Signet Bank AS

(until 26 September 2017 Bank M2M Europe AS)

Annual report **for year ended 31 December 2017**

SIGNET

PRIVATE BANK

Content

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Management report on the Group and the Bank's operations during 2017

For Signet Bank the most important event in 2017 was the change of the majority shareholder. In September the European Central Bank and the Financial and Capital Market Commission of the Republic of Latvia (Latvian banking regulator) issued a permission to obtain the controlling stake in the Bank to a group of international investors, i.e. Signet Global Investors Ltd, Hansalink and Fin.lv. New majority shareholders provide additional stability to the Bank as instead of one dominant shareholder, the Bank now is controlled by a group consisting of three financially strong investors. Apart from financial stability, this creates a basis for adoption of clear and well-thought-out strategic solutions at the shareholders level, utilising complementary experience of each of the majority shareholders.

Signet Group is an internationally recognised asset management company which has been managing the capital of well-respected institutional and private investors for more than 20 years. Based in London, Signet Capital Management Ltd is regulated by Financial Conduct Authority, the UK regulator. The founders of Signet Group are US citizen Serge Umansky and a Swiss citizen Robert Marquardt. Hansalink is a Latvian company founded by Irina Pigozne, Edgars Pigoznis and Mikhail Serdtsev - professionals with more than 20-year experience in banking and international investments. Fin.lv is a Latvian company owned by Igor Rapoport, an experienced international investor and formerly a minority shareholder of Signet Bank.

The Bank's strategy remains exclusively servicing high net worth individuals with a maximum focus on the quality of service and return on the clients' capital. The comfort of clients is our main priority. Boutique business model with a small number of clients allows us to give enough attention to each client, provide the best service and quick and flexible solutions.

Group's financial result for 2017 is a loss of EUR 3,934 thousand. The Group's basic loss per share of EUR 3.43 (2016: EUR 1.79 loss). Deferred tax asset write-off due to changes in the Latvian legislation was one of the main reasons of this negative performance. Revaluation of the Bank financial instruments as well goodwill impairment loss recognition from the investment in subsidiary due to uncertain situation in the Latvian financial sector have also affected the Group's financial result.

Currently the Bank services about five hundred ultimate beneficiaries. All clients serviced by the Bank come upon the recommendation of the existing clients or from the circle of contacts of the Bank's shareholders and management. This is extremely important in the current environment faced by Latvian financial system following statement of the U.S. Department of the Treasury's Financial Crimes Enforcement Network (FinCEN) released on 12 February, 2018 naming Latvia-based ABLV Bank an institution of primary money laundering concern. We realize that these events cast shadow on all financial institutions operating in Latvia, but we are confident that our business model with small number of clients and number of transactions allows us to successfully manage any Anti-Money Laundering/Counter-Terrorist Financing (AML/CTF)-related risk.

Adherence to the highest international standards and practices in the field of AML/CTF always was and remains a corner stone of our operations. To promote assurance of the Bank's compliance with the best international practices, the Bank engaged international independent consultants to review its AML/CTF programs. In the end of 2016 US-based Exiger LLC and Lewis Baach Kaufmann Middlemiss assessed the Bank's AML Program by comparing it to regulatory requirements set forth in the BSA and the USAPA and their implementing regulations, OFAC, the Federal Financial Institutions Examination Council BSA/AML Examination Manual ("FFIECManual"), relevant enforcement actions, guidance promulgated by the Financial Action Task Force and industry best practices. As of today more than 90% of recommendations received following the review have been implemented according to the management of the Bank. In December, 2017 the Bank engaged in additional evaluation of the effectiveness of its AML/CTF system of internal control.

Going forward we will continue to pay great attention to the global fight against money laundering and terrorism financing and will continue upgrading the Bank's internal control systems in line with evolving regulatory environment and the best business practices.

In 2018 we plan to take full advantage of synergy with Signet international experience in investment management to offer new conservative yet profitable investment solutions to our clients. We also plan to pay even more attention to club deals, where we bring together the clients with financing needs and attractive business projects with those interested in the investment of free funds. We believe that correctly structured club deals provide an additional diversification of our clients' investment portfolios and are special products which the Bank can offer to its clients alongside good service.

We believe that Signet Bank, with our stable, well-thought and focused strategy, experienced shareholders and committed employees and management team, can offer comfortable and advantageous service and solutions to the clients.

On behalf of the management:

Roberts Idelsons
Chairman of the Board

Tatjana Drobina
Member of the Board

24 April 2018

The Council and Management of the Bank

Supervisory Council of the Bank

Position	Name, surname	Election date	Expiry date
Chairman of the Supervisory Council	Andrey Vdovin	31.05.2013	06.07.2017
Deputy Chairman of the Supervisory Council	Peter Charles Percival Hambro	31.05.2013	19.12.2017
Member of the Supervisory Council	Thomas Roland Evert Neckmar	31.05.2013	
Chairman of the Supervisory Council	Serge Umansky	19.12.2017	
Deputy Chairman of the Supervisory Council	Irīna Pīgozne	19.12.2017	
Member of the Supervisory Council	Sergejs Medvedevs	19.12.2017	
Member of the Supervisory Council	Pavel Kurosh	19.12.2017	

Signet Bank AS appoints new 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

There were no changes in the Management 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 7 to 83 of the financial statements of the Bank and the Group for 2017 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	Tatjana Drobina
Chairman of the Board	*Member of the Board*

24 April 2018

Group`s Consolidated and Bank's Separate Statement of Comprehensive Income for the year ended 31 December 2017

'000 EUR	Note	2017 Group	2016 Group	2017 Bank	2016 Bank
Interest income	7	5,400	6,729	5,400	6,729
Interest expense	7	(1,670)	(3,173)	(1,682)	(3,185)
Net interest income		**3,730**	**3,556**	**3,718**	**3,544**
Fee and commission income	8	3,077	3,266	2,851	3,017
Fee and commission expense	9	(483)	(501)	(565)	(501)
Net fee and commission income		**2,594**	**2,765**	**2,286**	**2,516**
Net gain/ (loss) on financial assets at fair value through profit or loss		(118)	584	(118)	584
Net foreign exchange income		801	1,660	822	1,658
Net realised gain/(loss) on Available-for-sale financial assets		64	(1,246)	64	(1,246)
Share of loss of equity-accounted investee, net of tax		(37)	-	-	-
Other income		174	215	175	215
Total operating income		**7,208**	**7,534**	**6,947**	**7,271**
General administrative expenses	10	(7,092)	(7,259)	(6,859)	(7,026)
Impairment of investment in subsidiary	19	-	-	(582)	-
Negative goodwill write-off	22	(788)	-	-	-
Impairment loss	11	(905)	(1,074)	(905)	(1,074)
Loss before income tax		**(1,577)**	**(799)**	**(1,399)**	**(829)**
Income tax benefit/(expense)	12	(2,357)	1,135	(2,267)	1,140
(Loss)/profit for the period		**(3,934)**	**336**	**(3,666)**	**311**
Other comprehensive income					
Items that are or may be reclassified to profit or loss					
Available-for-sale financial assets – net change in fair value		407	101	407	101
Available-for-sale financial assets – reclassified to profit or loss, net of tax		(77)	444	(77)	444
Other comprehensive income for the period		**330**	**545**	**330**	**545**
Total comprehensive income/(expense) for the period		**(3,604)**	**881**	**(3,336)**	**856**

The accompanying notes on pages 14 to 83 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 7 to 83 were approved by management of the Bank on 24 April 2018.

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 2017

'000 EUR	Note	2017 Group	2016 Group Restated	2017 Bank	2016 Bank Restated
Assets					
Cash and due from central banks	13	23,923	18,195	23,923	18,195
Balances due from financial institutions	15	64,790	42,491	64,708	42,321
Financial assets at fair value through profit or loss	14	1,292	2,887	1,292	2,887
Available-for-sale financial assets	17	21,072	24,197	21,072	24,197
Held-to-maturity investments	18	9,707	18,843	9,707	18,843
Loans and advances due from customers	16	45,386	61,402	45,386	61,402
Investment in subsidiary	19	-	-	1,292	1,874
Investment in associate	20	635	544	672	544
Property and equipment	21	1,995	2,167	1,992	2,164
Goodwill and other intangible assets	22	313	1,135	313	346
Deferred tax asset	26	-	2,354	-	2,267
Other assets	23	891	1,849	861	1,795
Total Assets		**170,004**	**176,064**	**171,218**	**176,835**

2016 restatement is described in Note 20.

The accompanying notes on pages 14 to 83 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 7 to 83 were approved by management of the Bank on 24 April 2018.

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 2017

'000 EUR	Note	2017 Group	2016 Group	2017 Bank	2016 Bank
Liabilities and shareholders' equity					
Financial liabilities at fair value through profit or loss	14	304	1,522	304	1,522
Deposits due to central bank	33	-	12,500	-	12,500
Liabilities to financial institutions		1	37	1	37
Deposits	24	135,114	119,646	136,405	120,844
Subordinated liabilities	25	17,490	21,034	17,490	21,034
Other liabilities	28	1,264	1,890	1,320	1,864
Total Liabilities		**154,173**	**156,629**	**155,520**	**157,801**
Share capital	29	32,171	32,171	32,171	32,171
Share premium		28	28	28	28
Other reserves		312	312	312	312
Fair value reserve of available for sale financial assets		44	(286)	44	(286)
Accumulated losses		(16,724)	(12,790)	(16,857)	(13,191)
Total Shareholders' Equity		**15,831**	**19,435**	**15,698**	**19,034**
Total Liabilities and Shareholders' Equity		**170,004**	**176,064**	**171,218**	**176,835**
Assets under management	31	**140,246**	**161,090**	**82,487**	**101,273**

The accompanying notes on pages 14 to 83 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 7 to 83 were approved by management of the Bank on 24 April 2018.

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 2017

'000 EUR	Note	2017 Group	2016 Group Restated	2017 Bank	2016 Bank Restated
Cash flows from operating activities					
Loss before income tax		(1,577)	(799)	(1,399)	(829)
Amortisation and depreciation	21, 22	465	486	463	483
Negative goodwill write-off		788	-	-	-
Impairment of investment in subsidiary		-	-	582	-
Impairment loss	11	905	1,074	905	1,074
Net interest income		(3,730)	(3,556)	(3,718)	(3,544)
Dividends on available-for-sale financial assets		(41)	(51)	(41)	(51)
Decrease in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations		**(3,190)**	**(2,846)**	**(3,208)**	**(2,867)**
Increase/(decrease) in financial assets at fair value through profit or loss		377	3,555	377	3,555
(Increase)/decrease in balances due from financial institutions		(35,066)	29,768	(35,102)	29,756
Decrease/(increase) in loans and advances due from customers		16,324	(11,415)	16,324	(11,415)
(Increase)/decrease in other assets		958	(1,186)	934	(1,196)
Increase/(decrease) in deposits and balances due to financial institutions		15,468	(73,561)	15,561	(73,360)
Increase/(decrease) in other liabilities		(629)	977	(544)	985
Decrease in cash and cash equivalents from changes in assets and liabilities, as a result of ordinary operations		**(5,758)**	**(54,708)**	**(5,658)**	**(54,542)**
Interest received		5,148	6,563	5,163	6,550
Dividends received		41	51	41	51
Interest paid		(1,670)	(2,828)	(1,682)	(2,817)
Net cash flow from/(used in) operating activities		**(2,239)**	**(50,922)**	**(2,136)**	**(50,758)**
Cash flow from investing activities					
Purchase of property and equipment	21, 22	(259)	(259)	(258)	(258)
Decrease in available-for-sale financial assets		2,865	8,500	2,865	8,500
Settlement of held-to-maturity investments		17,886	10,855	17,886	10,855
Purchase of held-to-maturity investments		(9,136)	(3,243)	(9,136)	(3,243)
Investments in associate		(91)	(544)	(128)	(544)
Net cash flow from investing activities		**11,265**	**15,309**	**11,229**	**15,310**

Group's Consolidated and Bank's Separate Statement of Cash Flows for the year ended 31 December 2017

'000 EUR	Note	2017 Group	2016 Group Restated	2017 Bank	2016 Bank Restated
Cash flow from financing activities					
Increase in share capital		-	3,350	-	3,350
Increase in Subordinated liabilities		-	2,662	-	2,662
Decrease in Subordinated liabilities	25	(3,544)	-	(3,544)	-
Net cash flow from financing activities		**(3,544)**	**6,080**	**(3,544)**	**6,080**
Net increase in cash and cash equivalents		**5,482**	**(29,533)**	**5,549**	**(29,368)**
Cash and cash equivalents at the beginning of the year		46,747	75,753	46,577	75,416
Currency translation of cash and cash equivalents at the year		2,603	527	2,624	529
Cash and cash equivalents at the end of the year	13	**54,832**	**46,747**	**54,750**	**46,577**

2016 restatement is described in Note 20.

The accompanying notes on pages 14 to 83 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 7 to 83 were approved by management of the Bank on 24 April 2018.

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 2017

'000 EUR	Note	Share capital	Share premium	Fair value reserve of available for sale financial assets	Other reserves	Accumulated losses	Total
Balance at 1 January 2016	29	**28,821**	**28**	**(831)**	**312**	**(13,126)**	**15,204**
Total comprehensive income							
Profit for the year		-	-	-	-	336	336
Other comprehensive income		-	-	545	-	-	545
Transactions with shareholder recorded directly in equity							
Increase of share capital		3,350	-	-	-	-	3,350
Balance at 31 December 2016	29	**32,171**	**28**	**(286)**	**312**	**(12,790)**	**19,435**
Total comprehensive income							
Loss for the year		-	-	-	-	(3,934)	(3,934)
Other comprehensive income		-	-	330	-	-	330
Balance at 31 December 2017	29	**32,171**	**28**	**44**	**312**	**(16,724)**	**15,831**

The accompanying notes on pages 14 to 83 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 7 to 83 were approved by management of the Bank on 24 April 2018.

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 2017

'000 EUR	Note	Share capital	Share premium	Fair value reserve of available for sale financial assets	Other reserves	Accumulated losses	Total
Balance at 1 January 2016	29	**28,821**	**28**	**(831)**	**312**	**(13,502)**	**14,828**
Total comprehensive income							
Profit for the year		-	-	-	-	311	311
Other comprehensive income		-	-	545	-	-	545
Transactions with shareholder recorded directly in equity							
Increase of share capital		3,350	-	-	-	-	3,350
Balance at 31 December 2016	29	**32,171**	**28**	**(286)**	**312**	**(13,191)**	**19,034**
Total comprehensive income							
Loss for the year		-	-	-	-	(3,666)	(3,666)
Other comprehensive income		-	-	330	-	-	330
Balance at 31 December 2017	29	**32,171**	**28**	**44**	**312**	**(16,857)**	**15,698**

The accompanying notes on pages 14 to 83 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 7 to 83 were approved by management of the Bank on 24 April 2018.

On behalf of the management:

Roberts Idelsons
Chairman of the Board

Tatjana Drobina
Member of the Board

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

1. Background

Principal activities

These consolidated ans separate financial statements include the financial statements of Signet Bank AS (the "Bank") and its subsidiary Signet Asset Management Latvia IPAS (together referred to as the "Group"). The Bank was founded in 1992 under the name Latvian Business Bank. In September 2017, a group of international investors – Signet Global Investors Ltd, SIA Hansalink and SIA Fin.lv. acquired majority shareholding in Bank.

Signet Bank AS is a private banking boutique committed to providing top quality financial solutions to the high net worth clients and companies owned by such clients. Main products offered to the clients are servicing day to day banking transactions of private and business clients, wealth management solutions including portfolio management and investment advisory, premium level payment cards, deposits, servicing fiduciary transactions and escrow accounts, lombard loans. Bank's clients are predominantly residents of the Russian Federation and other Commonwealth Independent States ('CIS') countries. The Bank strives to become the most reliable private banking institution in the Baltics.

The year 2017 was full of important events for the Bank. After Andrey Vdovin signed an agreement with Signet Global Investors Limited, Hansalink Ltd. and Fin.lv for the sale of the majority of shares, on September 20 the regulatory authorities (the European Central Bank (ECB) and the Finance and Capital Market Commission (FCMC) authorized the completion of the transaction. The new majority shareholders provide additional stability for the Bank, as at present the Bank does not have a single dominant shareholder, but a group of shareholders that consists of three financially strong investors. 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.

