		**945**	**74**	**744**	**171**
Profit Attributable to non-controlling interest		50	-	-	-
Profit Attributable to Equity holders of the Bank		895	74	744	171

The accompanying notes on pages 16 to 90 are an integral part of the Group consolidated and Bank separate financial statements.

The Group consolidated and Bank`s separate financial statements as set out on pages 8 to 90 were approved by management of the Bank on 27 March 2020.

On behalf of the management:

Roberts Idelsons
Chairman of the Board

Tatjana Drobina
Member of the Board

Group`s Consolidated and Bank's Separate Statement of Comprehensive Income for the year ended 31 December 2019

'000 EUR	Note	2019 Group	2018 Group	2019 Bank	2018 Bank
Profit/(loss) for the period		**945**	**74**	**744**	**171**
Other comprehensive income					
Items that are or may be reclassified to profit or loss					
Changes in revaluation reserve of debt securities at fair value through other comprehensive income		64	(466)	58	(466)
Change to income statement as a result of sale of financial assets at fair value through other comprehensive income		128	335	125	335
Other comprehensive income/(expense) for the period		**192**	**(131)**	**183**	**(131)**
Total comprehensive income/(expense) for the period		**1,137**	**(57)**	**927**	**40**
Profit Attributable to non-controlling interest		50	-	-	-
Profit Attributable to Equity holders of the Bank		1,087	(57)	927	40

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On behalf of the management:

Roberts Idelsons
Chairman of the Board

Tatjana Drobina
Member of the Board

Group's Consolidated and Bank's Separate Statement of Financial Position as at 31 December 2019

'000 EUR	Note	2019 Group	2018 Group	2019 Bank	2018 Bank
Assets					
Cash and due from central banks	13	40,931	25,658	40,931	25,658
Demand deposits with credit institutions	15	11,484	18,282	11,411	18,032
Financial instruments carried at fair value through profit or loss *	14	1,097	1,030	1,097	1,030
Debt securities measured at fair value through other comprehensive income *	17	20,442	33,711	20,237	33,711
Financial assets measured at amortized cost		108,084	54,080	107,987	54,080
Loans and advances due from customers	16	*65,196*	*37,703*	*65,099*	*37,703*
Debt securities	18	*22,420*	*5,551*	*22,420*	*5,551*
Term deposits with credit institutions	15	*20,468*	*10,826*	*20,468*	*10,826*
Investment in subsidiaries	19	-	-	1,531	1,292
Investment in associates	20	1,895	1,718	2,028	1,813
Property and equipment	21	2,787	1,755	2,763	1,753
Goodwill and other intangible assets	22	210	181	142	181
Other assets	23	2,279	1,126	1,956	1,100
Total Assets		**189,209**	**137,541**	**190,083**	**138,650**

The accompanying notes on pages 16 to 90 are an integral part of the Group consolidated and Bank separate financial statements.

The Group consolidated and Bank`s separate financial statements as set out on pages 8 to 90 were approved by management of the Bank on 27 March 2020.

On behalf of the management:

Roberts Idelsons
Chairman of the Board

Tatjana Drobina
Member of the Board

Group's Consolidated and Bank's Separate Statement of Financial Position as at 31 December 2019

'000 EUR	Note	2019 Group	2018 Group	2019 Bank	2018 Bank
Liabilities and shareholders' equity					
Financial liabilities at fair value through profit or loss	14	549	258	549	258
Financial liabilities measured at amortized cost		166,059	120,130	167,559	121,292
Deposits	25	*154,159*	*101,892*	*155,659*	*103,054*
Subordinated liabilities	26	*11,465*	*18,238*	*11,465*	*18,238*
Liabilities to financial institutions	24	*435*	-	*435*	-
Provisions		8	-	8	-
Other liabilities	27	5,522	1,431	5,354	1,414
Total Liabilities		**172,138**	**121,819**	**173,470**	**122,964**
Share capital	28	32,171	32,171	32,171	32,171
Share premium		28	28	28	28
Other reserves		312	312	312	312
Fair value reserve		105	(87)	96	(87)
Accumulated losses		(15,807)	(16,702)	(15,994)	(16,738)
Total Equity Attributable to Equity Holders of the Bank		**16,809**	**15,722**	**16,613**	**15,686**
Non-controlling Interest		262	-	-	-
Total Shareholders' Equity		**17,071**	**15,722**	**16,613**	**15,686**
Total Liabilities and Shareholders' Equity		**189,209**	**137,541**	**190,083**	**138,650**
Assets under management	30	**622,941**	**344,985**	**568,628**	**290,113**

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On behalf of the management:

Roberts Idelsons
Chairman of the Board

Tatjana Drobina
Member of the Board

Group's Consolidated and Bank's Separate Statement of Cash Flows for the year ended 31 December 2018

'000 EUR	Note	2019 Group	2018 Group	2019 Bank	2018 Bank
Cash flows from operating activities					
Profit before income tax		953	84	752	181
Corporate income tax paid		8	10	8	10
Amortisation and depreciation	21, 22	535	446	530	445
Impairment of investment in subsidiaries and associates	19, 20	5	299	-	299
Impairment loss	11	203	134	271	134
Net interest income		(3,802)	(3,374)	(3,554)	(3,366)
Dividends received		(195)	(28)	(195)	(28)
Increase of provisions		8	-	8	-
Decrease in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations		**(2,285)**	**(2,429)**	**(2,180)**	**(2,325)**
Decrease in financial assets at fair value through profit or loss		224	216	224	216
(Increase)/decrease in balances due from financial institutions		(8,950)	21,346	(8,956)	21,292
(Increase)/decrease in loans and advances due from customers		(27,546)	7,201	(27,556)	7,201
Increase in non-current assets held for sale		(215)	-	(193)	-
(Increase)/decrease in other assets		(943)	(240)	(668)	(244)
Increase/(decrease) in deposits and balances due to financial institutions		52,267	(33,222)	52,545	(33,294)
Increase/(decrease) in other liabilities		3,334	6	3,183	(67)
Increase/ (decrease) in cash and cash equivalents from changes in assets and liabilities, as a result of ordinary operations		**15,886**	**(7,122)**	**16,399**	**(7,221)**
Interest received		5,280	5,457	5,080	5,465
Dividends received		195	28	195	28
Interest paid		(1,008)	(968)	(961)	(1,033)
Net cash flow from/(used in) operating activities		**20,353**	**(2,605)**	**20,713**	**(2,761)**
Cash flow from investing activities					
Purchase of property and equipment	21, 22	(391)	(74)	(296)	(74)
(Increase)/decrease in financial instruments designated at fair value through profit or loss		13,358	(13,002)	13,558	(13,002)
(Increase)/decrease in financial assets measured at amortized cost		(16,796)	4,228	(16,796)	4,228
Investments in associates		(177)	(128)	(215)	(128)
Investments in subsidiary		(5)	-	-	-
Net cash flow from investing activities		**(4,011)**	**(8,976)**	**(3,749)**	**(8,976)**

Group's Consolidated and Bank's Separate Statement of Cash Flows for the year ended 31 December 2018

'000 EUR	Note	2019 Group	2018 Group	2019 Bank	2018 Bank
Cash flow from financing activities					
Acquisition of subsidiary		-	-	(239)	-
Non-controlling interest in subsidiary		212	-	-	-
Increase/ (decrease) in Subordinated liabilities		(7,712)	227	(7,712)	227
Repayment of lease liabilities		(109)	-	(109)	-
Net cash flow from financing activities		**(7,609)**	**227**	**(8,060)**	**227**
Net in cash and cash equivalents		**8,733**	**(11,354)**	**8,904**	**(11,510)**
Cash and cash equivalents at the beginning of the year		43,940	54,832	43,690	54,750
Currency translation of cash and cash equivalents at the year		(258)	462	(252)	450
Cash and cash equivalents at the end of the year	13	**52,415**	**43,940**	**52,342**	**43,690**

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On behalf of the management:

Roberts Idelsons
Chairman of the Board

Tatjana Drobina
Member of the Board

Group's Consolidated Statement of Changes in Shareholders' equity for the year ended 31 December 2019

'000 EUR	Note	Share capital	Share premium	Fair value reserve	Other reserves	Accumulated losses	Non-controlling Interest	Total
Balance at 1 January 2018 before the adoption of IFRS 9		**32,171**	**28**	**44**	**312**	**(16,724)**	**-**	**15,831**
Impact of initial application of IFRS 9		-	-	-	-	(52)	-	**(52)**
Balance at 1 January 2018 after the adoption of IFRS 9		**32,171**	**28**	**44**	**312**	**(16,776)**	**-**	**15,779**
Comprehensive income								
Profit for the year		-	-	-	-	74	-	74
Other comprehensive expense		-	-	(131)	-	-	-	(131)
Total comprehensive income/ (expense)		**-**	**-**	**(131)**	**-**	**74**	**-**	**(57)**
Balance at 31 December 2018	28	**32,171**	**28**	**(87)**	**312**	**(16,702)**	**-**	**15,722**
Comprehensive income								
Profit for the year		-	-	-	-	895	50	945
Other comprehensive income		-	-	192	-	-	-	192
Total comprehensive income		**-**	**-**	**192**	**-**	**895**	**50**	**1,137**
Acquisition of a non - controlling subsidiary		**-**	**-**	**-**	**-**	**-**	**212**	**212**
Balance at 31 December 2019	28	**32,171**	**28**	**105**	**312**	**(15,807)**	**262**	**17,071**

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On behalf of the management:

Roberts Idelsons
Chairman of the Board

Tatjana Drobina
Member of the Board

Bank's Separate Statement of Changes in Shareholders' Equity for the year ended 31 December 2019

'000 EUR	Note	Share capital	Share premium	Fair value reserve	Other reserves	Accumulated losses	Total
Balance at 1 January 2018 before the adoption of IFRS 9		**32,171**	**28**	**44**	**312**	**(16,857)**	**15,698**
Impact of initial application of IFRS 9		-	-	-	-	(52)	**(52)**
Balance at 1 January 2018 after the adoption of IFRS 9		**32,171**	**28**	**44**	**312**	**(16,909)**	**15,646**
Comprehensive income							
Profit for the year		-	-	-	-	171	171
Other comprehensive expense		-	-	(131)	-	-	(131)
Total comprehensive income/ (expense)		**-**	**-**	**(131)**	**-**	**171**	**40**
Balance at 31 December 2018	28	**32,171**	**28**	**(87)**	**312**	**(16,738)**	**15,686**
Comprehensive income							
Profit for the year		-	-	-	-	744	744
Other comprehensive income		-	-	183	-	-	183
Total comprehensive income		**-**	**-**	**183**	**-**	**744**	**927**
Balance at 31 December 2019	28	**32,171**	**28**	**96**	**312**	**(15,994)**	**16,613**

The accompanying notes on pages 16 to 90 are an integral part of the Group consolidated and Bank separate financial statements.

The Group consolidated and Bank`s separate financial statements as set out on pages 8 to 90 were approved by management of the Bank on 27 March 2020.

On behalf of the management:

Roberts Idelsons
Chairman of the Board

Tatjana Drobina
Member of the Board

Group's Consolidated and Bank's Separate Notes to the Financial Statements

1. Background

Principal activities

The Bank was founded in 1992 under the name Latvian Business Bank. In September 2017, a group of international investors became the Bank's majority shareholders; three financially sound investors - Signet Global Investors Ltd, SIA Hansalink and SIA Fin.lv among them. In addition to financial stability, it provides the basis for rational and thoughtful strategic decision-making at the shareholder level, using the complementary and diverse experience of each shareholder.

Signet Bank AS is a private bank that offers quality financial solutions to the high net worth individuals, businessmen and companies owned by them at the highest level of professionalism and reliability. The main products offered to the clients are servicing day to day banking transactions of private and business clients, wealth management, including portfolio management, participation in club-type financing deals and investment advisory, private and corporate loans, premium level payment cards, deposits. The Bank's target clients are predominantly residents of Latvia, European Union and OECD countries. The Bank strives to become the most comfortable and reliable provider of private banking services in the Nordic region.

In 2018 the Bank conducted a review of its strategy and has launched diversification of clients deposits and clients base in order to reduce the proportion of clients which create increased reputational risks to the Bank (clients from Russia and other CIS countries predominantly). Such diversification is mainly achieved by focusing on markets represented by the Bank's majority shareholders – Latvia, United Kingdom, European Union countries. As a result of these activities, at the end of 2019 the majority of the Bank's business (67 % of deposits and 64 % of income) was from European Union residents, while 44 % of deposits and 37 % of income were from residents of Latvia. The Bank will continue to prioritize growth of business volumes in Latvia and other European Union countries both in terms of attracting clients and lending.

The Group's capital adequacy and liquidity[1] ratios were 23.27% and 67.59% respectively as at 31 December 2019 (2018: 31.05% and 97.01% respectively). In 2019 the Group's Return on Equity (ROE)[2] and Return on Assets (ROA)[3] were 5.81% and 0.60% respectively (0.47% and 0.05% in 2018).

The Bank operates in accordance with the laws and regulations of the Republic of Latvia and the licence issued by the Bank of Latvia that allows the Bank to render all the financial services specified in the Law on Credit Institutions.

The activities of the Group are supervised by the Financial and Capital Market Commission of the Republic of Latvia ("FCMC"). The registered address of the Bank's head office is 3 Antonijas street, Riga LV-1010, Latvia.

Subsidiaries of the Group is as follows:

Name	Country of incorporation	Principal Activities	Address	Ownership %	
				2019	2018
Signet Asset Management Latvia IPAS	Latvia	Financial services	3 Antonijas street, Riga LV-1010, Latvia	100	100
AS "Primero Finance"	Latvia	Financial services	50 Skanstes street, Riga LV-1013, Latvia	51	-

[1] Liquidity ratio is calculated by dividing short-term liquid assets by current liabilities due in 30 days

[2] ROE is calculated as annualised net profit/loss for the relevant period divided by the average of total equity at the beginning and the end of the period.

[3] ROA is calculated as annualised net profit/loss for the relevant period divided by the average of total assets at the beginning and the end of the period.

2. Authorisation of the financial statements

These financial statements have been authorised for issuance by the Management on 27 March 2020 and comprise the financial information of Signet Bank AS (hereinafter – the Bank) and its subsidiaries Signet Asset Management Latvia IPAS and AS "Primero Finance" (together referred to as the "Group"). The shareholders have the right to approve these financial statements, as well as have the right to make changes to these financial statements.

3. Summary of significant accounting policies

The following significant accounting policies have been applied in the preparation of the Group's consolidated and the Bank's separate financial statements.

a) Basis of preparation

The accompanying Group consolidated and Bank separate financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("EU IFRS"), and regulations of the Financial and Capital Market Commission of the Republic of Latvia in force as at the reporting date and in accordance with a going concern basis. Having reassessed the main risks, the Management considers it appropriate to adopt going concern basis of accounting in preparing these financial statements, there are no material uncertainties with regard to applying going concern basis of accounting.
Certain new or revised standards become effective from 1 January 2019, thus certain accounting policies were updated and revised. Other accounting policies used in the preparation of these financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2018. The new accounting standard implementation impact and revised accounting policies are described below.

b) Functional and Presentation Currency

Group's and Bank's functional currency and presentation currency, is the official currency of the Republic of Latvia, Euro ("EUR"). The accompanying financial statements are presented in thousands of Euros (EUR 000's).

c) Adoption of new or revised standards and interpretations

Certain new IFRSs became effective for the Group from 1 January 2019. Listed below are those new or amended standards or interpretations which the Group has adopted in preparation of these financial statements. The following guidance with effective date of 1 January 2019 was implemented for these consolidated financial statements. Implementation impact, where relevant, is disclosed throughout these financial statements.

IFRS 16 – Leases (replaces IAS 17, IFRIC 4, SIC-15, SIC-27).

The Group initially applied IFRS 16 using the modified retrospective approach, under which comparative information is not restated; the Group has elected to apply the new standard by not affecting retained earnings as 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 must 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 at the discounted value of agreed-upon payments over the lease term. A discount rate which discounts future payments to estimated present value is applied. The Group presents right-of-use assets in the same line items in which it presents owned assets of the same nature. Lease liabilities are presented within other liabilities. The Group 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 instead.

When estimating a lease term, the Group's intentions as well as contractual early termination and extension options available to the lessee and lessor are considered. When a previously recognised lease is modified and the 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 the scope of lease decreases, the current right-of-use asset and corresponding lease liability are re-measured. In case of decrease in scope of lease a gain or loss (if any) is recognised in income statement.

The most important kind of lease agreement for the bank as a lessee concerns spaces leased for the purposes of the Bank's core activities. If a lease contract entails the possibility of extension or premature termination, in many cases a period of lease equal to a one-year planning period is applied – unless an agreement already specifies a shorter period of lease. The implicit loan interest rate on the date of initial application was 4.19% determined based on the average subordinated loan interest rate for the Bank.

As a lessee, the Group defines IFRS 16 accounting terms beyond the scope of the Standard as follows:

- *a short-term lease* is a lease with the term of less than or equal to 12 (twelve) months;
- *a low value asset* is an asset which is acquired new and has value equal to or less than EUR 5,000.00 (five thousand euros).

The amount of right-of-use assets which was recognised at implementation of the new standard was EUR 1.2 million for the Bank and EUR 21 thousand for the subsidiary. Corresponding lease liability was recognised. During the reporting period, the Bank recognised depreciation charges for right-of-use assets in the amount of EUR 129 thousand.

'000 EUR	Group	Bank
Operational lease liabilities as at 31.12.2018, reflected in financial statements in accordance with IAS 17	1,321	1,321
Discounted at the loan interest rate as at 01.01.2019	1,205	1,205
Lease liabilities recognised as at 01.01.2019	1,205	1,205
- Low-value asset recognition exemption	11	11

Requirements to come but not impacting 2019 financials

The following amended standards became effective from 1 January 2019, but did not have any material impact on the Group and the Bank, according to Banks management assessment:

- IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019);
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019);
- Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures" (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019);
- Annual improvements for IFRSs 2015-2017 cycle – amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019);
- Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"(issued on 7 February 2018 and effective for annual periods beginning on or after 2019).

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2019, and have not been applied in preparing these consolidated financial statements. The Group and the Bank does not plan to adopt these standards early. The Group and the Bank is in the process of evaluating the potential effect if any of changes arise from these new standards and interpretations:

- Amendments to References to Conceptual Framework in IFRS Standards;
- Amendments to References to Conceptual Framework in IFRS Standards published on 29 March 2018 are effective for annual periods beginning after 1 January 2020 or later;
- Amendments to IFRS 3: Business Combinations;
- Amendments to IFRS 3: Business Combinations published on 22 October 2018 are effective for annual periods beginning after 1 January 2020 or later;
- Amendments to IAS 1 and IAS 8 regarding the definition of materiality;
- Amendments to IAS 1 and IAS 8 regarding the definition of materiality published on 31 October 2018 are effective for annual periods beginning after 1 January 2020 or later.

d) Basis of consolidation

(i) Subsidiaries

Subsidiaries are those enterprises controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. The investments in the subsidiaries are presented in the Bank's financial statements at acquisition cost less impairment allowance. More detailed information on the Group's subsidiary is presented in Note 19 (Investment in Subsidiaries).

(ii) Associates

The Bank's interests in equity accounted investees comprise interests in associates.
Associates are those entities in which the Bank has significant influence, but not control or joint control, over the financial and operating policies. Investments in associates are accounted for in the Group consolidated financial statements using the equity method. They are initially recognised at cost, including transaction costs. Subsequent to initial recognition, consolidated financial statements include the Group's share of the profit or loss and OCI in equity-accounted investees, until the date on which significant influence or joint control ceases.
Investments in associates are carried in the Bank's separate financial statements at cost less impairment, if any. More detailed information on the Group's associates is presented in Note 20 (Investment in associates).

(iii) Transactions eliminated on consolidation

Detailed information of the subsidiaries entity is available in Note 19.
The Bank and its Subsidiarie's financial statements are consolidated in the Group financial statements, merging the respective assets, liabilities, income and expense captions. Intra-group balances and transactions, and any unrealized gains arising from intra-group transactions, have been eliminated in the preparation of the consolidated financial statements.

