Signet Bank AS Annual report **for year ended 31 December 2018**

SIGNET

PRIVATE BANK

Content

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Management report on the Group and the Bank's operations during 2018

2018 was a challenging year for Latvian banking sector and also for Signet Bank AS. Central event without a doubt was FinCEN announcement in February 2018 dedicating ABLV Bank as prime money laundering concern. This announcement brought fast and important changes to the Latvian banking sector. Soon ABLV Bank went into self-liquidation, while regulator initiated major review of the business models of local banks focused on servicing international clients. Important changes to the local anti-money laundering and countering financing of terrorism (AML/CFT) legislation were passed in spring and came into effect during the summer – most notably prohibition to service shell companies. During the summer banks submitted to the regulator their adjusted business models and before the end of the year regulator announced that it completed review of these new business models and will closely monitor execution of those in the coming quarters.

Most of Latvian banks focused on servicing international clients faced similar trends – declining balance sheets and revenue streams due to elimination of business lines related to servicing international payments; cost-cutting programs; re-focus of their products offerings and clients propositions. No doubts that this was very difficult year for most of these 12 banks.

We at Signet Bank were relatively less affected by these events. As the Bank's business model was (and still remains) focused on servicing limited number of HNW clients and businesses owned by such clients, the Bank was never involved in payments servicing business and had very limited number of clients from traditional off-shore jurisdictions. Due to changes in the legislation the Bank has closed just 88 accounts. Our core product line is still built around servicing capital of our HNW clients, with main focus on investment management and club deals which syndicate funding for debt and private equity transactions.

As a result, our net fee income actually increased in 2018 compared to 2017 by 31% (from 2.59m EUR to 3.4m EUR). Clients deposits have decreased by 32m EUR (-21%), however that was well compensated by growth in Assets under Management and Administration („AUMA") from 290m EUR to 504m EUR. Total amount of clients funds serviced by the group has increased from 443m EUR to 624m EUR (+41%).

Group's increase in fee revenue was overshadowed by 10% decrease in net interest income (down from 3.73m EUR in 2017 to 3.38m EUR in 2018). This was due to decrease in size of loan portfolio as Bank has decreased exposure to loans bearing Russian and other CIS countries risks, with some of this exposure being replaced by new loans in European Union. Overall, operating income in 2018 was by 5% higher than in 2017 (7.62m EUR in 2018 compared to 7.25m EUR in 2017).

Events in the Latvian banking sector opened new opportunities for the Bank. Historically, the Bank was subject to regulatory restriction of doing business with local clients, whereby such business was limited to 20% of the balance sheet. This restriction was lifted by the regulator in October, which allowed for substantial growth in business with clients-Latvian tax residents – as of the end of 2018 local clients deposits constituted 45% of the total deposit base of the Bank.

This increase in the local client base was facilitated by changes in the Latvian banking landscape, when internationally owned banks operating in Latvia took more cautious approach to issuing new loans and servicing local clients, which resulted in deterioration in service quality and overall clients' experience in interaction with these banks. Due to this change in the market situation, the Bank sees even wider window of opportunity to capture larger market share in the local market in the coming years.

Administrative costs were under control, whereby additional investments in AML/CFT infrastructure, additional front-line personnel to capture new opportunities offered by the situation in the Latvian banking sector as well as increased professional fees were compensated by cost-cutting program initiated by the Bank in April. As a result, administrative costs have not increased in 2018.

Overall financial result before income tax for 2018 was a profit of 84 thousand EUR (compared to 1.58m EUR loss in 2017). The Bank's basic profit per share of EUR 0.4 (2017: EUR 3.04 loss).

Group maintained very conservative risk profile – CAR stood at 31.05% in the end of 2018 (26.9% in the end of 2017), while liquidity ratio was 97.01% (87.82% in the end of 2017). In 2019 we plan to put more capital at work, mostly through growing loan portfolio in the local market.

Without a doubt, events of last year have caused severe reputational damage to Latvian banking sector, however we welcome regulatory changes and major change of business models of most of the local banks, and believe these changes will inevitably lead to restoring international reputation of most of the Latvian banks. We always believed that banking business models based on servicing business flows originating in CIS countries are not sustainable, and as a result the Bank emerged relatively unscratched from the events of 2018. We are convinced that joint effort of the Latvian regulator, banking community, government and law enforcement agencies will pave the way for Latvia to become an international example of achieving highest AML/CFT standards and cleaning up of its financial sector.

At the moment Latvian banking sector is formed by three clusters: (i) internationally owned universal banks, (ii) locally owned banks (including Signet Bank), and (iii) banks owned by Russian and Ukrainian investors. We believe second cluster has clear development opportunities in the local market being more dynamic and client-oriented than two other clusters.

For Signet Bank we see clear opportunity to grow our private banking and investment banking business. Having access to substantial capital owned by our HNW clients, we are able not only to arrange loans from our balance sheet, but also to syndicate sizeable debt financing transactions with our clients, both in the form of loans and also bond issuances. As financing for local businesses becomes less available from internationally owned banks operating in Latvia, there will be more demand to attract financing in the form of bonds and the Bank plans to capture this opportunity. In 2018 the Bank has become a member of Nasdaq/OMX Riga stock exchange and plans to arrange a number of bond issues already in 2019, as well as potentially arrange IPOs for local companies in the coming years. This additional investment banking activities should provide additional fee revenue stream already in 2019.

Considering all events in the Latvian banking sector, Bank's management is satisfied with results achieved in 2018 and is confident that work undertaken in the last 12 months lays important foundation for achieving more in the coming years. We believe the Bank has excellent proposition to existing and potential clients, and we are full of energy and commitment to realise great potential of growing business volume and revenues in these interesting times.

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

On behalf of the management:

Roberts Idelsons
Chairman of the Board

Tatjana Drobina
Member of the Board

18 April 2019

The Council and Management of the Bank

Supervisory Council of the Bank

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

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

Management Board of the Bank

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

There were changes in the Management Board of the Bank during the reporting period. In June 2018, Jānis Solovjakovs was appointed as the Member of the Management Board of the Bank.

Statement of Management Responsibility

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

The Bank's management confirms that throughout the preparation of pages 8 to 81 of the financial statements of the Bank and the Group for 2018 the corresponding bookkeeping methods have been used consistently, and that the decisions and evaluations of the Bank's management during the preparation of the financial statements have been in all respects sufficient, well-considered and balanced.