The Group's capital adequacy and liquidity ratios have 26.90 % and 87.82 % respectively as at 31 December 2017 (2016: 26.54% and 78% respectively). In 2017 the Group's Return on Equity (ROE)[1] and Return on Assets (ROA)[2] were (20.79) % and (2.31) % respectively (1.88 % and 0.16 % in 2016).

The Bank operates in accordance with the laws and regulations of the Republic of Latvia and the licence No Nr.06.01.05.006/352, issued 23 June 2013 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. The majority of the Group's assets and liabilities are located in Latvia, Europe and the CIS countries.

The subsidiary of the Group is as follows:

Name	Country of incorporation	Principal Activities	Address	Ownership %	
				2017	2016
Signet Asset Management Latvia IPAS	Latvia	Financial services	3 Antonijas street, Riga LV-1010, Latvia	100	100

[1] 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.
[2] 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. Basis of preparation

Statement of compliance

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.
The financial statements were authorized for issue by the management of the Bank on 24 April 2018. The shareholders have the right to have the financial statements amended.

Basis of measurement

The Group consolidated and the Bank's separate financial statements are prepared on the historical cost basis except for the following:
- financial assets at fair value through profit or loss are stated at fair value;
- available-for-sale assets are stated at fair value.

Functional and Presentation Currency

The Group's consolidated and Bank's separate financial statements are presented in thousand of euro ('000 EUR), unless stated otherwise. Functional currency of the Bank and its subsidiary is the euro (EUR).

3. 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. The accounting policies have been consistently applied except for the changes in accounting policies described in Note 20.

a) 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. More detailed information on the Group's subsidiary is presented in Note 19 (Investment in Subsidiary).

(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, the 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 and joint controlled entities are carried in the Bank's separate financial statements at cost less impairment, if any.

(iii) Transactions eliminated on consolidation

Signet Asset Management Latvia IPAS investment management entity (the 'Subsidiary') was acquired by the Bank on 11 November 2013, with Subsidiary's shareholder changes registered on the same date. Detailed information of the entity is available in Note 19.
The Bank and its Subsidiary'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.

b) 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.

c) 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.

d) Financial instruments

(i) Classification

Financial assets at fair value through profit or loss are financial assets or liabilities that are acquired or incurred principally for the purpose of selling or repurchasing in the near term; or that are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or that are a derivative (except for a derivative that is a designated and effective hedging instrument); or that are upon initial recognition, designated by the entity as at fair value through the profit or loss.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, and which are not designated at fair value through profit or loss, or available for sale.

Available-for-sale financial assets are those financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. For the purposes of these financial statements, loans and advances include regular loans, credit card balances, and are accounted for at amortised cost using the effective interest method. Certain expenses, such as legal fees or sales commissions for employees acting as agents or other expenses that are incurred in securing a loan are treated as part of the cost of the transaction.

(ii) Recognition

Financial assets and liabilities are recognised in the statement of financial position when the Group or the Bank becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

(iii) Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- Held-to-maturity investments and loans and receivables that are measured at amortised cost using the effective interest method; and
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost. Amortised cost is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

(iv) Fair value measurement principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

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

Changes to the initial loan conditions may be caused by two factors:

- deterioration of the borrower's financial position, which results in a high probability of default;
- Bank's desire to maintain business relations with the client.

Amendments to the loan terms are not classified as forbearance if the Borrower has a good payment discipline, his potential cash flow allows fully repay the Loan to the Bank and LTV is acceptable to the Bank. Such amendments are based on the Bank's willingness to continue mutually beneficial cooperation.

If the Bank amends the Loan conditions due to a deterioration in the Borrower's financial position, the Loan forbearance is recognized. Such changes are based on the Bank's willingness to reduce the risk of default. The forbearance of the Loan is performed in the event of default or a high probability of default in the near future and only if the Borrower's cash flow allows repayment of the Loan in accordance with the amended schedule.

The forborne Loans are presented as restructured in the Bank's financial statements for at least a year. Restructured status is changed to standard only if all of the following conditions are met:

- all payments are made according to the renegotiated schedule for at least a year;
- the Borrower's forecasted cash flows are sufficient to repay the Loan in the future;
- there is no breach of the Loan agreement covenants.

To measure the fair value of FX swap and forward deals the Group uses market rates for the similar maturity and currencies. Quotes of certain brokers have been used to determine fair value of bonds which do not have active market.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that used only data from observable inputs, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk, are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred. For further analysis of basis for fair value see Note 35.

(v) Gains and losses on subsequent measurement

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

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

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in the profit or loss when the financial asset or liability is derecognised or impaired, and through the amortisation process.

(vi) 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.

e) Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase ("repo") agreements are accounted for as secured financing transactions, with the securities retained in the statement of financial position and the liability towards counterparty included in amounts payable under repo transactions. The difference between the sale and repurchase price represents interest expense and is recognised in the profit or loss over the term of the repo agreement using the effective interest rate method.
Securities purchased under agreements to resell ("reverse repo") are recorded as amounts receivable under reverse repo transactions. The differences between the purchase and resale prices are treated as interest income and accrued over the term of the reverse repo agreement using the effective interest method.
If assets purchased under agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

f) 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.
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 in derivative instruments for risk hedging purposes, the Group/Bank do not adopt hedge accounting.

g) 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.

h) 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

i) 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

j) Impairment

(i) Financial assets

At each reporting date the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.
Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in a group, or economic conditions that correlate with defaults in a group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.
All held-to-maturity and available for sale investment securities are assessed for specific impairment.
The Group considers evidence of impairment for loans at both specific asset level and collective level. For all specific significant loans and receivables, impairment is assessed separately. For the purpose of collective impairment assessment, financial assets are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms.
Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and

reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income to profit or loss. The cumulative loss that is removed from equity and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in statement of comprehensive income. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(ii) Non-financial assets

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

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

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

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

k) 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. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

l) 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 of provision for losses under the guarantee. Provisions for losses under financial guarantees and other unrecognised loan commitments are recognised when losses are considered probable and can be measured reliably.
Financial guarantee liabilities and provisions for other credit related commitment are included within provisions.

m) Taxation

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 will have to pay income tax on profit distribution starting from 2018. Correspondingly, income tax on profit distribution is recognised as expense at the moment dividends are declared.

n) Income and expense recognition

With the exception of financial instruments held for trading and other financial assets at fair value through profit or loss, interest income and expense are recognised in the statement of comprehensive income using the effective interest rate method. Interest income on financial instruments held for trading and on other financial assets at fair value through profit or loss comprises coupon interest only.
Accrued discounts and premiums on financial assets at fair value through profit or loss are recognised in gains less losses from financial assets at fair value through profit or loss, respectively.
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.
Other fees, commissions and other income and expense items are recognised when the corresponding service has been provided.

o) Non-current assets held for sale

Non-current assets that are expected to be recovered primarily through sale or distribution rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets are remeasured in accordance with the Group's and the Bank's accounting policies. Thereafter the assets are measured at the lower of their carrying amount and fair value less cost to sell. Impairment losses on initial classification as non-current assets held for sale and subsequent gains and losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.
Once classified as held for sale, assets are no longer depreciated.

p) New standards and interpretations

Certain new IFRSs became effective for the Group from 1 January 2017. 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 2017 did not have any material impact on these consolidated
financial statements:

- Amendments to IAS 7
- Annual Improvements to IFRSs.

Certain new standards, amendments to standards and interpretations have been published that become endorsed for the annual accounting periods beginning after 1 January 2017 or are not yet effective in the EU and have not been applied in preparing these consolidated financial statements. The Group does not plan to adopt any of these standards early.
Those which may have significant potential effect to the Group are set out below:

(i) IFRS 9: Financial instruments *(effective for annual periods beginning on or after 1 January 2018)*
IASB has adopted a new standard for financial instruments, IFRS 9 "Financial instruments", that covers classification, measurement and impairment of financial instruments and replaces the requirements covering these areas in IAS 39. IFRS 9 is effective as from annual periods beginning on or after 1 January 2018. The Group will apply the standard from 1 January 2018.
According to the Group's calculations, the application of IFRS 9 will not have a significant impact on the Group's capital adequacy, large exposures or other risk indicators in the period of initial application. Group's calculated gross impairment according to IFRS 9 was EUR 513 thousand on 1 January 2018. The Bank reversed previously recognized according to IAS 39 impairment in the amount of EUR 379 thousand that included the impairment for assets with similar risk characteristics. As a result, the calculated net impact on the Group's Tier 1 capital was EUR 134 thousand. The Group will not apply the transitional rules issued by the European Union allowing a phase in of the impact on Common Equity Tier 1 capital.

Classification and measurement
The classification of a financial asset depends on the business model for the portfolio where the instrument is included and on whether the cash flows are solely payments of principal and interest (SPPI). Financial assets with cash flows that are not solely payments of principal and interest (SPPI) are measured at fair value through profit or loss (FVPL). AII other assets are classified based on the business model. Instruments included in a portfolio with a business model where the intention is

to keep the instruments and collect contractual cash flows are measured at amortised cost (AC). Instruments included in a business model where the intention is to both keep the instruments to collect the contractual cash flows and sell the instruments are measured at fair value through other comprehensive income (FVOCI). Financial assets included in any other business model and derivatives are measured at fair value through profit or loss. Financial liabilities are measured at amortised cost.

The analysis of the business models and the SPPI criterion assessment for the Group have not resulted in significant changes compared to how the financial instruments are measured under IAS 39. The Group has estimated that EUR 1 million of investments in funds shares are to be reclassified from IAS 39 available-for-sale category to IFRS 9 FVPL category as those do not meet the SPPI criterion. The Group has also estimated that debt securities in the amount of EUR 0.3 million are to be reclassified from IAS 39 'loans and receivables' category to IFRS 9 FVOCI category, and debt securities in the amount of EUR 0.5 million are to be reclassified from IAS 39 'held-to-maturity' category to IFRS 9 FVOCI category. After reclassification this would impact the way revaluation gains are recognised in comprehensive income versus the current regime for the reclassified assets.

Impairment

Financial instruments classified as AC or FVOCI are in scope for recognising impairment due to credit risk. Financial instruments classified as FVPL are not in scope for impairment calculations. Off-balance sheet commitments, contingent liabilities and loan commitments are in scope for impairment calculations.

The impairment requirements in IFRS 9 are based on an expected loss model as opposed to the incurred loss model in IAS 39. Expected losses calculations of IFRS 9 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 to be 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 will apply the same definition of default as set forth in the European Union Regulation 575/2013. For stage 1 assets, provisions should equal 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, the provisions should equal the lifetime expected credit losses.

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 plans to monitor a number of indicators, such as:

- weather the payments related to an asset (or other obligations of an obligor) have been past due or there has been a breach of covenants;
- weather there has been information about significant worsening of the obligor's financial situation;
- weather 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 financial instruments has occurred, if 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;

- weather there has been a decrease of an obligor's external or internal credit rating;
- weather 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 would make a decision regarding classification of the assets by stages. In addition, if payments related to an asset are past due more than 30 days, the asset is to be 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 plans to use the "low credit risk exemption" permitted by the standard.

The Group has selected to calculate 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 to be calculated by multiplying the exposure at default (on the reporting date) by loss given default (LGD) rate and by the probability of default (PD). 12 month PD rate is to be used 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, claims against other banks and counterparties and other instruments that have a credit rating by S&P, Moody's or Fitch, the Group plans to use PD's that are based on the rating agencies' historical data.

For debt securities, claims against other banks and counterparties and other instruments, except loans to customers, that do not have an external credit rating, the Group plans to estimate ratings according to the methodology used by rating agencies. The estimated ratings and historical PD's by ratings based on the external rating agencies data would be the basis for PD assessment.

For financial instruments other than loans to customers the Group expects to base its LGD estimate on LGD's calculated by S&P, Moody's or Fitch and internal analysis of recoveries from defaulted exposures.

For stage 1 and stage 2 loans to customers, the Group plans to estimate PD rates that would be 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 specific creditworthiness assessment.

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

The Group plans to adjust PDs used in the EL calculation depending on forecasted relevant macroeconomic circumstances.

The Group plans to regularly review and improve the methods it uses for EL calculation including based on comparison of actually experienced losses to previously expected losses.

Modification of loans

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers or other contractual terms. When this happens, the Group assesses whether or not the new terms are substantially different to the original ones. To do so, the Group considers factors 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 terms 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 a 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 modification gain or loss is recognised in profit or loss.

According to the analysis of financial instruments performed by the Bank, there was no significant effect on the fair value of the instruments as a result of modification.

(ii) ***IFRS 15 Revenue from contracts with customers*** *(Effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted.)*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Group and the Bank has completed an initial review of the potential impact of the adoption of IFRS 15 on its consolidated and separate financial statements. The assessment focused on a review of fees and commission income.

The Group and the Bank earn fee and commission income (other than fees included in the calculation of the effective interest rate) on provision of the following services:

- retail banking;
- corporate banking;
- investment banking;
- brokerage;
- asset management and
- financial guarantees issued.

IFRS 15 also establishes the principles that an entity shall apply to provide qualitative and quantitative disclosures which provide useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. Majority of Group's income is derived from financial instruments or relates to services where revenue recognition is performed at point in time when service is delivered with little judgment involved and for such income streams the new standard is not expected to have a significant impact; however, the Group and Bank are yet to perform an in-depth reassessment of the revenue recognition policies.

(iii) ***IFRS 16 Leases*** *– (Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the entity also applies IFRS 15.)*

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases - Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use (ROU) asset representing its right to use the underlying asset and a lease

liability representing its obligation to make lease payments. 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, unless specific other conditions persists. A right-of-use asset is measured at cost less any accumulated depreciation and impairment. The lease liability is initially measured as a discounted value of payments agreed over the lease term. A discount rate which discounts future payments to estimated present value is applied.
There are optional exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard- i.e. lessors continue to classify leases as finance or operating leases.
Initial evaluation results indicate that application of IFRS 16 will impact leases accounting significantly. Currently the Group and the Bank is carrying out a detailed impact assessment.
Those which are not expected to have a significant potential effect to the Group are set out below:

(iv) ***Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions*** *(Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively. Early application is permitted)*
The amendments clarify share-based payment accounting on the following areas:
- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations and
- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity settled.

The Group and the Bank expect that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the Group and the Bank.

(v) ***Amendments to IFRS 4 – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts.*** Effective for annual periods beginning on or after 1 January 2021; to be applied prospectively. The amendments address concerns arising from implementing IFRS 9 before implementing the replacement standard that the IASB is developing for IFRS 4. The amendments introduce two optional solutions:
- one solution is a temporary exemption from IFRS 9, effectively deferring its application for some insurers;
- the other is an overlay approach to presentation to alleviate the volatility that may arise when applying IFRS 9 before the forthcoming insurance contracts standard.

(vi) ***Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture*** *(The effective date has not yet been determined by the IASB, however earlier adoption is permitted.)*
The Amendments clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that:
- a full gain or loss is recognised when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets which constitute a business (whether it is housed in a subsidiary or not), while
- a partial gain or loss is recognised when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

The Group and the Bank do not expect that the amendments, when initially applied, will have material impact on the financial statements.

(vii) Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses *(Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively.)*
The amendments clarify how and when to account for deferred tax assets in certain situations and clarify how future taxable income should be determined for the purposes of assessing the recognition of deferred tax assets.

(viii) ***Amendments to IAS 40 – Transfers of Investment Property.*** The amendments reinforce the principle for transfers into, or out of, investment property in IAS 40 Investment Property to specify that such a transfer should only be made when there has been a change in use of the property. Based on the amendments a transfer is made when and only when there is an actual change in use – i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer.

(ix) IFRIC 22 Foreign Currency Transactions and Advance Consideration *(Effective for annual periods beginning on or after 1 January 2018).*
The Interpretation clarifies how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. In such circumstances, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

(x) Annual Improvements to IFRSs
The Group is in the process of evaluating the potential effect if any of other changes from these new standards and interpretations.

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: ML/TF (money laundering and terrorism financing) 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. 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 Head of Financial Risk Management Department (further – FRMD) is responsible for the overall financial risk management functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting financial risks. The Head of FRMD has the same responsibilities in the field of 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). For limits over predefined level additional approval from the Council is needed. In order to facilitate efficient decision-making, the Group has established a hierarchy of authorities depending on the type and amount of the exposure.