(iv) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets.
Goodwill is allocated to cash-generating units and is stated at cost less impairment losses.
Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses. Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.
Negative goodwill arising on acquisition is recognised immediately in profit or loss. Impairment losses are not reversed.

e) Foreign currency

Transactions in foreign currencies are translated into the respective functional currency of Group companies at the exchange rate at the date of the transaction.
Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the European Central Bank spot exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value in foreign currency are retranslated into the functional currency at the European Central Bank spot exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or a financial liability designated as the hedging instrument in a hedge of the net investment in a foreign operation or in a qualifying cash flow hedge, which are recognised in other comprehensive income.

f) Cash and cash equivalents

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

g) Financial instruments

(i) Recognition

The Group recognises financial asset on its balance sheet when, and only when, the Group becomes a party to the contractual provisions of the instrument.
All transactions of purchase and sale of financial assets are recognised in the statement of financial position on the settlement date. In the period between a transaction and the settlement date, the Bank recognises changes of fair value of an asset to be received or transferred according to the same principles that are applied to the accounting of any asset of the respective category.

(ii) Classification

At the time of initial recognition, the Group classifies all financial assets and financial liabilities into one of the business models as follows:

- held in order to collect contractual cash flows (HTC);
- held in order to both collect the contractual cash flows and sell the financial asset (HTCS);
- held for trading (TRD).

The basis for classification is both business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. At acquisition the applicable classification is evaluated based on the guidelines established by the Management. For financial asset classification in particular category, the Group at inception has to determine whether the asset meets the relevant business model and contractual cash flow criteria.

The Group, having regard to the business model objectives and the contractual cash flow characteristics, accounts financial assets in 3 (three) measurement categories:

- measured at amortised cost (AmC);
- measured at fair value through other comprehensive income (FVOCI);
- measured at fair value through profit or loss (hereinafter referred to as FVTPL).

The Group accounts all financial assets as measured at AmC, except for:

- liabilities held for trading or those initially classified as FVTPL. Such liabilities, including derivative instruments which are liabilities, are afterwards measured at fair value;
- financial liabilities that arise when the transfer of a financial asset does not qualify for derecognition, or a continuing involvement approach applies;
- financial guarantee contracts;
- commitment to issue a loan at an interest rate lower than the market interest rate;
- contingent consideration recognised by the buyer in a business combination that is subject to IFRS 3. Such possible remuneration is subsequently measured at fair value with changes recognised in the statement of profit and loss.

(iii) Measurement

Financial assets and liabilities measured at amortised cost

For a financial asset to be measured at amortised cost it should both be held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset should give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortised cost are carried at amortised cost using the effective interest rate method, less any allowance for impairment. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's effective interest rate. The effective interest rate is applied to the gross carrying amount of a financial asset except for credit-impaired financial assets. For the purchased or originated credit-impaired financial assets the credit-adjusted effective interest rate is applied from initial recognition. For financial assets which subsequently become credit-impaired the effective interest rate is applied to the revised after impairment carrying amount and where the credit risk on the financial instrument improves so that the financial asset is no longer credit-impaired, the effective interest rate is applied to the gross carrying amount.

A gain or loss on a financial asset that is measured at amortised cost is recognised in profit or loss when the financial asset is derecognised, reclassified, through the amortisation process or in order to recognise impairment gains or losses. Financial assets at amortised cost are recognised on drawdown. From the date of signing a contractual agreement till drawdown they are accounted for as off-balance sheet commitments.

When the financial asset cannot be recovered, it is written off and charged against allowance for credit losses. The Group makes the decision on writing-off of financial assets. Recoveries of loans previously written-off are credited to the statement of income.

The Group classifies all financial liabilities as subsequently measured at amortised cost using the effective interest rate method, except for derivatives and certain deposit components of the insurance plan liabilities which are measured at fair value through profit or loss. A gain or loss on a financial liability that is measured at amortised cost is recognised in profit or loss when the financial liability is derecognised and through the amortisation process.

Financial assets measured at fair value through other comprehensive income

For a financial asset to be measured at fair value through other comprehensive income it should be held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset should give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The Group's financial assets measured at fair value through other comprehensive income are intended to be held for an undefined period of time and may be sold in response to needs for liquidity or changes in interest rates, exchange rates, share prices or other circumstances.

Financial assets measured at fair value through other comprehensive income are subsequently re-measured at fair value based on available market prices. A revaluation gain or loss on a financial asset measured at fair value through other comprehensive income is recognised in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognised or reclassified. For debt securities the difference between the initial carrying amount and amortised cost determined by the effective interest rate method is treated as interest income and is recognised in profit or loss; on derecognising the cumulative fair value revaluation gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

For non-equity financial instruments measured at fair value through other comprehensive income, the loss allowance is recognised in other comprehensive income and does not reduce the carrying amount in the balance sheet. Impairment gains or losses are recognised in profit or loss.

For equity instruments, neither held for trading or acquired in a business combination, the Group at initial recognition, has to make an irrevocable election to present subsequent changes in the fair value of each instrument in other comprehensive income or profit or loss. This election is made on an instrument-by-instrument basis. Amounts presented in other comprehensive income subsequently are not transferred to profit or loss, but cumulative gain or loss on disposal is transferred directly to retained earnings. Dividends on equity instruments classified at fair value through other comprehensive are recognised in the statement of income. Such equity instruments are not tested for impairment, but carried at fair value.

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

A financial asset is measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income. For equity instruments that would otherwise be measured at fair value through profit or loss an irrevocable election at initial recognition on instrument-by-instrument basis is made to present subsequent changes in fair value in other comprehensive income. Also a financial asset or liability, at initial recognition, may be irrevocably designated as measured at fair value through profit or loss if doing so eliminates or significantly reduces "accounting mismatch" that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases or a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the management.

Financial assets and liabilities which are held for trading are measured at fair value through profit or loss. Financial assets and liabilities are held for trading if they are either acquired in a business model which is characterised by generation of a profit from short-term fluctuations in price or dealer's margin, or a pattern of short-term profit taking exists.

Modification of terms in loan contracts

The Group sometimes renegotiates or otherwise modifies the contractual cash flows or other contractual terms of loans to customers. When this happens, the Group assesses whether or not the new terms are substantially different from the original ones. To do so, the Group considers modifications such as:

- significant extension of the loan when the borrower is not in financial difficulty;
- significant change in interest rate;
- change of the loan currency;
- whether there are any other changes in the loan contract that substantially affect the risk profile of the loan including changes in the composition of collateral.

If the terms are substantially different, the Group derecognises the original financial asset and recognises a new asset at fair value and calculates new effective interest rate for the asset. The date of renegotiation is considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. The Group also assesses whether the new financial asset is deemed to be credit-impaired at initial recognition, especially when the renegotiation was driven by the debtor being unable to meet the original schedule of payments.

Differences in the carrying amount are recognised on profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the modification does not result in derecognition, and the Group recalculates the gross carrying amount by discounting the revised cash flows at the original effective interest rate. Resulting gain or loss is recognised in profit or loss.

(iv) Derecognition

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

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

h) Repurchase and reverse repurchase agreements

These agreements are accounted for as financing transactions. Under sale and repurchase agreements, where the Group is the transferor, assets transferred remain on the Group's balance sheet and are subject to the Group's usual accounting policies, with the purchase price received recorded as a liability owed to the transferee. Assets in the balance sheet are shown separately from other assets when the transferee has the right by contract or custom to sell or repledge the collateral.
Where the Group is the transferee, the assets are not included in the Group's balance sheet, but the purchase price paid by it to the transferor is recorded as an asset. Interest income or expense arising from outstanding sale and repurchase agreements is recognised in the statement of income over the term of the agreement.

i) Derivative financial instruments

Derivative financial instruments include OTC interest rate swaps, exchange-traded interest rate futures and interest rate options, currency forwards and swaps, options on precious metals, and stock options and any combinations of these financial instruments. All derivatives are classified as measured at fair value through profit or loss.
Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently measured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.
Changes in the fair value of derivatives are recognised immediately in the profit or loss.
Derivatives may be embedded in another contractual arrangement (a "host contract"). An embedded derivative is separated from the host contract and it is accounted for as a derivative if, and only if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, and a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the combined instrument is not measured at fair value with changes in fair value recognised in the profit or loss. Derivatives embedded in financial assets or financial liabilities at fair value through profit or loss are not separated.
Although the Group/Bank trade with derivative instruments for risk hedging purposes, the Group/Bank do not apply hedge accounting.

j) Offsetting

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

k) Property and equipment

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.
Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

(ii) Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.
Leasehold improvements are capitalized, and their depreciation is calculated on a straight-line basis over the remaining lease term. Leasehold renovation costs in relation to improving quality of the building are capitalized. Leasehold maintenance and current repair costs are recognized in the profit or loss statement when incurred.

(iii) Depreciation

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

Leasehold improvements	Over the lease term
Equipment	3 years
Fixtures and fittings	5 years

l) Intangible assets

Intangible assets, which are acquired by the Group, are stated at cost less accumulated amortisation and impairment losses.
Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.
Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.
Costs associated with maintaining computer software programs are recognised as an expense as incurred.
Amortisation is charged to the profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are as follows:

Intangible assets	5-7 years

m) Impairment of financial assets and expected loss

The Group's impairment requirements are based on an expected loss model. Expected loss calculations do not represent the losses that the Group may suffer in a single scenario such as a stress scenario, but represent a probability weighted loss in a number of reasonably possible scenarios including a normal repayment scenario.

To calculate impairment, the assets are divided into three categories (stages):
- stage 1 includes assets where no significant increase in credit risk since acquisition/initial recognition is identified;
- stage 2 includes assets for which a significant increase in credit risk is identified since acquisition/initial recognition but for which no default of the issuer has been identified;
- stage 3 includes defaulted assets.

The Group calculates provisions for expected credit losses according to the requirements of IFRS 9:
- for stage 1 assets, loan loss allowance equals the 12 month expected credit loss, that is a possible loss if the issuer defaults within the next 12 months;
- for stage 2 and 3 assets loan loss allowance equals the lifetime expected credit losses.

The 'default' is defined in line with the prudential definition of the default: exposure delayed 90 and more days, significant restructuring and other unlikeliness to pay indicators. The 'default' is the criteria for transfer to stage 3.

To determine if the credit risk associated with a financial instrument has increased significantly since initial recognition (or a financial instrument is in default), the Group monitoring a number of indicators, such as:
- whether the payments related to an asset (or other obligations of an obligor) have been past due or there has been a breach of covenants;
- whether there has been information about significant deterioration of the obligor's financial situation;
- whether an obligor has informed the Group about his willingness to alter the debt contract terms that can be deemed to be a forbearance (granting to the obligor a concession(s) due to the obligor's financial difficulty that would not otherwise be granted) or an event of forbearance itself;
- whether substantial decline of the market price of the obligor's debt instruments has occurred, in case an obligor has issued financial instruments and those are actively traded;
- whether actual or expected changes in business conditions have been observed / forecasted that may have a significant impact on the obligor's creditworthiness assessment;
- whether there has been a decrease of an obligor's external or internal credit rating;
- whether there has been an increase of the loan-to-value ratio (for the Group's issued loans).

Based on the above mentioned criteria, the Group's management make a decision regarding classification of the assets by stages. Usually, if payments related to an asset are past due more than 30 days, the asset is classified as stage 2 asset, and, if payments related to an asset are past due more than 90 days, the asset is classified as stage 3 asset.

The Group use the "low credit risk exemption" permitted by the standard. The Group uses low credit risk exemption as permitted by the IFRS 9 standard when calculating the amount of expected credit losses (ECL) for the Group's claims on counterparties and issuers that have BBB- or higher credit rating from rating companies Standard & Poor's, Moody's or Fitch taking into account that probabilities of default (PD) have historically been low for issuers with such credit rating level (average 1 year PD of 0.18% for issuers with BBB- credit rating and lower for issuers with higher credit rating). Low credit risk exemption means that, if a counterparty has BBB- or higher credit rating, the Group considers that credit risk that is related to the Group's claims on that counterparty has not increased significantly even if there are indications of the counterparty's creditworthiness worsening.

The Group calculates expected loss (EL) on an individual basis for all assets in scope of the standard, except stage 1 credit card overdrafts and trade debtors (with individual exposures below EUR 100 thousand) for which EL is calculated on collective basis.

For stage 1 and 2 assets, the amount of EL is calculated by multiplying the exposure at default on the reporting date (including accrued interest and undisbursed loan or credit line) by loss given default (LGD) rate and by the probability of default: 12 month PD rate for stage 1 assets and lifetime PD rate for stage 2 assets. For stage 3 assets, individual scenarios of recovery cash flows are developed by the Group and approved by the Group's management.

For debt securities, amounts due from other banks and counterparties and other instruments that have a credit rating by S&P, Moody's or Fitch, the Group uses PD's that are based on the rating agencies' historical data.

For debt securities, amounts due from other banks and counterparties and other instruments, except loans to customers, that do not have an external credit rating by S&P, Moody's or Fitch rating agencies, the Group estimates ratings based on the level and intervals of financial indicators used by the credit rating agencies to determine credit rating. The estimated credit ratings and historical PD's by ratings based on the external rating agencies data are used as the basis for PD assessment.

For debt securities held, amounts due from counterparties and other assets the Group bases its LGD estimate on LGDs calculated by rating agencies orinternal analysis of recoveries from defaulted exposures.

For stage 1 and stage 2 loans to customers, the Group estimates PD rates that are based on the number of defaults that the Group has experienced in its loans portfolio during the past 3 years taking into account each borrower's specific creditworthiness assessment.

For loans to customers, loss given default rates are based on the estimated proceeds from the sale of collateral in case of the default. For that purpose, the Group makes assumptions regarding possible sales term, discount and selling costs based on the collateral type, liquidity, location, etc.

Impairment allowance for loans to customers is calculated as a difference between the net present value of projected future cash flows that are discounted using the loan's original effective interest rate and the net carrying amount. Calculation of net present value of projected future cash flows for loans secured with collateral takes into account cash flows from repossession of collateral less cost of repossession and sale. Losses are recognised in profit or loss.

Calculation of impairment allowance for expected credit losses from off-balance sheet liabilities and contingent liabilities is in line with the principles and methodology applied for balance sheet positions. Additional aspects evaluated for off-balance sheet financial liabilities are conversions and estimates of future use, as well as the Group's ability to react timely, identify exposures and close such limits in case their credit quality deteriorates.

Loss allowance for expected credit losses on loan commitments and financial guarantee contracts is recognised as provisions. Details of the calculation methodology are described in Note 3 (n).

The Group adjusts PDs used in the EL calculation depending on forecasted relevant macroeconomic circumstances. If a conterparty's or a borrower's creditworthiness depends on economic situation in a country or a region and in that country or a region economic downturn is expected, higher probabilities of default are employed to calculate expected credit losses than in 'normal' circumstances when economic downturn is not expected.

The Group regularly reviews and improves the methods it uses for EL calculation including comparison of actually experienced losses to previously expected losses.

n) Provisions

A provision is recognised in the statement of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

o) Unrecognised loan commitments

In the normal course of business, the Group enters into unrecognised loan commitments, comprising undrawn loan commitments and provides guarantees and letters of credit.
Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.
A financial guarantee is recognised initially at fair value, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount determined in accordance with the accounting policy for provisions when enforcement of the guarantee has become probable.
Financial guarantee liabilities and provisions for other credit related commitment are included within provisions.

p) Income tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current corporate income tax assets and liabilities are measured at the amount expected to be obtained from or paid to tax authorities. The Bank and the Group's have to pay income tax on profit distribution. Correspondingly, income tax on profit distribution is recognised as expense at the moment dividends are declared.

q) Income and expense recognition

Interest income and expense items are recognised on an accrual basis using the effective interest rate.
Loan origination fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related direct costs, are deferred and amortised to interest income over the estimated life of the financial instrument using the effective interest rate method.
Commissions in respect of the acquisition of financial assets that are not at fair value through profit or loss are deferred and recognised as an adjustment to the effective yield on the respective asset or liability. Other fees, commissions and other income and expense items are recognised when the corresponding service has been provided.
Penalty income is recognised on cash-received basis.

4. Risk management

The Group mainly has exposure to the following risks:
- market risks
- interest rate risk
- currency risk
- price risk
- credit risk
- liquidity risk
- operational risk
- other risks: Money Laundering and Terrorism and Proliferation Financing (further – ML/TPF) risk, compliance and reputation risk, strategic risk.

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

a) Risk management policies and procedures

The Group's risk management policies aim to identify, analyse and manage the risks faced by the Group, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. The Group's tolerance of risks is set forth in the Group's respective risk management policies. Risk management policies and procedures are reviewed regularly to reflect changes in regulation, market conditions, products and services offered and emerging risk management best practice.
The Council has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.
The Management Board is responsible for monitoring and implementation of risk mitigation measures and making sure that the Group operates within the established risk parameters. The Financial Risk Management Department (further – FRMD) is responsible for identifying, measuring, managing and reporting financial risks. The Head of Compliance and Risk Management Department is responsible for the non-financial risks and compliance issues.
Credit, market and liquidity risks both at portfolio and transactional levels are managed and controlled through a system of Credit committee and Assets and liabilities committee (further - ALCO).

b) Market risks

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect the Group's income or the value of its portfolios. Market risks comprise currency risk, interest rate risk and other price risk. Market risk arises from open positions in interest rate, currency and fixed income or other financial instruments, which are exposed to general and specific market movements and volatility of market prices.
The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimizing the return on risk.
Overall authority for market risk is vested in the ALCO, chaired by the CEO. Market risk limits are approved by ALCO based on recommendations of the FRMD.

The Group manages its market risk by setting open position limits for financial instruments, interest rate risk positions and currency positions and stop-loss limits which are monitored on a regular basis and reviewed and approved by the ALCO. Additional restrictions are set for financial instrument portfolios, such as duration limits, concentration limits etc.
In addition, the Group uses various stress tests to model the financial impact of a variety of exceptional market scenarios on individual portfolios and the Group's overall position. Stress tests provide an indication of the potential losses that could arise under adverse or very unfavorable conditions.

c) Interest rate risk

Interest rate risk is the risk that movements in interest rates will affect the Group's income or the value of its portfolios of financial instruments.
The Group is exposed to changes of market interest rates on its financial position and cash flows. Due to changes of market interest rates the Group's profit may increase, decrease, or the Group may suffer losses if there are large unexpected changes of market interest rates.
In the following table below possible impact on the Group's and the Bank's profit and equity is shown from a change of yield of fixed income securities acquired by the Group and the Bank by 100 basis points. This analysis assumes that all other variables, including foreign exchange rates, remain constant. The analysis includes fixed income securities classified as FVTPL or FVOCI. The impact of income taxes is not reflected in this analysis:

'000 EUR	31 December 2019		31 December 2018	
	Group	Bank	Group	Bank
Impact on profit: parallel increase by 100 basis points	(8)	(8)	-*	-*
Impact on profit: parallel decrease by 100 basis points	9	9	-*	-*
Impact on equity: parallel increase by 100 basis points	(129)	(126)	(268)	(268)
Impact on equity: parallel decrease by 100 basis points	132	129	274	274

* On 31.12.2018 the Group did not have FVTPL classified fixed income securities.