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

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

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

On behalf of the management:

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

18 April 2019

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

'000 EUR	Note	2018 Group	2017 Group	2018 Bank	2017 Bank
Interest income	7	4,952	5,400	4,952	5,400
Interest expense	7	(1,577)	(1,670)	(1,585)	(1,682)
Net interest income		**3,375**	**3,730**	**3,367**	**3,718**
Fee and commission income	8	3,923	3,077	3,696	2,851
Fee and commission expense	9	(519)	(483)	(508)	(565)
Net fee and commission income		**3,404**	**2,594**	**3,188**	**2,286**
Net profit / loss on discontinuing recognition of financial assets and financial liabilities at fair value through profit or loss		(103)	64	(103)	64
Net profit / loss from financial assets and financial liabilities measured at fair value through profit or loss		(36)	(118)	(36)	(118)
Net foreign exchange income		872	801	860	822
Net other income		114	174	117	175
Total operating income		**7,626**	**7,245**	**7,393**	**6,947**
General administrative expenses	10	(7,051)	(7,092)	(6,779)	(6,859)
Share of loss of equity-accounted investee, net of tax	20	(58)	(37)	-	-
Impairment of investment in subsidiary	19	-	-	-	(582)
Impairment of investment in associates	20	(299)	-	(299)	-
Negative goodwill write-off	22	-	(788)	-	-
Impairment loss	11	(134)	(905)	(134)	(905)
Profit/(loss) before income tax		**84**	**(1,577)**	**181**	**(1,399)**
Income tax expense	12	(10)	(2,357)	(10)	(2,267)
Profit/(loss) for the period		**74**	**(3,934)**	**171**	**(3,666)**

The accompanying notes on pages 16 to 81 are an integral part of the Group consolidated and Bank separate financial statements.

The Group consolidated and Bank`s separate financial statements as set out on pages 8 to 81 were approved by management of the Bank on 18 April 2019.

On behalf of the management:

Roberts Idelsons
Chairman of the Board

Tatjana Drobina
Member of the Board

Group`s Consolidated and Bank's Separate Statement of Comprehensive Income for the year ended 31 December 2018

'000 EUR	Note	2018 Group	2017 Group	2018 Bank	2017 Bank
Profit/(loss) for the period		**74**	**(3,934)**	**171**	**(3,666)**
Other comprehensive income					
Items that are or may be reclassified to profit or loss					
Changes in revaluation reserve of debt securities at fair value through other comprehensive income		(466)	407	(466)	407
Change to income statement as a result of sale of financial assets at fair value through other comprehensive income		335	(77)	335	(77)
Other comprehensive income/(expense) for the period		**(131)**	**330**	**(131)**	**330**
Total comprehensive income/(expense) for the period		**(57)**	**(3,604)**	**40**	**(3,336)**

Other comprehensive income / (expense) exclude day one impact from asset transfer to / from fair value measurement category when implementing new IFRSs. For details refer to "Statement of changes in equity" and Note 3.

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The Group consolidated and Bank`s separate financial statements as set out on pages 8 to 81 were approved by management of the Bank on 18 April 2019.

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 2018

'000 EUR	Note	2018 Group	2017 Group	2018 Bank	2017 Bank
Assets					
Cash and due from central banks	13	25,658	23,923	25,658	23,923
Demand deposits with credit institutions	15	18,282	30,909	18,032	30,827
Financial instruments carried at fair value through profit or loss *	14	1,030	1,292	1,030	1,292
Debt securities measured at fair value through other comprehensive income *	17	33,711	-	33,711	-
Available-for-sale financial assets*		-	21,072	-	21,072
Held-to-maturity investments*		-	9,707	-	9,707
Financial assets measured at amortized cost *		54,080	79,267	54,080	79,267
Loans and advances due from customers	16	*37,703*	*45,386*	*37,703*	*45,386*
Term deposits with credit institutions	15	*10,826*	*33,881*	*10,826*	*33,881*
Debt securities	18	*5,551*	-	*5,551*	-
Investment in subsidiary	19	-	-	1,292	1,292
Investment in associates	20	1,718	635	1,813	672
Property and equipment	21	1,755	1,995	1,753	1,992
Goodwill and other intangible assets	22	181	313	181	313
Other assets	23	1,126	891	1,100	861
Total Assets		**137,541**	**170,004**	**138,650**	**171,218**

* - these financial statements for 2018 are presented in accordance with IFRS 9, while financial data for 2017 are presented in accordance with IAS 39.

The accompanying notes on pages 16 to 81 are an integral part of the Group consolidated and Bank separate financial statements.

The Group consolidated and Bank`s separate financial statements as set out on pages 8 to 81 were approved by management of the Bank on 18 April 2019.

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 2018

'000 EUR	Note	2018 Group	2017 Group	2018 Bank	2017 Bank
Liabilities and shareholders' equity					
Financial liabilities at fair value through profit or loss	14	258	304	258	304
Financial liabilities measured at amortized cost		120,130	152,605	121,292	153,896
Liabilities to financial institutions		*-*	*1*	*-*	*1*
Deposits	24	*101,892*	*135,114*	*103,054*	*136,405*
Subordinated liabilities	25	*18,238*	*17,490*	*18,238*	*17,490*
Other liabilities	26	1,431	1,264	1,414	1,320
Total Liabilities		**121,819**	**154,173**	**122,964**	**155,520**
Share capital	27	32,171	32,171	32,171	32,171
Share premium		28	28	28	28
Other reserves		312	312	312	312
Fair value reserve*		(87)	-	(87)	-
Fair value reserve of available-for-sale financial assets*		-	44	-	44
Accumulated losses		(16,702)	(16,724)	(16,738)	(16,857)
Total Shareholders' Equity		**15,722**	**15,831**	**15,686**	**15,698**
Total Liabilities and Shareholders' Equity		**137,541**	**170,004**	**138,650**	**171,218**
Assets under management	29	**344,985**	**140,246**	**290,113**	**82,487**

* - these financial statements for 2018 are presented in accordance with IFRS 9, while financial data for 2017 are presented in accordance with IAS 39.

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On behalf of the management:

Roberts Idelsons
Chairman of the Board

Tatjana Drobina
Member of the Board

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

'000 EUR	Note	2018 Group	2017 Group	2018 Bank	2017 Bank
Cash flows from operating activities					
Profit/(loss) before income tax		84	(1,577)	181	(1,399)
Corporate income tax paid		10	-	10	-
Amortisation and depreciation	21, 22	446	465	445	463
Negative goodwill write-off		-	788	-	-
Impairment of investment in subsidiary		-	-	-	582
Impairment of investment in associates	20	299	-	299	-
Impairment loss	11	134	905	134	905
Net interest income		(3,374)	(3,730)	(3,366)	(3,718)
Dividends received		(28)	(41)	(28)	(41)
Decrease in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations		**(2,429)**	**(3,190)**	**(2,325)**	**(3,208)**
Decrease in financial assets at fair value through profit or loss		216	377	216	377
(Increase)/decrease in balances due from financial institutions		21,346	(35,066)	21,292	(35,102)
Decrease in loans and advances due from customers		7,201	16,324	7,201	16,324
(Increase)/decrease in other assets		(240)	958	(244)	934
Increase/(decrease) in deposits and balances due to financial institutions		(33,222)	15,468	(33,294)	15,561
Increase/(decrease) in other liabilities		6	(629)	(67)	(544)
Decrease in cash and cash equivalents from changes in assets and liabilities, as a result of ordinary operations		**(7,122)**	**(5,758)**	**(7,221)**	**(5,658)**
Interest received		5,457	5,148	5,465	5,163
Dividends received		28	41	28	41
Interest paid		(968)	(1,670)	(1,033)	(1,682)
Net cash flow from/(used in) operating activities		**(2,605)**	**(2,239)**	**(2,761)**	**(2,136)**
Cash flow from investing activities					
Purchase of property and equipment	21, 22	(74)	(259)	(74)	(258)
(Increase)/decrease in financial instruments designated at fair value through profit or loss		(13,002)	2,865	(13,002)	2,865
(Increase)/decrease in financial assets measured at amortized cost		4,228	8,750	4,228	8,750
Investments in associate		(128)	(91)	(128)	(128)
Net cash flow from investing activities		**(8,976)**	**11,265**	**(8,976)**	**11,229**