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 changes in the level of volatility of market prices.
The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst 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 in relation to financial instrument, interest rate maturity 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 a wide range of 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 size of losses that could arise in extreme conditions. The stress tests carried out by the Group include: risk factor stress testing, where stress movements are applied to each risk category and ad hoc stress testing, which includes applying possible stress events to specific positions.

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 the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements arise.
A change of 100 basis points would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign exchange rates, remain constant. Available for sale and tradable fixed-income financial instruments were evaluated (not including investments in fixed-income funds). Results are the same for the Bank and for the Group because the subsidiary did not have investments in financial instruments.
The impact of income taxes is not reflected in this analysis:

'000 EUR	31 December 2017		31 December 2016	
	Profit or loss	Equity	Profit or loss	Equity
100 bp parallel increase	-*	(340)	-*	(286)
100 bp parallel decrease	-*	349	-*	293

*In 2017 and 2016 no debt securities in the trading portfolio

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 2017	31 December 2016
100 bp parallel increase	882	647
100 bp parallel decrease	(882)	(647)

d) Currency risk

The Group has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. For further information on the 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 2017		31 December 2016	
	Profit or loss, Group	Profit or loss, Bank	Profit or loss, Group	Profit or loss, Bank
5% appreciation of USD against EUR	9	19	(50)	(53)
5% depreciation of USD against EUR	(9)	(19)	50	53
5% appreciation of GBP against EUR	-	-	4	4
5% depreciation of GBP against EUR	-	-	(4)	(4)
20% appreciation of RUB against EUR	2	2	16	23
20% depreciation of RUB against EUR	(2)	(2)	(16)	(23)

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 2017 and 2016 and a simplified scenario of a 5% change in all securities prices is as follows:

'000 EUR	31 December 2017		31 December 2016	
	Profit or loss	OCI	Profit or loss	OCI
5% increase in securities prices	17	1,054	26	1,243
5% decrease in securities prices	(17)	(1,054)	(26)	(1,243)

Results are the same for the Bank and for the Group because the subsidiary did not have investments in securities.

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" and „Credit Policy" approved by the Council of the Bank, as well as the Bank's internal regulatory document „Country Risk Management Procedure"; but 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", fundamental elements of credit risk management are:

- credit risk identification;
- credit risk assessment in normal and stress conditions;
- limiting the credit risk by applying limits;
- mitigation of the credit risk.

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 reverse repo loans), and credit risk related to interbank claims and the Group's investments in financial instruments (as well as reverse repo loans).

The Groups 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 crediting 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 15% of the Group's equity.

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 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 concluded by the Financial Market Division of the Bank (interbank loans, reverse repo transactions, 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 analyzes quality of the loan portfolio on a regular basis. One of the main aims of this analysis is to understand whether any loss events have occured. Furthermore, this is evaluated whether Loan value has to be decreased in the result of a loss event. Delay of borrower principal / interest payments is used as one of criterias in the process of Loan quality evaluation. Borrower's compliance to loan agreement covenants and change of collateral value are also used as criterias in the process of loan quality evaluation. Borrower performance indicators and fluctuations of borrower cash flow (both historic and forecasted) are used as loss event existance criterias in the process of corporate loans quality evaluation.

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 impairment y has been made as a result of an individual assessment of the loan. The Bank makes an assessment if the loan has been impaired if a loss event has occurred in relation to the loan:

- 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 borrowers' 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 and Bank:

'000 EUR	Business	Consumer	Reverse repo	Mortgage	Other	Total
31.12.2017						
Total gross loans	**30,069**	**4,602**	**1,550**	**5,612**	**4,261**	**46,094**
Neither past due nor impaired loans	25,547	4,594	1,550	5,612	4,261	41,564
Past due but not impaired loans, more than 30 days	-	8	-	-	-	8
Past due but not impaired loans, more than 90 days	4,522	-	-	-	-	4,522
Total impairment allowance	**(249)**	**(52)**	**-**	**(65)**	**(342)**	**(708)**
Total collective impairment allowance - neither past due nor impaired loans	(249)	(52)	-	(65)	(342)	(708)
Collective impairment allowance - loans are past due less than 30 days	-	-	-	-	-	-
Collective impairment allowance - loans are past due more than 90 days	-	-	-	-	-	-
Total net loans	**29,820**	**4,550**	**1,550**	**5,547**	**3,919**	**45,386**
Neither past due nor impaired loans	25,298	4,542	1,550	5,547	3,919	40,856
Past due but not impaired loans, more than 30 days	-	8	-	-	-	8
Past due but not impaired loans, more than 90 days	4,522	-	-	-	-	4,522
31.12.2016						
Total gross loans	**32,766**	**12,309**	**6,078**	**6,013**	**5,061**	**62,227**
Neither past due nor impaired loans	32,766	12,305	6,078	6,013	4,599	61,761
Past due but not impaired loans, less than 30 days	-	4	-	-	-	4
Past due but not impaired loans, more than 90 days	-	-	-	-	462	462
Total impairment allowance	**(284)**	**(74)**	**-**	**(67)**	**(400)**	**(825)**
Collective impairment allowance - Neither past due nor impaired loans	(284)	(70)	-	(67)	(14)	(435)
Collective impairment allowance - loans are past due less than 30 days	-	(4)	-	-	-	(4)
Collective impairment allowance - loans are past due more than 90 days	-	-	-	-	(386)	(386)
Total net loans	**32,482**	**12,235**	**6,078**	**5,946**	**4,661**	**61,402**
Neither past due nor impaired loans	32,482	12,235	6,078	5,946	4,585	61,326
Past due but not impaired loans, less than 30 days	-	-	-	-	-	-
Past due but not impaired loans, more than 90 days	-	-	-	-	76	76

As at 31 December 2017, the gross amount of loans which were granted the status 'restructured' totalled EUR 7 228 thousand (2016: EUR 13 403 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 or any of the loss events has taken place.

The Group's maximum exposure to statement of financial position credit risk is generally reflected in the carrying amounts of financial assets on the statement of financial position.

All the Bank's loans are assessed individually and in respect of each loan it is evaluated whether one or more credit loss events have occurred. In addition, if the Bank's assets have similar risk characteristics, the Bank combines the loans in the group and carries out an assessment at the collective level.

In 2017 and 2016 as a result of collective impairment assessment provisions for those loans, where both source of repayment and value of the collateral is associated to the Russian Federation risk, were made. In addition, in 2017 and 2016 as a result of collective impairment assessment additional provisions were made, taking into account loan-to-value ratio. In both cases the amount of

provisions was determined as a percentage of the related loans balance and consequently in accounting it was allocated to the each exposure. In 2017 and 2016 as a result of collective impairment assessment general provisions were also made for those credit card limits which are not secured by deposits. The amount of provisions is recognized to the whole group, not allocating it to the each card exposure.
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”.
From 1 January 2018, with the cease of the term of the operation of IAS 39 and the date of entry into force of IFRS 9, the Bank changed the arrangements for calculating provisions for assets (see Note3).

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 60%.
The Group's guidelines for liquidity risk management are defined in the Bank's internal regulatory documents „Liquidity Risk Management Policy" and „Assets and Liabilities Management Policy" approved by the Bank's Council, and liquidity risk management procedure is defined in the Bank's internal regulatory document „Liquidity Risk Management Procedure".
The Group's liquidity risk management system consists of several elements: liquidity risk ratio system, limits set in order to restrict the liquidity risk undertaken by the Group, liquidity risk stress testing, the Group's balance sheet planning, and the „Liquidity Assurance Plan in Crisis Conditions".
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 within the framework of internal capital adequacy assessment process (further – ICAAP), 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 daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the FRMD. Under the normal market conditions, liquidity reports covering the liquidity position of the Group are presented to ALCO on a weekly basis. Decisions on the Group’s liquidity management are made by the ALCO and implemented by the Financial Market Department.
The Group also calculates mandatory liquidity ratios on a daily basis in accordance with the requirement of the Financial and Capital Markets Commission. The Bank was in compliance with these ratios during the twelve-month period ended 31 December 2017 and 31 December 2016.
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 2017:

'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	119,491	2,648	488	3,083	9,576	76	**135,362**	135,114
Subordinated liabilities	33	234	233	466	20,695	1,449	**23,110**	17,490
Unrecognised loan commitments	2,533	-	-	-	-	-	**2,533**	-
Total Non-derivative liabilities	**122,057**	**2,882**	**721**	**3,549**	**30,271**	**1,525**	**161,005**	**152,604**
Derivative liabilities								
Inflow	(19,424)	(1,202)	(8,053)	(5,632)	(1,636)	-	**(35,947)**	(34,994)
Outflow	18,731	1,170	8,064	5,027	1,638	-	**34,630**	34,324
Total Derivative liabilities	**(693)**	**(32)**	**11**	**(605)**	**2**	**-**	**(1,317)**	**(670)**
Total	**121,364**	**2,850**	**732**	**2,944**	**30,273**	**1,525**	**159,688**	**151,934**

Analysis of the Group's financial liabilities' contractual undiscounted cash flows as at 31 December 2016:

'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								
Deposits due to central bank	-	12,500	-	-	-	-	**12,500**	12,500
Current accounts and deposits due to customers	94,538	6,015	215	6,219	12,998	55	**120,040**	119,646
Subordinated liabilities	443	40	46	93	20,216	5,774	**26,612**	21,034
Unrecognised loan commitments	6,779	-	-	-	-	-	**6,779**	-
Total Non-derivative liabilities	**101,760**	**18,555**	**261**	**6,312**	**33,214**	**5,829**	**165,931**	**153,180**
Derivative liabilities								
Inflow	(15,554)	(9,659)	(19,298)	(34,329)	(50)	-	**(78,890)**	(76,529)
Outflow	15,685	10,486	18,011	32,833	13	-	**77,028**	75,506
Total Derivative liabilities	**131**	**827**	**(1,287)**	**(1,496)**	**(37)**	**-**	**(1,862)**	**(1,023)**
Total	**101,891**	**19,382**	**(1,026)**	**4,816**	**33,177**	**5,829**	**164,069**	**152,157**

Analysis of the Bank's financial liabilities' contractual undiscounted cash flows as at 31 December 2017:

'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	120,520	2,649	489	3,334	9,576	76	**136,644**	136,405
Subordinated liabilities	33	234	233	466	20,695	1,449	**23,110**	17,490
Unrecognised loan commitments	2,533	-	-	-	-	-	**2,533**	-
Total Non-derivative liabilities	**123,086**	**2,883**	**722**	**3,800**	**30,271**	**1,525**	**162,287**	**153,895**
Derivative liabilities								
Inflow	(19,424)	(1,202)	(8,053)	(5,632)	(1,636)	-	**(35,947)**	(34,994)
Outflow	18,731	1,170	8,064	5,027	1,638	-	**34,630**	34,324
Total Derivative liabilities	**(693)**	**(32)**	**11**	**(605)**	**2**	**-**	**(1,317)**	**(670)**
Total	**122,393**	**2,851**	**733**	**3,195**	**30,273**	**1,525**	**160,970**	**153,225**

Analysis of the Bank's financial liabilities' contractual undiscounted cash flows as at 31 December 2016:

'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								
Deposits due to central bank	-	12,500	-	-	-	-	**12,500**	12,500
Current accounts and deposits due to customers	94,700	6,245	219	6,427	13,616	55	**121,262**	120,844
Subordinated liabilities	443	40	46	93	20,216	5,774	**26,612**	21,034
Unrecognised loan commitments	6,779	-	-	-	-	-	**6,779**	-
Total non-derivative liabilities	**101,922**	**18,785**	**265**	**6,520**	**33,832**	**5,829**	**167,153**	**154,378**
Derivative liabilities								
Inflow	(15,554)	(9,659)	(19,298)	(34,329)	(50)	-	**(78,890)**	(76,529)
Outflow	15,685	10,486	18,011	32,833	13	-	**77,028**	75,506
Total derivative liabilities	**131**	**827**	**(1,287)**	**(1,496)**	**(37)**	**-**	**(1,862)**	**(1,023)**
Total	**102,053**	**19 612**	**(1,022)**	**5,024**	**33,795**	**5,829**	**165,291**	**153,355**

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 2017 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	23,923	-	-	-	-	-	**23,923**
Financial assets at fair value through profit or loss	564	20	35	322	351	-	**1,292**
Balances due from financial institutions	62,535	2,254	-	-	-	1	**64,790**
Loans and advances due from customers	8,094	2,607	1,058	2,535	30,143	949	**45,386**
Available-for-sale financial assets	941	1,368	1 763	1,820	15,180	-	**21,072**
Held-to-maturity investments	77	2,615	1,589	-	5,426	-	**9,707**
Other financial assets	523	-	-	-	-	-	**523**
Total financial assets	**96,657**	**8,864**	**4,445**	**4,677**	**51,100**	**950**	**166,693**
Financial liabilities							
Financial liabilities at fair value through profit or loss	221	-	-	64	19	-	**304**
Balances due from financial institutions	1	-	-	-	-	-	**1**
Current accounts and deposits due to customers	119,832	2,547	475	2,815	9,445	-	**135,114**
Subordinated liabilities	52	-	-	-	17,438	-	**17,490**
Unrecognised loan commitments	2,533	-	-	-	-	-	**2,533**
Total financial liabilities	**122,639**	**2,547**	**475**	**2,879**	**26,902**	**-**	**155,442**
Total Equity	-	-	-	-	-	15,831	**15,831**
Total Liabilities and Equity	**122,639**	**2,547**	**475**	**2,879**	**26,902**	**15,831**	**171,273**
Net liquidity position as at 31 December 2017	**(25,982)**	**6,317**	**3,970**	**1,798**	**24,198**	**(14,881)**	**-**
Net liquidity position as at 31 December 2016	(27,189)	(1,698)	4,714	13,858	13,909	(18,341)	-

The Bank's Analysis of contractual maturities of financial assets and liabilities and equity as at 31 December 2017 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	23,923	-	-	-	-	-	**23,923**
Financial assets at fair value through profit or loss	564	20	35	322	351	-	**1,292**
Balances due from financial institutions	62,453	2,254	-	-	-	1	**64,708**
Loans and advances due from customers	8,094	2,607	1,058	2,535	30,143	949	**45,386**
Available-for-sale financial assets	941	1,368	1 763	1,820	15,180	-	**21,072**
Held-to-maturity investments	77	2,615	1,589	-	5,426	-	**9,707**
Other financial assets	523	-	-	-	-	-	**523**
Total financial assets	**96,575**	**8,864**	**4,445**	**4,677**	**51,100**	**950**	**166,611**
Financial liabilities							
Financial liabilities at fair value through profit or loss	221	-	-	64	19	-	**304**
Balances due from financial institutions	1	-	-	-	-	-	**1**
Current accounts and deposits due to customers	120,873	2,547	475	3,065	9,445	-	**136,405**
Subordinated liabilities	52	-	-	-	17,438	-	**17,490**
Unrecognised loan commitments	2,533	-	-	-	-	-	**2,533**
Total financial liabilities	**123,680**	**2,547**	**475**	**3,129**	**26,902**	**-**	156,733
Total Equity	-	-	-	-	-	15,698	15,698
Total Liabilities and Equity	**123,680**	**2,547**	**475**	**3,129**	**26,902**	**15,698**	**172,431**
Net liquidity position as at 31 December 2017	**(27,105)**	**6,317**	**3,970**	**1,548**	**24,198**	**(14,748)**	**-**
Net liquidity position as at 31 December 2016	(27,121)	(1,932)	4,703	13,557	13,019	(17,940)	-

The interest rate analysis chart for the Group's financial assets and financial liabilities at 31 December 2017 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	23,378	-	-	-	-	-	545	**23,923**
Financial assets at fair value through profit or loss	544	20	35	322	27	-	344	**1,292**
Balances due from financial institutions	29,344	2,254	-	-	-	-	33,192	**64,790**
Loans and advances due from customers	5,720	2,607	1,058	2,550	30,317	-	3,134	**45,386**
Available-for-sale financial assets	431	1,369	1,763	1,820	14,966	-	723	**21,072**
Held-to-maturity investments	77	2,615	1,589	-	5,426	-	-	**9,707**
Other financial assets	-	-	-	-	-	-	523	**523**
Long positions of interest rates risk sensitive off-balance items*	18,936	1,182	8,027	5,310	1,609	-	-	**35,064**
Total assets and long off-balance-sheet positions sensitive to changes in interest rates	**78,430**	**10,047**	**12,472**	**10,002**	**52,345**	**-**	**38,461**	**201,757**
Financial liabilities								
Financial liabilities at fair value through profit or loss	221	-	-	64	19	-	-	**304**
Balances due from financial institutions	-	-	-	-	-	-	1	**1**
Current accounts and deposits due to customers	483	2,547	475	3,051	9,137	73	119,348	**135,114**
Subordinated liabilities	-	-	-	-	13,582	3,856	52	**17,490**
Short positions of interest rates risk sensitive off-balance items*	19,635	1,169	8,035	5,006	3,174	-	-	**37,019**
Total liabilities and short off-balance-sheet positions sensitive to changes in interest rates	**20,339**	**3,716**	**8,510**	**8,121**	**25,912**	**3,929**	**119,401**	**189,928**
Net position as at 31 December 2017	**58,091**	**6,331**	**3,962**	**1,881**	**26,433**	**(3,929)**	**(80,940)**	**11,829**
Net position as at 31 December 2016	55,495	(2,810)	2,010	12,429	1,536	(4,494)	(59,304)	4,862

*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 2017.