In addition to the impact on securities prices, possible changes in the interest rates may impact the interest income that the Bank receives on the assets with variable interest rates and pays on the liabilities with variable interest rates thus impacting the Bank's net interest income. Below a possible impact on the Bank's net interest income within a period of the next 12 months is provided:

'000 EUR	31 December 2019	31 December 2018
100 bp parallel increase	(99)	520
100 bp parallel decrease	99	(520)

d) Currency risk

The Group has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the receivables in a foreign currency are either greater or less than the payables in that currency. For further information on the Group's exposure to currency risk at year end refer to Currency analysis table in this Note.
A change in exchange rates as indicated below, as at 31 December would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The impact of income taxes is not reflected in this analysis:

'000 EUR	31 December 2019		31 December 2018	
	Profit or loss, Group	Profit or loss, Bank	Profit or loss, Group	Profit or loss, Bank
5% appreciation of USD against EUR	8	(12)	3	17
5% depreciation of USD against EUR	(8)	12	(3)	(17)
5% appreciation of GBP against EUR	3	3	-	-
5% depreciation of GBP against EUR	(3)	(3)	-	-
20% appreciation of RUB against EUR	(4)	(4)	4	4
20% depreciation of RUB against EUR	4	4	(4)	(4)

e) Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when the Group takes a long or short position in a financial instrument.
An analysis of sensitivity of the Group's net income for the year and equity to changes in securities prices based on positions existing as at 31 December 2019 and 2018 and a simplified scenario of a 5% change in all securities prices is as follows:

'000 EUR	31 December 2019		31 December 2018	
	Group	Bank	Group	Bank
Impact on profit: increase of securities prices by 5%	20	20	25	25
Impact on profit: decrease of securities prices by 5%	(20)	(20)	(25)	(25)
Impact on other comprehensive income: increase of securities prices by 5%	1,022	1,012	1,686	1,686
Impact on other comprehensive income: decrease of securities prices by 5%	(1,022)	(1,012)	(1,686)	(1,686)

f) Credit risk

Credit risk means possible losses to the Group (or reduction of profit), if the Group's customer, counterparty, or issuer of financial instruments owned by the Bank fully or partially fails to fulfil its financial obligations towards the Group, as well as losses (or reduction in profit) due to price decrease of the financial instruments owned by the Group due to worsening of creditworthiness of the issuer.

The Group's credit risk management guidelines are defined by the Bank's internal regulatory document „Credit Risk Management Policy", „Credit Policy" and „Country Risk Management Policy" approved by the Council of the Bank, as well as the Bank's internal regulatory document „Country Risk Management Procedure"; credit risk management procedure is determined by the Bank's internal regulatory document „Credit Risk Management Procedure".

According to the Bank's internal regulatory document „Credit Risk Management Policy", the Group separately manages credit risk related to the Group's loans to the customers (except loans against collateral for financial instruments), and credit risk related to interbank claims and the Group's investments in financial instruments (as well as loans against collateral for financial instruments).

The Group's guidelines in relation to customer financing transactions (loans to customers) are set out in the Bank's internal regulatory document „Credit Policy" that stipulates:

- desirable creditworthiness and reputation profile of the customer;
- preferred loan term;
- requirements for loan security and restrictions/ conditions for LTV (loan to value) ratio;
- procedure of lending process;
- credit portfolio management and supervision procedure;
- limits to the total proportion of the loans, proportion of unsecured loans, and proportion of loans secured by real estate in the Bank's assets.

Decision on issue of loans at the Bank is made by the Credit Committee according to regulations on its operations. The Bank's Board accepts decisions of the Credit Committee on crediting transactions with one customer or group of customers that exceed 5% of the Group's equity. The Bank's Council accepts decisions of the Credit Committee of crediting transactions exceeding EUR 1 million, except for those with cash as collateral.

Creditworthiness of each borrower and credit risk of the planned transaction is assessed by FRMD according to the procedure prescribed by the Bank's internal regulatory document „Procedure for Credit Risk Assessment of Crediting Transaction". Legal Department of the Bank assesses legal aspects of each planned transaction and provides its opinion on legal aspects of the transaction. Security Department of the Bank performs inspection of the customer, persons associated with the customer, information and documents submitted by the customer, by using information sources and resources available to the Bank including the inspection of customer's reputation, existence of negative information on customer and associated persons, and the department provides an opinion on the customer.

In addition to the abovementioned, in order to ensure a credit risk level acceptable to the Group at the portfolio level, ALCO sets limits for the concentration of loan portfolio by countries/ regions, industries, and other factors.

The Group's credit risk that stems from keeping of funds in correspondent accounts in other banks, as well as transactions made by the Bank's Treasury Division, Investment Division and Brokerage Division (interbank loans, loans against collateral for financial instruments, financial instruments transactions, and other transactions), is restricted by the Group with a help of limits for maximum amount of claim against each counterparty, financial instruments portfolios limits, and other limits. Limits are set by ALCO that operates according to the regulations on its operation. Monitoring of the set limits is performed every day by FRMD and Accounting and Reporting Department of the Bank, and management of Financial Market Division of the Bank is informed about detected limit violations, as well as the situation regarding compliance with the set limits is reviewed every week by ALCO.

Every quarter FRMD prepares a credit risk report reflecting detailed information regarding credit risk undertaken by the Group in relation to all transactions/ transaction types concluded by the Group. Report is reviewed by ALCO.

Group / Bank regularly performs asset quality assessment in accordance with the requirements of IFRS 9 (See Note 3 (c) (i) IFRS 9 Financial Instruments”.

Past due loan is defined as the loan for which interest, commissions or principal payments are overdue.

Impaired loan is defined as the loan for which one or more events with a negative effect on the expected cash flow of the loan have occurred - loss events. Signs that may indicate that a loan may be impaired are the following:

- material financial difficulties of the borrower;
- violation of the terms of the loan agreement (including a failure to make a timely payment according to the loan agreement);
- a relief granted to the borrower due to economic or legal reasons related to the borrower’s financial difficulties that would otherwise not have been granted;
- a fair chance that the borrower will initiate the bankruptcy procedure or a reorganization;
- prerequisites of the loan project failing to materialize;
- a failure to fulfill obligations by a person that impacts the borrowers’ ability to make timely payments to the Bank;
- a failure to utilize the borrowed funds according to the loan purpose;
- a drop in the value of the loan collateral;
- other events that increase the credit risk.

Credit quality analysis for the Group:

'000 EUR	Business	Reverse repo and loans secured by financial instruments	Consumer	Mortgage	Other deposits with financial institutions	Other	Total
31.12.2019							
Total gross loans	**35,640**	**6,057**	**9,341**	**4,269**	**7,095**	**3,366**	**65,768**
Neither past due nor impaired loans	31,862	6,057	8,968	4,269	7,095	2,881	**61,132**
Past due and impaired loans							
past due up to 29 days	-	-	364	-	-	-	364
past due from 30 days up to 59 days	-	-	9	-	-	-	9
past due more than 90 days	3,778	-	-	-	-	485	4,263
Total impairment allowance	**(268)**	**(1)**	**(66)**	**(33)**	**-**	**(204)**	**(572)**
Total individually impairment allowance - neither past due nor impaired loans	(86)	(1)	(47)	(33)	-	(16)	(183)
Total collective impairment allowance - neither past due nor impaired loans	-	-	(3)	-	-	-	(3)
Individually impairment allowance - loans are past due							
past due up to 29 days	-	-	(15)	-	-	-	(15)
past due from 30 days up to 59 days	-	-	(1)	-	-	-	(1)
past due more than 90 days	(182)	-	-	-	-	(188)	(370)
Total net loans	**35,372**	**6,056**	**9,275**	**4,236**	**7,095**	**3,162**	**65,196**
Neither past due nor impaired loans	31,776	6,056	8,918	4,236	7,095	2,865	60,946
Past due and impaired loans							
past due up to 29 days	-	-	349	-	-	-	349
past due from 30 days up to 59 days	-	-	8	-	-	-	8
past due more than 90 days	3,596	-	-	-	-	297	3,893
31.12.2018							
Total gross loans	**30,079**	**669**	**4,869**	**873**	**770**	**770**	**38,030**
Neither past due nor impaired loans	30,079	669	4,862	873	**770**	154	37,407
Past due but not impaired loans, less than 30 days	-	-	7	-	**-**	616	623
Total impairment allowance	**(138)**	**-**	**(7)**	**-**	**-**	**(182)**	**(327)**
Total individually impairment allowance - neither past due nor impaired loans	(138)	-	(5)	-	**-**	-	(143)
Total collective impairment allowance - neither past due nor impaired loans	-	-	(2)	-	**-**	-	(2)
Individually impairment allowance - loans are past due less than 30 days	-	-	-	-	**-**	(182)	(182)
Total net loans	**29,941**	**669**	**4,862**	**873**	**770**	**588**	**37,703**
Neither past due nor impaired loans	29,941	669	4,855	873	**770**	154	37,262
Past due but not impaired loans, less than 30 days	-	-	7	-	**-**	434	441

Credit quality analysis for the Bank:

'000 EUR	Business	Reverse repo and loans secured by financial instruments	Consumer	Mortgage	Other deposits with financial institutions	Other	Total
31.12.2019							
Total gross loans	**39,420**	**6,057**	**5,464**	**4,269**	**7,095**	**3,366**	**65,671**
Neither past due nor impaired loans	35,642	6,057	5,464	4,269	7,095	2,881	**61,408**
Past due and impaired loans, more than 90 days	3,778	-	-	-	-	485	**4,263**
Total impairment allowance	**(326)**	**(1)**	**(8)**	**(33)**	**-**	**(204)**	**(572)**
Total individually impairment allowance - neither past due nor impaired loans	(144)	(1)	(5)	(33)	-	(16)	**(199)**
Total collective impairment allowance - neither past due nor impaired loans	-	-	(3)	-	-	-	**(3)**
Total individually impairment allowance - past due and impaired loans, more than 90 days	(182)	-	-	-	-	(188)	**(370)**
Total net loans	**39,094**	**6,056**	**5,456**	**4,236**	**7,095**	**3,162**	**65,099**
Neither past due nor impaired loans	35,498	6,056	5,456	4,236	7,095	2,865	61,206
Past due and impaired loans, more than 90 days	3,596	-	-	-	-	297	3,893
31.12.2018							
Total gross loans	**30,079**	**669**	**4,869**	**873**	**770**	**770**	**38,030**
Neither past due nor impaired loans	30,079	669	4,862	873	**770**	154	37,407
Past due but not impaired loans, less than 30 days	-	-	7	-	-	616	623
Total impairment allowance	**(138)**	**-**	**(7)**	**-**	**-**	**(182)**	**(327)**
Total individually impairment allowance - neither past due nor impaired loans	(138)	-	(5)	-	**-**	-	(143)
Total collective impairment allowance - neither past due nor impaired loans	-	-	(2)	-	**-**	-	(2)
Individually impairment allowance - loans are past due less than 30 days	-	-	-	-	**-**	(182)	(182)
Total net loans	**29,941**	**669**	**4,862**	**873**	**770**	**588**	**37,703**
Neither past due nor impaired loans	29,941	669	4,855	873	**770**	154	37,262
Past due but not impaired loans, less than 30 days	-	-	7	-	**-**	434	441

As at 31 December 2019, the gross amount of loans which were granted the status ‘restructured’ totalled EUR 471 thousand (2018: EUR 213 thousand). These changes were made on the basis of the agreements between the Group or the Bank and customers amending respective loan conditions, as otherwise the loans might be past due. A loan is considered to be restructured from the date of the above mutual agreement to the date when at least two years have passed without delays of contractual payments by more than 30 days and none of the loss events has taken place.

For a loan in the amount of EUR 3 596 thousand a collecting process takes place. Part of the loan amount was recovered by the Bank in 2019, hovewer, the remaining part of the loan will be recovered by disposing of real estate objects pledged in favor of the Bank, at a price that will ensure the receipt of a sum of money not less than the net book value of the loan. The collecting process is expected to be completed during the year 2020.

The Group monitors concentrations of credit risk by industry/sector and by geographic location. For the analysis of concentration of credit risk in respect of loans and advances to customers refer to Note 16 ”Loans and advances due from customers”.

Classification of the Group's assets in measurement categories (3 stages) as of December 31, 2019:

’000 EUR	Stage 1	Stage 2	Stage 3	Total
Financial assets				
Cash and due from central banks	40,931	-	-	40,931
Demand deposits with credit institutions	11,484	-	-	11,484
Financial instruments designated at fair value through profit or loss	1,097	-	-	1,097
Financial assets measured at fair value through other comprehensive income	19,926	488	28	20,442
Financial assets measured at amortized cost	103,823	71	4,764	108,658
Other financial assets	695	-	-	695
Total gross financial assets	**177,956**	**559**	**4,792**	**183,307**
Total impairment allowance	(180)	(6)	(389)	(575)
Total net financial assets	**177,776**	**553**	**4,403**	**182,732**
Non-financial assets				
Other gross non-financial assets	6,785	-	-	6,785
Total impairment allowance	(308)	-	-	(308)
Other net non-financial assets	**6,477**	**-**	**-**	**6,477**
Total gross assets	**184,741**	**559**	**4,792**	**190,092**
Total impairment allowance	**(488)**	**(6)**	**(389)**	**(883)**
Total net assets	**184,253**	**553**	**4,403**	**189,209**

Classification of the Group's assets in measurement categories (3 stages) as of December 31, 2018:

’000 EUR	Stage 1	Stage 2	Stage 3	Total
Financial assets				
Cash and due from central banks	25,658	-	-	25,658
Demand deposits with credit institutions	18,282	-	-	18,282
Financial instruments designated at fair value through profit or loss	1,030	-	-	1,030
Financial assets measured at fair value through other comprehensive income	33,134	478	99	33,711
Financial assets measured at amortized cost	45,194	8,401	830	54,425
Other financial assets	752	-	-	752
Total gross financial assets	**124,050**	**8,879**	**929**	**133,858**
Total impairment allowance	(75)	(59)	(211)	(345)
Total net financial assets	**123,975**	**8,820**	**718**	**133,513**
Non-financial assets				
Other gross non-financial assets	386	-	-	386
Total impairment allowance	(12)	-	-	(12)
Other net non-financial assets	**374**	**-**	**-**	**374**
Total gross assets	**124,436**	**8,879**	**929**	**134,244**
Total impairment allowance	**(87)**	**(59)**	**(211)**	**(357)**
Total net assets	**124,349**	**8,820**	**718**	**133,887**

Classification of the Bank's assets in measurement categories (3 stages) as of December 31, 2019:

’000 EUR	Stage 1	Stage 2	Stage 3	Total
Financial assets				
Cash and due from central banks	40,931	-	-	40,931
Demand deposits with credit institutions	11,411	-	-	11,411
Financial instruments designated at fair value through profit or loss	1,097	-	-	1,097
Financial assets measured at fair value through other comprehensive income	19,721	488	28	20,237
Financial assets measured at amortized cost	103,829	-	4,734	108,563
Other financial assets	695	-	-	695
Total gross financial assets	**177,684**	**488**	**4,762**	**182,934**
Total impairment allowance	(206)	-	(370)	(576)
Total net financial assets	**177,478**	**488**	**4,392**	**182,358**
Non-financial assets				
Other gross non-financial assets	8,614	-	-	8,614
Total impairment allowance	(889)	-	-	(889)
Other net non-financial assets	**7,725**	**-**	**-**	**7,725**
Total gross assets	**186,298**	**488**	**4,762**	**191,548**
Total impairment allowance	**(1,095)**	**-**	**(370)**	**(1,465)**
Total net assets	**185,203**	**488**	**4,392**	**190,083**

Classification of the Bank's assets in measurement categories (3 stages) as of December 31, 2018:

’000 EUR	Stage 1	Stage 2	Stage 3	Total
Financial assets				
Cash and due from central banks	25,658	-	-	25,658
Demand deposits with credit institutions	18,032	-	-	18,032
Financial instruments designated at fair value through profit or loss	1,030	-	-	1,030
Financial assets measured at fair value through other comprehensive income	33,134	478	99	33,711
Financial assets measured at amortized cost	45,194	8,401	830	54,425
Other financial assets	752	-	-	752
Total gross financial assets	**123,800**	**8,879**	**929**	**133,608**
Total impairment allowance	(75)	(59)	(211)	(345)
Total net financial assets	**123,725**	**8,820**	**718**	**133,263**
Non-financial assets				
Other gross non-financial assets	360	-	-	360
Total impairment allowance	(12)	-	-	(12)
Other net non-financial assets	**348**	**-**	**-**	**348**
Total gross assets	**124,160**	**8,879**	**929**	**133,968**
Total impairment allowance	**(87)**	**(59)**	**(211)**	**(357)**
Total net assets	**124,073**	**8,820**	**718**	**133,611**

Changes in loan loss allowance of the Group's financial and other assets by stages for the year ended 31 December 2019:

'000 EUR	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount 1 January 2019	**87**	**59**	**211**	**357**
Movements:				
No movements between stages	94	-	182	276
Moved between Stage 1 and Stage 2	-	2	-	2
Moved between Stage 2 and Stage 3			44	44
Moved between Stage 1 and Stage 3			1	1
Increase as a result of issue and acquisition of assets	122	2	11	135
Increase/(Decrease) due to derecognition	(26)	2	151	127
Written off	-	-	(1)	(1)
Gross carrying amount 31 December 2019	**190**	**6**	**388**	**584**

Changes in loan loss allowance of the Bank's financial and other assets by stages for the year ended 31 December 2019:

'000 EUR	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount 1 January 2019	**87**	**59**	**211**	**357**
Movements:				
No movements between stages	64	-	182	246
Moved between Stage 2 and Stage 3	-	-	44	44
Increase as a result of issue and acquisition of assets	160	-	-	160
Increase/(Decrease) due to derecognition	(8)	-	143	135
Written off		-	(1)	(1)
Gross carrying amount 31 December 2019	**216**	**-**	**368**	**584**

Changes in loan loss allowance of the Group's and Bank's financial and other assets by stages for the year ended 31 December 2018:

'000 EUR	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount 1 January 2018	**132**	**47**	**198**	**377**
Movements:				
No movements between stages	111	20	198	329
Moved between Stage 1 and Stage 2	-	21	-	21
Moved between Stage 2 and Stage 1	27	-	-	27
Increase as a result of issue and acquisition of assets	9	14	217	240
Increase/(Decrease) due to derecognition	(60)	4	(198)	(254)
Written off	-	-	(6)	(6)
Gross carrying amount 31 December 2018	**87**	**59**	**211**	**357**

g) Liquidity risk

Liquidity risk means possible losses to the Group or decrease in profit from the sale of the assets or attraction of resources at unfavourable interest rates in order for the Group to meet its financial liabilities towards depositors, counterparties and other creditors.

Since the Group’s operations are related to servicing of customers – non-residents, the FCMC has set increased requirements for the Bank's liquidity ratio – minimum liquidity ratio equals to 40% (2018: 60%).

The Group's guidelines for liquidity risk management are defined in the Bank's internal regulatory documents „Liquidity Risk Management Policy" approved by the Bank's Council; liquidity risk management procedure is defined in the Bank's internal regulatory document „Liquidity Risk Management Procedure".

The purpose of liquidity risk ratios is to indicate the liquidity risk level undertaken by the Group from various angles and promptly indicate the increase in liquidity risk level. Liquidity risk ratios are calculated and monitored every day, and the Bank's internal regulatory document „Liquidity Risk Management Procedure" sets out actions to be taken when ratios have reached certain levels.

The Group's liquidity risk stress testing is conducted every quarter, and the surplus or deficit of liquid assets in stress scenarios is determined. Liquidity risk stress test results are assessed by ALCO.

In order to limit the liquidity risk, limits are set on the Bank's liquidity net positions, as well as on investments in low liquidity assets – loans to customers. The control of liquidity net positions is conducted once a month, but the control of the limit of loans to customers is carried out every week.

Group performs liquidity planning within the framework of budget planning. Liquidity ratio and LCR (liquidity coverage ratio) are planned.

The Group also calculates mandatory liquidity ratios on a daily basis in accordance with the requirement of the Financial and Capital Markets Commission and the requirement of Regulation 575/2013. The Bank was in compliance with these ratios during the twelve-month period ended 31 December 2019 and 31 December 2018.

The table below analyses the Group’s non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows.