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

'000 EUR	Note	2018 Group	2017 Group	2018 Bank	2017 Bank
Cash flow from financing activities					
Increase/ (decrease) in Subordinated liabilities		227	(3,544)	227	(3,544)
Net cash flow from financing activities		**227**	**(3,544)**	**227**	**(3,544)**
Net increase/ (decrease) in cash and cash equivalents		**(11,354)**	**5,482**	**(11,510)**	**5,549**
Cash and cash equivalents at the beginning of the year		54,832	46,747	54,750	46,577
Currency translation of cash and cash equivalents at the year		462	2,603	450	2,624
Cash and cash equivalents at the end of the year	13	**43,940**	**54,832**	**43,690**	**54,750**

The accompanying notes on pages 16 to 81 are an integral part of the Group consolidated and Bank separate financial statements.

The Group consolidated and Bank`s separate financial statements as set out on pages 8 to 81 were approved by management of the Bank on 18 April 2019.

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 2018

'000 EUR	Note	Share capital	Share premium	Fair value reserve	Other reserves	Accumulated losses	Total
Balance at 1 January 2017	27	**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	27	**32,171**	**28**	**44**	**312**	**(16,724)**	**15,831**
Balance at 1 January 2018 before the adoption of IFRS 9		**32,171**	**28**	**44**	**312**	**(16,724)**	**15,831**
Impact of initial application of IFRS 9	3 c)	-	-	-	-	(52)	(52)
Balance at 1 January 2018 after the adoption of IFRS 9		**32,171**	**28**	**44**	**312**	**(16,776)**	**15,779**
Total comprehensive income							
Profit for the year		-	-	-	-	74	74
Other comprehensive income		-	-	(131)	-	-	(131)
Balance at 31 December 2018	27	**32,171**	**28**	**(87)**	**312**	**(16,702)**	**15,722**

The accompanying notes on pages 16 to 81 are an integral part of the Group consolidated and Bank separate financial statements.

The Group consolidated and Bank`s separate financial statements as set out on pages 8 to 81 were approved by management of the Bank on 18 April 2019.

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 2018

'000 EUR	Note	Share capital	Share premium	Fair value reserve	Other reserves	Accumulated losses	Total
Balance at 1 January 2017	27	**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	27	**32,171**	**28**	**44**	**312**	**(16,857)**	**15,698**
Balance at 1 January 2018 before the adoption of IFRS 9		**32,171**	**28**	**44**	**312**	**(16,857)**	**15,698**
Impact of initial application of IFRS 9	3 c)	-	-	-	-	(52)	**(52)**
Balance at 1 January 2018 after the adoption of IFRS 9		**32,171**	**28**	**44**	**312**	**(16,909)**	**15,646**
Total comprehensive income							
Profit for the year		-	-	-	-	171	171
Other comprehensive income		-	-	(131)	-	-	(131)
Balance at 31 December 2018	29	**32,171**	**28**	**(87)**	**312**	**(16,738)**	**15,686**

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The Group consolidated and Bank`s separate financial statements as set out on pages 8 to 81 were approved by management of the Bank on 18 April 2019.

On behalf of the management:

Roberts Idelsons
Chairman of the Board

Tatjana Drobina
Member of the Board

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

1. Background

Principal activities

The Bank was founded in 1992 under the name Latvian Business Bank. In September 2017, a group of international investors became the Bank's majority shareholders; three financially sound investors - Signet Global Investors Ltd, SIA Hansalink and SIA Fin.lv among them. In addition to financial stability, it provides the basis for rational and thoughtful strategic decision-making at the shareholder level, using the complementary and diverse experience of each shareholder.
Signet Bank AS is a private banking boutique committed to providing top quality financial solutions to the high net worth clients and companies owned by such clients at the highest level of professionalism and reliability. Main products offered to the clients are servicing day to day banking transactions of private and business clients, wealth management solutions including portfolio management, participation in club-type financing deals and investment advisory, premium level payment cards, deposits, servicing fiduciary transactions and escrow accounts, private and corporate loans. The Bank's clients are predominantly residents of the European Union and other OECD countries. The Bank strives to become the most comfortable and reliable private banking institution in the Nordic region.
In 2018 the Bank conducted a review of its strategy and has launched diversification of clients deposits and clients base in order to reduce the proportion of clients which create increased reputational risks to the Bank (clients from Russia and other CIS countries predominantly). Such diversification is mainly achieved by focusing on markets represented by the Bank's majority shareholders – Latvia, United Kingdom, European Union countries. As a result of these activities, already at the end of 2018 the majority of the Bank's clients (45 % of deposits) was from Latvia. The Bank will continue to prioritize growth of business volumes in Latvia and other European Union countries both in terms of attracting clients and lending.
The Group's capital adequacy and liquidity[1] ratios were 31.05% and 97.01% respectively as at 31 December 2018 (2017: 26.90% and 87.82% respectively). In 2018 the Group's Return on Equity (ROE)[2] and Return on Assets (ROA)[3] were 0.05% and 0.47% respectively ((20.79)% and (2.31)% in 2017).
The Bank operates in accordance with the laws and regulations of the Republic of Latvia and the licence issued by the Bank of Latvia that allows the Bank to render all the financial services specified in the Law on Credit Institutions.
The activities of the Group are supervised by the Financial and Capital Market Commission of the Republic of Latvia ("FCMC"). The registered address of the Bank's head office is 3 Antonijas street, Riga LV-1010, Latvia.

The subsidiary of the Group is as follows:

Name	Country of incorporation	Principal Activities	Address	Ownership %	
				2018	2017
Signet Asset Management Latvia IPAS	Latvia	Financial services	3 Antonijas street, Riga LV-1010, Latvia	100	100

[1] Liquidity ratio is calculated by dividing short-term liquid assets by current liabilities due in 30 days
[2] ROE is calculated as annualised net profit/loss for the relevant period divided by the average of total equity at the beginning and the end of the period.
[3] ROA is calculated as annualised net profit/loss for the relevant period divided by the average of total assets at the beginning and the end of the period.

2. Authorisation of the financial statements

These financial statements have been authorised for issuance by the Management on 18 April 2019 and comprise the financial information of Signet Bank AS (hereinafter – the Bank) and its subsidiary Signet Asset Management Latvia IPAS (together referred to as the "Group"). The shareholders have the right to approve these financial statements, as well as have the right to make changes to these financial statements.

3. Summary of significant accounting policies

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

a) Basis of preparation

The accompanying Group consolidated and Bank separate financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("EU IFRS"), and regulations of the Financial and Capital Market Commission of the Republic of Latvia in force as at the reporting date and in accordance with a going concern basis. Having reassessed the main risks, the Management considers it appropriate to adopt going concern basis of accounting in preparing these financial statements, there are no material uncertainties with regard to applying going concern basis of accounting.
Certain new or revised standards become effective from 1 January 2018, thus certain accounting policies were updated and revised. Other accounting policies used in the preparation of these financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2017. The new accounting standard implementation impact and revised accounting policies are described below.

b) Functional and Presentation Currency

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

c) Adoption of new or revised standards and interpretations

Certain new IFRSs became effective for the Group from 1 January 2018. 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 2018 was implemented for these consolidated financial statements. Implementation impact, where relevant, is disclosed throughout these financial statements.