'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	23,378	-	-	-	-	-	545	**23,923**
Financial assets at fair value through profit or loss	544	20	35	322	27	-	344	**1,292**
Balances due from financial institutions	29,343	2,254	-	-	-	-	33,111	**64,708**
Loans and advances due from customers	5,720	2,607	1,058	2,550	30,317	-	3,134	**45,386**
Available-for-sale financial assets	431	1,369	1,763	1,820	14,966	-	723	**21,072**
Held-to-maturity investments	77	2,615	1,589	-	5,426	-	-	**9,707**
Other financial assets	-	-	-	-	-	-	523	**523**
Long positions of interest rates risk sensitive off-balance items*	18,936	1,182	8,027	5,310	1,609	-	-	**35,064**
Total assets and long off-balance-sheet positions sensitive to changes in interest rates	**78,429**	**10,047**	**12,472**	**10,002**	**52,345**	**-**	**38,380**	**201,675**
Financial liabilities								
Financial liabilities at fair value through profit or loss	221	-	-	64	19	-	-	**304**
Balances due from financial institutions	-	-	-	-	-	-	1	**1**
Current accounts and deposits due to customers	833	2,547	475	3,301	9,137	73	120,039	**136,405**
Subordinated liabilities	-	-	-	-	13,582	3,856	52	**17,490**
Short positions of interest rates risk sensitive off-balance items*	19,635	1,169	8,035	5,006	3,174	-	-	**37,019**
Total liabilities and short off-balance-sheet positions sensitive to changes in interest rates	**20,689**	**3,716**	**8,510**	**8,371**	**25,912**	**3,929**	**120,092**	**191,219**
Net position as at 31 December 2017	**57,740**	**6,331**	**3,962**	**1,631**	**26,433**	**(3,929)**	**(81,712)**	**10,456**
Net position as at 31 December 2016	55,167	(3,043)	2,010	12,229	929	(4,494)	(59,304)	3,494

*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 2017:

’000 EUR	EUR	USD	GBP	RUB	Other currency	Total
Financial assets						
Cash and due from central banks	23,724	168	26	-	5	**23,923**
Financial assets at fair value through profit or loss	1,275	9	-	-	8	**1,292**
Balances due from financial institutions	15,506	45,595	3,305	36	348	**64,790**
Loans and advances due from customers	35,432	7,791	1,911	251	1	**45,386**
Available-for-sale financial assets	9,648	11,424	-	-	-	**21,072**
Held-to-maturity investments	4,208	5,499	-	-	-	**9,707**
Other assets	213	310	-	-	-	**523**
Total financial assets	**90,006**	**70,796**	**5,242**	**287**	**362**	**166,693**
Off-balance (SWAP)	**14,005**	**10,987**	**928**	**9,144**	**-**	**35,064**
Financial liabilities						
Financial liabilities at fair value through profit or loss	301	3	-	-	-	**304**
Balances due from financial institutions	-	-	-	-	1	**1**
Current accounts and deposits due to customers	73,639	55,705	3,916	1,577	277	**135,114**
Subordinated liabilities	8,556	8,934	-	-	-	**17,490**
Total financial liabilities	**82,496**	**64,642**	**3,916**	**1,577**	**278**	**152,909**
Total Equity and reserves	15,831	-	-	-	-	**15,831**
Total Liabilities and Equity	**98,327**	**64,642**	**3,916**	**1,577**	**278**	**168,740**
Off-balance (SWAP)	**7,638**	**16,785**	**2,243**	**7,766**	**-**	**34,432**
Net currency balance position as at 31 December 2017	**(8,321)**	**6,154**	**1,326**	**(1,290)**	**84**	**(2,047)**
Net currency position as at 31 December 2017 (balance & off-balance)	**(1 954)**	**356**	**11**	**88**	**84**	**(1,415)**
Net currency balance position as at 31 December 2016	(20,630)	12,551	2,884	(162)	236	(5,121)
Net currency position as at 31 December 2016 (balance & off-balance)	(3,614)	(1,549)	82	78	237	(4,766)

The following table shows the Bank's the currency structure of financial assets and financial liabilities at 31 December 2017:

'000 EUR	EUR	USD	GBP	RUB	Other currency	Total
Financial assets						
Cash and due from central banks	23,724	168	26	-	5	**23,923**
Financial assets at fair value through profit or loss	1,275	9	-	-	8	**1,292**
Balances due from financial institutions	15,473	45,565	3,305	36	329	**64,708**
Loans and advances due from customers	35,432	7,791	1,911	251	1	**45,386**
Available-for-sale financial assets	9,648	11,424	-	-	-	**21,072**
Held-to-maturity investments	4,208	5,499	-	-	-	**9,707**
Other financial assets	213	310	-	-	-	**523**
Total financial assets	**89,973**	**70,766**	**5,242**	**287**	**343**	**166,611**
Off-balance (SWAP)	**14,005**	**10,987**	**928**	**9,144**	**-**	**35,064**
Financial liabilities						
Financial liabilities at fair value through profit or loss	301	3	-	-	-	**304**
Balances due from financial institutions	-	-	-	-	1	**1**
Current accounts and deposits due to customers	74,775	55,858	3,917	1,578	277	**136,405**
Subordinated liabilities	8,556	8,934	-	-	-	**17,490**
Total financial liabilities	**83,632**	**64,795**	**3,917**	**1,578**	**278**	**154,200**
Total Equity and reserves	15,698	-	-	-	-	**15,698**
Total Liabilities and Equity	**99,330**	**64,795**	**3,917**	**1,578**	**278**	**169,898**
Off-balance (SWAP)	**7,638**	**16,785**	**2,243**	**7,766**	**-**	**34,432**
Net currency balance position as at 31 December 2017	**(9,357)**	**5,971**	**1,325**	**(1,291)**	**65**	**(3,287)**
Net currency position as at 31 December 2017	**(2,990)**	**173**	**10**	**87**	**65**	**(2,655)**
Net currency balance position as at 31 December 2016	(21,520)	12,493	2,884	(161)	215	(6,089)
Net currency position as at 31 December 2016 (balance & off-balance)	(4,504)	(1,607)	82	79	216	(5,734)

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 Financing (further – ML/TF) Risk

ML/TF risk is the risk that the Bank can be involved into money laundering or terrorism financing. The Bank operates internal control system in the field of the ML/TF, 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/TF, dedicating the respective resources for that purpose and training employees. The Bank has protocols to identifyies each Client and to applyies due diligence procedures in accordance with a degree of the ML/TF risk of the Client. Depending on the degree of the ML/TF risk, the Bank has procedures to investigates the nature of personal or economic activity of the Client, origin of funds in accounts held with the Bank and nature of transactions. The special client supervision structural units are established in the Bank that are 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 exactly oversee proper and timely performance ofs duties of the Bank stipulated in the law in relations with competent state bodies. The Bank has the modest quantity of clients and it has deep knowledge of each of them which allows minimizing ML/TF 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 in the legislation, to improve the Bank's capabilities and competitive position in the market; 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 Compliance committee that has a central role in compliance risk management. Compliance committee 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 normative documents of the Bank;
- actively participates in the Committee of the Association of Latvian commercial banks and FCMC held discussions/workshops on issues that affect the function of the competence of conformity;
- evaluates the Bank internal normative documents and the lack of practical application;
- analyses and compares the performance data to ensure their compliance with certain requirements proactively;
- analyses the Bank customers' complaints.

In 2015 FCMC applied a penalty in amount of 55 thousand EUR to the Bank related to several minor deficiencies in AML/CTF internal control system, that in the view of FCMC needed to be improved. The Bank subsequently implemented relevant measures which, in the management's view, addressed the identified internal control deficiencies, and mitigated its compliance risk going forward, except for topics described below. There were no other on-site audits performed by the FCMC since 2015. Please refer also to Note 36 Subsequent events.

To help align the Bank's compliance procedures with the best international practices, the Bank engaged international independent consultants to review its AML/CTF programs.

In June, 2016 Exiger LLC and Lewis Baach Kaufmann (US consultants) assessed the Bank's AML

Program by comparing it to regulatory requirements set forth in the Bank Secrecy Act (BSA) and the USA Patriot Act (USAPA) and their implementing regulations, Office of Foreign Assets Control (OFAC), the Federal Financial Institutions Examination Council BSA/AML Examination Manual ("FFIEC Manual"), relevant enforcement actions, guidance promulgated by the Financial Action Task Force and industry best practices. The final review report was received at the end of February, 2017 and contained 24 Required Elements (recommendations) for compliance with BSA/AML/ OFAC regulatory requirements and expectations.
The findings were related to:

- improvement of the Bank's internal policies and procedures;
- strengthening the independence of the compliance function;
- development of a quality assurance program;
- performance of enterprise-wide AML/CTF risk assessment;
- and implementation of a web-based alert-management and data-storage system.

As of the approval date of these separate and consolidated financial statements, nearly all of the recommendations received following these consultants' review have been implemented. The remaining recommendations still to be implemented relate to the necessity of improvement in the alert-management and data-storage system.
In December, 2017 the Bank engaged a follow-up evaluation of the implementation of recommendations of the above review and overall effectiveness of its AML/CTF system of internal control. Such additional evaluation is initiated according to the Bank's policy to arrange a review of the effectiveness of its AML/CTF system of internal control every 18 months. It was commenced on February 2018, and is expected to be completed by June 2018.
In light of the developments in the Latvian banking market since February 2018, the management of the Bank is planning to introduce the following enhancements of its AML/CTF policies, including the KYC controls:

- implementation of web based alert management and data storage system;
- enhancement of quality assurance program;
- closure of shell-company accounts;
- and reducing the number of other customers from countries with elevated corruption and political risks.

There are no pending regulatory reviews, inquiries or investigations related to AML or any other aspect of the Bank's business.

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 2017, the individual minimum Capital adequacy ratio level for the Bank is set at 20% (2016: 18,71%). As at 31 December 2017, the individual minimum Tier 1 Capital adequacy ratio level for the Bank is set at 12,21% (2016: 18,71%). The Bank was in compliance with the FCMC determined individual capital ratio as at 31 December 2017 and 2016.
The Group's risk based capital adequacy ratio as at 31 December 2017 was 26,90% (2016: 26,54%).
The Bank's risk based capital adequacy ratio as at 31 December 2017 was 26,61% (2016: 26,69%).
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 2017 and 2016:

'000 EUR	2017 Group	2016 Group	2017 Bank	2016 Bank
Tier 1 capital				
Share capital	32,171	32,171	32,171	32,171
Additional paid-in capital	28	28	28	28
Reserves	312	26	312	26
Accumulated losses	(16,724)	(12,790)	(16,857)	(13,191)
Reductions of tier 1 capital	(336)	(1,818)	(337)	(906)
Total tier 1 capital	**15,451**	**17,617**	**15,317**	**18,128**
Tier 2 capital				
Subordinated liabilities (unamortised portion)	11,343	15,713	11,343	15,713
Total tier 2 capital	11,343	**15,713**	11,343	**15,713**
Deductions from Tier 1 and Tier 2 capital prescribed by legislation*	(1,902)	(2,533)	(1,902)	(2,533)
Total capital	**24,892**	**30,797**	**24,758**	**31,308**
Capital requirements				
Credit risk requirements	6,043	7,753	6,145	7,903
Market risk requirements	155	438	138	446
Operational risk requirements	1,205	1,091	1,160	1,037
Total capital requirements	**7,403**	**9,282**	**7,443**	**9,386**
Capital adequacy ratio	**26.90%**	**26.54%**	**26.61%**	**26.69%**
Tier 1 Capital adequacy ratio	**15.67%**	**14.09%**	**15.44%**	**14.37%**

* 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 2017 and 31 December 2016.

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) Allowances for credit losses

Financial assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy, Note 3.
The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon the Bank's management best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function.
The Bank assesses collective impairment allowance for loans and advances due from customers. For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms.

(ii) Impairment of financial instruments

Impairment allowance of financial assets other than loans is described in this section.
The determination of impairment indication is based on comparison of the financial instrument's initial acquisition cost and fair value. The Group uses valuation models based on quoted market prices and prices of similar products or other available information.
For the purposes of impairment loss measurement, the Bank's management makes estimates of any expected changes in future cash flows from a specific financial instrument based on analysis of financial position of the issuer of the financial instrument and changes in the fair value of the financial instrument. See Note 17 and 18.

(iii) Impairment of Goodwill

Goodwill is assessed for impairment on an annual basis by discounting estimated future cash flows for the underlying cash generating unit using a discount rate equal to return on equity expected by shareholders. The estimated future cash flows are projected based on forecasts adjusted for expected changes in the business. See Note 22.

(iv) 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 the 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.

Further information about the assumptions and judgments made in measuring fair values is included in Note 35 Fair value of financial instruments.

7. Net interest income

'000 EUR	2017 Group	2016 Group	2017 Bank	2016 Bank
Interest income				
Interest income arising from financial assets at fair value through profit or loss	-	41	-	41
Interest income arising from financial assets not at fair value through profit or loss				
Balances due from financial institutions	449	289	449	289
Loans and advances due from customers	4,369	5,165	4,369	5,165
Available-for-sale financial assets	383	824	383	824
Held-to-maturity investments	199	399	199	399
Other interest income	-	11	-	11
Total	**5,400**	**6,729**	**5,400**	**6,729**
Interest expense				
Interest expense recognised on liabilities measured at amortised cost				
Balances due to financial institutions	(106)	(30)	(106)	(30)
Current accounts and deposits due to customers	(492)	(2,180)	(504)	(2,192)
Subordinated liabilities	(1,005)	(890)	(1,005)	(890)
Payments to the deposit guarantee fund and other expenses	(67)	(73)	(67)	(73)
Total	**(1,670)**	**(3,173)**	**(1,682)**	**(3,185)**

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 has not been recognised during the year ended 31 December 2017 (2016: EUR 51 thousand). Interest recognized on impaired held- to-maturity investments and available-for-sale assets during the year ended 31 December 2017 amounts was EUR 6 thousans and EUR 2 thousand respectively (2016: n/a).

8. Fee and commission income

'000 EUR	2017 Group	2016 Group	2017 Bank	2016 Bank
Asset management and fiduciary services	951	1,497	725	1,248
Servicing current accounts	932	804	932	804
Brokerage operations	557	490	557	490
Structured products	438	300	438	300
Credit card maintenance	146	127	146	127
Other	53	48	53	48
Total	**3,077**	**3,266**	**2,851**	**3,017**

9. Fee and commission expense

'000 EUR	2017 Group	2016 Group	2017 Bank	2016 Bank
Asset management and brokerage services	216	202	209	202
Customer attraction	182	171	272	171
Settlements	85	58	84	58
Credit service	-	69	-	69
Other	-	1	-	1
Total	**483**	**501**	**565**	**501**

10. General administrative expenses

'000 EUR	2017 Group	2016 Group	2017 Bank	2016 Bank
Employee compensation and payroll taxes	4,164	4,435	3,953	4,227
Professional services	608	510	604	506
Depreciation and amortisation	465	486	463	483
Advertising and marketing	294	158	292	154
Communications and information services	293	240	290	236
Payment cards expenses	223	218	223	218
Rent and utilitie payments	212	208	212	208
IT service costs	185	175	185	175
Other employee expenses	52	92	52	90
Repairs and maintenance	50	37	50	37
Other	546	700	535	692
Total	**7,092**	**7,259**	**6,859**	**7,026**

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. Other advisory services related to the review of compliance with anti-money laundering and combating the financing of terrorism related requirements, oncall tax consultations, IFRS 9 requirements related training and services related to the changes in shareholder structure.