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

'000 EUR	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities								
Liabilities to financial institutions	435	-	-	-	-	-	435	435
Current accounts and deposits due to customers	62,141	4,619	6,994	13,457	67,116	-	154,327	154,159
Subordinated liabilities	28	575	387	5,470	7,137	-	13,597	11,465
Unrecognised loan commitments	4,244	-	-	-	-	-	4,244	4,244
Total Non-derivative liabilities	**66,848**	**5,194**	**7,381**	**18,927**	**74,253**	**-**	**172,603**	**170,303**
Derivative liabilities								
Inflow	(91,764)	(25,279)	(22,706)	(1,823)	(1,008)	-	(142,580)	(141,877)
Outflow	90,821	25,490	22,905	1,838	1,001	-	142,055	141,505
Total Derivative liabilities	**(943)**	**211**	**199**	**15**	**(7)**	**-**	**(525)**	**(372)**
Total	**65,905**	**5,405**	**7,580**	**18,942**	**74,246**	**-**	**172,078**	**169,931**

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

'000 EUR	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities								
Current accounts and deposits due to customers	88,774	286	258	2,212	10,197	187	101,914	101,892
Subordinated liabilities	34	1,128	236	6,502	13,904	413	22,217	18,238
Unrecognised loan commitments	750	-	-	-	-	-	750	750
Total Non-derivative liabilities	**89,558**	**1,414**	**494**	**8,714**	**24,101**	**600**	**124,881**	**120,880**
Derivative liabilities								
Inflow	(12,143)	(5,379)	(5,443)	(291)	-	-	(23,256)	(22,729)
Outflow	12,158	5,238	5,016	382	1	-	22,795	22,537
Total Derivative liabilities	**15**	**(141)**	**(427)**	**91**	**1**	**-**	**(461)**	**(192)**
Total	**89,573**	**1,273**	**67**	**8,805**	**24,102**	**600**	**124,420**	**120,688**

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

'000 EUR	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities								
Liabilities to financial institutions	435	-	-	-	-	-	435	435
Current accounts and deposits due to customers	62,192	4,922	6,997	13,463	68,272	-	155,846	155,659
Subordinated liabilities	28	575	387	5,470	7,137	-	13,597	11,465
Unrecognised loan commitments	4,244	-	-	-	-	-	4,244	4,244
Total Non-derivative liabilities	**66,899**	**5,497**	**7,384**	**18,933**	**75,409**	**-**	**174,122**	**171,803**
Derivative liabilities								
Inflow	(91,764)	(25,279)	(22,706)	(1,823)	(1,008)	-	(142,580)	(141,877)
Outflow	90,821	25,490	22,905	1,838	1,001	-	142,055	141,505
Total Derivative liabilities	**(943)**	**211**	**199**	**15**	**(7)**	**-**	**(525)**	**(372)**
Total	**65,956**	**5,708**	**7,583**	**18,948**	**75,402**	**-**	**173,597**	**171,431**

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

'000 EUR	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities								
Current accounts and deposits due to customers	88,813	286	258	2,980	10,503	187	103,027	103,054
Subordinated liabilities	34	1,128	236	6,502	13,904	413	22,217	18,238
Unrecognised loan commitments	750	-	-	-	-	-	750	750
Total Non-derivative liabilities	**89,597**	**1,414**	**494**	**9,482**	**24,407**	**600**	**125,994**	**122,042**
Derivative liabilities								
Inflow	(12,143)	(5,379)	(5,443)	(291)	-	-	(23,256)	(22,729)
Outflow	12,158	5,238	5,016	382	1	-	22,795	22,537
Total Derivative liabilities	**15**	**(141)**	**(427)**	**91**	**1**	**-**	**(461)**	**(192)**
Total	**89,612**	**1,273**	**67**	**9,573**	**24,408**	**600**	**125,533**	**121,850**

The Group are keeping different financial assets to provide liquidity. If necessary, the Group and the Bank will be able to realize liquid assets in the short term in order to meet the demand side. The Group's Analysis of contractual maturities of financial assets and liabilities and equity as at 31 December 2019 is presented below:

Group '000 EUR	1 month	1-3 months	3-6 months	6-12 months	More than 1 year	No maturity	Total
Financial assets							
Cash and due from central banks	40,931	-	-	-	-	-	**40,931**
Demand deposits with credit institutions	11,484	-	-	-	-	-	**11,484**
Financial instruments designated at fair value through profit or loss	551	114	10	16	406	-	**1,097**
Financial assets measured at fair value through other comprehensive income	1,131	5,827	5,897	3,578	4,009	-	**20,442**
Financial assets measured at amortized cost	34,258	24,767	10,651	10,437	27,971	-	**108,084**
Other financial assets	695	-	-	-	-	-	**695**
Total financial assets	**89,050**	**30,708**	**16,558**	**14,031**	**32,386**	**-**	**182,733**
Financial liabilities							
Financial liabilities at fair value through profit or loss	99	273	144	19	14	-	**549**
Liabilities to financial institutions	435	-	-	-	-	-	**435**
Current accounts and deposits due to customers	62,141	4,615	6,986	13,370	67,047	-	**154,159**
Subordinated liabilities	-	354	305	5,204	5,602	-	**11,465**
Unrecognised loan commitments	4,244	-	-	-	-	-	**4,244**
Total financial liabilities	**66,919**	**5,242**	**7,435**	**18,593**	**72,663**	**-**	**170,852**
Total Equity	-	-	-	-	-	17,071	**17,071**
Total Liabilities and Equity	**66,919**	**5,242**	**7,435**	**18,593**	**72,663**	**17,071**	**187,923**
Net liquidity position as at 31 December 2019	**22,131**	**25,466**	**9,123**	**(4,562)**	**(40,277)**	**(17,071)**	**-**
Net liquidity position as at 31 December 2018	(31,892)	4,144	7,393	24,911	7,374	(15,277)	-

The Bank's Analysis of contractual maturities of financial assets and liabilities and equity as at 31 December 2019 is presented below:

Bank ’000 EUR	**1 month**	**1-3 months**	**3-6 months**	**6-12 months**	**More than 1 year**	**No maturity**	**Total**
Financial assets							
Cash and due from central banks	40,931	-	-	-	-	-	**40,931**
Demand deposits with credit institutions	11,411	-	-	-	-	-	**11,411**
Financial instruments designated at fair value through profit or loss	551	114	10	16	406	-	**1,097**
Financial assets measured at fair value through other comprehensive income	925	5,827	5,897	3,578	4,010	-	**20,237**
Financial assets measured at amortized cost	34,243	24,694	10,558	10,184	28,308	-	**107,987**
Other financial assets	695	-	-	-	-	-	**695**
Total financial assets	**88,756**	**30,635**	**16,465**	**13,778**	**32,724**	**-**	**182,358**
Financial liabilities							
Financial liabilities at fair value through profit or loss	99	273	144	19	14	-	**549**
Liabilities to financial institutions	435	-	-	-	-	-	**435**
Current accounts and deposits due to customers	62,190	4,915	6,986	13,370	68,198	-	**155,659**
Subordinated liabilities	-	354	305	5,204	5,602	-	**11,465**
Unrecognised loan commitments	4,244	-	-	-	-	-	**4,244**
Total financial liabilities	**66,968**	**5,542**	**7,435**	**18,593**	**73,814**	**-**	**172,352**
Total Equity	-	-	-	-	-	16,613	**16,613**
Total Liabilities and Equity	**66,968**	**5,542**	**7,435**	**18,593**	**73,814**	**16,613**	**188,965**
Net liquidity position as at 31 December 2019	**21,788**	**25,093**	**9,030**	**(4,815)**	**(41,090)**	**(16,613)**	-
Net liquidity position as at 31 December 2018	(32,243)	4,144	7,393	24,150	7,074	(15,241)	-

The interest rate analysis chart for the Group's financial assets and financial liabilities at 31 December 2019 is presented in the table below.

'000 EUR	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Non-interest bearing financial instruments	Total
Financial assets								
Cash and due from central banks	40,544	-	-	-	-	-	387	**40,931**
Demand deposits with credit institutions	-	-	-	-	-	-	11,484	**11,484**
Financial instruments designated at fair value through profit or loss	-	-	-	-	-	-	1,097	**1,097**
Financial assets measured at fair value through other comprehensive income	1,131	5,827	5,897	3,578	4,009	-	-	**20,442**
Financial assets measured at amortized cost	24,809	24,774	10,652	10,475	27,157	418	9,799	**108,084**
Other financial assets	695	-	-	-	-	-	-	**695**
Long positions of interest rates risk sensitive off-balance items*	91,214	25,165	22,696	1,807	995	-	-	**141,877**
Total assets and long off-balance-sheet positions sensitive to changes in interest rates	**158,393**	**55,766**	**39,245**	**15,860**	**32,161**	**418**	**22,767**	**324,610**
Financial liabilities								
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	549	**549**
Liabilities to financial institutions	-	-	-	-	-	-	435	**435**
Current accounts and deposits due to customers	137	1,041	878	6,838	2,231	-	143,034	**154,159**
Subordinated liabilities	-	354	300	5,178	5,597	-	36	**11,465**
Short positions of interest rates risk sensitive off-balance items*	90,722	25,217	22,760	1,819	987	-	-	**141,505**
Total liabilities and short off-balance-sheet positions sensitive to changes in interest rates	**90,859**	**26,612**	**23,938**	**13,835**	**8,815**	**-**	**144,054**	**308,113**
Net position as at 31 December 2019	**67,534**	**29,154**	**15,307**	**2,025**	**23,346**	**418**	**(121,287)**	**16,497**
Net position as at 31 December 2018	36,015	4,162	7,204	24,808	7,081	(1,398)	(64,555)	13,317

*Foreign currency forward agreements and Foreign currency contracts

The amounts in the tables above represent interest rate gap position by carrying amounts of the financial assets and liabilities as at the reporting date and do not include future interest payments.

The following table shows the Bank's interest rate gap position as at 31 December 2019.

'000 EUR	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Non-interest bearing financial instruments	Total
Financial assets								
Cash and due from central banks	40,544	-	-	-	-	-	387	**40,931**
Demand deposits with credit institutions	-	-	-	-	-	-	11,411	**11,411**
Financial instruments designated at fair value through profit or loss	-	-	-	-	-	-	1,097	**1,097**
Financial assets measured at fair value through other comprehensive income	925	5,827	5,897	3,578	4,010	-	-	**20,237**
Financial assets measured at amortized cost	24,772	24,702	10,560	10,223	27,968	-	9,762	**107,987**
Other financial assets	695	-	-	-	-	-	-	**695**
Long positions of interest rates risk sensitive off-balance items*	91,214	25,165	22,696	1,807	995	-	-	**141,877**
Total assets and long off-balance-sheet positions sensitive to changes in interest rates	**158,150**	**55,694**	**39,153**	**15,608**	**32,973**	**-**	**22,657**	**324,235**
Financial liabilities								
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	549	**549**
Liabilities to financial institutions	-	-	-	-	-	-	435	**435**
Current accounts and deposits due to customers	137	1,341	878	6,838	3,118	-	143,347	**155,659**
Subordinated liabilities	-	354	300	5,178	5,597	-	36	**11,465**
Short positions of interest rates risk sensitive off-balance items*	90,722	25,217	22,760	1,819	987	-	-	**141,505**
Total liabilities and short off-balance-sheet positions sensitive to changes in interest rates	**90,859**	**26,912**	**23,938**	**13,835**	**9,702**	**-**	**144,367**	**309,613**
Net position as at 31 December 2019	**67,291**	**28,782**	**15,215**	**1,773**	**23,271**	**-**	**(121,710)**	**14,622**
Net position as at 31 December 2018	36,015	4,162	7,204	24,046	6,782	(1,398)	(64,906)	11,905

*Foreign currency forward agreements and Foreign currency contracts

The amounts in the tables above represent interest rate gap position by carrying amounts of the financial assets and liabilities as at the reporting date and do not include future interest payments.

Currency analysis in the table is the currency structure of the Group's financial assets and financial liabilities as at 31 December 2019:

’000 EUR	EUR	USD	Other currency	Total
Financial assets				
Cash and due from central banks	40,692	207	32	**40,931**
Demand deposits with credit institutions	7,868	2,467	1,149	**11,484**
Financial instruments designated at fair value through profit or loss	1,097	-	-	**1,097**
Financial assets measured at fair value through other comprehensive income	3,797	16,645	-	**20,442**
Financial assets measured at amortized cost	56,355	51,289	440	**108,084**
Other assets	634	61	-	**695**
Total financial assets	**110,443**	**70,669**	**1,621**	**182,733**
Off-balance (SWAP)	**86,612**	**55,192**	**73**	**141,877**
Financial liabilities				
Financial liabilities at fair value through profit or loss	549	-	-	**549**
Liabilities to financial institutions	-	386	49	**435**
Current accounts and deposits due to customers	118,170	34,514	1,475	**154,159**
Subordinated liabilities	6,812	4,653	-	**11,465**
Total financial liabilities	**125,531**	**39,553**	**1,524**	**166,608**
Total Equity and reserves	17,071	-	-	**17,071**
Total Liabilities and Equity	**142,602**	**39,553**	**1,524**	**183,679**
Off-balance (SWAP)	**55,428**	**86,028**	**49**	**141,505**
Net currency balance position as at 31 December 2019	**(32,159)**	**31,116**	**97**	**(946)**
Net currency position as at 31 December 2019 (balance & off-balance)	**(975)**	**280**	**121**	**(574)**
Net currency balance position as at 31 December 2018	(14,800)	7,592	4,611	(2,597)
Net currency position as at 31 December 2018 (balance & off-balance)	(2,320)	(132)	47	(2,405)

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

'000 EUR	EUR	USD	Other currency	Total
Financial assets				
Cash and due from central banks	40,692	207	32	**40,931**
Demand deposits with credit institutions	7,795	2,467	1,149	**11,411**
Financial instruments designated at fair value through profit or loss	1,097	-	-	**1,097**
Financial assets measured at fair value through other comprehensive income	3,592	16,645	-	**20,237**
Financial assets measured at amortized cost	56,258	51,289	440	**107,987**
Other assets	634	61	-	**695**
Total financial assets	**110,068**	**70,669**	**1,621**	**182,358**
Off-balance (SWAP)	**86,612**	**55,192**	**73**	**141,877**
Financial liabilities				
Financial liabilities at fair value through profit or loss	549	-	-	**549**
Liabilities to financial institutions	-	386	49	**435**
Current accounts and deposits due to customers	119,265	34,919	1,475	**155,659**
Subordinated liabilities	6,812	4,653	-	**11,465**
Total financial liabilities	126,626	39,958	1,524	**168,108**
Total Equity and reserves	16,613	-	-	**16,613**
Total Liabilities and Equity	**143,239**	**39,958**	**1,524**	**184,721**
Off-balance (SWAP)	**55,428**	**86,028**	**49**	**141,505**
Net currency balance position as at 31 December 2019	**(33,171)**	**30,711**	**97**	**(2,363)**
Net currency position as at 31 December 2019 (balance & off-balance)	**(1,987)**	**(125)**	**121**	**(1,991)**
Net currency balance position as at 31 December 2018	(15,883)	7,302	4,608	(3,973)
Net currency position as at 31 December 2018 (balance & off-balance)	(3,403)	(422)	44	(3,781)

h) Operational Risk

Operational risk is the risk of incurring losses resulting from inadequate or failed internal processes, which do not comply with the requirements of the external and internal legal regulations, the Bank's employees' and system activities, defects of internal processes, third parties' activities or from other external events as well, including legal risk, but excluding strategic and reputation risk. The aim of the management of the operational risk is to keep the operational risk on the economic reasonable minimum level, to stimulate stability of the Bank's activities and commercial profit in the long term.

The management of the operational risk goes through all the Bank's organizational structure and is realized in each unit of the Bank, that is why the management of the risk is based on overall comprehension of each employee of the Bank on processes he conducts and the risks inherent in these processes (high risk awareness), and on sound risk culture as well. The Bank does not accept operational risks, which exceed the Bank's risk appetite or if the impact of such risks cannot be evaluated in money terms and these risks at the same time are uncontrollable – it is impossible to prevent them or to insure against their consequences irrespective of economic benefit, which could arise from acceptance of such operational risks. In order to mitigate operational risk, the Bank uses the expert assessment method and self-assessment; risk assessment prior launch of new products/process; implementation of quantitative indicators of operational risk; usage of database of risk events; stress – testing and scenario analysis.

i) Money Laundering and Terrorism and Proliferation Financing (further – ML/TPF) Risk

ML/TPF risk is the risk that the Bank can be involved into money laundering or terrorism or proliferation financing. Internal control system operates in the Bank, observing requirements of the binding regulatory enactments and taking into account the best international practice, in order to prevent the use of financial services of the Bank for the ML/TPF, dedicating the respective resources for that purpose and training employees. The Bank has internal rules to identify each client and to apply due diligence procedures in accordance with a degree of the risk of the client. Depending on the degree of the ML/TPF risk, the Bank has procedures to investigate the nature of personal or economic activity of the client, origin of funds in accounts held with the Bank and nature of transactions. The Bank employees servicing the clients have a deep level of knowledge and experience in anti - money laundering and combating terrorism and proliferation financing (further - AML/CTPF) issues and constitute the first line of defense. As the second line of defense the special client supervision structural unit is established in the Bank that is intended to enforce ensure due diligence of the clients of the Bank prior to establishing business relations, supervision of transactions during business relations as well as to oversee exactly proper and timely performance of duties of the Bank stipulated in the law in relations with the competent state bodies.
The third line of defense is independent internal audit function. The Bank has zero tolerance level to persons from the international sanction lists or persons which are involved in supporting proliferation. The Bank provides on-line payment monitoring to ensure compliance to the sanction lists. There is special employee appointed as a responsible person for sanction risk management. The Bank has the modest quantity of clients and it has deep knowledge of each of them which allows minimizing ML/TPF risk.

j) Compliance and Reputation Risk

Compliance and reputation risk is the risk that the Bank, by not being in compliance with legislation, may suffer losses or legal obligations or penalties may be imposed against the Bank or the Bank's reputation may suffer. The Bank has developed and implemented the „Compliance Policy" with the aim, of subject to compliance with the requirements of the legislation, to strengthen confidence in the Bank; to protect the Bank's reputation, to lower the cost of capital; to reduce litigation and sanctions enforcement risks. To manage the compliance risk the Bank:

- has established a Compliance committee that has a central role in compliance risk management. The Compliance committee of the Bank evaluates and assesses identified compliance risks, decides on appropriate risks mitigation actions to be taken, monitors efficiency of compliance risks management.
- keeps track of changes of compliance legislation and implements appropriate changes to internal regulatory documents of the Bank;
- actively participates in the Finance Latvia Association held discussions/workshops on issues that affect the challenges in AML/CTPF area;
- evaluates the Bank's internal regulatory documents and the lack of practical application;
- analyses and compares the performance data to ensure their compliance with the certain requirements proactively;
- actively keeps all employees informed on the recent developments in AML/CTPF area;
- analyses the Bank client's complaints.

To help assess the Bank's compliance procedures with the best international practice, the Bank engaged international independent companies (Exiger LLC and Lewis Baach Kaufmann Middlemiss) to evaluate its AML/CTPF program.
In the course of the review, the consultants assessed the Bank's AML/CTPF program by verifying its compliance with the requirements of the US supervisory authorities (Law on Bank Secrecy (BSA), US Anti-Terrorism Act (USA PATRIOT ACT)), as well as the Implementing Rules of the US Department of Foreign Investment Control (OFAC) and the requirements of the Federal Financial Institutions Supervision Council BSA / AML Supervision Manual (FFIEC Manual), related enforcement activities, guidance provided by the Financial Action Task Force and industry best practices. As a result of the evaluation, a report was received containing 24 necessary elements (recommendations) to comply with the BSA / AML/CTPF / OFAC regulatory acts and recommendations. All recommendations received have been implemented.
From February to August 2018, the Bank also carried out an assessment of the overall effectiveness of the implementation of the above-mentioned independent evaluation recommendations and its internal control system.
In the 4th quarter of 2018, the Financial and Capital Market Commission conducted a review of the effectiveness of the Bank's AML/CTPF internal control system. The Bank expects audit report to be received in the 2nd quarter of 2020.
The Bank's policy is to conduct independent review of the effectiveness of its internal control system every 18 month.

k) Strategy Risk

Strategy risk is the risk that the changes in the business environment and the Bank's failure to respond to these changes timely, or false/unsubstantiated activities of the Bank's long-term strategy, or the Bank's inability to provide the necessary resources for the implementation of the strategy could adversely affect the Bank's income/expense (and the amount of equity capital). The Bank has developed operational development strategies, the implementation of which is regularly monitored and updated as necessary. The Bank plans its work with a variety of scenarios, including the negative scenarios that reflect the possible impact of adverse external conditions on the Bank's results.
Planning activities within the framework of development, the Bank carries out analysis of the external environment, competitiveness of the Bank, its position in the financial market, Bank's internal business environment, including macroeconomic circumstances, with the purpose to determine the likelihood that an event in a business environment, in which the Bank carries out its activities and/or intends to take action in the future, will have a negative impact on the Bank's ability to achieve its strategic objectives (to implement the strategy) and/or threaten the Bank's future operations. Evaluating and planning the Bank's asset and liability structure is based on results of analysis of selected indicators of development activities and the business environment.