***(i) IFRS 9 – Financial Instruments** (replaces IAS 39)*

When implementing IFRS 9 the Group and the Bank elected not to restate comparative information. Implementing IFRS 9 the Group and Bank chose to reclassify all prior period information. Differences between prior period carrying amounts and new carrying amounts in accordance with IFRS 9 have been recognised to retained earnings upon initial application of the new standard. The Group and Bank developed the necessary processes, systems and models for IFRS 9. As a result of analysis of business models and SPPI criteria the Group and Bank concluded that no significant changes to Group's and Bank's financial instruments measurement were required as compared to those under IAS 39. For descriptions of the methods for the classification and measurement of financial instruments, see Note 3, point (g). For methods used to determine expected credit loss please see Note 3, point (m).

The major areas impacted are impairment and provision levels due to introduction of expected credit loss concept, reclassification of debt securities as a result of re-assessment of business models, and re-measurement of financial instruments at amortised cost due to changed classification. Impairment increase mostly relates to card products and off-balance sheet commitments.

IFRS 9 day-one implementation impact on carrying amount by class of financial instruments:

'000 EUR	In accordance with IAS 39 on 31.12.2017:			In accordance with IFRS 9 on 01.01.2018:				
	Measurement categories	**Carrying amount**	**Impair-ment allowance**	**Reclass-fication**	**Changes in valuation**	**Measure-ment categories***	**Carrying amount**	**Expected credit losses**
Cash and due from central banks		23,923	-	-	-		23,923	-
Balances due from financial institutions	Loans and receivables	64,708	-	-	(1)	AmC	64,707	(1)
Loans and advances due from customers		45,386	(708)	(328)	18		45,404	(362)
Debt securities	Available-for-sale	20,348	-	-	(55)	FVOCI	20,293	-
	Held-to-maturity	9,707	-	(77)	(7)	AmC	9,623	(7)
	Held-to-maturity		-	77	-	FVOCI	77	-
Equity and other financial instruments	Available-for-sale	724	-	-	-	FVTPL	1,068	-
	Held for trading	344	-	-	-			
Derivatives	Held for trading	948	-	-	-	FVTPL	948	-
Other assets	Loans and receivables	861	-	-	(7)	AmC	854	(7)
Total assets		**166,949**	**(708)**	**(328)**	**(52)**		**166,897**	**(377)**
Off-balance sheet[1.]		2,587	-	-	-	AmC	2,587	-

Summary by measurement category:

Financial assets at amortized cost	144,585	(708)	(405)	3	AmC	144,511	(377)
Available-for-sale financial instruments	21,072	-	77	(55)	FVOCI	20,370	-
Financial instruments held for trading	1,292	-	-	-	FVTPL	2,016	-
Total assets	**166,949**	**(708)**	**(328)**	**(52)**	-	**166,897**	**(377)**
Off-balance sheet[1.]	2,587	-	-	-	-	2,587	-

[1.] Expected credit loss from payment cards is shown together with expected credit loss from loans

* For an explanation of the classification of rating categories, see Note 3 (g) (ii).

During implementation of IFRS 9 the Bank decided to reclassify debt securities in amount of EUR 0.3 million from IAS 39 category "Loans and receivables from customers" to FVOCI category under IFRS 9 and taking into account small probability to recover these assets, the Bank at the same time wrote off these balances along with loan loss allowance previously established. The impact of the

adoption of IFRS 9 on financial assets by class of financial instruments was the same for the Group and the Bank, so the Group is not separately disclosed.
There has been no impact of the implementation of IFRS 9 on classification of financial liabilities of the Group and the Bank.

(ii) IFRS 15 – Revenue from contracts with customers.
The new Standard provides a framework that replaces existing revenue recognition guidance in IFRS. Majority of the Group's income is derived from financial instruments or relates to services where revenue is recognised at point in time when service is delivered with little judgment involved and for such income streams the new standard has no significant impact.

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 2018 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.

(iii) ***IFRS 16 – Leases*** (replaces IAS 17, IFRIC 4, SIC-15, SIC-27). Effective for annual reporting periods beginning on or after 1 January 2019.
Earlier application is permitted if the entity also applies IFRS 15. The new standard establishes principles for the recognition, measurement, presentation and disclosure of leases in a way that is different to the currently applied accounting treatment. For qualifying lease assets, upon lease commencement, a lessee has to recognise a right-of-use asset and a lease liability. The right-of-use asset is initially measured at the amount of the lease liability plus any initial direct costs. Subsequently the right-of-use asset is measured using a cost model, unless specific other conditions exist. 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. For lessors classification of lease as an operating lease or a finance lease remains; therefore, the Group as a lessor estimates no significant direct effect form the new standard. The Group chose to use the standard exceptions for short-term lease and lease where the underlying asset is of low value. For the Bank as a lessee operating lease contracts which would qualify for right-of-use asset are rent agreements the Bank uses for the Group's operating needs. The amount of right-of-use asset and corresponding lease liability which would be recognised if the new standard was adopted earlier than the beginning of the next period would be EUR 1.2 million for the Bank.

Those standards and interpretations that are not expected to have a significant effect to the Group are: Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2), Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4), Transfers of Investment Property (Amendments to IAS 40), Annual Improvements to IFRSs 2014–2016 Cycle (Amendments to IFRS 1 and IAS 28), IFRIC 22 Foreign Currency Transactions and Advance Consideration, Clarifications to IFRS 15 Revenue from Contracts with Customers.

d) Basis of consolidation

(i) Subsidiaries

Subsidiaries are those enterprises controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. The investments in the subsidiaries are presented in the Bank's financial statements at acquisition cost less impairment allowance. More detailed information on the Group's subsidiary is presented in Note 19 (Investment in 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, consolidated financial statements include the Group's share of the profit or loss and OCI in equity-accounted investees, until the date on which significant influence or joint control ceases.
Investments in associates are carried in the Bank's separate financial statements at cost less impairment, if any. More detailed information on the Group's associates is presented in Note 20 (Investment in associates).