'000 EUR	2017 Group	2016 Group	2017 Bank	2016 Bank
Sworn auditor statutory audit	57	36	53	32
Sworn auditor tax consultation	4	4	4	4
Sworn auditor other audits	4	4	4	4
Total	**65**	**44**	**61**	**40**

In 2017 the Group employed an average of 84 (2016: 85) persons, whereas the Bank employed an average of 79 (2016: 80).

Number of employees of the Group and the Bank at the year end:

	31 Dec 2017 Group	31 Dec 2016 Group	31 Dec 2017 Bank	31 Dec 2016 Bank
Management	6	6	3	3
Heads of divisions and departments	15	19	15	19
Other personnel	66	57	64	55
Total at the end of the year	**87**	**82**	**82**	**77**

11. Impairment loss

Total net impairment allowance charged to statement of income:

'000 EUR	2017 Group	2016 Group	2017 Bank	2016 Bank
Loans – collectively assessed impairment	66	(397)	66	(397)
Available for sale securities	(589)	(642)	(589)	(642)
Held-to-maturity securities - individually assessed impairment	(386)	-	(386)	-
Other non-financial assets	-	(35)		(35)
Recovered written-off assets	4	-	4	-
Total impairment allowance and provisions charged to income statement, net	**(905)**	**(1,074)**	**(905)**	**(1,074)**

'000 EUR	2017 Group	2016 Group	2017 Bank	2016 Bank
Impairment loss				
Loans – collectively assessed impairment	117	(397)	117	(397)
Increase	(177)	(527)	(177)	(527)
Decrease	294	130	294	130
Available for sale securities	(589)	(642)	(589)	(642)
Increase	(589)	(1,108)	(589)	(1,108)
Decrease	-	466	-	466
Held-to-maturity securities - specifically assessed impairment	(382)	-	(382)	-
Increase	(382)	-	(382)	-
Other non-financial assets	-	(35)	-	(35)
Effect of changes in currency exchange rates:	(51)	-	(51)	-
loans – specifically assessed impairment	(47)	-	(47)	-
Held-to-maturity securities - specifically assessed impairment	(4)	-	(4)	-
Impairment loss	**(905)**	**(1,074)**	**(905)**	**(1,074)**

12. Income tax benefit

(i) Income tax recognised in the profit or loss

’000 EUR	2017 Group	2016 Group	2017 Bank	2016 Bank
Deferred tax benefit/(expense)				
(Derecognition)/recognition of unrecognized tax losses carried forward	(2,354)	1,135	(2,267)	1,140
Current corporate income tax	(3)	-	-	-
Total income tax benefit/(expense) recognised in profit or loss	**(2,357)**	**1,135**	**(2,267)**	**1,140**

On 28 July 2017, Latvian parliament passed amendments to the Latvian tax legislations which became effective on 1 January 2018. The amendments concern corporate income tax regime and certain other taxes in Latvia. Up to this date corporate income tax in Latvia was payable on taxable profits and the taxable profits could be partially offset by tax loss carry forward from previous tax periods. The new regime introduces a concept where corporate income tax is payable only on dividend pay-outs (irrespective of profits in the particular period) and certain expenses which for tax purposes are considered earnings distributions (e.g. non-business expenses and representative expenses that exceed specific threshold). In accordance with the amendments, for profits which are generated within Latvian jurisdiction and are not paid out in dividends, corporate income tax from 1 January 2018 is not payable.
The current version of the amended tax legislation retains certain conditional transitional provisions where the new tax doesn’t apply to distribution of retained earnings from previous tax regime (currently no expiry date) and unutilised tax losses may be offset against certain tax payables (5 year expiry date). The Group, in case dividends were to be distributed, might have positive tax benefits from these transitional provisions, but as deferred tax is calculated on tax rate which applies to undistributed earnings, no deferred tax asset may be recognised until actual distribution.

The Bank and the Group has completely derecognised previously recognized deferred Income tax due to changes of legislation. Thus non-recurrent expenses in the amount exceeding EUR 2 million have been recognized.

(ii) Reconciliation of effective tax rate:

’000 EUR	2017 Group	2016 Group	2017 Bank	2016 Bank
Loss before income tax	**(1,577)**	**(799)**	**(1,399)**	**(829)**
Theoretically calculated tax at tax rate of 15%	(237)	(120)	(210)	(124)
Tax effect of:				
Non-deductible costs	415	129	385	129
Non-taxable income	(177)	(165)	(175)	(166)
Change in tax legislation	2,356	-	2,267	-
Change in unrecognised deferred tax assets	-	(979)	-	(979)
Income tax loss/(benefit)	**2,357**	**(1,135)**	**2,267**	**(1,140)**

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 2017 Group	31 Dec 2016 Group	31 Dec 2017 Bank	31 Dec 2016 Bank
Cash	545	377	545	377
Balances due from central banks	23,378	17,818	23,378	17,818
Subtotal	**23,923**	**18,195**	**23,923**	**18,195**
Demand deposit due from financial institutions	30,909	28,552	30,827	28,382
Total	**54,832**	**46,747**	**54,750**	**46,577**

Deposits with the Bank of Latvia represent the balance outstanding on correspondent account in EUR. The Bank is compliant with the requirement to hold the minimum reserves in amount of EUR 958 thousand (2016: EUR 1 381 thousand) with the Bank of Latvia.

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

’000 EUR	31 Dec 2017 Group	31 Dec 2016 Group	31 Dec 2017 Bank	31 Dec 2016 Bank
Assets				
Equity investments				
Financial institutions shares*	316	453	316	453
Corporate shares*	28	73	28	73
Total equity investments	**334**	**526**	**334**	**526**
Derivative financial instruments				
Foreign currency contracts	895	2,283	895	2,283
Foreign currency forward agreements	53	77	53	77
Purchased opportunity contracts	-	1	-	1
Total derivative financial instruments	**948**	**2,361**	**948**	**2,361**
Total assets at fair value	**1,292**	**2,887**	**1,292**	**2,887**
Liabilities				
Derivative financial instruments				
Foreign currency contracts	285	1,234	285	1,234
Foreign currency forward agreements	19	109	19	109
Margin-share contracts (CFD)	-	179	-	179
Total derivative financial instruments	**304**	**1,522**	**304**	**1,522**
Total liabilities at fair value	**304**	**1,522**	**304**	**1,522**
National amount				
Derivative financial instruments				
Foreign currency forward agreements	32,611	69,958	32,611	69,958
Foreign currency contracts	1,821	5,548	1,821	5,548
Margin-share contracts (CFD)	-	659	-	659
Total derivative financial instruments at national amount	**34,432**	**76,165**	**34,432**	**76,165**

*held for trading

Included in financial assets and financial liabilities at fair value through profit or loss at 31 December 2017 are EUR 1.29 million (2016: EUR 2.89 million) and EUR 0.3 million (2016: EUR 1.52 million) respectively which are classified as held for trading.

15. Balances due from financial institutions

'000 EUR	31 Dec 2017 Group	31 Dec 2016 Group	31 Dec 2017 Bank	31 Dec 2016 Bank
Not impaired or past due				
Nostro accounts				
Latvian commercial banks	800	10,682	718	10,512
OECD banks[1]	28,784	17,416	28,784	17,416
Non-OECD banks	1,325	454	1,325	454
Credit ratings[2]				
Rated A- and above	24,964	16,206	24,964	16,206
Rated from BBB- to BBB+	3,745	1, 210	3,745	1,210
Rated from BB- to BB+	1,211	299	1,211	299
Rated not below B+	148	875	148	875
Another lower rating	28	23	28	23
Not rated	813	9, 939	731	9,769
Credit ratings of parent entities[3]				
Rated A- and above	25,046	26,122	24,964	25,952
Rated from BBB- to BBB+	3,745	1,210	3,745	1,210
Rated from BB- to BB+	1,211	299	1,211	299
Rated B+ and below	148	875	148	875
Another lower rating	28	23	28	23
Not rated	731	23	731	23
Total nostro accounts	**30,909**	**28,552**	**30,827**	**28,382**
Loans and deposits[4]				
Latvian commercial banks	10,638	190	10,638	190
OECD banks[4]	23,243	12,850	23,243	12,850
Non-OECD banks	-	899	-	899
Credit ratings[2]				
Rated A- and above	20,971	5,692	20,971	5,692
Rated from BBB- to BBB+	70	6,049	70	6,049
Rated from BB- to BB+	-	545	-	545
Rated not below B+	-	190	-	190
Not rated	12,840	1,463	12,840	1,463
Credit ratings of parent entities[3]				
Rated A- and above	31,608	5,692	31,608	5,692
Rated from BBB- to BBB+	70	6,049	70	6,049
Rated from BB- to BB+	-	545	-	545
Rated not below B+	-	190	-	190
Not rated	2,203	1,463	2,203	1,463
Total loans and deposits not impaired	**33,881**	**13,939**	**33,881**	**13,939**
Total	**64,790**	**42,491**	**64,708**	**42,321**

1. Nostro accounts held with OECD banks include balances with 4 counterparties (31 December 2016: 4) none of which exceed 19% (31 December 2016: 38%) of the total nostro account balance. The respective counterparties do not have credit ratings lower than BBB+ (31 December 2016: BBB) as at 31 December 2017.
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. Classification is based on credit ratings of parental banks for Latvian commercial banks: "Swedbank" AS, Luminor Bank AS.
4. Loans and deposits held with OECD banks include balances with 4 financial institutions (31 December 2016: 3) none of which individually exceeds 26% (31 December 2016: 14%) of the total loans and deposits balance. As at 31 December 2017 the respective financial institutions do not have credit ratings lower than BBB+ (31 December 2016: BBB+) The financial institution, whose credit rating is not available, is registered and operates in the EU.

As at 31 December 2017 and 2016 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 2017 and 2016 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 2017 and 2016 none of these balances individually exceeded 26 % and 38 % 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 2017 was EUR 52 368 thousand (31 December 2016: EUR 37 339 thousand) and it included four banks (31 December 2016: 4) with the credit rating not lower than A- (31 December 2016: 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 2017 Group	31 Dec 2016 Group	31 Dec 2017 Bank	31 Dec 2016 Bank
Private individuals	29,790	39,762	29,790	39,762
Corporate companies	15,000	20,608	15,000	20,608
Financial auxiliaries and other financial intermediaries	1,304	1,857	1,304	1,857
Loans and advances due from customers	**46,094**	**62,227**	**46,094**	**62,227**
Collective impairment allowance	**(708)**	**(825)**	**(708)**	**(825)**
Loans and advances due from customers, net	**45,386**	**61,402**	**45,386**	**61,402**

Analysis of changes in impairment allowance of the Group and the Bank:

'000 EUR	Allowance
Impairment allowance as of 31 Dec 2016	**825**
Collectively assessed impairment	(8)
Collectively assessed impairment of the financial asset reclassification	(58)
Collectively assessed impairment write-off	(4)
Collectively assessed impairment changes for exchange rate fluctuations	(47)
Impairment allowance as of 31 Dec 2017	**708**

Two loans in the total amount of 7 228 thousand EUR had active restructured status as at 31 December 2017. No provisions have been made for these loans. This is explained mainly by low LTV (Loan-to-Value). One of these loans in the amount of 4 522 thousand EUR is in the process of collateral sale. Bank Management has reasonable confidence that collateral sale will provide opportunity to fully recover the loan due to low LTV level. Six loans in the total amount of 13 403 thousand EUR had active restructured status as at 31 December 2016. Provisions in the total amount of 79 thousand EUR have been made for these loans.

In the tables below estimated 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 2017 Group/Bank				31 Dec 2016 Group/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	29,371	62,348	698	-	30,393	76,855	2,373	1,270
Consumer loans	4,484	8,628	118	-	11,784	34,317	525	-
Reverse repo	1,566	2,984	-	-	6,078	10,425	-	-
Mortgage loans	5,612	15,843	-	-	6,013	20,740	-	-
Other	974	1,959	3,271	1,144	873	957	4,188	868
Loans and advances due from customers	**42,007**	**91,762**	**4,087**	**1,144**	**55,141**	**143,294**	**7,086**	**2,138**
Impairment allowance	**(362)**	**-**	**(346)**	**-**	**(390)**	**-**	**(435)**	**-**
Loans and advances due from customers, net	**41,645**	**91,762**	**3,741**	**1,144**	**54,751**	**143,294**	**6,651**	**2,138**

Geographical analysis of the loan portfolio

'000 EUR	31 Dec 2017 Group	31 Dec 2016 Group	31 Dec 2017 Bank	31 Dec 2016 Bank
Loans and advances due from customers				
Russia	26,931	38,628	26,931	38,628
OECD countries	12,844	6,499	12,844	6,499
Latvia	158	3,623	158	3,623
Other countries*	6,161	13,477	6,161	13,477
Total loans and advances due from customers	**46,094**	**62,227**	**46,094**	**62,227**
Impairment allowance				
Russia	(323)	(406)	(323)	(406)
OECD countries	(45)	-	(45)	-
Other countries	(340)	(419)	(340)	(419)
Total impairment allowance	**(708)**	**(825)**	**(708)**	**(825)**
Loans and advances due from customers, net	**45,386**	**61,402**	**45,386**	**61,402**

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

Geographic split of borrowers' credit risk is based on the country of origin of their projected cash flows used for loan repayment.

Significant credit exposures

As of 31 December 2017 and 2016, the Group and Bank had no customers, whose balances exceeded 10% of loans to customers.
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 2017 and 2016 the Group was in compliance with this requirement.

17. Available-for-sale financial assets

’000 EUR	31 Dec 2017 Group	31 Dec 2016 Group	31 Dec 2017 Bank	31 Dec 2016 Bank
Debt and other fixed-income instruments				
Government and municipal bonds				
Latvia	2,380	4,673	2,380	4,673
European Union	8,052	9,606	8,052	9,606
Other countries	2,494	-	2,494	-
Total government and municipal bonds	**12,926**	**14,279**	**12,926**	**14,279**
Financial authorities and institutions bonds				
Latvia	1,149	724	1,149	724
European Union	1,210	5,774	1,210	5,774
Total Financial authorities and institutions bonds	**2,359**	**6,498**	**2,359**	**6,498**
Corporate bonds				
European Union and EEA	2,199	1,696	2,199	1,696
Latvia	1,109	-	1,109	-
Other countries	1,755	1,508	1,755	1,508
Total corporate bonds	**5,063**	**3,204**	**5,063**	**3,204**
Total debt and other fixed-income instruments	**20,348**	**23,981**	**20,348**	**23,981**
Non-fixed income investments				
Investment funds and shares	724	216	724	**216**
Total non-fixed income investments	**724**	**216**	**724**	**216**
Total Available-for-sale financial assets	**21,072**	**24,197**	**21,072**	**24,197**

Geographical allocation is based on countries of principal entities.
One of the alternative Investment Funds, in which Bank had invested, stopped calculation of its net asset value as at 30 November 2016. Bank was informed about this fact during February 2017. Afterwards Bank received information that Fund started liquidation process. Therefore no information about its net asset value was available as at 31 December 2016 and 31 December 2017. Bank decreased this Investment value to zero (decrease of 544 TEUR) as at 31 December 2016.

Available-for-sale financial assets quality analysis:

’000 EUR	31 Dec 2017 Group	31 Dec 2016 Group	31 Dec 2017 Bank	31 Dec 2016 Bank
Debt and other fixed-income instruments				
Government and municipal bonds[1]				
Rated from AAA- to A-	10,774	11,281	10,774	11,281
Rated from BBB- to BBB+	1,093	1,885	1,093	1,885
Rated from BB- to BB+	1,059	1,113	1,059	1,113
Total government and municipal bonds	**12,926**	**14,279**	**12,926**	**14,279**
Financial authorities and institutions bonds				
Rated from AAA to AA-	1,009	5,774	1,009	5,774
Rated not below B-	1,350	724	1,350	724
Total Financial authorities and institutions bonds	**2,359**	**6,498**	**2,359**	**6,498**
Corporate bonds				
Rated from BB- to BB+	974	542	974	542
Rated from B+ and below	972	1,705	972	1,705
Not rated	3,117[2]	957	3,117[2]	957
Total corporate bonds	**5,063**	**3 204**	**5,063**	**3 204**
Total debt and other fixed-income instruments	**20,348**	**23,981**	**20,348**	**23,981**
Non-fixed income investments	**724**	**216**	**724**	**216**
Total Available-for-sale financial assets	**21,072**	**24,197**	**21,072**	**24,197**

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. For 7 issuers with total investment amount of EUR 2’664 thousand, there were no past due payments or indications of impairment. For 2 issuers with total investment amount of EUR 453 thousand, indications of impairment were identified. For these issuers, calculations of recoverable value showed that the investments were recoverable. For 1 issuer, impairment was recognised in the amount of the investment.