5. Capital management

The Financial and Capital Market Commission sets and monitors capital requirements for the Bank and the Group.
The Bank and the Group defines as capital those items defined by statutory regulation as capital.
The Bank's and the Group's capital position are calculated in accordance with the requirements of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 . As at 31 December 2019, the individual minimum Capital adequacy ratio level for the Bank is set at 16.05% (2018: 20.00%). The Bank was in compliance with the FCMC determined individual capital ratio as at 31 December 2019 and 2018.
The Group's risk based capital adequacy ratio as at 31 December 2019 was 23.27% (2018: 31.05%).
The Bank's risk based capital adequacy ratio as at 31 December 2019 was 22.99% (2018: 30.52%).
As at 31 December 2019, the individual minimum Tier 1 Capital adequacy ratio level for the Bank is set at 17.89% (2018: 19.20%).
The Group monitors its capital adequacy levels calculated in accordance with the requirements of the regulations, commonly known as Basel III agreement and its implementing act in Europe, commonly known as CRD IV package.
The following table shows the composition of the Group and the Bank's capital position as at 31 December 2019 and 2018:

’000 EUR	2019 Group	2018 Group	2019 Bank	2018 Bank
Tier 1 capital				
Share capital	32,171	32,171	32,171	32,171
Additional paid-in capital	28	28	28	28
Reserves	312	225	312	225
Accumulated losses	(15,757)	(16,702)	(15,993)	(16,738)
Reductions of tier 1 capital	(234)	(217)	(168)	(219)
Total tier 1 capital	**16,520**	**15,505**	**16,350**	**15,467**
Tier 2 capital				
Subordinated liabilities (unamortised portion)	4,549	8,208	4,549	8,208
Total tier 2 capital	4,549	**8,208**	4,549	**8,208**
Deductions from Tier 1 and Tier 2 capital prescribed by legislation*	(408)	(1,539)	(408)	(1,539)
Total capital	**20,661**	**22,174**	**20,491**	**22,136**
Capital requirements				
Credit risk requirements	5,914	4,519	5,990	4,624
Market risk requirements	24	8	21	31
Operational risk requirements	1,166	1,186	1,118	1,148
Total capital requirements	7,104	5,713	7,129	5,803
Capital adequacy ratio	**23.27%**	**31.05%**	**22.99%**	**30.52%**
Tier 1 Capital adequacy ratio	**18.14%**	**19.56%**	**17.89%**	**19.20%**

* Additional deductions from own funds to reflect possible losses related to the credit portfolio according to the Article 3 of Common Equity Tier1 Capital (CRR).

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of assets and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.
The Group is subject to minimum capital adequacy requirements calculated in accordance with the Basel Accord established by covenants under liabilities incurred by the Group. The Group has complied with all externally imposed capital requirements during the years ended 31 December 2019 and 31 December 2018.

6. Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs as adopted by the European Union requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.
The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

Key sources of estimation uncertainty:

(i) Expected credit losses
For investments in financial instruments classified as amortized cost or measured at fair value through other comprehensive income, the Group regularly assesses whether there has been a significant increase in credit risk since the acquisition and when a significant increase in credit risk has occurred, for these financial instruments the Group calculates the expected loss that it may incur during the remaining term of these financial instruments until maturity as opposed to expected losses in the 12-month period for financial instruments for which no significant credit risk increase has been identified. The procedure for determining the significant increase in credit risk and the procedure for calculating the expected loss is described in Note 3, which describes the accounting policy.

(ii) Measurement of fair values
A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.
The Group has an established control framework with respect to the measurement of fair values.
Where third-party information, such as broker quotes or pricing services, are used to measure fair value, the Bank assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS as adopted by EU. This includes:
- Verifying that broker or pricing service is approved by the Group for use in pricing the relevant type of financial instrument;
- Understanding how the fair value has been arrived at and the extent to which it represents actual market transactions;
- When prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:
- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.
Fair value of non-financial assets is determined taking into account market participants' view of highest and best use of these assets, even if it is different from current use. The highest and best use has to be physically possible, legally permissible and financially feasible.
Further information about the assumptions and judgments made in measuring fair values is included in Note 34 Fair value of financial instruments.

(iii) Classification and valuation of investment in associate

Upon acquisition of an entity's shares it is being assessed whether control or significant influence has been acquired, or whether investment is a financial instrument accounted under IFRS 9. In assessment of control and level of influence the Bank considers direct and indirect interest in equity, as well as other circumstances that allow the Bank to influence operations of the investee. In 2018 the Bank applied the described procedures when judging about classification of shares acquired as a result of a loan restructuring, as described in Note 20.

(iv) Valuation of real estate development projects

In assessment of real estate development projects the Bank has to make assumptions and judgements in relation to future outcomes that can significantly affect results of the project in subsequent periods. The Bank prefers to use external data from independent sources, uses local and international real estate market experts' opinion, as well as estimates, forecasts and financial data of real estate market participants. Having considered nature of development project, the Bank defines key parameters that can affect the outcome of the project and assesses key sources of uncertainty. The Bank validates key parameters using external sources of information as much as possible. In addition, in order to estimate the effect of uncertainty the Bank performs sensitivity testing against changes in parameters. In 2019 and 2018 the Bank applied the procedures described when it was assessing fair value of assets of associate entity it acquired, as described in Note 20.

(v) Impairment of Non-financial Assets

It is assessed at each reporting date whether events or changes in circumstances indicate that there is an indication that a non-financial asset may be impaired. This assessment is carried out more often, if there are events or changes in circumstances that indicate that a non-financial asset may be impaired. If any such indication exists, the bank makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount. This written down amount constitutes an impairment loss.
For non-financial assets, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If any such indication exists, the recoverable amount is estimated.
A previously recognised impairment loss is reversed only if there has been a change in the estimate used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount.
This increase constitutes the reversal of impairment losses.
The Bank and Group apply the procedures described when assessing the value of investment in associates, as their main assets are non-financial.

(vi) Estimate of provision amounts

Provisions are recognised in amount that is the best estimate as of the reporting date. Management of the Group and Bank estimates provisions required to cover obligations. In preparation of the estimate management uses available information, evidence and experience, as well as engages independent experts if necessary.

7. Net interest income

'000 EUR	2019 Group	2018 Group	2019 Bank	2018 Bank
Interest income				
Interest income on financial assets at amortized cost				
Loans and advances due from customers	3,742	3,677	3,516	3,677
Balances due from financial institutions	380	335	380	335
Debt securities	364	78	364	78
Interest income on debt securities at fair value through profit or loss in other comprehensive income	958	862	949	862
Total interest income	**5,444**	**4,952**	**5,209**	**4,952**
Interest expense				
Interest expense recognised on liabilities measured at amortised cost				
Subordinated liabilities	(939)	(975)	(939)	(975)
Current accounts and deposits due to customers	(360)	(358)	(373)	(366)
Balances due to financial institutions	(156)	(163)	(156)	(163)
Payments to the deposit guarantee fund and other expenses	(87)	(81)	(87)	(81)
Lease commitments	(50)	-	(50)	-
Total interest expense	**(1,592)**	**(1,577)**	**(1,605)**	**(1,585)**
Net interest income	**3,852**	**3,375**	**3,604**	**3,367**

In the current economic environment the overall effective interest rate on some high quality liquid assets has turned negative. The Group and the Bank are mainly affected by negative interest rates applied on certain balances due from central banks. As the interest resulting from a negative effective interest rate on financial assets reflects an outflow of economic benefits, this is presented as interest expense.

Interest income on impaired loans and advances due from customers during the year ended 31 December 2019 amounts to EUR 253 thousand (2018: EUR 593 thousand).

8. Fee and commission income

'000 EUR	2019 Group	2018 Group	2019 Bank	2018 Bank
Servicing current accounts	1,897	1,470	1,680	1,470
Asset management and fiduciary services	1,764	1,283	1,764	1,056
Brokerage operations	1,332	640	1,333	640
Credit card maintenance	213	164	213	164
Structured products	77	291	77	291
Other	56	75	54	75
Total	**5,339**	**3,923**	**5,121**	**3,696**

9. Fee and commission expense

'000 EUR	2019 Group	2018 Group	2019 Bank	2018 Bank
Asset management and brokerage services	360	220	349	209
Customer attraction	294	185	292	185
Settlements	135	114	134	114
Total	**789**	**519**	**775**	**508**

10. General administrative expenses

'000 EUR	2019 Group	2018 Group	2019 Bank	2018 Bank
Employee compensation and payroll taxes	4,362	4,212	4,185	3,958
Depreciation and amortization*	535	447	530	445
Professional services	477	683	413	678
Communications and information services	300	258	298	256
Non-refundable value added tax	265	158	262	158
Payment cards expenses	228	240	228	240
IT services costs	211	180	211	180
Advertising and marketing	125	92	105	91
Other employee expenses	86	80	85	78
Rent and utilities payments*	51	212	51	212
Repairs and maintenance	50	55	50	55
Other	507	434	492	428
Total	**7,197**	**7,051**	**6,910**	**6,779**

*Lease expenses, which previously were presented as "Rent and utilities payments", according to the new IFRS 16 (Leases) in 2019 are presented as "Depreciation and amortisation". 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. "Rent and utilities payments" classification is retained for all utility expenses and certain rental fees which do not qualify for classification as depreciation under the new standard. See section a) of Note 3 (New standards and amendments).

Audit and other fees paid to the independent auditor company which has audited these financial statements are presented within administrative expenses under the heading "Professional services". Other audits and consultations included audit related services to fullfil regulatory requirements on custodian responsibilities and deposit guarantee fund contribution reporting.

'000 EUR	2019 Group	2018 Group	2019 Bank	2018 Bank
Sworn auditor statutory audit	57	49	42	45
Sworn auditor other audits	4	4	4	4
Total	**61**	**53**	**46**	**49**

The Bank's rental fees for low value inventory rental in the amount of EUR 9 thousand are included under the item 'IT services costs' and in the amount of EUR 2 thousand - under the item 'Other'.
In 2019 the Group employed an average of 95 (2018: 83) persons, whereas the Bank employed an average of 88 (2018: 79).
Number of employees of the Group and the Bank at the year end:

	31 Dec 2019 Group	31 Dec 2018 Group	31 Dec 2019 Bank	31 Dec 2018 Bank
Management	9	6	4	4
Heads of divisions and departments	21	17	21	17
Other personnel	71	66	65	64
Total at the end of the year	**101**	**89**	**90**	**85**

11. Impairment loss

Total net asset impairment allowance included in statement of income:

'000 EUR	2019 Group	2018 Group	2019 Bank	2018 Bank
Balances due from financial institutions	(1)	1	(1)	1
Debt securities	(30)	(159)	(27)	(159)
Loans and advances due from customers	(167)	211	(238)	211
Other financial assets and other assets	(5)	(187)	(5)	(187)
Total impairment allowance and provisions charged to income statement, net	**(203)**	**(134)**	**(271)**	**(134)**

Changes in the Group financial and other asset impairment allowance for the year ended 31 December 2019:

'000 EUR	Increases in origination and acquisition	Decreases in derecognition and repayments	Total net impairment charge	Included decrease due to write-off
Stage 1				
Balances due from financial institutions	1	-	1	-
Debt securities	105	(74)	31	-
Loans and advances due from customers	104	(87)	17	-
Other financial and non-financial assets	9	(11)	(2)	-
Total stage 1 impairment	**219**	**(172)**	**47**	**-**
Stage 2				
Loans and advances due from customers	13	-	13	-
Total stage 2 impairment	**13**	**-**	**13**	**-**
Stage 3				
Loans and advances due from customers	137	-	137	-
Other financial assets	7	(1)	6	(1)
Total stage 3 impairment	**144**	**(1)**	**143**	**(1)**
Total allowances for credit losses recognised in profit or loss, net	**376**	**(173)**	**203**	**(1)**

11. Impairment loss (continued)

Changes in the Bank financial and other asset impairment allowance for the year ended 31 December 2019:

'000 EUR	Increases in origination and acquisition	Decreases in derecognition and repayments	Total net impairment charge	Included decrease due to write-off
Stage 1				
Balances due from financial institutions	1	-	1	-
Debt securities	101	(74)	27	-
Loans and advances due from customers	162	(73)	89	-
Other financial and non-financial assets	9	(11)	(2)	-
Total stage 1 impairment	**273**	**(158)**	**115**	**-**
Stage 2				
Loans and advances due from customers	13	-	13	-
Total stage 2 impairment	**13**	**-**	**13**	**-**
Stage 3				
Loans and advances due from customers	137	-	137	-
Other financial assets	7	(1)	6	(1)
Total stage 3 impairment	**144**	**(1)**	**143**	**(1)**
Total allowances for credit losses recognised in profit or loss, net	**430**	**(159)**	**271**	**(1)**

Changes in the Group and the Bank financial and other asset impairment allowance for the year ended 31 December 2018:

'000 EUR	Increases/(Decreases) in origination and acquisition	Decreases in derecognition and repayments	Total net impairment charge	Included decrease due to write-off
Stage 1				
Balances due from financial institutions	(1)	-	(1)	-
Debt securities	113	(132)	(19)	-
Loans and advances due from customers	29	(89)	(60)	-
Other financial and non-financial assets	5	-	5	-
Total stage 1 impairment	**146**	**(221)**	**(75)**	**-**
Stage 2				
Debt securities	40	(50)	(10)	-
Loans and advances due from customers	59	(47)	12	-
Total stage 2 impairment	**99**	**(97)**	**2**	**-**
Stage 3				
Debt securities	188	-	188	-
Loans and advances due from customers	35	(198)	(163)	(5)
Other financial assets	182	-	182	(1)
Total stage 3 impairment	**405**	**(198)**	**207**	**(6)**
Total allowances for credit losses recognised in profit or loss, net	**650**	**(516)**	**134**	**(6)**

12. Income tax

Income tax recognised in the profit or loss:

'000 EUR	2019 Group	2018 Group	2019 Bank	2018 Bank
Income tax recognised in profit or loss	**(8)**	**(10)**	**(8)**	**(10)**

The corporate income tax is payable only for certain expenses which for tax calculation purposes are considered to be the distribution of profit (for example, non-operating expenses and representation expenses that exceed a specific threshold).

13. Cash and cash equivalents

Cash and cash equivalents at the end of the financial year as shown in the statement of cash flows are composed of the following items:

'000 EUR	31 Dec 2019 Group	31 Dec 2018 Group	31 Dec 2019 Bank	31 Dec 2018 Bank
Cash	387	492	387	492
Balances due from central banks	40,544	25,166	40,544	25,166
Subtotal	**40,931**	**25,658**	**40,931**	**25,658**
Demand deposit due from financial institutions	11,484	18,282	11,411	18,032
Total	**52,415**	**43,940**	**52,342**	**43,690**

Deposits with the Bank of Latvia represent the balance outstanding on correspondent account in EUR. Credit institutions should comply with the compulsory reserve requirement calculated on the basis of attracted funding. The Bank's compulsory reserve must be exceeded by a credit institution's average monthly euro balance on its correspondent account with the Bank of Latvia. The Bank is compliant with the requirement to hold the minimum reserves in amount of EUR 1 182 thousand (2018: EUR 789 thousand) with the Bank of Latvia.

14. Financial assets and liabilities at fair value through profit or loss

'000 EUR	31 Dec 2019 Group	31 Dec 2018 Group	31 Dec 2019 Bank	31 Dec 2018 Bank
Assets				
Equity investments				
Financial institutions shares*	-	317	-	317
Corporate shares*	393	186	393	186
Total equity investments	**393**	**503**	**393**	**503**
Derivative financial instruments				
Foreign currency contracts	694	473	694	473
Foreign currency forward agreements	10	54	10	54
Total derivative financial instruments	**704**	**527**	**704**	**527**
Total assets at fair value	**1,097**	**1,030**	**1,097**	**1,030**
Liabilities				
Derivative financial instruments				
Foreign currency contracts	409	232	409	232
Foreign currency forward agreements	140	26	140	26
Total derivative financial instruments	**549**	**258**	**549**	**258**
Total liabilities at fair value	**549**	**258**	**549**	**258**
National amount				
Derivative financial instruments				
Foreign currency forward agreements	133,966	20,536	133,966	20,536
Foreign currency contracts	7,540	2,001	7,540	2,001
Total derivative financial instruments at national amount	**141,506**	**22,537**	**141,506**	**22,537**

*held for trading

Included in financial assets and financial liabilities at fair value through profit or loss at 31 December 2019 are EUR 1.1 million (2018: EUR 1.03 million) and EUR 0.5 million (2018: EUR 0.3 million) respectively which are classified as held for trading.

15. Balances due from financial institutions

'000 EUR	31 Dec 2019 Group	31 Dec 2018 Group	31 Dec 2019 Bank	31 Dec 2018 Bank
Not impaired or past due				
Nostro accounts				
Latvian commercial banks	73	250	-	-
OECD banks[1]	11,286	18,032	11,286	18,032
Non-OECD banks	125	-	125	-
Credit ratings[2]				
Rated A- and above	10,381	10,280	10,381	10,280
Rated from BBB- to BBB+	369	7,456	296	7,206
Not rated	734	546	734	546
Total nostro accounts	**11,484**	**18,282**	**11,411**	**18,032**
Loans and deposits[3]				
OECD banks[3]	20,468	10,826	20,468	10,826
Credit ratings[2]				
Rated A- and above	17,843	8,736	17,843	8,736
Not rated	2,625	2,090	2,625	2,090
Total loans and deposits not impaired	**20,468**	**10,826**	**20,468**	**10,826**
Total balances due from financial institutions	**31,952**	**29,108**	**31,879**	**28,858**

1. Nostro accounts held with OECD banks include balances with 6 counterparties (31 December 2018: 3) none of which exceed 91% (31 December 2018: 36%) of the total account balance. The respective counterparties do not have credit ratings lower than A+ (31 December 2018: BBB+) as at 31 December 2019.
2. Balances due from financial institutions are classified by average credit rating from three international rating agencies: Moody's Investors Service, Standard & Poor's, Fitch Ratings.
3. Loans and deposits held with OECD banks include balances with 4 financial institutions (31 December 2018: 2) none of which individually exceeds 65% (31 December 2018: 30%) of the total balance. As at 31 December 2019 the respective credit rating of one financial institution is A+, and the other do not have credit ratings (31 December 2018:A+ and the other do not have credit ratings) The financial institution, whose credit rating is not available, is registered and operates in the EU.

As at 31 December 2019 and 2018 the Group's and Bank's balances due from financial institutions had no impairments.

Concentration of placements with banks and other financial institutions

As at 31 December 2019 and 2018 the Group and the Bank had a number of due from balances with banks and financial institutions that individually exceeded 10% of the total balances due from financial institutions. As of 31 December 2019 and 2018 none of these balances individually exceeded 42 % and 36 % respectively. The gross value of due from balances with banks and financial institutions that individually exceeded 10% of the total balances due from financial institutions as of 31 December 2019 was EUR 28 224 thousand (31 December 2018: EUR 26 222 thousand) and it included three banks (31 December 2018: 3) with the credit rating not lower than A (31 December 2018: BBB+).