(iii) Transactions eliminated on consolidation

Detailed information of the subsidiary 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. Impairment losses are not reversed.

e) Foreign currency

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

f) Cash and cash equivalents

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

g) Financial instruments

(i) Recognition

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

(ii) Classification

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

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

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

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

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

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

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

(iii) Measurement

Financial assets and liabilities measured at amortised cost

For a financial asset to be measured at amortised cost it should both be held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset should give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
Financial assets measured at amortised cost are carried at amortised cost using the effective interest rate method, less any allowance for impairment. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's effective interest rate. The effective interest rate is applied to the gross carrying amount of a financial asset except for credit-impaired financial assets. For the purchased or originated credit-impaired financial assets the credit-adjusted effective interest rate is applied from initial recognition. For financial assets which subsequently become credit-impaired the effective interest rate is applied to the revised after impairment carrying amount and where the credit risk on the financial instrument improves so that the financial asset is no longer credit-impaired, the effective interest rate is applied to the gross carrying amount.
A gain or loss on a financial asset that is measured at amortised cost is recognised in profit or loss when the financial asset is derecognised, reclassified, through the amortisation process or in order to recognise impairment gains or losses. Financial assets at amortised cost are recognised on drawdown. From the date of signing a contractual agreement till drawdown they are accounted for as off-balance sheet commitments.
When the financial asset cannot be recovered, it is written off and charged against allowance for credit losses. The Group makes the decision on writing-off of financial assets. Recoveries of loans previously written-off are credited to the statement of income.
The Group classifies all financial liabilities as subsequently measured at amortised cost using the effective interest rate method, except for derivatives and certain deposit components of the insurance plan liabilities which are measured at fair value through profit or loss. A gain or loss on a financial liability that is measured at amortised cost is recognised in profit or loss when the financial liability is derecognised and through the amortisation process.

Financial assets measured at fair value through other comprehensive income

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

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

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

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

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

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

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

Modification of terms in loan contracts

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

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

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

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

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

(iv) Derecognition

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

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

h) Repurchase and reverse repurchase agreements

These agreements are accounted for as financing transactions. Under sale and repurchase agreements, where the Group is the transferor, assets transferred remain on the Group's balance sheet and are subject to the Group's usual accounting policies, with the purchase price received recorded as a liability owed to the transferee. Assets in the balance sheet are shown separately from other assets when the transferee has the right by contract or custom to sell or repledge the collateral.

Where the Group is the transferee, the assets are not included in the Group's balance sheet, but the purchase price paid by it to the transferor is recorded as an asset. Interest income or expense arising from outstanding sale and repurchase agreements is recognised in the statement of income over the term of the agreement.

i) Derivative financial instruments

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

j) Offsetting

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

k) Property and equipment

(i) Owned assets

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

(ii) Leased assets

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

(iii) Depreciation

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

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

l) Intangible assets

Intangible assets, which are acquired by the Group, are stated at cost less accumulated amortisation and impairment losses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.

Costs associated with maintaining computer software programs are recognised as an expense as incurred.

Amortisation is charged to the profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are as follows:

Intangible assets	5-7 years

m) Impairment of financial assets and expected loss

The Group's impairment requirements are based on an expected loss model. Expected loss calculations do not represent the losses that the Group may suffer in a single scenario such as a stress scenario, but represent a probability weighted loss in a number of reasonably possible scenarios including a normal repayment scenario.
To calculate impairment, the assets are divided into three categories (stages):
- stage 1 includes assets where no significant increase in credit risk since acquisition/initial recognition is identified;
- stage 2 includes assets for which a significant increase in credit risk is identified since acquisition/initial recognition but for which no default of the issuer has been identified;
- stage 3 includes defaulted assets.

The Group applies the same definition of default as set forth in the European Union Regulation 575/2013:
- for stage 1 assets, loan loss allowance equals the 12 month expected credit loss, that is a possible loss if the issuer defaults within the next 12 months;
- for stage 2 and 3 assets loan loss allowance equals the lifetime expected credit losses.

The 'default' is defined in line with the prudential definition of the default: exposure delayed 90 and more days, significant restructuring and other unlikeliness to pay indicators. The 'default' is the criteria for transfer to stage 3.
To determine if the credit risk associated with a financial instrument has increased significantly since initial recognition (or a financial instrument is in default), the Group monitoring a number of indicators, such as:
- whether the payments related to an asset (or other obligations of an obligor) have been past due or there has been a breach of covenants;
- whether there has been information about significant deterioration of the obligor's financial situation;
- whether an obligor has informed the Group about his willingness to alter the debt contract terms that can be deemed to be a forbearance (granting to the obligor a concession(s) due to the obligor's financial difficulty that would not otherwise be granted) or an event of forbearance itself;
- whether substantial decline of the market price of the obligor's debt instruments has occurred, in case an obligor has issued financial instruments and those are actively traded;
- whether actual or expected changes in business conditions have been observed / forecasted that may have a significant impact on the obligor's creditworthiness assessment;
- whether there has been a decrease of an obligor's external or internal credit rating;
- whether there has been an increase of the loan-to-value ratio (for the Group's issued loans).

Based on the above mentioned criteria, the Group's management make a decision regarding classification of the assets by stages. Usually, if payments related to an asset are past due more than 30 days, the asset is classified as stage 2 asset, and, if payments related to an asset are past due more than 90 days, the asset is classified as stage 3 asset.
The Group use the "low credit risk exemption" permitted by the standard. The Group uses low credit risk exemption as permitted by the IFRS 9 standard when calculating the amount of expected credit losses (ECL) for the Group's claims on counterparties and issuers that have BBB- or higher credit rating from rating companies Standard & Poor's, Moody's or Fitch taking into account that probabilities of default (PD) have historically been low for issuers with such credit rating level (average 1 year PD of 0.18% for issuers with BBB- credit rating and lower for issuers with higher credit rating).

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

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

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

For debt securities, amounts due from other banks and counterparties and other instruments, except loans to customers, that do not have an external credit rating, the Group estimates 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 debt securities held, amounts due from counterparties and other assets the Group bases its LGD estimate on LGDs calculated by rating agencies orinternal analysis of recoveries from defaulted exposures.

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

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

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

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

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

The Group adjusts PDs used in the EL calculation depending on forecasted relevant macroeconomic circumstances. In cases where borrower's creditworthiness depends on economic conditions in a certain contry or region and in the next 2 years the expected growth of economy in that country or region is significantly lower than average growth in several previous years ("normal growth"), ECL calculation assumes default rates that are significantly higher than they would have been if the economy growth forecast was not negative for the next 2 years. As of 31 December 2018 the Bank's largest receivables (excluding receivables on government bonds rated AAA-AA) were from counterparties – borrowers with Russian, Italian, Maltese and Great Britain country risk. According to OECD data and economy growth forecasts, among the said countries only for Great Britain a significantly lower growth of economy is forecasted for 2018-2019 as compared to an average rate of economy growth in 2011-2017 (1.3-1.4% as compared to 1.9%); however, PD for these receivables was not adjusted, as forecasted decrease of GDP growth was borderline with the Bank's internal

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

n) Provisions

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

o) Unrecognised loan commitments

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

p) Income tax

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

q) Income and expense recognition

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

4. Risk management

The Group mainly has exposure to the following risks:
- market risks
- interest rate risk
- currency risk
- price risk
- credit risk
- liquidity risk
- operational risk
- other risks: 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 Financial Risk Management Department (further – FRMD) is responsible for identifying, measuring, managing and reporting financial risks. The Head of Compliance and Risk Management Department is responsible for the non-financial risks and compliance issues.
Credit, market and liquidity risks both at portfolio and transactional levels are managed and controlled through a system of Credit committee and Assets and liabilities committee (further - ALCO).

b) Market risks

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect the Group's income or the value of its portfolios. Market risks comprise currency risk, interest rate risk and other price risk. Market risk arises from open positions in interest rate, currency and fixed income or other financial instruments, which are exposed to general and specific market movements and 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 under adverse or very unfavorable conditions.