18. Held-to-maturity investments

’000 EUR	31 Dec 2017 Group	31 Dec 2016 Group	31 Dec 2017 Bank	31 Dec 2016 Bank
Debt and other fixed-income instruments				
Government and municipal bonds				
Latvia	-	971	-	971
European Union	9,630	16,017	9,630	16,017
Total government and municipal bonds	**9,630**	**16,988**	**9,630**	**16,988**
Financial institutions and corporate bonds				
European Union and EEA	77	513	77	513
Other countries	-	1,342	-	1,342
Total financial institutions and corporate bonds	**77**	**1,855**	**77**	**1,855**
Total debt and other fixed-income instruments	**9,707**	**18,843**	**9,707**	**18,843**

Geographical allocation is based on countries of principal entities.

Held-to-maturity investments quality analysis:

'000 EUR	31 Dec 2017 Group	31 Dec 2016 Group	31 Dec 2017 Bank	31 Dec 2016 Bank
Debt and other fixed-income instruments				
Government and municipal bonds[1]				
Rated from AAA- to AAA+	2,091	6,657	2,091	6,657
Rated from AA- to AA+	3,330	-	3,330	-
Rated A- and above	524	5,492	524	5,492
Rated from BBB- to BBB+	3,685	4,839	3,685	4,839
Total government and municipal bonds	**9,630**	**16,988**	**9,630**	**16,988**
Financial institutions and corporate bonds				
Rated from BB- to BB+	-	474	-	474
Rated B+ and below	-	868	-	868
Not rated	77	513	77	513
Total financial institutions and corporate bonds	**77**	**1,855**	**77**	**1,855**
Total debt and other fixed-income instruments	**9,707**	**18,843**	**9,707**	**18,843**

1. Held-to-maturity investments are classified by average credit rating from three international rating agencies: Moody's Investors Service, Standard & Poor's, Fitch Ratings.

19. Investment in subsidiary

Investments in subsidiary by the Bank's

'000 EUR	31 Dec 2017	31 Dec 2016
Investments in Signet Asset Management Latvia IPAS	1,874	1,874

	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 2017	100 %
31 December 2016	100 %

Financial position of the subsidiary

'000 EUR	As at 31 Dec 2017	As at 31 Dec 2016
Non-current assets	3	2
Current assets	1,494	1,510
Current liabilities	(34)	(26)
Net assets	1,463	**1,486**
Group share in net assets	**100 %**	**100 %**
	2017	**2016**
Income	**302**	266
Expenses	**(236)**	(236)
Income tax	**(90)**	(5)
Profit or loss	**(24)**	**25**
Group share in profit or loss	**100%**	**100%**
Impairment of investment in subsidiary	**(582)**	-
Carrying amount	**1,292**	**1,874**

During the year ended 31 December 2017 and 2016 the Group did not receive dividends from investment in subsidiary. Impairment assessment estimate of the investment in the Subsidiary is disclosed in Note 22.

19. Investment in subsidiary (continued)

In 2013 the Bank invested EUR 1 874 thousand in a subsidiary Signet Asset Management Latvia IPAS (formerly M2M Asset Management) which as at December 31 2017 had the net asset value of EUR 1 463 thousand.

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.

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 11.50%. The Bank applied terminal growth rate of 2%.

Bearing in mind overall uncertainty of business environment in Latvian banking sector following the events mentioned in Note 36, and in order to be consistent with 100% goodwill write-off in the Group, the Bank used a conservative future growth forecast of commission fee income for the investment with the annual growth rate in the range up to 5%. As a result, the Bank recognised impairment of the Bank's investment in subsidiary in amount of EUR 582 thousand.

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

20. Investment in associate

In 2016, the Bank invested in the established investment company's SIA "LS Medical Property" share capital of EUR 544 thousand with the participation of 32% with the intention to sell it within one year, respectively, the investment is classified as held for sale. In 2017, the Bank increased the amount of investment by EUR 128 thousand without changing the amount of the participation. As Bank did not sell the investment during 2017 the investment is reclassified from Assets held for sale to the Investment in associate. The Bank still has its initial intention to sell the asset. 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.

'000 EUR	31 Dec 2017	31 Dec 2016
Investments SIA "LS Medical Property"	672	544

	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 2017	32 %
31 December 2016	32 %

Financial position of the associate

'000 EUR	As at 31 Dec 2017	As at 31 Dec 2016
Non-current assets	1,726	1,523
Current assets	378	175
Current liabilities	(4)	(1)
Net assets	**2,100**	**1,697**
Bank share in net assets	**32 %**	**32 %**
'000 EUR	**2017**	**2016**
Expenses	(117)	(3)
Loss	**(117)**	**(3)**
Bank share in loss	**32%**	**32%**
Carrying amount	**635**	**544**

Management decided to postpone the sale of the investment due to the fact that at the current stage of the project profit from disposing the investment would be lower than the future, when it will be possible to fully realize projected internal rate of return on this investment. Management expects to exit the investment in 12-24 months, when construction of the clinic will be well underway. Since the dalay was not caused solely by events or circumstances beyond the Bank's control the management made reclassification to investments in associate category. The balances of the comparative period have been restated accordingly. The restatement did not impact net assets or the statement of comprehensive income.

20. Investment in associate (continued)

Impact of the restatement on the Group's consolidated and Bank's separate statement of financial position as at December 31, 2016 is as follows:

‘000 EUR	Previously reported	Adjustment	Restated
Assets			
Investments in associate	-	544	544
Non-current assets and disposal groups classified as held for sale	544	(544)	-

Impact of the restatement on the Group's consolidated and Bank's separate cash flow statement for 2016 is as follows:

‘000 EUR	Previously reported	Adjustment	Restated
Cash flow from investing activities			
Investment in associate	-	(544)	(544)
Assets held for sale (purchase)	(544)	544	-
Net cash flow from (used in) investing activities	**(544)**	**-**	**(544)**

21. Property and equipment

Group '000 EUR	Leasehold improvements	Other	Total
Cost			
At 1 January 2017	2,330	1,361	3,691
Additions	-	152	152
Writen off	-	(1)	(1)
At 31 December 2017	**2,330**	**1,512**	**3,842**
Depreciation			
At 1 January 2017	714	810	1,524
Depreciation charge	143	181	324
Writen off	-	(1)	(1)
At 31 December 2017	**857**	**990**	**1,847**
Carrying value			
At 31 December 2017	**1,473**	**522**	**1,995**
Cost			
At 1 January 2016	2,330	1,181	3,511
Additions	-	180	180
At 31 December 2016	**2,330**	**1,361**	**3,691**
Depreciation			
At 1 January 2016	571	590	1,161
Depreciation charge	143	220	363
At 31 December 2016	**714**	**810**	**1,524**
Carrying value			
At 31 December 2016	**1,616**	**551**	**2,167**
At 31 December 2015	1,759	591	2,350

Banka '000 EUR	Leasehold improvements	Other	Total
Cost			
At 1 January 2017	2,330	1,328	3,658
Additions	-	151	151
Writen off	-	(1)	(1)
At 31 December 2017	**2,330**	**1,478**	**3,808**
Depreciation			
At 1 January 2017	714	780	1,494
Depreciation charge	143	180	323
Writen off	-	(1)	(1)
At 31 December 2017	**857**	**959**	**1,816**
Carrying value			
At 31 December 2017	**1,473**	**519**	**1,992**
Cost			
At 1 January 2016	2,330	1,148	3,478
Additions	-	180	180
At 31 December 2016	**2,330**	**1,328**	**3,658**
Depreciation			
At 1 January 2016	571	563	1,134
Depreciation charge	143	217	360
At 31 December 2016	**714**	**780**	**1,494**
Carrying value			
At 31 December 2016	**1,616**	**548**	**2,164**
At 31 December 2015	1,759	585	2,344

22. Goodwill and other intangible assets

Group '000 EUR	Goodwill	Software	Other	Total
Cost				
At 1 January 2017	788	540	197	1,525
Additions	-	85	22	107
Goodwill write-off	(788)	-	-	(788)
At 31 December 2017	**-**	**625**	**219**	**844**
Amortisation				
At 1 January 2017	-	305	85	390
Amortisation charge	-	72	69	141
At 31 December 2017	**-**	**377**	**154**	**531**
Carrying value				
At 31 December 2017	**-**	**248**	**65**	**313**
Cost				
At 1 January 2016	788	488	170	1,446
Additions	-	52	27	79
At 31 December 2016	**788**	**540**	**197**	**1,525**
Amortisation				
At 1 January 2016	-	199	68	267
Amortisation charge	-	106	17	123
At 31 December 2016	**-**	**305**	**85**	**390**
Carrying value				
At 31 December 2016	**788**	**235**	**112**	**1,135**
At 31 December 2015	788	289	102	1,179

Bank '000 EUR	Software	Other	Total
Cost			
At 1 January 2017	540	196	736
Additions	85	22	107
At 31 December 2017	**625**	**218**	**843**
Amortisation			
At 1 January 2017	305	85	390
Amortisation charge	72	68	140
At 31 December 2017	**377**	**153**	**530**
Carrying value			
At 31 December 2017	**248**	**65**	**313**
Cost			
At 1 January 2016	488	170	658
Additions	52	26	78
At 31 December 2016	**540**	**196**	**736**
Amortisation			
At 1 January 2016	199	68	267
Amortisation charge	106	17	123
At 31 December 2016	**305**	**85**	**390**
Carrying value			
At 31 December 2016	**235**	**111**	**346**
At 31 December 2015	289	102	391

Bearing in mind overall uncertanty of business environment in Latvian banking sector following the events mentioned in Note 36, the Group recognized 100% impairment of goodwill that arose from the acquisition of the Subsidiary in 2013. The Group still considers that Signet Asset Management Latvia IPAS is a significant business line having sustainable growth prospects for development.

23. Other assets

'000 EUR	31 Dec 2017 Group	31 Dec 2016 Group	31 Dec 2017 Bank	31 Dec 2016 Bank
Other financial assets				
Settlement of payment cards	523	1,037	523	1,037
Other financial assets	**523**	**1,037**	**523**	**1,037**
Other non-financial assets				
Accrued income	159	170	134	139
Prepayments	143	574	143	553
Settlement of tax	22	43	17	43
Other	44	31	44	29
Impairment allowance	-	(6)	-	(6)
Other non-financial assets	**368**	**812**	**338**	**758**
Total other assets	**891**	**1,849**	**861**	**1,795**

24. Deposits

'000 EUR	31 Dec 2017 Group	31 Dec 2016 Group	31 Dec 2017 Bank	31 Dec 2016 Bank
Current accounts and demand deposits	**119,384**	**92,893**	**120,060**	**93,051**
Private individuals	42,500	31,662	42,500	31,662
Corporates	76,884	61,231	77,560	61,389
Term deposits	**15,730**	**26,753**	**16,345**	**27,793**
Private individuals	8,126	11,629	8,126	11,629
Corporates	7,604	15,124	8,219	16,164
Total current accounts and demand deposits	**135,114**	**119,646**	**136,405**	**120,844**

Geographical analysis of the deposits

'000 EUR	31 Dec 2017 Group	31 Dec 2016 Group	31 Dec 2017 Bank	31 Dec 2016 Bank
Current accounts and demand deposits	**119,384**	**92,893**	**120,060**	**93,051**
OECD countries	72,913	66,052	72,913	66,052
Russia	27,230	20,337	27,230	20,337
Latvia	10,205	4,862	10,881	5,020
Other countries	9,036	1,642	9,036	1,642
Term deposits	**15,730**	**26,753**	**16,345**	**27,793**
Latvia	5,778	5,710	6,393	6,750
OECD countries	6,018	12,226	6,018	12,226
Russia	1,543	3,917	1,543	3,917
Other countries	2,391	4,900	2,391	4,900
Total current accounts and demand deposits	**135,114**	**119,646**	**136,405**	**120,844**

Concentrations of current accounts and customer deposits

As of 31 December 2017, the Group and Bank had one customer, whose balance exceeded 10% of total customer accounts. The value of this balance was EUR 15 240 thousand.
As of 31 December 2016, the Group had no customers, whose balances exceeded 10% of total customer accounts.

25. Subordinated liabilities

'000 EUR	31 Dec 2017 Group	31 Dec 2016 Group	31 Dec 2017 Bank	31 Dec 2016 Bank
Subordinated borrowings				
Private individuals	12,468	16,012	12,468	16,012
Corporates	5,022	5,022	5,022	5,022
Total Subordinated borrowings	**17,490**	**21,034**	**17,490**	**21,034**

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	2017 Group	2017 Bank
Balance of subordinated borrowings at 1 January	**21,034**	**21,034**
Proceeds from subordinated borrowings	-	-
Changes from financing cash flows	-	-
Other changes Liability-related		
Interest expense	(1,005)	(1,005)
Interest paid	(509)	(509)
Interest paid in advance	(2,029)	(2,029)
Total liability-related other changes	**(3,544)**	**(3,544)**
Balance of subordinated borrowings at 31 December	**17,490**	**17,490**

Concentrations of subordinated borrowings

As of 31 December 2017 and 2016, 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	
						31.12.2017	31.12.2016
Private individual - non-resident	USD	6,000	5 %	09.12.2014	09.12.2019	5,003	5,692
Corporates - non-resident	EUR	5,000	5.2635 %	24.08.2015	24.08.2020	5,022	5,022

26. Deferred tax asset and liability

In 2017 the Bank and the Group made a one-off tax asset write-off (refer Note 12). According to the new income tax regime, from 1 January 2018 the corporate income tax is payable only on dividend pay-outs (irrespective of profits in the particular period) and certain expenses which for tax purposes are considered earnings distributions. Therefore, undistributed profits will be treated favourably under the new Latvian income tax regime.

Movement in temporary differences during the year ended 31 December 2017 of the Group:

'000 EUR	Net balance 1 January 2017	Recognised in profit or loss	Net balance 31 December 2017	31 December 2017	
				Deferred tax asset	Deferred tax liability
Property and equipment and intangible assets	(69)	69	-	-	-
Impairment of non-financial assets	1	(1)	-	-	-
Tax loss carry-forwards	2,422	(2,422)	-	-	-
Deferred tax assets/ (liabilities) before set-off	**2,354**	**(2,354)**	**-**	**-**	**-**
			Set off of tax	-	-
			Net deferred tax assets	**-**	**-**

Movement in temporary differences during the year ended 31 December 2016 of the Group:

'000 EUR	Net balance 1 January 2016	Recognised in profit or loss	Net balance 31 December 2016	31 December 2016	
				Deferred tax asset	Deferred tax liability
Deferred Holiday Pay and bonuses	46	(46)	-	-	-
Property and equipment and intangible assets	(79)	10	(69)	-	(69)
Impairment of non-financial assets	-	1	1	1	-
Tax loss carry-forwards	1,252	1,170	2,422	2,422	-
Deferred tax assets/ (liabilities) before set-off	**1,219**	**1,135**	**2,354**	**2,423**	**(69)**
			Set off of tax	(69)	69
			Net deferred tax assets	**2,354**	**-**

Movement in temporary differences during the year ended 31 December 2017 of the Bank:

'000 EUR	Net balance 1 January 2017	Recognised in profit or loss	Net balance 31 December 2017	31 December 2017	
				Deferred tax asset	Deferred tax liability
Property and equipment and intangible assets	(67)	67	-	-	-
Impairment of non-financial assets	1	(1)	-	-	-
Tax loss carry-forwards	2,333	(2,333)	-	-	-
Deferred tax assets/ (liabilities) before set-off	**2,267**	**(2,267)**	**-**	**-**	**-**
			Set off of tax	-	-
			Net deferred tax assets	-	-

Movement in temporary differences during the year ended 31 December 2016 of the Bank:

'000 EUR	Net balance 1 January 2016	Recognised in profit or loss	Net balance 31 December 2016	31 December 2016	
				Deferred tax asset	Deferred tax liability
Deferred Holiday Pay and bonuses	43	(43)	-	-	-
Property and equipment and intangible assets	(77)	10	(67)	-	(67)
Impairment of non-financial assets	-	1	1	1	-
Tax loss carry-forwards	1,161	1,172	2,333	2,333	-
Deferred tax assets/ (liabilities) before set-off	**1,127**	**1,140**	**2,267**	**2,334**	**(67)**
			Set off of tax	(67)	67
			Net deferred tax assets	**2,267**	**-**

27. Provisions and contingent liabilities

In the ordinary course of business, the Group and the Bank are subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints, will not have a material adverse effect on the financial statements.