16. Loans and advances due from customers

Breakdown of loans issued by the Group and the Bank by customer type:

'000 EUR	31 Dec 2019 Group	31 Dec 2018 Group	31 Dec 2019 Bank	31 Dec 2018 Bank
Corporate entities	29,820	24,657	33,601	24,657
Private individuals	22,247	12,603	18,369	12,603
Financial auxiliaries and other financial intermediaries	13,701	770	13,701	770
Total loans and advances due from customers	**65,768**	**38,030**	**65,671**	**38,030**
Total impairment allowance	**(572)**	**(327)**	**(572)**	**(327)**
Loans and advances due from customers, net	**65,196**	**37,703**	**65,099**	**37,703**

One loan in the total amount of 471 thousand EUR had active restructured status as at 31 December 2019 (2018: two loans, 178 thousand EUR).
In the tables below estimated Group's fair value of loan collateral is presented separately for those assets where collateral and other credit enhancements exceed carrying value of the asset (LTV < 100%) and those assets where collateral and other credit enhancements are equal to or less than the carrying value of the asset (LTV ≥ 100%):

'000 EUR	31 Dec 2019 Group				31 Dec 2018 Group			
	LTV < 100%		LTV ≥ 100% and unsecured		LTV < 100%		LTV ≥ 100% and unsecured	
	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral
Business loans	34,145	76,784	1,495	1,315	30,023	59,998	56	-
Reverse repo and loans secured by financial instruments	6,057	15,113	-	-	669	996	-	-
Consumer loans	7,888	15,109	1,453	1,324	4,673	11,696	196	-
Mortgage loans	4,269	6,034	-	-	873	2,683	-	-
Other deposits with financial institutions	-	-	7,095	-	-	-	770	-
Other	2,406	6,786	960	-	-	-	770	-
Loans and advances due from customers	**54,765**	**119,826**	**11,003**	**2,639**	**36,238**	**75,373**	**1,792**	-
Impairment allowance	(368)	-	(204)	-	(109)	-	(218)	-
Loans and advances due from customers, net	**54,397**	**119,826**	**10,799**	**2,639**	**36,129**	**75,373**	**1,574**	-

16. Loans and advances due from customers (continued)

In the tables below estimated Bank's fair value of loan collateral is presented separately for those assets where collateral and other credit enhancements exceed carrying value of the asset (LTV < 100%) and those assets where collateral and other credit enhancements are equal to or less than the carrying value of the asset (LTV ≥ 100%):

'000 EUR	31 Dec 2019 Bank				31 Dec 2018 Bank			
	LTV < 100%		LTV ≥ 100% and unsecured		LTV < 100%		LTV ≥ 100% and unsecured	
	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral
Business loans	37,925	80,802	1,495	1,315	30,023	59,998	56	-
Reverse repo and loans secured by financial instruments	6,057	15,113	-	-	669	996	-	-
Consumer loans	5,259	11,616	205	-	4,673	11,696	196	-
Mortgage loans	4,269	6,034	-	-	873	2,683	-	-
Other deposits with financial institutions	-	-	7,095	-	-	-	770	-
Other	2,406	6,786	960	-	-	-	770	-
Loans and advances due from customers	**55,916**	**120,351**	**9,755**	**1,315**	**36,238**	**75,373**	**1,792**	-
Impairment allowance	(368)	-	(204)	-	(109)	-	(218)	-
Loans and advances due from customers, net	**55,548**	**120,351**	**9,551**	**1,315**	**36,129**	**75,373**	**1,574**	-

16. Loans and advances due from customers (continued)

The following table shows the types of credit collateral and its geography for the Group as at 31 December 2019:

'000 EUR		Estimated fair value of collateral by type of collateral				Estimated fair value of the collateral
		Mortgage	Financial instruments	Money and deposits	Another type of collateral	
Loans and advances due from customers						
Business loans	35,314	**64,332**	**9,066**	**809**	**3,892**	**78,099**
OECD countries		19,780	-	-	1,138	20,918
Russia		22,393	3,077	-	-	25,470
Latvia		22,159	-	-	2,754	24,913
*Other countries**		-	5,989	809	-	6,798
Reverse repo and loans secured by financial instruments	6,055	**-**	**15,113**	**-**	**-**	**15,113**
OECD countries		-	33	-	-	33
Russia		-	4,295	-	-	4,295
*Other countries**		-	10,785	-	-	10,785
Consumer loans	9,334	**10,431**	**1,160**	**25**	**4,817**	**16,433**
OECD countries		9,391	-	-	-	9,391
Latvia		725	151	-	4,817	5,693
Russia		315	-	-	-	315
*Other countries**		-	1,009	25	-	1,034
Mortgage loans	4,236	**6,034**	**-**	**-**	**-**	**6,034**
OECD countries		3,779	-	-	-	3,779
Latvia		2,255	-	-	-	2,255
Other deposits with financial institutions	7,095	-	-	-	-	-
Other	3,162	**1,862**	**-**	**119**	**4,805**	**6,786**
Latvia		1,862	-	-	-	1,862
*Other countries**		-	-	119	4,805	4,924

*single primary country cannot be identified, location/registration country of collateral is different (EU countries, Russia, etc.)

16. Loans and advances due from customers (continued)

The following table shows the types of credit collateral and its geography for the Bank as at 31 December 2019:

'000 EUR		Estimated fair value of collateral by type of collateral				Estimated fair value of the collateral
		Mortgage	**Financial instruments**	**Money and deposits**	**Another type of collateral**	
Loans and advances due from customers						
Business loans	39,094	**64,332**	**13,084**	**809**	**3,892**	**82,117**
OECD countries		19,780	-	-	1,138	20,918
Russia		22,393	3,077	-	-	25,470
Latvia		22,159	4,018	-	2,754	28,931
*Other countries**		-	5,989	809	-	6,798
Reverse repo and loans secured by financial instruments	6,055	**-**	**15,113**	**-**	**-**	**15,113**
OECD countries		-	33	-	-	33
Russia		-	4,295	-	-	4,295
*Other countries**		-	10,785	-	-	10,785
Consumer loans	5,457	**10,431**	**1,160**	**25**	**-**	**11,616**
OECD countries		9,391	-	-	-	9,391
Latvia		725	151	-	-	876
Russia		315	-	-	-	315
*Other countries**		-	1,009	25	-	1,034
Mortgage loans	4,236	**6,034**	**-**	**-**	**-**	**6,034**
OECD countries		3,779	-	-	-	3,779
Latvia		2,255	-	-	-	2,255
Other deposits with financial institutions	7,095	-	-	-	-	-
Other	3,162	**1,862**	**-**	**119**	**4,805**	**6,786**
Latvia		1,862	-	-	-	1,862
*Other countries**		-	-	119	4,805	4,924

*single primary country cannot be identified, location/registration country of collateral is different (EU countries, Russia, etc.)

The following table shows the types of credit collateral and its geography for the Group and the Bank as at 31 December 2018:

'000 EUR		Estimated fair value of collateral by type of collateral				Estimated fair value of the collateral
		Mortgage	**Financial instruments**	**Money and deposits**	**Another type of collateral**	
Loans and advances due from customers						
Business loans	29,948	**55,650**	**2,663**	**850**	**835**	**59,998**
OECD countries		*31,429*	-	-	-	*31,429*
Russia		*20,972*	*1,730*	-	-	*22,702*
Latvia		*3,249*	-	*850*	*835*	*4,934*
*Other countries**		-	*933*	-	-	*933*
Consumer loans	4,863	**9,228**	**1,526**	**15**	**927**	**11,696**
OECD countries		*9,228*	-	-	-	*9,228*
Latvia		-	-	*15*	-	*15*
*Other countries**		-	*1,526*	-	*927*	*2,453*
Reverse repo	669	**-**	**996**	**-**	**-**	**996**
Russia		-	*798*	-	-	*798*
*Other countries**		-	*198*	-	-	*198*
Mortgage loans	873	**2,683**	**-**	**-**	**-**	**2,683**
OECD countries		*2,683*	-	-	-	*2,683*
Other	1,358	-	-	-	-	**-**

*single primary country cannot be identified, location/registration country of collateral is different (EU countries, Russia, etc.)

16. Loans and advances due from customers (continued)

Geographical analysis of the loan portfolio to the Group and the Bank. Geographic split of borrowers' credit risk is based on the country of origin of their projected cash flows used for loan repayment.

'000 EUR	31 Dec 2019 Group	31 Dec 2018 Group	31 Dec 2019 Bank	31 Dec 2018 Bank
Loans and advances due from customers				
Latvia	23,698	979	23,601	979
Other countries*	18,894	4,670	18,894	4,670
Russia	11,649	18,448	11,649	18,448
OECD countries	11,527	13,941	11,527	13,941
Total loans and advances due from customers	**65,768**	**38,038**	**65,671**	**38,038**
Total impairment allowance	**(572)**	**(327)**	**(572)**	**(327)**
Loans and advances due from customers, net	**65,196**	**37,711**	**65,099**	**37,711**

* single primary country cannot be identified, Borrowers' Income is generated in different countries (EU countries, etc.). Furthermore borrower has income that is generated internationally (FI investment portfolio, sale of movable property etc.)

Significant credit exposures

As of 31 December 2019, the Group and Bank had no customers, whose balances exceeded 10% of loans to customers.

As at 31 December 2018 Group and Bank had four borrowers, whose total debt exceeded 10% of Group's and Bank's issued Loan amount which occurred as a result of the overall decrease of loan portfolio. Total amount of these borrowers' debt was equal to EUR 16 700 thousand.

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

17. Debt securities measured at fair value through other comprehensive income

Debt securities of the Group and the Bank measured at fair value through other comprehensive income, by type of issuer:

'000 EUR	31 Dec 2019 Group	31 Dec 2018 Group	31 Dec 2019 Bank	31 Dec 2018 Bank
Debt securities				
Government and municipal bonds				
European Union	4,963	17,380	4,963	17,380
Latvia	503	876	503	876
Other countries	11,459	8,480	11,459	8,480
Total government and municipal bonds	**16,925**	**26,736**	**16,925**	**26,736**
Financial authorities and institutions bonds				
Latvia	696	-	696	-
European Union	-	2,518	-	2,518
Total Financial authorities and institutions bonds	**696**	**2,518**	**696**	**2,518**
Corporate bonds				
European Union and EEA	1,620	1,105	1,415	1,105
Latvia	303	1,103	303	1,103
Other countries	898	2,249	898	2,249
Total corporate bonds	**2,821**	**4,457**	**2,616**	**4,457**
Total debt securities measured at fair value through other comprehensive income	**20,442**	**33,711**	**20,237**	**33,711**

Geographical allocation is based on countries of principal entities.

17. Debt securities measured at fair value through other comprehensive income (continued)

Debt securities of the Group and the Bank measured at fair value through other comprehensive income quality analysis:

'000 EUR	31 Dec 2019 Group	31 Dec 2018 Group	31 Dec 2019 Bank	31 Dec 2018 Bank
Debt securities				
Government and municipal bonds[1]				
Rated from AAA- to A-	16,925	25,701	16,925	25,701
Rated from BBB- to BBB+	-	529	-	529
Not rated	-	506	-	506
Total government and municipal bonds	**16,925**	**26,736**	**16,925**	**26,736**
Financial authorities and institutions bonds				
Rated from AAA to AA-	-	2,319	-	2,319
Rated from B- to B	-	199	-	199
Not rated	696	-	696	
Total Financial authorities and institutions bonds	**696**	**2,518**	**696**	**2,518**
Corporate bonds				
Rated from BB- to BB+	195	437	195	437
B-	196	-	196	-
Not rated	2.430[2]	4,020[3]	2,225[2]	4,020[3]
Total corporate bonds	**2,821**	**4,457**	**2,616**	**4,457**
Total debt securities measured at fair value through other comprehensive income	**20,442**	**33,711**	**20,237**	**33,711**

1. Available-for-sale financial assets are classified by average credit rating from three international rating agencies: Moody's Investors Service, Standard & Poor's, Fitch Ratings.
2. Financial instruments issued by 5 issuers with a total value for the Group/ the Bank EUR 1 914/1 709 thousand were included in Stage 1 according to IFRS 9 requirements, financial instruments issued by 3 issuers with a total value EUR 488 thousand were included in Stage 2 and , financial instruments issued by 1 issuer with a total value EUR 28 thousand were included in Stage 3.
3. Financial instruments issued by 7 issuers with a total value EUR 3 642 thousand were included in Stage 1 according to IFRS 9 requirements, financial instruments issued by 1 issuer with a total value EUR 478 thousand were included in Stage 2 and financial instruments issued by 1 issuer with a total value EUR 99 thousand were included in Stage 3.

18. Debt securities measured at amortized cost

Debt securities of the Group and the Bank measured at amortized cost, by type of issuer:

'000 EUR	31 Dec 2019 Group	31 Dec 2018 Group	31 Dec 2019 Bank	31 Dec 2018 Bank
Debt and other fixed-income instruments				
Government and municipal bonds				
European Union	17,492	5,569	17,492	5,569
Total government and municipal bonds, gross	**17,492**	**5,569**	**17,492**	**5,569**
Impairment allowance	(1)	(18)	(1)	(18)
Total government and municipal bonds, net	**17,491**	**5,551**	**17,491**	**5,551**
Financial institutions and corporate bonds				
European Union and EEA	4,929	-	4,929	-
Total financial institutions and corporate bonds	**4,929**	**-**	**4,929**	**-**
Total debt securities measured at amortized cost, net	**22,420**	**5,551**	**22,420**	**5,551**

Geographical allocation is based on countries of principal entities.

Debt securities of the Group and the Bank measured at amortized cost quality analysis:

'000 EUR	31 Dec 2019 Group	31 Dec 2018 Group	31 Dec 2019 Bank	31 Dec 2018 Bank
Debt and other fixed-income instruments				
Government and municipal bonds[1]				
Rated from AAA- to AAA+	9,261	-	9,261	-
Rated from AA- to AA+	5,467	3,501	5,467	3,501
Rated A- and above	2,763	-	2,763	-
Rated from BBB- to BBB+	-	2,050	-	2,050
Total government and municipal bonds, net	**17,491**	**5,551**	**17,491**	**5,551**
Financial institutions and corporate bonds				
AAA	4,929	-	4,929	-
Total financial institutions and corporate bonds	**4,929**	**-**	**4,929**	**-**
Total debt securities measured at amortized cost, net	**22,420**	**5,551**	**22,420**	**5,551**

[1.] Debt securities are classified by average credit rating from three international rating agencies: Moody's Investors Service, Standard & Poor's, Fitch Ratings.

19. Investment in subsidiaries

Bank's investment in subsidiary Signet Asset Management Latvia IPAS:

'000 EUR	31 Dec 2019	31 Dec 2018
Investments in Signet Asset Management Latvia IPAS	1,874	1,874
Impairment of investment	(582)	(582)
Investment in the subsidiary, net	**1,292**	**1,292**

	Signet Asset Management Latvia IPAS
Main activity	Financial services
Country of incorporation	Latvia
Address	3 Antonijas street, Riga LV-1010, Latvia
Ownership interest	
31 December 2019	100 %
31 December 2018	100 %

Financial position of the subsidiary:

'000 EUR	As at 31 Dec 2019	As at 31 Dec 2018
Non-current assets	1,088	2
Current assets	457	1,437
Current liabilities	(16)	(17)
Net assets	**1,529**	**1,422**
Group share in net assets	**100 %**	**100 %**
	2019	**2018**
Income	232	235
Expenses	(134)	(275)
Income tax	-	-
Profit or loss	**98**	**(40)**
Group share in profit or loss	**100%**	**100%**

In 2013 the Bank invested EUR 1 874 thousand in a subsidiary Signet Asset Management Latvia IPAS which as at 31 December 2019 had the net asset value of EUR 1 529 thousand which mainly consists of cash and term deposits of EUR 1 262 thousand.

During the year ended 31 December 2019 and 2018 the Group did not receive dividends from investment in subsidiary.

In order to assess a possible impairment loss of the investment the Bank assessed the recoverable amount of the investment by applying the value in use approach; no additional impairment was required as a result of the assessment. The assessment was based on discounted dividend model. The profit after tax was assumed to be a proxy for free cash flows available for dividend distribution to the shareholders. The discount rate was calculated based on cost of equity that was determined in amount of 11.56% (2018: 13.51%). The Bank applied terminal growth rate of 2%. The model expects that in 2020 the subsidiary will have a significant increase of income (+ EUR 51 thousand, that is + 22%), and moderate growth in the coming years (in average + EUR 39 thousand, that is + 11%).

The Bank still considers that Signet Asset Management Latvia IPAS is a significant business line having sustainable development and growth prospects for the future.

19. Investment in subsidiaries (continued)

The Bank acquired a subsidiary AS "Primero Finance" on September 26, 2019.
Implementing its adjusted strategy in 2019, the Bank started more acrively provide lending services to Latvian clients, including businessmen registered in Latvia.
In order to develop and diversify the loan portfolio, the Bank acquired shares and granted a loan to AS "Primero Finance" (formerly Loango AS), which provides financial leasing and leaseback services in Latvia.
By making a contribution to the share capital of EUR 239 thousand, the Bank acquired a 51% stake in the company, which allows the Bank to ensure control of the company's activities and use of the loan granted, and thus manage better the Bank's own credit risk in relation to the loan issued.
Bank's investment in subsidiary:

'000 EUR	31 Dec 2019
Investments in AS "Primero Finance"	239

	AS "Primero Finance"
Main activity	Financial services
Country of incorporation	Latvia
Address	50 Skanstes street, Riga LV-1013, Latvia
Ownership interest	
31 December 2019	51 %

Financial position of the subsidiary:

'000 EUR	As at 31 Dec 2019
Non-current assets	**3,100**
Current assets	**1,369**
Non-current liabilities	**(3,777)**
Current liabilities	**(158)**
Net assets	**534**
Group share 51% in net assets	**272**
	26 Sep 2019 - 31 Dec 2019
Income	297
Expenses	(208)
Income tax	-
Profit	**89**
Group share 51% in profit	**33**

The fair value of the net assets of the subsidiary at the time of purchase was equal to their book value, EUR 234 thousand, the amount of non-controlling participation was EUR 225 thousand. Retained earnings at the time of purchase was EUR 34 thousand, the Bank's 51 % - EUR 17 thousand. The Bank did not recognize the goodwill in the amount of EUR 5 thousand when acquiring AS "Primero Finance", considering that such amount is not significant.
During the year ended 31 December 2019 the Group did not receive dividends from investment in subsidiary.

20. Investment in associates

In 2016, the Bank invested in investment company's SIA "LS Medical Property" share capital EUR 544 thousand with the participation of 32%. During 2019 and 2018 investment was increased by a total of EUR 208 thousand up to EUR 880 thousand, retaining the ownership of 32%. As the Bank does not have the control over SIA "LS Medical Property" the investment is not consolidated in the Group's consolidated financial statements.
Bank's investment in associate:

'000 EUR	31 Dec 2019	31 Dec 2018
Investments SIA "LS Medical Property"	880	800
Part of the Bank's loss	(159)	(106)
Investment in the associate, net	**721**	**694**

	SIA "LS Medical Property"
Main activity	Development of property for hospital operation purposes
Country of incorporation	Latvia
Address	3 Antonijas street, Riga LV-1010, Latvia
Ownership interest	
31 December 2019	32 %
31 December 2018	32 %

Financial position of the associate:

'000 EUR	As at 31 Dec 2019	As at 31 Dec 2018
Non-current assets	2,094	2,089
Current assets	158	133
Current liabilities	(3)	(55)
Net assets	**2,249**	**2,167**
Bank's share 32% in net assets	**713**	**694**
	2019	**2018**
Expenses	(167)	(214)
Loss	**(167)**	**(214)**
Bank's share 32% in loss	**(53)**	**(69)**

The only asset of the associate is a land plot with market value higher than its book value. Therefore, as a result of impairment assessment of investment in the associate no decrease in its value was identified.