c) Interest rate risk

Interest rate risk is the risk that movements in interest rates will affect the Group's income or the value of its portfolios of financial instruments.
The Group is exposed to 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. The analysis includes fixed income securities classified by FVTPL or FVOCI. Results are the same for the Bank and for the Group because the subsidiary did not have investments in fixed income securities. The impact of income taxes is not reflected in this analysis:

'000 EUR	31 December 2018		31 December 2017	
	Profit or loss	Equity	Profit or loss	Equity
100 bp parallel increase	-*	(268)	-*	(340)
100 bp parallel decrease	-*	274	-*	349

*In 2018 and 2017 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 2018	31 December 2017
100 bp parallel increase	520	882
100 bp parallel decrease	(520)	(882)

d) Currency risk

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

'000 EUR	31 December 2018		31 December 2017	
	Profit or loss, Group	Profit or loss, Bank	Profit or loss, Group	Profit or loss, Bank
5% appreciation of USD against EUR	3	17	9	19
5% depreciation of USD against EUR	(3)	(17)	(9)	(19)
5% appreciation of GBP against EUR	-	-	-	-
5% depreciation of GBP against EUR	-	-	-	-
20% appreciation of RUB against EUR	4	4	2	2
20% depreciation of RUB against EUR	(4)	(4)	(2)	(2)

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 2018 and 2017 and a simplified scenario of a 5% change in all securities prices is as follows:

'000 EUR	31 December 2018		31 December 2017	
	Profit or loss	OCI	Profit or loss	OCI
5% increase in securities prices	25	1,686	17	1,054
5% decrease in securities prices	(25)	(1,686)	(17)	(1,054)

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

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

The Group's guidelines in relation to customer financing transactions (loans to customers) are set out in the Bank's internal regulatory document „Credit Policy" that stipulates:
- desirable creditworthiness and reputation profile of the customer;
- preferred loan term;
- requirements for loan security and restrictions/ conditions for LTV (loan to value) ratio;
- procedure of lending process;
- credit portfolio management and supervision procedure;
- limits to the total proportion of the loans, proportion of unsecured loans, and proportion of loans secured by real estate in the Bank's assets.

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

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

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

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

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

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

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

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

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

Credit quality analysis for the Group and the Bank:

'000 EUR	Business	Consumer	Reverse repo	Mortgage	Other	Total
31.12.2018						
Total gross loans	**30,079**	**4,869**	**669**	**873**	**1,540**	**38,030**
Neither past due nor impaired loans	30,079	4,862	669	873	924	37,407
Past due but not impaired loans, more than 30 days	-	7	-	-	616	623
Total impairment allowance	**(138)**	**(7)**	**-**	**-**	**(182)**	**(327)**
Total individually impairment allowance - neither past due nor impaired loans	(138)	(5)	-	-	-	(143)
Total collective impairment allowance - neither past due nor impaired loans	-	(2)	-	-	-	(2)
Individually impairment allowance - loans are past due less than 30 days	-	-	-	-	(182)	(182)
Total net loans	**29,941**	**4,862**	**669**	**873**	**1,358**	**37,703**
Neither past due nor impaired loans	29,941	4,855	669	873	924	37,262
Past due but not impaired loans, more than 30 days	-	7	-	-	434	441
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

As at 31 December 2018, the gross amount of loans which were granted the status 'restructured' totalled EUR 213 thousand (2017: EUR 7,228 thousand). These changes were made on the basis of the agreements between the Group or the Bank and customers amending respective loan conditions, as otherwise the loans might be past due. A loan is considered to be restructured from the date of the above mutual agreement to the date when at least two years have passed without delays of contractual payments by more than 30 days and none of the loss events has taken place.
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 end of application of IAS 39 and the date of initial application of IFRS 9, the Bank changed the process for calculating impairment allowance for assets (see Note3).
Classification of the Group's assets in measurement categories (3 stages) as of December 31, 2018:

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

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

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

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

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

g) Liquidity risk

Liquidity risk means possible losses to the Group or decrease in profit from the sale of the assets or attraction of resources at unfavourable interest rates in order for the Group to meet its financial liabilities towards depositors, counterparties and other creditors.
Since the Group's operations are related to servicing of customers – non-residents, the FCMC has set increased requirements for the Bank's liquidity ratio – minimum liquidity ratio equals to 60%.
The Group's guidelines for liquidity risk management are defined in the Bank's internal regulatory documents „Liquidity Risk Management Policy" approved by the Bank's Council; liquidity risk management procedure is defined in the Bank's internal regulatory document „Liquidity Risk Management Procedure".
The purpose of liquidity risk ratios is to indicate the liquidity risk level undertaken by the Group from various angles and promptly indicate the increase in liquidity risk level. Liquidity risk ratios are calculated and monitored every day, and the Bank's internal regulatory document „Liquidity Risk Management Procedure" sets out actions to be taken when ratios have reached certain levels.
The Group's liquidity risk stress testing is conducted every quarter, and the surplus or deficit of liquid assets in stress scenarios is determined. Liquidity risk stress test results are assessed by ALCO.
In order to limit the liquidity risk, limits are set on the Bank's liquidity net positions, as well as on investments in low liquidity assets – loans to customers. The control of liquidity net positions is conducted once a month, but the control of the limit of loans to customers is carried out every week.
Group performs liquidity planning within the framework of budget planning. Liquidity ratio and LCR (liquidity coverage ratio) are planned.
The Group also calculates mandatory liquidity ratios on a daily basis in accordance with the requirement of the Financial and Capital Markets Commission and the requirement of Regulation 575/2013. The Bank was in compliance with these ratios during the twelve-month period ended 31 December 2018 and 31 December 2017.
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 2018:

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

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

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

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**

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 2018 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	25,658	-	-	-	-	-	**25,658**
Demand deposits with credit institutions	18,282	-	-	-	-	-	**18,282**
Financial instruments designated at fair value through profit or loss	34	23	430	41	502	-	**1,030**
Financial assets measured at fair value through other comprehensive income	1,946	4,697	2,498	16,716	7,854	-	**33,711**
Financial assets measured at amortized cost	11,819	551	4,686	16,042	20,537	445	**54,080**
Other financial assets	752	-	-	-	-	-	**752**
Total financial assets	**58,491**	**5,271**	**7,614**	**32,799**	**28,893**	**445**	**133,513**
Financial liabilities							
Financial liabilities at fair value through profit or loss	16	51	73	117	1	-	**258**
Current accounts and deposits due to customers	89,617	181	148	1,982	9,964	-	**101 892**
Subordinated liabilities	-	895	-	5,789	11,554	-	**18,238**
Unrecognised loan commitments	750	-	-	-	-	-	**750**
Total financial liabilities	**90,383**	**1,127**	**221**	**7,888**	**21,519**	**-**	**121,138**
Total Equity	-	-	-	-	-	15,722	**15,722**
Total Liabilities and Equity	**90,383**	**1,127**	**221**	**7,888**	**21,519**	**15,722**	**136,860**
Net liquidity position as at 31 December 2018	**(31,892)**	**4,144**	**7,393**	**24,911**	**7,374**	**(15,277)**	-
Net liquidity position as at 31 December 2017	(25,982)	6,317	3,970	1,798	24,198	(14,881)	-