28. Other liabilities

'000 EUR	31 Dec 2017 Group	31 Dec 2016 Group	31 Dec 2017 Bank	31 Dec 2016 Bank
Suspense liabilities and money in transit	474	717	474	717
Accrued expenses	301	727	297	727
Provision for employee vacations	256	220	232	198
Deferred income	159	158	159	155
Other	74	68	158	67
Total other liabilities	**1,264**	**1,890**	**1,320**	**1,864**

29. Share capital

Issued capital and share premium

'000 EUR	31 Dec 2017		31 Dec 2016	
	Number of shares	EUR	Number of shares	EUR
Authorised share capital as of 1 January	459,582	32,170,740	411,724	28,820,680
Issued an fully paid share capital as of 1 January	459,582	32,170,740	411,724	28,820,680
Private placement of shares	-	-	47,858	3,350,060
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 2017 and 31 December 2016 were as follows:

Akcionārs	31 Dec 2017			31 Dec 2016		
	Number of shares	Paid share capital (EUR)	Share capital ownership %	Numbe r of shares	Paid share capital (EUR)	Share capital ownership %
Signet Global Investors Limited	114,896	8,042,720	25.00 %	-	-	-
SIA "Hansalink"	102,487	7,174,090	22.30 %	-	-	-
Arkadiy Perelshtein	45,490	3,184,300	9.90 %	-	-	-
SIA "Fin.lv" *	40,360	2,825,200	8.79 %	-	-	-
Leonid Kaplan	31,200	2,184,000	6.79 %	31,200	2,184,000	6.79%
SIA "DMD Holding"	27,080	1,895,600	5.89 %	27,080	1,895,600	5.89%
Robert Idelson	22,571	1,579,970	4.91 %	22,571	1,579,970	4.91%
Igor Rapoport *	21,664	1,516,480	4.71 %	21,664	1,516,480	4.71%
Tatjana Rapoporta *	21,664	1,516,480	4.71 %	21,664	1,516,480	4.71%
Natalija Petkevicha	16,085	1,125,950	3.50 %	-	-	-
Soloman Rutenberg	16,085	1,125,950	3.50 %	-	-	-
Andrey Vdovin and his family	-	-	-	335,403	23,478,210	72.98%
Total	**459,582**	**32,170,740**	**100 %**	**459,582**	**32,170,740**	**100 %**

* Joint control with a shareholding of 18.21%.

20.09.2017. The European Central Bank (ECB) and the Financial and Capital Markets Commission (FCMC) have granted permission to acquire majority shareholding in the Bank to a group of new shareholders – Signet Global Investors Ltd, SIA Hansalink and SIA Fin.lv.
Following the signing of the share purchase agreement in May 2017, all shares owned by the previous Bank majority shareholder Andrey Vdovin and his family were sold.

Reserves

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

30. Operating leases

Operating lease rentals are payable as follows:

'000 EUR	31 Dec 2017 Group	31 Dec 2016 Group	31 Dec 2017 Bank	31 Dec 2016 Bank
Less than one year	142	139	142	139
Between one and five years	566	555	566	555
More than five years	755	878	755	878
Total operating leases	**1,463**	**1,572**	**1,463**	**1,572**

The Bank leases its headquarters under operating lease. The lease runs for an initial period of fifteen years, with an option to renew the lease after that date. Lease payments are fixed. None of the leases includes contingent rentals.
During the current year EUR 142 thousand was recognised as an expense in the profit or loss statement in respect of operating leases (2016: EUR 139 thousand).

31. Assets under management

Asset management services

The Group through its Subsidiary provides asset management services to individuals and institutions. The Group receives management fee for providing these services. The assets under management of the Subsidiary are not included in neither the consolidated and nor separate statement of financial position.
As of 31 December 2017 the Group had EUR 140.25 million (2016: EUR 161.09 million) assets under management of which the Bank held EUR 82.49 million (2016: EUR : 101.27 million) and the Subsidiary held EUR 57.76 million (2016: EUR 59.82 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 2017 the total amount in custody on behalf of customers was EUR 150.09 million (31 December 2016: EUR 164.79 million).

32. Related party transactions

Transactions with members of the Key Management Personnel

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

'000 EUR	2017 Group	2016 Group	2017 Bank	2016 Bank
Remuneration to the Key Management Personnel	629	658	542	549

The outstanding balances as of 31 December 2017 and 31 December 2016 with members of the Key Management Personnel are as follows:

'000 EUR	31 Dec 2017 '000 EUR	31 Dec 2016 '000 EUR
Statement of financial position		
Assets		
Other assets	55	68
Liabilities		
Current accounts	35	115

Transactions with related parties of the Bank

The outstanding balances as of 31 December 2017 and as of 31 December 2016 and related profit or loss amounts of transactions for the year ended 31 December 2017 and 31 December 2016 with other related parties are as follows.

'000 EUR	2017					2016			
	Subsidiary company	Associate company	Share-holders*	Other	Total	Subsidiary company	Share-holders	Other	Total
Statement of financial position									
Assets									
Balances due from financial institutions	-	-	-	-	**-**	-	-	23	**23**
Available-for-sale financial assets	-	-	-	300	**300**	-	-	-	**-**
Loans to customers	-	-	-	127	**127**	-	1,097	36	**1,133**
Total assets	**-**	**-**	**-**	**427**	**427**	**-**	**1,097**	**59**	**1,156**
Liabilities									
Current accounts and deposits due to customers	1,292	247	6	1,917	**3,462**	1,198	106	652	**1,956**
Total liabilities	**1,292**	**247**	**6**	**1,917**	**3,462**	**1,198**	**106**	**652**	**1,956**
Income/(expenses)									
Fee and commission income	93	14	2	22	**131**	3	3	10	**16**
Interest income/(expenses)	(12)	-	34	112	**134**	(12)	48	15	**51**
Trade and financial instruments revaluation	-	-	-	-	**-**	-	5	-	**5**

* with a shareholding of over 10%

In 2017 2 unsecured loans issued to two of the Bank's shareholders were fully repaid. 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.

33. Financial assets pledged

'000 EUR	2017 Group	2016 Group	2017 Bank	2016 Bank
Short term deposits with credit institutions	1	546	1	546
Other deposits with financial institutions	949	548	949	548
Held-to-maturity investments *	-	10,695	-	10,695
Financial assets available for sale *	-	3,217	-	3,217
Total financial assets pledged	**950**	**15,006**	**950**	**15,006**
Total liabilities secured by pledged financial assets *	**-**	**12,500**	**-**	**12,500**

*Pledged due to central bank of Latvia

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

34. 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. The amounts reflected in the table for guarantees represent the maximum credit exposure that would be recognised at the reporting date if counterparties failed completely to perform as contracted. The total outstanding contractual commitments to extend credit indicated above does not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

'000 EUR	31 Dec 2017 Group	31 Dec 2016 Group	31 Dec 2017 Bank	31 Dec 2016 Bank
Contracted amount				
Loan commitments	1,977	5,000	1,977	5,000
Outstanding guarantees	-	2,846	-	2,846
Unutilised credit line	1	1,343	1	1,343
Undrawn overdraft facilities	609	616	609	616
Total commitments and guarantees	**2,587**	**9,805**	**2,587**	**9,805**

35. 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.

2017	Level 1 '000 EUR	Level 2 '000 EUR	Level 3 '000 EUR	Total '000 EUR
Financial assets				
Financial assets at fair value through profit or loss	344	948	-	1,292
Available for sale instruments*	19,712	-	1,360	21,072
	20,056	**948**	**1,360**	**22,364**
Financial liabilities				
Financial liabilities at fair value through profit or loss	-	304	-	304
	-	**304**	**-**	**304**
2016				
Financial assets				
Financial assets at fair value through profit or loss	526	2,361	-	2,887
Available for sale instruments	22,324	-	1,873	24,197
	22,850	**2,361**	**1,873**	**27,084**
Financial liabilities				
Financial liabilities at fair value through profit or loss	-	1,522	-	1,522
	-	**1,522**	**-**	**1,522**

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.

'000 EUR	Financial assets at fair value through profit or loss	Available for sale instruments	Total
2017			
Balance at 1 Jan 2017	**-**	**1,873**	**1,873**
Total gains and losses:			
in profit or loss	-	125	125
in OCI	-	(178)	(178)
Purchases	-	7,939	7,939
Settlements	-	(8,080)	(8,080)
Reclassified to Level 1		(319)	(319)
Balance at 31 Dec 2017	**-**	**1,360**	**1,360**
2016			
Balance at 1 Jan 2016	**85**	**6,254**	**6,339**
Total gains and losses:			
in profit or loss	(59)	(69)	(128)
in OCI	-	(167)	(167)
Reclassified form Held to maturity financial instruments		992	992
Purchases	-	5,160	5,160
Settlements	(26)	(10, 297)	(10,323)
Balance at 31 Dec 2016	**-**	**1,873**	**1,873**

35. 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	Financial assets at fair value through profit or loss	Available for sale instruments	Total
2017			
Total gains and losses included in profit or loss:	**-**	**(450)**	**(450)**
Net realised gain on available-for-sale instruments	-	125	125
Impairment loss on available-for-sale instruments		(575)	(575)
Total losses recognised in other comprehensive income	**-**	**(178)**	**(178)**
Available-for-sale financial assets – net change in fair value	-	(178)	(178)
2016			
Total gains and losses included in profit or loss:	**(59)**	**(98)**	**(157)**
Net gain on financial instruments at fair value through profit or loss	(59)	-	**(59)**
Net realised gain on available-for-sale instruments	-	(98)	(98)
Total losses recognised in other comprehensive income	**-**	**(167)**	**(167)**
Available-for-sale financial assets – net change in fair value	-	(167)	(167)

The Group and Bank's available for sale level III portfolio is represented by 1 Investment fund & 6 bond issuers operating in Real estate, Financial, Technology & Offshore Supply Vessel sectors. One bond & One Investment fund were written-off in 2016.
Precise discount rate 0,00% – 10,75% (2016: 0,00%– 18,00%) is an unobservable variable due to low liquidity of these instruments. Thus Bank is assuming that alternative valuations may use a discount rate (4.15% or 10.15%) different by 300 bps.

As of 31 December 2017 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 31.12.2017	**Change of discount rate by – 300 bps**	**Change of discount rate by +300 bps**
1,360	(41)	41

As of 31 December 2016 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 31.12.2016	**Change of discount rate by – 300 bps**	**Change of discount rate by +300 bps**
1,873	(56)	56

35. 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 2017	Level 1 '000 EUR	Level 2 '000 EUR	Level 3 '000 EUR	Total fair values '000 EUR	Total carrying amount '000 EUR
Financial assets					
Cash and due from central banks[1]	-	-	-	23,923	23,923
Balances due from financial institutions[2]	-	-	-	64,790	64,790
Loans and advances due from customers	-	-	45,015	45,015	45,386
Held to maturity instruments	9,707	-	-	9,707	9,707
Other financial assets[3]	-	-	-	523	523
Financial liabilities					
Deposits and balances due to customers	-	-	-	1	1
Deposits	-	-	134,848	134,848	135,114
Subordinated liabilities	-	-	19,772	19,772	17,490
31 December 2016	**Level 1 '000 EUR**	**Level 2 '000 EUR**	**Level 3 '000 EUR**	**Total fair values '000 EUR**	**Total carrying amount '000 EUR**
Financial assets					
Cash and due from central banks[1]	-	-	-	18,195	18,195
Balances due from financial institutions[2]	-	-	-	42,491	42,491
Loans and advances due from customers	-	-	61,693	61,693	61,402
Held to maturity instruments	18,843	-	-	18,843	18,843
Other financial assets[3]	-	-	-	1,037	1,037
Financial liabilities					
Deposits due to central bank	-	-	-	12,500	12,500
Deposits and balances due to customers	-	-	-	37	37
Deposits	-	-	117,688	117,688	119,646
Subordinated liabilities	-	-	21,092	21,092	21,034

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

35. 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 2017	Level 1 '000 EUR	Level 2 '000 EUR	Level 3 '000 EUR	Total fair values '000 EUR	Total carrying amount '000 EUR
Financial assets					
Cash and due from central banks[1]	-	-	-	23,923	23,923
Balances due from financial institutions[2]	-	-	-	64,708	64,708
Loans and advances due from customers	-	-	45,015	45,015	45,386
Held to maturity instruments	9,707	-	-	9,707	9,707
Other financial assets[3]	-	-	-	523	523
Financial liabilities					
Deposits and balances due to customers	-	-	-	1	1
Deposits	-	-	134,923	134,923	136,405
Subordinated liabilities	-	-	19,772	19,772	17,490
31 December 2016	**Level 1 '000 EUR**	**Level 2 '000 EUR**	**Level 3 '000 EUR**	**Total fair values '000 EUR**	**Total carrying amount '000 EUR**
Financial assets					
Cash and due from central banks[1]	-	-	-	18,195	18,195
Balances due from financial institutions[2]	-	-	-	42,321	42,321
Loans and advances due from customers	-	-	61,693	61,693	61,402
Held to maturity instruments	18,843	-	-	18,843	18,843
Other financial assets[3]	-	-	-	1,037	1,037
Financial liabilities					
Deposits due to central bank	-	-	-	12,500	12,500
Deposits and balances due to customers	-	-	-	37	37
Deposits	-	-	118,878	118,878	120,844
Subordinated liabilities	-	-	21,092	21,092	21,034

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

35. Fair value of financial instruments (continued)

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

Veids	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

36. Events subsequent to the reporting date

On 12 February 2018, the U.S. Department of the Treasury's Financial Crimes Enforcement Network ('FinCEN') issued a finding and notice of proposed rulemaking ('NPRM'), pursuant to Section 311 of the USA PATRIOT Act, against one of Latvia's largest banks. On 19 February 2018, following an outflow of funds from this institution, the European Central Bank ('ECB') instructed the local banking regulator to impose a moratorium on outgoing payments from that bank. On 24 February 2018, the process of effectively a wind up of that bank started.

On 17 February 2018, governor of the Central Bank of Latvia was detained by Latvia's anti-corruption authorities ('KNAB') in a bribery-linked allegation case. Both events have an impact on the banking sector in Latvia, and its international reputation.

In this context, the Bank is currently focusing its attention on all relevant aspects of risk management, continuing making enhancements to its internal controls and other activities to develop its business and facilitate efficient detection of any signs of criminal transactions as described in Note 4.

The management of the Group and the Bank is continuously monitoring and assessing the market situation, and potential impact of the above market developments on the Bank and the Group, if any. Based on information available to the management at the date of these financial statements, the management is confident that the measures undertaken so far by the Bank will prove to address adequately any regulatory, compliance and reputational risks arising in the circumstances, and that the operations of the Group and the Bank will not be affected significantly in terms of the supervisory/regulatory aspect.

In response to the above developments, in March, 2018 the Latvian authorities announced their intention to pass legislation prohibiting banks operating in Latvia to service shell companies. In accordance with the the Anti-Money Laundering ('AML/CFT') laws in force at the date of these financial statements, shell companies are generally considered to be companies without real substance as measured by certain criteria set out in law. Shell companies are primarily non-resident, and comprise part of the Bank's portfolio of non-resident customers. The legislation is expected to be passed in April 2018 and could come into force in May 2018. The Latvian authorities also announced their intention to substantially reduce the amount of non-resident deposits in the Latvian banking system.

Also in March 2018, the Bank was in specific discussions with FCMC concerning its strategic directions for the future. FCMC expressed its expectation for the Bank to perform a further review of its exposure to and business with customers who are residents of countries with elevated corruption risks, specifically in Russia and other CIS countries, which may lead to further reduction of this client portfolio.

The immediate and mid-term measures being undertaken by the Bank include the closure of all 81 accounts of shell companies identified as at the reporting date, with 19 accounts irreversibly closed by the date of issuance of these separate and consolidated financial statements, with the remaining shell company accounts to be irreversibly closed, not restructured, within the time frame prescribed by the new legislation, or no later than June 30, 2018, whichever is earlier.