20. Investment in associates (continued)

In December 2018 the Bank and its customers obtained 33.34% of share capital in SIA "Citra Kaļķu" as a result of a loan agreement restructuring, which gives the Bank a significant impact. As of December 31, 2019 the Bank's direct investment was 11.68% (2018: 10.32%). In addition, the Bank exercises the significant impact through its representative in the management board of SIA "Citra Kaļķu". The Bank considers its investment in SIA "Citra Kaļķu" as an investment in an associate. The Bank does not have a decisive control to consider it as a subsidiary, so it is not consolidated. Bank's investment in associate:

'000 EUR	31 Dec 2019	31 Dec 2018
Investments SIA "Citra Kaļķu" as of January 1 (in 2018 at the time of purchase)	1,312	1,312
Increase in investments during the year	135	-
Part of the previous year's profit	11	-
Part of the Bank's profit for the year	15	11
Impairment of investment	(299)	(299)
Investment in the associate, net	**1,174**	**1,024**

	SIA "Citra Kaļķu"
Main activity	Real estate transactions, development, leasing and rental of real estate
Country of incorporation	Latvia
Address	Aspāzijas bulvāris 32-1A, Riga LV-1050, Latvia
Ownership interest	
31 December 2019	11.68 %
31 December 2018	10.32 %

Financial position of the associate:

'000 EUR	As at 31 Dec 2019	As at 31 Dec 2018
Non-current assets	10,947	10,947
Current assets	54	19
Non-current liabilities	(1,079)	(1,132)
Current liabilities	-	(16)
Net assets	**9,922**	**9,818**
Bank's share 11.68% (10.32%) in net assets	**1,159**	**1,013**
	2019	**2018**
Income	141	131
Expenses	(14)	(20)
Profit	**127**	**111**
Bank's share 11.68%(10.32%) in profit, since acquisition	**15**	**11**

Upon acquisition of SIA "Citra Kaļķu" (hereinafter – SIA), the Bank adjusted fair value of the investee's assets, based on their highest and best use that was determined to be the construction of a premium hotel on the SIA's land plot.

20. Investment in associates (continued)

The Bank conducted a test as at 31 December 2019 to verify that the fair value of the SIA's assets had not gone down. The test did not establish any decrease in the fair value of the company's assets. As the basis for the valuation, the Bank relied on an appraisal drafted in 2018 by a certified real estate appraiser, and a forecast by the business partner – a professional hotel operator (hereinafter referred to as the Project Business Partner) – based on the performance of existing hotels, as well as appraisals and information from other external experts.
As at 31.12.2019, the Bank updated the financial model of the development project, which contains the following key parameters and sources for validation of the parameters:

- occupancy rate, which is based on validated information from the Project Business Partner on the occupancy indicators of hotels in similar locations; the occupancy rate is lower in the first few years and gradually increases in subsequent years;
- hotel room rates, which were validated using offers published in open internet sources and hotel reservation systems for hotels operating in Riga city centre for different times of the year, as well as forecasts by the Project Business Partner;
- income from the hotel restaurant, which was validated using experience and calculations by the Bank's Project Cooperation Partner, opinions and research results of external experts, as well as Bank's experience from other projects related to financing of hotels;
- hotel construction term, which was validated using publicly available information about construction of a comparative hotel, as well as forecasts by the Project Business Partner;
- construction costs, which were validated using experience and calculations by the Project Business Partner;
- capitalisation rate, which was validated using experience and calculations by the Bank Project Cooperation Partner, opinions and research findings from external experts, as well as Bank's experience from other projects related to financing of hotels.

In order to make sure that hotel construction project can be developed on SIA's land plot, the Bank used Riga city territorial plan and Regulations on Usage and Construction of the Riga Historical Centre and its Protection Zone Territory. Upon applying the assumptions described above, net present value of the project was determined at EUR 17 212 thousand (2018: EUR 10 947 thousand). As a result, the Bank decided to leave unchanged its 2018 assumptions regarding the fair value of the SIA's assets, in the context of which the Bank had made an investment value adjustment proportionate to the share of its investment, decreasing it by EUR 299 thousand to EUR 1 024 thousand.
Key parameters and results of sensitivity analysis for the hotel development project are presented below, based on the value depreciation test performed as at 31.12.2019. Sensitivity analysis was prepared to calculate changes in net present value of the project in cases when key hotel parameter will be worse than forecasted.

Parameter	Parameter value	Net present value EUR'000, from unfavourable changes in the parameter by 5%	Net present value EUR'000, from unfavourable changes in the parameter by 10%
Occupancy rate	82% - 87%	15,209	13,206
Hotel room rate	80 EUR on average	15,209	13,206
Income from restaurant	Up to 27% (revenue share vs. number income)	16,857	16,503
Hotel sales price	EUR 73,060 thousand	15,270	13,329
Construction costs	EUR 27,705 thousand	16,686	16,161
Capitalisation rate	6.5%	15,363	13,682

21. Property and equipment

Group '000 EUR	Leasehold improvements	Right-of-use assets (IFRS 16)	Other	Total
Cost				
At 1 January 2019	2,330	-	1,576	3,906
Initial application (IFRS 16)	-	1,205	-	1,205
Additions	-	-	192	192
Increase due to acquisition of subsidiary	-	22	2	24
Write-offs	-	-	(9)	(9)
At 31 December 2019	**2,330**	**1,227**	**1,761**	**5,318**
Depreciation				
At 1 January 2019	1,000	-	1,151	2,151
Depreciation charge	142	129	118	389
Write-offs	-	-	(9)	(9)
At 31 December 2019	**1,142**	**129**	**1,260**	**2,531**
Carrying value				
At 31 December 2019	**1,188**	**1,098**	**501**	**2,787**
Cost				
At 1 January 2018	2,330	-	1,512	3,842
Additions	-	-	64	64
At 31 December 2018	**2,330**	**-**	**1,576**	**3,906**
Depreciation				
At 1 January 2018	857	-	990	1,847
Depreciation charge	143	-	161	304
At 31 December 2018	**1,000**	**-**	**1,151**	**2,151**
Carrying value				
At 31 December 2018	**1,330**	**-**	**425**	**1,755**
At 31 December 2017	1,473	-	522	1,995

Banka '000 EUR	Leasehold improvements	Right-of-use assets (IFRS 16)	Other	Total
Cost				
At 1 January 2019	2,330	-	1,542	3,872
Initial application (IFRS 16)	-	1,205	-	1,205
Additions	-	-	192	192
Write-offs	-	-	(9)	(9)
At 31 December 2019	**2,330**	**1,205**	**1,725**	**5,260**
Depreciation				
At 1 January 2019	1,000	-	1,119	2,119
Depreciation charge	142	129	116	387
Write-offs	-	-	(9)	(9)
At 31 December 2019	**1,142**	**129**	**1,226**	**2,497**
Carrying value				
At 31 December 2019	**1,188**	**1,076**	**499**	**2,763**
Cost				
At 1 January 2018	2,330	-	1,478	3,808
Additions	-	-	64	64
At 31 December 2018	**2,330**	**-**	**1,542**	**3,872**
Depreciation				
At 1 January 2018	857	-	959	1,816
Depreciation charge	143	-	160	303
At 31 December 2018	**1,000**	**-**	**1,119**	**2,119**
Carrying value				
At 31 December 2018	**1,330**	**-**	**423**	**1,753**
At 31 December 2017	1,473	-	519	1,992

22. Goodwill and other intangible assets

’000 EUR	Group Total	Bank Total
Cost		
At 1 January 2019	854	853
Additions	175	104
At 31 December 2019	**1,029**	**957**
Amortisation		
At 1 January 2019	673	672
Amortisation charge	146	143
At 31 December 2019	**819**	**815**
Carrying value		
At 31 December 2019	**210**	**142**
Cost		
At 1 January 2018	844	843
Additions	10	10
At 31 December 2018	**854**	**853**
Amortisation		
At 1 January 2018	531	530
Amortisation charge	142	142
At 31 December 2018	**673**	**672**
Carrying value		
At 31 December 2018	**181**	**181**
At 31 December 2017	313	313

23. Other assets

’000 EUR	31 Dec 2019 Group	31 Dec 2018 Group	31 Dec 2019 Bank	31 Dec 2018 Bank
Other financial assets				
Settlement of payment cards[1]	695	752	695	752
Other financial assets	**695**	**752**	**695**	**752**
Other non-financial assets				
Prepayments	293	229	244	207
Accrued income	184	71	166	68
Settlement of tax	7	19	7	19
Repossessed assets	215	-	193	-
Other	894	67	660	66
Other non-financial assets	**1,593**	**386**	**1,270**	**360**
Impairment allowance	**(9)**	**(12)**	**(9)**	**(12)**
Total other assets	**2,279**	**1,126**	**1,956**	**1,100**

[1] Impairment allowance for credit cards in total amount of EUR 3 thousand (2018: EUR 3 thousand)is presented under expected credit loss allowance

24. Liabilities to financial institutions

’000 EUR	31 Dec 2019 Group	31 Dec 2018 Group	31 Dec 2019 Bank	31 Dec 2018 Bank
Liabilities to financial institution registered in the European Union	435	-	435	-

25. Deposits

Client deposits split by their profile

'000 EUR	31 Dec 2019 Group	31 Dec 2018 Group	31 Dec 2019 Bank	31 Dec 2018 Bank
Current accounts and demand deposits	**141,298**	**88,220**	**141,604**	**88,317**
Private individuals	51,530	26,636	51,530	26,636
Corporates	89,768	61,584	90,074	61,681
Term deposits	**12,861**	**13,672**	**14,055**	**14,737**
Private individuals	6,783	6,798	6,783	6,798
Corporates	6,078	6,874	7,272	7,939
Total current accounts and demand deposits	**154,159**	**101,892**	**155,659**	**103,054**

Geographical analysis of the deposits

'000 EUR	31 Dec 2019 Group	31 Dec 2018 Group	31 Dec 2019 Bank	31 Dec 2018 Bank
Current accounts and demand deposits	**141,298**	**88,220**	**141,604**	**88,317**
Latvia	56,247	37,478	56,553	37,575
OECD countries	53,144	40,061	53,144	40,061
Russia	5,031	7,153	5,031	7,153
Other countries	26,876	3,528	26,876	3,528
Term deposits	**12,861**	**13,672**	**14,055**	**14,737**
Latvia	4,118	4,198	5,312	5,263
OECD countries	3,243	5,184	3,243	5,184
Russia	1,363	1,027	1,363	1,027
Other countries	4,137	3,263	4,137	3,263
Total deposits	**154,159**	**101,892**	**155,659**	**103,054**

Concentrations of current accounts and customer deposits

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

26. Subordinated liabilities

’000 EUR	31 Dec 2019 Group	31 Dec 2018 Group	31 Dec 2019 Bank	31 Dec 2018 Bank
Subordinated borrowings				
Private individuals	5,022	13,216	5,022	13,216
Corporates	6,443	5,022	6,443	5,022
Total Subordinated borrowings	**11,465**	**18,238**	**11,465**	**18,238**

Subordinated borrowings have a fixed term of at least five years at their origination, and are repayable before maturity only on winding up of the Bank. In the event of the winding-up of the Bank these borrowings will be subordinated to the claims of depositors and all other creditors of the Bank.

Reconciliation of movements of subordinated borrowings to cash flows arising from financing activities

’000 EUR	2019 Group	2018 Group	2019 Bank	2018 Bank
Balance of subordinated borrowings at 1 January	**18,238**	**17,490**	**18,238**	**17,490**
Decrease in subordinated borrowings	(7,430)	(300)	(7,430)	(300)
Increase in subordinated borrowings	100	-	100	-
Changes from financing cash flows				
Other changes Liability-related				
Interest expense	939	975	939	975
Interest paid	(355)	(365)	(355)	(365)
Interest paid in advance decrease / (increase)	(27)	438	(27)	438
Total liability-related other changes	**557**	**1,048**	**557**	**1,048**
Balance of subordinated borrowings at 31 December	**11,465**	**18,238**	**11,465**	**18,238**

Concentrations of subordinated borrowings

As of 31 December 2019 and 2018, the Group and Bank had two subordinated borrowing agreements, whose balance exceeded 10% of the total subordinated borrowings and which are indicated in the table below.

Customer	Currency	Issue size ‘000	Interest rate	Original agreement date	Maturity date	Carrying amount ‘000 EUR	
						31.12.2019	31.12.2018
Private individual - non-resident	USD	2,000	6.67 %	27.02.2015	30.06.2023	1,365	-*
Private individual - non-resident	USD	6,000	5 %	09.12.2014	09.12.2019	-	4,995
Corporates - non-resident	EUR	5,000	5.2635 %	24.08.2015	24.08.2020	5,022	5,022

* 31.12.2018 did not exceed 10% of the total value of the subordinated debt.

27. Other liabilities

'000 EUR	31 Dec 2019 Group	31 Dec 2018 Group	31 Dec 2019 Bank	31 Dec 2018 Bank
Suspense liabilities and money in transit	3,063	581	3,063	581
Lease liabilities	1,118	-	1,097	-
Accrued expenses	483	366	430	362
Provision for employee vacations	263	235	250	225
Deferred income	220	195	220	195
Other	375	54	294	51
Total other liabilities	**5,522**	**1,431**	**5,354**	**1,414**

* Lease liabilities for 2019 are reported in accordance with IFRS 16 (Leases). As the new standard does not need to be applied retrospectively, comparative information has not been reclassified. See Annex 3 (c) (New Standards and Amendments).

28. Share capital

Issued capital and share premium

'000 EUR	31 Dec 2019		31 Dec 2018	
	Number of shares	EUR	Number of shares	EUR
Authorised share capital as of 1 January	459,582	32,170,740	459,582	32,170,740
Issued and fully paid share capital as of 1 January	459,582	32,170,740	459,582	32,170,740
Authorised share capital as of 31 December	459,582	32,170,740	459,582	32,170,740
Issued and fully paid share capital as of 31 December	**459,582**	**32,170,740**	**459,582**	**32,170,740**

The Bank's share capital consists of ordinary shares with voting rights and a par value of 70 EUR.

The shareholders of the Bank as of 31 December 2019 and 31 December 2018 were as follows:

Shareholder	31 Dec 2019			31 Dec 2018		
	Number of shares	Paid share capital (EUR)	Share capital ownership %	Number of shares	Paid share capital (EUR)	Share capital ownership %
Signet Global Investors Limited	114,896	8,042,720	25.00 %	114,896	8,042,720	25.00 %
SIA "Hansalink"	102,487	7,174,090	22.30 %	102,487	7,174,090	22.30 %
Arkadiy Perelshtein	45,490	3,184,300	9.90 %	45,490	3,184,300	9.90 %
SIA "Fin.lv" *	40,360	2,825,200	8.79 %	40,360	2,825,200	8.79 %
Leonid Kaplan	31,200	2,184,000	6.79 %	31,200	2,184,000	6.79 %
Igor Rapoport *	27,622	1 933 540	6,01 %	21,664	1,516,480	4.71 %
Natalija Petkevicha	26,917	1 884 190	5,86 %	16,085	1,125,950	3.50 %
Soloman Rutenberg	25,292	1 770 440	5,50 %	16,085	1,125,950	3.50 %
Robert Idelson	22,571	1 579 970	4,91 %	22,571	1,579,970	4.91 %
Tatjana Rapoporta *	21,664	1 516 480	4,71 %	21,664	1,516,480	4.71 %
Rahmiel Deich	1,083	75 810	0,24 %	-	-	-
SIA "DMD Holding"	-	-	-	27,080	1,895,600	5.89 %
Total	**459,582**	**32,170,740**	**100 %**	**459,582**	**32,170,740**	**100 %**

* Joint control with a shareholding of 19.51%.

Reserves

Other reserves represent residual interest of shareholders and can be distributed.

29. Lease liabiliaties

The lease liabilities are for the Group's and the Bank's premises lease agreements. The term of the Bank's Lease agreement is until May 1, 2028, with the possibility of renewing the lease after its expiration date. Lease payments are fixed. Lease agreements do not include additional obligations. The following table shows an analysis of the terms of the lease liabilities maturing after the reporting date.

'000 EUR	31 Dec 2018 Group	31 Dec 2018 Bank
Lease liabiliates January 1, 2019	**1,205**	**1,205**
Purchase of lease liabilities	22	-
Lease payments relating to the cancellation of a lease liability	(159)	(159)
Interest parts of lease payments	50	50
Lease liabiliates December 31, 2019	**1,118**	**1,097**
incl. current expenditure on lease liabilities	117	113
incl. long-term expenses for lease liabilities	1,001	984

Operating lease rentals are payable as follows:

'000 EUR	31 Dec 2018 Group	31 Dec 2018 Bank
Less than one year	142	142
Between one and five years	566	566
More than five years	613	613
Total operating leases	**1,321**	**1,321**

30. Assets under management

Asset management services

The Group through its Subsidiary provides asset management services to individuals and companies. The Group receives management fee for providing these services. The assets under management of the Subsidiary are not included in neither the consolidated nor separate statement of financial position.
As of 31 December 2019 the Group had EUR 622.94 million (2018: EUR 344.99 million) assets under management of which the Bank held EUR 568.63 million (2018: EUR : 290.11 million) and the Subsidiary held EUR 54.31 million (2018: EUR 54.87 million).

Custody activities

The Group and the Bank provides custody services to its customers, whereby it holds securities on behalf of customers and receives fee income for providing these services. These securities are neither assets of the Group, nor the Bank and are not recognized in the consolidated and separate statements of financial position. As of 31 December 2019 the total amount in custody on behalf of customers was EUR 303.65 million (31 December 2018: EUR 159.07 million).

31. Related party transactions

Transactions with members of the Key Management Personnel

Total remuneration included in employee compensation (refer to Note 10):

‘000 EUR	2019 Group	2018 Group	2019 Bank	2018 Bank
Remuneration to the Key Management Personnel	621	712	610	600

The outstanding balances as of 31 December 2019 and 31 December 2018 with members of the Key Management Personnel are as follows:

‘000 EUR	31 Dec 2019 ’000 EUR	31 Dec 2018 ’000 EUR
Statement of financial position		
Assets		
Other assets	7	8
Liabilities		
Current accounts	49	57

Transactions with related parties of the Bank

The outstanding balances as of 31 December 2019 and as of 31 December 2018 and related profit or loss amounts of transactions for the year ended 31 December 2019 and 31 December 2018 with other related parties are as follows:

’000 EUR	2019					2018				
	Subsidiary company	Associate companies	Share-holders*	Other	Total	Subsi-diary company	Associate company	Share-holders	Other	Total
Statement of financial position										
Assets										
Loans to customers	3,702	471	4	2,704	**6,881**	-	147	-	504	**651**
Liabilities										
Current accounts and deposits due to customers	1,493	205	100	114	**1,912**	1,163	124	617	61	**1,965**
Income/ (expenses)										
Fee and commission income	3	1	2	17	**23**	-	-	2	101	**103**
Interest income/ (expenses)	44	-	-	65	**109**	(7)	-	-	2	**(5)**
Other income	3	16	-	8	**27**	3	-	-	-	**3**

* with a shareholding of over 10%

The subsidiary has no other related party transactions than those with the Bank. Therefore, transactions with related parties of the Group are not disclosed separately.

32. Financial assets pledged

'000 EUR	31 Dec 2019 Group	31 Dec 2018 Group	31 Dec 2019 Bank	31 Dec 2018 Bank
Short term deposits with credit institutions	71	-	71	-
Other deposits with financial institutions	462	444	462	444
Total financial assets pledged	**533**	**444**	**533**	**444**

All pledged amounts consist of several placements to secure various Bank's and Group's transactions in the ordinary course of business.

33. Commitments and guarantees

As part of lending operations the Bank has outstanding commitments to extend credit. These commitments take the form of approved loans, credit card limits and overdraft facilities. The Bank provides financial guarantees of the performance of customers to third parties. The contractual amounts of commitments are set out in the following table by category.

'000 EUR	31 Dec 2019 Group	31 Dec 2018 Group	31 Dec 2019 Bank	31 Dec 2018 Bank
Contracted amount				
Loan commitments	3,613	145	3,613	145
Unutilised credit line	-	1	-	1
Undrawn overdraft facilities[1]	679	690	679	690
Contingent liabilities on guarantees[2]	26	-	26	-
Total commitments and guarantees	**4,318**	**836**	**4,318**	**836**

[1] Impairment allowance for unused credit limits in total amount of EUR 3 thousand (2018:2) is presented under loan loss allowance

[2] The provision for guarantees) is presented under at the provision.

34. Fair value of financial instruments

Financial instruments measured at fair value

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

Group 2019, '000 EUR	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss	393	704	-	1,097
Financial instruments designated at fair value through profit or loss	19,105	-	1,337	20,442
	19,498	**704**	**1,337**	**21,539**
Financial liabilities				
Financial liabilities at fair value through profit or loss	-	549	-	549

Bank 2019, '000 EUR	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss	393	704	-	1,097
Financial instruments designated at fair value through profit or loss	19,105	-	1,132	20,237
	19,498	**704**	**1,132**	**21,334**
Financial liabilities				
Financial liabilities at fair value through profit or loss	-	549	-	549

Group 2018, '000 EUR	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss	317	527	186	1,030
Financial instruments designated at fair value through profit or loss	32,303	-	1,408	33,711
	32,620	**527**	**1,594**	**34,741**
Financial liabilities				
Financial liabilities at fair value through profit or loss	-	258	-	258

34. Fair value of financial instruments (continued)

The following table shows reconciliation from the opening balances to the closing balances for fair value measurements in Level 3 of the fair value hierarchy. The reason of the reclassification of the level in the fair value hierarchy was changes in their level of liquidity.

Group '000 EUR	Financial assets at fair value through profit or loss	Financial instruments designated at fair value through profit or loss	Total
2019			
Balance at 1 Jan 2019	**186**	**1,408**	**1,594**
Total gains and losses:			
in profit or loss	(186)	63	(123)
in OCI	-	71	71
Purchases	-	972	972
Settlements	-	(1,177)	(1,177)
Balance at 31 Dec 2019	**-**	**1,337**	**1,337**
2018			
Balance at 1 Jan 2018	-	**1,360**	**1,360**
Total gains and losses:			
in profit or loss	(3)	91	**88**
in OCI	-	27	**27**
Purchases	189	505	**694**
Settlements	-	(575)	**(575)**
Balance at 31 Dec 2018	**186**	**1,408**	**1,594**
Balance at 31 Dec 2017	-	1,360	1,360

Bank '000 EUR	Financial assets at fair value through profit or loss	Financial instruments designated at fair value through profit or loss	Total
2019			
Balance at 1 Jan 2019	**186**	**1,408**	**1,594**
Total gains and losses:			
in profit or loss	(186)	57	(129)
in OCI	-	62	62
Purchases	-	772	772
Settlements	-	(1,167)	(1,167)
Balance at 31 Dec 2019	**-**	**1,132**	**1,132**
2018			
Balance at 1 Jan 2018	-	**1,360**	**1,360**
Total gains and losses:			
in profit or loss	(3)	91	**88**
in OCI	-	27	**27**
Purchases	189	505	**694**
Settlements	-	(575)	**(575)**
Balance at 31 Dec 2018	**186**	**1,408**	**1,594**
Balance at 31 Dec 2017	-	1,360	1,360

34. Fair value of financial instruments (continued)

Total gains or losses for the year in the above table are presented in the statement of comprehensive income as follows:

'000 EUR	31 Dec 2019 Group	31 Dec 2018 Group	31 Dec 2019 Bank	31 Dec 2018 Bank
Total gains and losses included in profit or loss:	**40**	**38**	**37**	**38**
Net realised gain for financial instruments from Level 3	63	91	57	91
Impairment loss for financial instruments from Level 3	(23)	(53)	(20)	(53)
Total losses recognised in other comprehensive income	**23**	**27**	**15**	**27**
Financial instruments – net change in fair value	23	27	15	27

As of 31 December 2019 the Group and Bank's fair value hierarchy Level 3 portfolio is represented by 4 bond issuers operating in Real estate, Technology & Finance.
As of 31 December 2018 the Group and Bank's fair value hierarchy Level 3 portfolio is represented by 5 bond issuers operating in Real estate, Technology & Offshore Supply Vessel sectors.
Precise discount rate 7.00% - 11.00% (2018: 7.00% - 10.75%) is an unobservable variable due to low liquidity of these instruments.
As of 31 December 2019 change of discount rate by 300 bps will have the following effect on The Group's value of Level 3 portfolio fair value:

'000 EUR	Effect on profit or loss	
Level III portfolio as of 31.12.2019	**Change of discount rate by – 300 bps**	**Change of discount rate by +300 bps**
1,337	(40)	40

As of 31 December 2019 change of discount rate by 300 bps will have the following effect on The Bank's value of Level 3 portfolio fair value:

'000 EUR	Effect on profit or loss	
Level III portfolio as of 31.12.2019	**Change of discount rate by – 300 bps**	**Change of discount rate by +300 bps**
1,132	(34)	34

As of 31 December 2018 change of discount rate by 300 bps will have the following effect on The Group's and Bank's value of Level III portfolio fair value:

'000 EUR	Effect on profit or loss	
Level III portfolio as of 31.12.2018	**Change of discount rate by – 300 bps**	**Change of discount rate by +300 bps**
1,594	(48)	48

34. Fair value of financial instruments (continued)

Financial instruments not measured at fair value

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

31 December 2019, '000 EUR	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash and due from central bank[1]	-	-	-	40,931	40,931
Balances due from financial institutions[2]	-	-	-	11,484	11,484
Financial assets measured at amortized cost	22,420	-	85,774	108,194	108,084
Other financial assets[3]	-	-	-	695	695
Financial liabilities					
Deposits	-	-	153,742	153,742	154,159
Subordinated liabilities	-	-	12,309	12,309	11,465
Liabilities to financial institutions	-	-	435	435	435
31 December 2018, '000 EUR	**Level 1**	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
Financial assets					
Cash and due from central bank[1]	-	-	-	25,658	25,658
Balances due from financial institutions[2]	-	-	-	18,282	18,282
Financial assets measured at amortized cost	5,551	-	48,425	53,976	54,080
Other financial assets[3]	-	-	-	752	752
Financial liabilities					
Deposits	-	-	101,787	101,787	101,892
Subordinated liabilities	-	-	19,865	19,865	18,238

1. Cash and due from central banks are various currency cash and deposits with the Bank of Latvia whose carrying amount represents the fair value.
2. Most of the balances due from financial institutions are either deposits on demand or short term deposits; therefore, their carrying amount approximates the fair value.
3. Other financial assets consist of receivables from settlement of payment card; thus the carrying amount is equal to their fair value

34. Fair value of financial instruments (continued)

Financial instruments not measured at fair value

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

31 December 2019, '000 EUR	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash and due from central bank[1]	-	-	-	40,931	40,931
Balances due from financial institutions[2]	-	-	-	11,411	11,411
Financial assets measured at amortized cost	22,420	-	85,576	107,996	107,987
Other financial assets[3]	-	-	-	695	695
Financial liabilities					
Deposits	-	-	155,235	155,235	155,659
Subordinated liabilities	-	-	12,309	12,309	11,465
Liabilities to financial institutions	-	-	435	435	435
31 December 2018, '000 EUR	**Level 1**	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
Financial assets					
Cash and due from central bank[1]	-	-	-	25,658	25,658
Balances due from financial institutions[2]	-	-	-	18,032	18,032
Financial assets measured at amortized cost	5,551	-	48,425	53,976	54,080
Other financial assets[3]	-	-	-	752	752
Financial liabilities					
Deposits	-	-	100,822	100,822	103,054
Subordinated liabilities	-	-	19,865	19,865	18,238

1. Cash and due from central banks are various currency cash and deposits with the Bank of Latvia whose carrying amount represents the fair value.
2. Most of the balances due from financial institutions are either deposits on demand or short term deposits; therefore, their carrying amount approximates the fair value.
3. Other financial assets consist of receivables from settlement of payment card; thus the carrying amount is equal to their fair value

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

Financial instruments measured at fair value

Type	Valuation technique	Significant unobservable inputs
Financial assets at fair value through profit or loss	Discounted cash flows, quoted prices for similar instruments	Discount rates, quoted prices for similar instruments in active markets
Financial assets at fair value through profit or loss (Level 3)	Discounted cash flows	Discount rates
Available for sale instruments	Discounted cash flows	Discount rates

Financial instruments not measured at fair value

Type	Valuation technique	Significant unobservable inputs
Balances due from financial institutions	Discounted cash flows	Discount rates
Loans and advances due from customers	Discounted cash flows	Discount rates
Deposits and balances due to customers	Discounted cash flows	Discount rates
Subordinated liabilities	Discounted cash flows	Discount rates

35. Litigations

In the ordinary course of business, the Bank is involved in a number of litigations between the Bank and its clients. As at 31 December 2019, there were 4 ongoing litigations against the Bank with a total amount of EUR 8.671 million (31 December 2018: EUR 8.671 million). No adverse judgements for the Bank are expected in the aforementioned litigations, which is evidenced by the actual circumstances of the cases, judgements already passed that are favourable to the Bank, as well as the Bank's external legal advisers' opinions. As a result, no liabilities or provisions have been recognised for these litigations, as the likelihood that these claims will result in a loss or outflow of economic resources from the Bank is low.

In addition to litigations mentioned above, there is a claim brought against the Bank in a third country's court requesting a repayment of an interbank loan of EUR 16.8 million (at the EUR exchange rate on 31.12.2019) issued to the Bank and requesting to recognise financial pledge agreement null and void.

On 19 July 2018 the third country's court upheld the claim to repay the interbank loan and on 28 September 2018 the third country's court upheld the claim to recognise financial pledge agreement null and void. As of the date of approval of these financial statements, there have been no enforcement actions in relation to the court decisions.

The Bank's management has performed an extensive legal analysis engaging local and international legal advisers, and is certain that court's decisions will not result in negative legal or financial consequences to the Bank, as there are significant barriers for recognition and enforcement of these particular court decisions in the territory of the Republic of Latvia and other countries where the Bank holds assets. The Bank's management is of opinion that the judgments will not be recognized and enforced in Republic of Latvia due to number of legally significant deficiencies. In other countries where the Bank holds assets such judgements of third countrie's court decisions are not enforceable per se.

Considering the assessment described above, it is less than probable that litigations will result in a loss or outflow of economic resources from the Bank, therefore no liabilities or provisions have been recognised in relation to these litigations.

36. Going Concern considerations

Several major changes in the operating environment of Latvian and Baltic financial services industry related to AML/CTPF occurred during 2018 and 2019.

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

On 21 February 2020, the FATF published its report on accomplishments towards adjusting the financial sector in Latvia. According to the report, Latvia is the first member state under the supervision of the Council of Europe's Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (Moneyval) to successfully implement all 40 FATF recommendations. With the publication of this report, uncertainty pertaining to the environment in which the Group and the Bank operate has come down.

In 2019, the Bank undertook a transformation of its business model, switching from servicing international clients to servicing local clients, which also considerably reduces the degree of uncertainty.

As described in Note 35, in the ordinary course of business, the Bank is involved in five litigations, with 5 claims raised against the Bank for the total amount of EUR 22.4 million. The Bank's management has performed an extensive legal analysis engaging local and international legal advisers and is certain that courts' decisions will not result in any negative legal or financial consequences to the Bank. Although very unlikely, the outcome of these litigations could be substantially different from the conclusions reached in legal analysis.

In late 2018, the Bank underwent an FCMC audit pertaining to the effectiveness of its anti-money laundering internal control system. In November 2019, the FCMC initiated an administrative case against the Bank, which the Bank expects to be concluded in the year 2020. In the light of recent experience in the banking sector, sanctions imposed based on audit results can not be excluded. In accordance with the Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing, the amount of penalty for credit institutions may be specified at up to 10 percent of total annual Turnover in accordance with the latest approved financial statement, which, on the basis of the 2019 financial statement, may total up to either 791 thousand EUR or up to 5 million EUR. No provisions were established in connection with the administrative case initiated by the FCMC in the reporting year ended 31 December 2019.

The considerations mentioned in this Note regarding court trials and the FCMC audit, should the outcome prove unfavorable, may substantially reduce the Bank's equity and affect compliance with the regulator's requirements.

37. Events subsequent to the reporting date

On 11 March 2020, the World Health Organisation (WHO) announced that the outbreak of the COVID-19 viral infection had reached the level of a global pandemic. On 12 March 2020, the government of the Republic of Latvia instituted a state of emergency due to the rising levels of transmission of this virus. The state of emergency will remain in place until 14 April. The pandemic has had a substantial negative impact on economic activity in Latvia and most other countries worldwide. At the time of approval of these reports, it is impossible to gauge the potential impact of the pandemic on the operations of the Bank and the Group over the course of the following two years.

The operations of the Bank and the Group have not been significantly encumbered, and client service is proceeding in compliance with required health and safety precautions. Based on available information, the management of the Bank and the Group has analysed the potential negative effects on the Bank and the Group, and has not identified any circumstances which might threaten the continuity of operations or result in a substantial impact on the 2019 financial statements.

As at 31.12.2019 and on the day of signing of this report, the overall credit exposure of the Bank to industries most directly impacted by the spread COVID-19 (i.e. hotels, hospitality and related sectors) totalled 2.9m EUR and 8.2m EUR, respectively. The Bank expects to agree on revising loan terms and conditions with clients where necessary, including deferrals of principal payments, aiming to mitigate the negative effects on its financial performance while enabling clients to maintain their businesses.

The shareholders of the Bank have an intention to reduce the nominal value of the Bank's shares. The reduction of the share capital is intended only to cover the accumulated losses of previous years, the Bank's equity and elligible capital, as well as all ratios related to the equity and elligible capital, will remain unchanged.

Beyond the considerations described above, no events have occurred during the period between the final date of the reporting year and the date of signing of these consolidated and separate financial statements as a result of which the consolidated financial statement would require corrections, or which would require clarifications within this consolidated financial statement.

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Independent Auditors' Report

To the shareholders of "Signet Bank" AS

Report on the Audit of the Separate and Consolidated Financial Statements

Our Opinion on the Separate and Consolidated Financial Statements

We have audited the separate financial statements of "Signet Bank" AS ("the Bank") and consolidated financial statements of the Bank and its subsidiary ("the Group") set out on pages 8 to 90 of the accompanying separate and consolidated Annual Report, which comprise:

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

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

Basis for Opinion

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

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

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

Emphasis of Matter

We draw attention to note 35 of the accompanying separate and consolidated financial statements, according to which the Bank is a defendant in a legal process involving dispute over a financial instrument where management believes it has made a settlement. On 19 July 2018 a foreign Arbitration Court ruled in favour of the claimant and ordered the Bank to make payment for its outstanding liability around EUR 16,8 million as at 31 December 2019. Management of the Bank has made an extensive legal analysis covering jurisdiction in the Republic of Latvia as well as several EU and other countries and, based on legal advice it received, has concluded that, while there is a significant uncertainty as to the ultimate outcome of this legal process, it is less than probable that it will result in an outflow of economic benefits to settle the liability. Therefore, the Bank and the Group have not recognised any provisions related to this case.

We draw attention to Note 36 which describes that Financial and Capital Markets Commission (FCMC) initiated administrative proceeding based on its audit of the effectiveness of the Bank's anti money laundering and counter terrorism and proliferation financing internal control system. The final outcome of this process is uncertain and according to the "Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing" maximum fines may reach EUR 5 million. The Bank has not recognised any provision in these separate and consolidated financial statements as management believes that no reliable estimate can be made.

Our opinion is not modified in respect of these matters.

Key Audit Matters

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

In addition to the matters described in the *Emphasis of Matter* section, we have determined the matters described below to be the key audit matters to be communicated in our report:

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

Key audit matter	The loans and receivables due from customers consist of limited number of high value credit risk exposures for EUR 65 671 thousand by the gross amount as at 31 December 2019 with total impairment allowances of EUR 572 thousand as at 31 December 2019 (more details are provided in the note 16 of the separate and consolidated financial statements and information about the measurement policies is provided the note 3 (m)). 63.9% of loans to customers by the net carrying value as at 31 December 2019 are due from customers based and operating outside Latvia (more details on geographical analysis of the loan portfolio are provided in the note 16 of the separate and consolidated financial statements).

	Individual impairment allowances recognized by the Bank relate to individually monitored corporate exposures, where the Bank is assessing expected credit loss (ECL) on an individual basis. The assessment is therefore based on the knowledge about each individual borrower and estimation of the fair value of the related collateral. Identification of a significant increase in credit risk and assessment of lifetime expected credit loss requires the management to exercise subjective judgment and develop complex financial models and therefore, we considered this as a key audit matter.
Our audit response	We assessed whether the accounting policies in relation to the impairment of loans to customers are in compliance with IFRS requirements. We assessed Bank's and Group's expected credit loss assessment methodology for compliance with the IFRS. We tested control processes related to risk monitoring, identification of loss events and calculation of the impairment allowances. We made detailed inspection of loan files covering 99.5% of outstanding loans to customers by the net carrying value as at 31 December 2019 (including all loans classified by the Bank as credit-impaired). As part of the procedure we assessed the customer financial situation and capacity to support debt repayments or, if this was not the case, management's exit plans and activities, as well as available sources of loan repayment. Majority of the loans issued by the Bank are collateral based loans therefore in most cases the key source of loan recovery, if a loan is non-performing, is realization of collateral provided for specific loans – mainly real estate. We involved our internal valuation specialists who performed detailed assessment of assumptions and information sources used in valuation reports provided by independent valuation specialists and the Bank's analysts, including independent checks on market prices for comparable properties and benchmarking assumptions used within the cash flow forecasts against market practice. We have assessed the accuracy and completeness of the financial instrument related disclosures such as classification of loans and development in loan loss allowances, according to the IFRS requirements.

Valuation of investments in subsidiaries and associated companies (the Bank and the Group)

Key audit matter	The balance sheet value of the Bank's investments in subsidiary and associated companies as at 31 December 2019 is EUR 3 559 thousand (more details on these investments are provided in the notes 19 and 20 while information on the recognition and measurement principles are provided in the note 3 (d) (i and ii) of the separate and consolidated financial statements). Determination of the recoverable amounts for investments in subsidiaries and associated companies is associated with significant estimation uncertainty as

	it involves subjective management judgments with respect to future operating cash flows, growth rates and discount rates. The above uncertainty was particularly high in respect of the Bank's investment in an associated company Citra Kaļķu SIA which historically was acquired as part of restructuring for a loan previously issued by the Bank and involves an early stage hotel development project. Due to the circumstances described above, we defined the impairment of investments in the subsidiary and associate companies as a key audit matter.
Our audit response	We involved our internal valuation experts to assess financial projections and key assumptions of valuations of the investments and the underlying assets performed by the Bank and compared against external market information sources. We performed sensitivity analysis for key assumptions to assess their impact on the recoverable value of the investment. We assessed the adequacy of the Bank's disclosures related to the assumptions and significant judgments used in estimating recoverable amounts of investments in the subsidiaries (the Bank) and associated companies (the Bank and the Group).

Reporting on Other Information

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

- the Management Report, as set out on pages 3 to 5 of the accompanying Annual Report,
- the Statement on Management Responsibility, as set out on page 7 of the accompanying Annual Report,
- the composition of the Supervisory Council and the Management Board, as set out on page 6 of the accompanying Annual Report.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the separate and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's and/or the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank and/or the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.

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

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

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

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

We were appointed by the shareholder's meeting on 12 November 2018 to audit the separate and consolidated financial statements of Signet Bank AS for the year ended 31 December 2019. This is our second year of appointment.

We confirm that:

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

The non-audit services that we have provided to the Bank and its controlled entities for the period to which our statutory audit relates, are disclosed in Note 10 to the financial statements.

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

"BDO ASSURANCE" SIA
Licence No.182

Zane Vilsone
Director
on behalf of SIA "BDO ASSURANCE"

Modrīte Johansone
Sworn auditor
Certificate No 135
Member of the Board

Riga, Latvia
30 March 2020

SIGNET

PRIVATE
BANK

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