As at 31 December 2017, the accounts in question held 20 582 thousand EUR in deposits, and generated 587 thousand EUR of fee income during 12 months ended 31 December 2017 (15% and 21% of the total deposits of the Bank at 31 December 2017 and fee income of the Bank for 2017, respectively).

36. Events subsequent to the reporting date (continued)

In 2018, through to the date of these separate and consolidated financial statements, the Bank's operations have been stable; the reputational crisis sparked by the developments in the financial market in Latvia has so far had limited impact on the Bank, except reduction of deposits by 37 473 thousand EUR, including 13 122 thousand EUR in respect of closed shell-company accounts as described above. In this period, the ratios for liquidity and capital adequacy have remained well above the regulatory requirement. Please refer to Note 37 below for management's assessment of the Bank and Group as a going concern.

37. Going Concern

a) Assessed effects of the expected amendments to Latvian laws and regulations, and the Bank's response.

As discussed in Note 36 Subsequent events, in March 2018, the government of the Republic of Latvia expressed its intent to strengthen the country's legal and regulatory framework for the banking sector. As part of the above, among other things, amendments are expected to be introduced to the country's anti-money laundering and financial sector legislation during the first half of 2018.

In addition to the above, continuing discussions are being held by market participants with the banking regulator which may result in refocusing and limiting domestic financial institutions' business with international customers, and specifically introducing a prohibition to service companies qualifying as shell companies according to the new AML/CTF law.

In anticipation of the above pending legislative changes, and having evaluated the associated risks, the Bank has conducted a review of its strategy and has had discussions with FCMC, the banking regulator, on potential adjustments to the strategy. As a result, the Bank, within its current strategy of providing capital management services to high-net-worth clients, has initiated further diversification of its deposit and client base away from the clients which pose increased reputational risks for the Bank (generally clients from Russia and other CIS countries). Such diversification will be achieved by (i) targeting markets where the majority shareholders of the Bank have an established presence – UK, Switzerland and Latvia; and (ii) potentially establishing a presence in high-growth markets in Asia. Given the modest size of the Bank's balance sheet, management is convinced that diversification of the client base needed to successfully manage reputational risks will be achieved in a relatively short time frame.

Irrespective of the above measures, the Bank is adopting additional controls over the Bank's relationships with international customers as part of its efforts to strengthen the overall internal control for AML/CTF risks (refer also to Note 4).

b) Effects of the de-risking measures on the Bank's projected future financial performance.

The final results of the Bank's operations in 2017 reflect that 2017 was a year of change for the Bank and the Group. In September, 2017 the changes in the Bank's shareholding structure were completed. The Bank's liquidity and capital adequacy ratios are as planned for the year – liquidity as at 31 December 2017 87% and capital adequacy in as at 31 December 2017 26.61%. Likewise, the developments in the Latvian financial market that took place in February and March 2018 have not so far had a significant impact on the Bank's or the Group's operational indicators or customer behavior.

37. Going Concern (continued)

At the date of approval of these financial statements, the Bank and the Group continue to meet all regulatory ratios. Nevertheless, the Bank plans to develop and implement certain adjustments in the Bank's strategy in 2018 and beyond, with management expecting to complete the preparation of the adjusted strategy no later than August 2018. The Bank plans to continue focusing on providing investment solutions to its clients, simultaneously reducing servicing their day-to-day personal and capital transactions. The Bank expects that potential decrease in revenues from servicing day-to-day personal and capital transactions will be compensated by increasing revenue from investment management products. This will be achieved by further integration of investment management products developed by the Bank's shareholders into the Bank's product offering, providing faster growth of off-balance-sheet investment management business of the Bank and Signet Asset Management Latvia IPAS. Simultaneously, the Bank also plans to diversify and eventually expand its client base, as discussed above.

The Bank expects its total assets in its revised projections to be with little change in comparison with the previously approved budget for 2018 and strategic forecasts for 2019-2020, and does not expect to significantly adjust net interest income in those projections, although it does expect to reduce net fee income.

The Bank has assessed the impact of the closure of accounts of shell companies and gradual reduction in the number of non-resident customers, and has come to the conclusion that the potential loss of deposits and income generated from servicing of these companies will not negatively affect the Bank being able to continue business as a going concern.

As of the date of these financial statement, the process of accounts closure has been ongoing.

In order to offset revenues lost and achieve stable profitability in the new environment, the Bank has also initiated a cost cutting program which it expects will result in a reduction of staff costs and related expenses in 2018. The Bank also does not expect any material change in its major regulatory ratios, and plans to maintain them at the existing levels.

c) Going concern assumption.

The management of the Bank is confident that the activities and measures to be undertaken to adjust the Bank's business model should not have a material impact on its financial or operational stability. Among other things, as discussed above, all relevant statutory core ratios are expected to remain above the required minimum levels.

Nevertheless, the transformation is expected to have some effect on the expense and revenue structure, and lead to a change in some business processes, as outlined above. The change in the customer base will enable the Bank to mitigate its compliance and reputational risks significantly.

Having had regard to the considerations laid out in the preceding paragraphs, these separate and consolidated financial statements were prepared on the going concern basis, and do not include any adjustments that would have been required had the Bank not applied the going concern basis of accounting. Management of the Bank/Group have made certain judgements and assumptions related to future events disclosed above that form the basis for financial plans for 2018 and further years, which have allowed management to conclude that the continued application of the going-concern basis in the preparation of these separate and consolidated financial statements is appropriate.

37. Going Concern (continued)

However, management recognizes that a material uncertainty exists in relation to the future outcomes of these events that may cast to a certain extent doubt on the Bank's and the Group's ability to continue as a going concern. The key sources of this uncertainty include:

- the ability of the Bank and the Group to implement the measures to reduce the regulatory, compliance and reputational risks outlined in paragraph (a) above;
- the ability of the Bank and the Group to implement adjustments to its business model as outlined in paragraph (b) above; and
- while the management is not aware of any ongoing regulatory reviews, an important source of uncertainty remains the risk in the AML/CTF area being now subject to an increased scrutiny (see also Note 4).

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Independent Auditors' Report

To the shareholders of Signet Bank AS (until 26 September 2017, Bank M2M Europe 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 accompanying separate financial statements of Signet Bank AS (previously Bank M2M Europe AS, "the Bank") and the consolidated financial statements of the Bank and its subsidiary (collectively, "the Group"), set out on pages 7 to 83 of the accompanying separate and consolidated Annual Report, which comprise:

- the separate and consolidated statements of financial position as at 31 December 2017,
- the separate and consolidated statements of comprehensive income for the year then ended,
- the separate and consolidated statements of changes in equity for the year then ended,
- the separate and consolidated statements of cash flows for the year then ended, and
- the notes to the separate and consolidated financial statements, which include a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying separate and consolidated financial statements give a true and fair view of the unconsolidated and consolidated financial position of the Bank and the Group, respectively, as at 31 December 2017, and of their respective unconsolidated and consolidated financial performance and their unconsolidated and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for Opinion

Pursuant to 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 *Auditors' Responsibilities for the Audit of the Separate and Consolidated Financial Statements* section of our report.

We are independent of the Bank and the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the 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 the 'Law on Audit Services' of the Republic of Latvia.

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

Material Uncertainty Related to Going Concern

We draw attention to Note 36 of the separate and consolidated financial statements, which describes recent events in the financial sector of the Republic of Latvia. Following these developments, in March 2018, the government of the Republic of Latvia expressed its intent to strengthen the country's legal and regulatory framework for the sector. As part of the above, among other things, amendments are expected to be made to the country's anti-money laundering/ counter-terrorism-financing (AML/CTF) and financial sector legislation during the first six months of 2018, aimed at specifically introducing the prohibition to service so-called shell companies.

In the wake of the facts and circumstances, as also discussed in more detail in Note 37, the Bank has committed to adjusting its business model in order to ensure compliance with the regulators' recommendations and expected future legislative framework. Certain changes to the Bank's strategy are planned to be developed and implemented in 2018 and beyond, with management expecting to complete the preparation of the adjusted strategy no later than August 2018. Certain immediate and medium term measures have been initiated as of the date of this report, including the cessation of business with customers which the Bank considers to meet the shell company criteria as set out in law, and a gradual reduction in reliance on business with non-resident customers. As of the date of this report, the above process has been ongoing.

In preparing the accompanying separate and consolidated financial statements, management made a number significant judgements and assumptions related to future events, as also disclosed Note 36, that allowed them to conclude on the appropriateness of the application of the going concern basis in the preparation of these separate and consolidated financial statements. Nevertheless, the Bank's and the Group's continuing operations as a going concern depend, among other things, on the timely implementation of the above-mentioned measures, the Bank's and the Group's ability to demonstrate the practical viability of the adjusted business model, and also on their ability to properly respond to the challenges and risks specific to their business model, including primarily the AML/CTF compliance aspects.

As stated in Note 37, these events and conditions, along with other matters as set forth in that Note, indicate that a material uncertainty exists that may cast significant doubt on the Bank's, and the Group's, ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

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

In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Impairment of loans (separate and consolidated financial statements)	
Key audit matter	***Our response***
The gross amount of loans in the consolidated and separate financial statements as at 31 December 2017: EUR 46 094 thousand; reversal of the impairment loss in 2017: EUR 70 thousand; total impairment loss as at 31 December 2017: EUR 708 thousand. *We refer to the separate and consolidated financial statements: Note 3 j) (i) (accounting policy) and Notes 4 f) and 16 (financial disclosures).* We identified this area as a key audit matter during our audit because recognition of allowances for loan impairment is associated with significant estimation uncertainty as it requires the management to exercise significant judgment and develop complex assumptions about both the timing of recognition and the amounts of any such impairment. As required by the relevant financial reporting standards, the Bank and the Group perform the assessment both at the level of individual loan exposures and on a collective basis. Specific impairment allowances recognized by the Bank relate to individually monitored exposures. The assessment is therefore based on the knowledge about each individual borrower and in some cases on estimation of the fair value of the related collateral (primarily represented by real estate). Collective allowances are related to specific homogeneous categories of loan exposures and reflect losses that have been incurred but are not yet identifiable on an individual exposure level. Collective impairment is determined by using qualitative and quantitative indicators, such as loan-to-value ratio, or the borrower's geography.	Our audit procedures included, among others: • Performing substantive audit procedures over the approval, recording and monitoring of loans, including, but not limited to, those relating to the identification of loss events, appropriateness of classification of the exposure into performing and non-performing, calculation of the impairment allowances and collateral valuation estimates. • For a sample of loans with higher risk characteristics, such as individually significant exposures to related borrower groups, watchlisted and/or restructured exposures or loans to borrowers in foreign jurisdictions, as well as exposures with delayed repayments, critically assessing, by reference to the underlying loan files, and through inquiries of responsible loan officers, the existence of any impairment triggers; • Where impairment triggers had been identified, making inquiries of the responsible loan officers to corroborate their forecasts of future cash flows used in the assessment of the loan impairment, evaluating key assumptions applied, such as discount rates, collateral values (assisted by our own valuation specialists), forecasted business performance as well as, where applicable, collateral selling costs and sales periods. Based on the above procedures, developing our estimate of the given loan's recoverable values and comparing it to the Bank's estimate, seeking explanations for any significant differences; • Testing the accuracy of inputs used in collective impairment assessment and evaluating key assumptions applied, such as loan-to-value ratio, or the borrower's geography; • Critically assessing the overall reasonableness of the impairment allowances, including both the share of the gross non-performing exposures in total gross exposures and the non-performing loans provision coverage;

<table>
<tr><td></td><td>Assessing the accuracy and completeness of the financial instruments disclosures, specifically in respect of the loans category, including disclosures regarding the related impairment, against the requirements of the relevant financial reporting standards.</td></tr>
<tr><td colspan="2">Impairment of investment in the subsidiary and impairment of the related goodwill (separate and consolidated financial statements)</td></tr>
<tr><td>Key audit matter</td><td>Our response</td></tr>
<tr><td>The gross amount of investments in subsidiary in the separate financial statements as at 31 December 2017: EUR 1 874 thousand; related impairment loss recognised in 2017: EUR 582 thousand; total impairment loss as at 31 December 2017: EUR 582 thousand.

The gross amount of related goodwill (acquisition of the subsidiary) in the consolidated financial statements as at 31 December 2017: EUR 788 thousand; related impairment loss recognised in 2017: EUR 788 thousand; total impairment loss as at 31 December 2017: EUR 788 thousand.

We refer to the financial statements: Note 3 a) (i) and (iv) (accounting policy), Note 19 and 22 (financial disclosures).

The Bank’s only subsidiary, Signet Asset Management Latvia IPAS, which provides asset management services to its customers, was acquired by the Bank on 11 November 2013.

At the end of each reporting period, management assesses whether there are any indications that its investment in the subsidiary, or the related goodwill, may be impaired, such as, among other things, significant current losses, negative equity or below-budget performance. When such indications are identified, the Bank estimates the recoverable amount of the investment and of the cash-generating unit to which the related goodwill was allocated (“goodwill GGU”), by identifying the higher of their value-in-use or fair value less cost to sell, using internal models based on distributable dividend growth model.</td><td>Our procedures included, among others:
Evaluating the reasonableness of the Management Board’s judgments as to the existence of impairment indicators, and consequently, the requirement to perform related impairment tests. This included, but was not limited to, discussing the subsidiary’s performance with the Bank’s finance function officers, and assessing its strategy and historical profitability against past forecasts;
Once impairment indicators were identified, assessing the Management Board’s assumptions and estimates, applied to determine the investment’s and goodwill CGU’s respective recoverable amounts. Our assessment covered, among other things:
evaluating the appropriateness of the impairment models used for the assets in question against the requirements of the relevant financial reporting standards and testing those models’ mathematical accuracy and integrity;
assisted by our own valuation specialists, challenging the reasonableness of the key assumptions applied, such as, among other things, growth rates, by reference to the subsidiary’s historical performance, management plans and forecasts and via corroborating inquiries of the management; and discount rates by reference to the risk free rate, industry beta, market risk premium, and alfa component;</td></tr>
</table>

The determination of the recoverable amount of investments in the subsidiary, and of the related goodwill, as discussed above, is a process that requires the Management Board to make subjective judgements, including those in respect of future operating cash flows, growth rates and discount rates. Due to the circumstances described above, we assessed the impairment of investment in the subsidiary, and of the related goodwill, to be a key audit matter.	○ evaluating the reliability of the Bank's and the Group's forecasts by comparing actual performance against previous forecasts. • Performing an independent sensitivity analysis of impairment tests' results to changes in key assumptions, such as, primarily, growth and discount rates. • Considering the adequacy of the Bank's and the Group's disclosures related to the assumptions and significant judgements used in estimating the recoverable amounts of investment in the subsidiary (the Bank), and the related goodwill (the Group).

Reporting on Other Information

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

- the Management Report, as set out on pages 3 to 4 of the Annual Report,
- the Composition of the Supervisory Council and Management Board section, as set out on page 5 of the Annual Report, and
- the Statement of Management Responsibility, as set out on page 6 of the Annual Report.

Our opinion on the separate and consolidated financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon, except as explicitly stated in the *Other Reporting Responsibilities in Accordance with the Legislation of the Republic of Latvia* 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 Bank, the Group and their environment obtained, 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

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's Regulation No. 46 'Regulations on the Preparation of 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 of the separate and consolidated financial statements, 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 Regulation No. 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 IFRSs as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing 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.

Auditors' 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these 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 auditors' 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 auditors' 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

Report on Other Legal and Regulatory Requirements

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

We were appointed by the annual shareholders' meeting on 7 November 2017 to audit the separate and consolidated financial statements of Signet Bank AS for the year ended 31 December 2017. Our total uninterrupted period of engagement is 5 years, covering the years ended 31 December 2013 to 31 December 2017.

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 the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia, we have not provided to the Regulation (EU) No 537/2014. We also remained independent of the audited entity (the Bank) and the Group in conducting the audit.

For the period to which our statutory audit relates, in addition to the audit, we have not provided any services to the Bank and the Group and their controlled entities which are not disclosed in the Management Report or in the separate and consolidated financial statements of the Bank and the Group, respectively.

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Ondrej Fikrle
Partner pp KPMG Baltics SIA
Riga, Latvia
24 April 2018

Inna Talanova
Sworn auditor
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