The Bank's Analysis of contractual maturities of financial assets and liabilities and equity as at 31 December 2018 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	25,658	-	-	-	-	-	**25,658**
Demand deposits with credit institutions	18,032	-	-	-	-	-	**18,032**
Financial instruments designated at fair value through profit or loss	34	23	430	41	502	-	**1,030**
Financial assets measured at fair value through other comprehensive income	1,946	4,697	2,498	16,716	7,854	-	**33,711**
Financial assets measured at amortized cost	11,819	551	4,686	16,042	20,537	445	**54,080**
Other financial assets	752	-	-	-	-	-	**752**
Total financial assets	**58,241**	**5,271**	**7,614**	**32,799**	**28,893**	**445**	**133,263**
Financial liabilities							
Financial liabilities at fair value through profit or loss	16	51	73	117	1	-	**258**
Current accounts and deposits due to customers	89,718	181	148	2,743	10,264	-	**103,054**
Subordinated liabilities	-	895	-	5,789	11,554	-	**18,238**
Unrecognised loan commitments	750	-	-	-	-	-	**750**
Total financial liabilities	**90,484**	**1,127**	**221**	**8,649**	**21,819**	**-**	**122,300**
Total Equity	-	-	-	-	-	15,686	**15,686**
Total Liabilities and Equity	**90,484**	**1,127**	**221**	**8,649**	**21,819**	**15,686**	**137,986**
Net liquidity position as at 31 December 2018	**(32,243)**	**4,144**	**7,393**	**24,150**	**7,074**	**(15,241)**	**-**
Net liquidity position as at 31 December 2017	(27,105)	6,317	3,970	1,548	24,198	(14,748)	-

The interest rate analysis chart for the Group's financial assets and financial liabilities at 31 December 2018 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	25,166	-	-	-	-	-	492	**25,658**
Demand deposits with credit institutions	-	-	-	-	-	-	18,282	**18,282**
Financial instruments designated at fair value through profit or loss	-	-	-	-	-	-	1,030	**1,030**
Financial assets measured at fair value through other comprehensive income	1,946	4,697	2,498	16,716	7,854	-	-	**33,711**
Financial assets measured at amortized cost	8, 833	551	4,686	16,042	20,538	-	3,430	**54,080**
Other financial assets	752	-	-	-	-	-	-	**752**
Long positions of interest rates risk sensitive off-balance items*	9,154	2,956	5,356	5,013	250	-	-	**22,729**
Total assets and long off-balance-sheet positions sensitive to changes in interest rates	**45,851**	**8,204**	**12,540**	**37,771**	**28,642**	**-**	**23,234**	**156,242**
Financial liabilities								
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	258	**258**
Current accounts and deposits due to customers	663	181	148	1,981	9,906	20	88,993	**101,892**
Subordinated liabilities	-	891	-	6,040	11,391	1,378	(1,462)	**18,238**
Short positions of interest rates risk sensitive off-balance items*	9,173	2,970	5,188	4,942	264	-	-	**22,537**
Total liabilities and short off-balance-sheet positions sensitive to changes in interest rates	**9,836**	**4,042**	**5,336**	**12,963**	**21,561**	**1,398**	**87,789**	**142,925**
Net position as at 31 December 2018	**36,015**	**4,162**	**7,204**	**24,808**	**7,081**	**(1,398)**	**(64,555)**	**13,317**
Net position as at 31 December 2017	58,091	6,331	3,962	1,881	26,433	(3,929)	(80,940)	11,829

*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 2018.

'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	25,166	-	-	-	-	-	492	**25,658**
Demand deposits with credit institutions	-	-	-	-	-	-	18,032	**18,032**
Financial instruments designated at fair value through profit or loss	-	-	-	-	-	-	1,030	**1,030**
Financial assets measured at fair value through other comprehensive income	1,946	4,697	2,498	16,716	7,854	-	-	**33,711**
Financial assets measured at amortized cost	8,833	551	4,686	16,042	20,538	-	3,430	**54,080**
Other financial assets	752	-	-	-	-	-	-	**752**
Long positions of interest rates risk sensitive off-balance items*	9,154	2,956	5,356	5,013	250	-	-	**22,729**
Total assets and long off-balance-sheet positions sensitive to changes in interest rates	45,851	8,204	12,540	37,771	28,642	-	22,984	**155,992**
Financial liabilities								
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	258	**258**
Current accounts and deposits due to customers	663	181	148	2,743	10,205	20	89,094	**103,054**
Subordinated liabilities	-	891	-	6,040	11,391	1,378	(1,462)	**18,238**
Short positions of interest rates risk sensitive off-balance items*	9,173	2,970	5,188	4,942	264	-	-	**22,537**
Total liabilities and short off-balance-sheet positions sensitive to changes in interest rates	**9,836**	**4,042**	**5,336**	**13,725**	**21,860**	**1,398**	**87,890**	**144,087**
Net position as at 31 December 2018	**36,015**	**4,162**	**7,204**	**24,046**	**6,782**	**(1,398)**	**(64,906)**	**11,905**
Net position as at 31 December 2017	57,740	6,331	3,962	1,631	26,433	(3,929)	(81,712)	10,456

*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 2018:

’000 EUR	EUR	USD	GBP	Other currency	Total
Financial assets					
Cash and due from central banks	25,449	176	19	14	25,658
Demand deposits with credit institutions	9,533	1,981	5,236	1,532	18,282
Financial instruments designated at fair value through profit or loss	844	186	-	-	1,030
Financial assets measured at fair value through other comprehensive income	6,527	27,184	-	-	33,711
Financial assets measured at amortized cost	38,443	15,488	122	27	54,080
Other assets	499	253	-	-	752
Total financial assets	**81,295**	**45,268**	**5,377**	**1,573**	**133,513**
Off-balance (SWAP)	**16,195**	**6,520**	**-**	**14**	**22,729**
Financial liabilities					
Financial liabilities at fair value through profit or loss	258	-	-	-	258
Current accounts and deposits due to customers	71,767	27,786	2,131	208	101,892
Subordinated liabilities	8,348	9,890	-	-	18,238
Total financial liabilities	**80,373**	**37,676**	**2,131**	**208**	**120,388**
Total Equity and reserves	15,722	-	-	-	15,722
Total Liabilities and Equity	**96,095**	**37,676**	**2,131**	**208**	**136, 110**
Off-balance (SWAP)	**3,715**	**14,244**	**3,230**	**1,348**	**22,537**
Net currency balance position as at 31 December 2018	**(14,800)**	**7,592**	**3,246**	**1,365**	**(2,597)**
Net currency position as at 31 December 2018 (balance & off-balance)	**(2,320)**	**(132)**	**16**	**31**	**(2,405)**
Net currency balance position as at 31 December 2017	(8,321)	6,154	1,326	(1,206)	(2,047)
Net currency position as at 31 December 2017 (balance & off-balance)	(1,954)	356	11	172	(1,415)

The following table shows the Bank's currency structure of financial assets and financial liabilities at 31 December 2018:

'000 EUR	EUR	USD	GBP	Other currency	Total
Financial assets					
Cash and due from central banks	25,449	176	19	14	25,658
Demand deposits with credit institutions	9,283	1,981	5,236	1,532	18,032
Financial instruments designated at fair value through profit or loss	844	186	-	-	1,030
Financial assets measured at fair value through other comprehensive income	6,527	27,184	-	-	33,711
Financial assets measured at amortized cost	38,443	15,488	122	27	54,080
Other financial assets	499	253	-	-	752
Total financial assets	**81,045**	**45,268**	**5,377**	**1,573**	**133,263**
Off-balance (SWAP)	**16,195**	**6,520**	**-**	**14**	**22,729**
Financial liabilities					
Financial liabilities at fair value through profit or loss	258	-	-	-	258
Current accounts and deposits due to customers	72,636	28,076	2,133	209	103,054
Subordinated liabilities	8,348	9,890	-	-	18,238
Total financial liabilities	**81,242**	**37,966**	**2,133**	**209**	**121,550**
Total Equity and reserves	15,686	-	-	-	15,686
Total Liabilities and Equity	**96,928**	**37,966**	**2,133**	**209**	**137,236**
Off-balance (SWAP)	**3,715**	**14,244**	**3,230**	**1,348**	**22,537**
Net currency balance position as at 31 December 2018	**(15,883)**	**7,302**	**3,244**	**1,364**	**(3,973)**
Net currency position as at 31 December 2018	**(3,403)**	**(422)**	**14**	**30**	**(3,781)**
Net currency balance position as at 31 December 2017	(9,357)	5,971	1,325	(1,226)	(3,287)
Net currency position as at 31 December 2017 (balance & off-balance)	(2,990)	173	10	152	(2,655)

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 identify each Client and to apply 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 investigate the nature of personal or economic activity of the Client, origin of funds in accounts held with the Bank and nature of transactions. The 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 of 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.

To help assess the Bank's compliance procedures with the best international practice, the Bank engaged international independent company (Exiger LLC and Lewis Baach Kaufmann Middlemiss) to evaluate its AML/CTF program.

In the course of the review, the consultants assessed the Bank's AML/CTF program by verifying its compliance with the requirements of the US supervisory authorities (Law on Bank Secrecy (BSA), US Anti-Terrorism Act (USA PATRIOT ACT)), as well as the Implementing Rules of the US Department of Foreign Investment Control (OFAC) and the requirements of the Federal Financial Institutions Supervision Council BSA / AML Supervision Manual (FFIEC Manual), related enforcement activities, guidance provided by the Financial Action Task Force and industry best practices. As a result of the evaluation, a report was received containing 24 necessary elements (recommendations) to comply with the BSA / AML/CTF / OFAC regulatory acts and recommendations. Most of the recommendations were implemented by the Bank prior to the final evaluation report, while as of the approval date of these separate and consolidated financial statements, all of the recommendations received following these consultants' review have been implemented.

From February to August 2018, the Bank also carried out an assessment of the overall effectiveness of the implementation of the above-mentioned independent evaluation recommendations and its internal control system. Such an additional assessment was carried out in accordance with the Bank's policy of conducting an regular (18-month) review of the effectiveness of the AML/CTF internal control system. As a result of the inspection, recommendations were received, which the Bank implements according to the plan developed.

In the 4th quarter of 2018, the Financial and Capital Market Commission conducted a review of the effectiveness of the Bank's AML/CTF internal control system. The Bank expects audit report to be received in the 2nd quarter of 2019.

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 2018, the individual minimum Capital adequacy ratio level for the Bank is set at 20.00% (2017: 20.00%). The Bank was in compliance with the FCMC determined individual capital ratio as at 31 December 2018 and 2017.

The Group's risk based capital adequacy ratio as at 31 December 2018 was 31.05% (2017: 26.90%).

The Bank's risk based capital adequacy ratio as at 31 December 2018 was 30.52% (2017: 26,61%).

As at 31 December 2018, the individual minimum Tier 1 Capital adequacy ratio level for the Bank is set at 19.20% (2017: 15.44%).

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 2018 and 2017:

'000 EUR	2018 Group	2017 Group	2018 Bank	2017 Bank
Tier 1 capital				
Share capital	32,171	32,171	32,171	32,171
Additional paid-in capital	28	28	28	28
Reserves	225	312	225	312
Accumulated losses	(16,702)	(16,724)	(16,738)	(16,857)
Reductions of tier 1 capital	(217)	(336)	(219)	(337)
Total tier 1 capital	**15,505**	**15,451**	**15,467**	**15,317**
Tier 2 capital				
Subordinated liabilities (unamortised portion)	8,208	11,343	8,208	11,343
Total tier 2 capital	**8,208**	**11,343**	**8,208**	**11,343**
Deductions from Tier 1 and Tier 2 capital prescribed by legislation*	(1,539)	(1,902)	(1,539)	(1,902)
Total capital	**22,174**	**24,892**	**22,136**	**24,758**
Capital requirements				
Credit risk requirements	4,519	6,043	4,624	6,145
Market risk requirements	8	155	31	138
Operational risk requirements	1,186	1,205	1,148	1,160
Total capital requirements	5,713	**7,403**	5,803	**7,443**
Capital adequacy ratio	**31.05%**	**26.90%**	**30.52%**	**26.61%**
Tier 1 Capital adequacy ratio	**19.56%**	**15.67%**	**19.20%**	**15.44%**

* 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 2018 and 31 December 2017.

6. Use of estimates and judgements

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

Key sources of estimation uncertainty:

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

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

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

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

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.
Fair value of non-financial assets is determined taking into account market participants' view of highest and best use of these assets, even if it is different from current use. The highest and best use has to be physically possible, legally permissible and financially feasible.
Further information about the assumptions and judgments made in measuring fair values is included in Note 33 Fair value of financial instruments.

(iii) Classification and valuation of investment in associate

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

(iv) Valuation of real estate development projects

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

(v) Impairment of Non-financial Assets

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

(vi) Estimate of provision amounts

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

7. Net interest income

’000 EUR	2018 Group	2017 Group	2018 Bank	2017 Bank
Interest income				
Interest income on financial assets at amortized cost				
Loans and advances due from customers	3,677	4,369	3,677	4,369
Balances due from financial institutions	335	449	335	449
Debt securities	78	-	78	-
Interest income on debt securities at fair value through profit or loss in other comprehensive income	862	-	862	-
Available-for-sale financial assets	-	383	-	383
Held-to-maturity financial investments	-	199	-	199
Total interest income	**4,952**	**5,400**	**4,952**	**5,400**
Interest expense				
Interest expense recognised on liabilities measured at amortised cost				
Subordinated liabilities	(975)	(1,005)	(975)	(1,005)
Current accounts and deposits due to customers	(358)	(492)	(366)	(504)
Balances due to financial institutions	(163)	(106)	(163)	(106)
Payments to the deposit guarantee fund and other expenses	(81)	(67)	(81)	(67)
Total interest expense	**(1,577)**	**(1,670)**	**(1,585)**	**(1,682)**
Net interest income	**3,375**	**3,730**	**3,367**	**3,718**

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

Interest income on impaired loans and advances due from customers during the year ended 31 December 2018 amounts to EUR 593 thousand (2017: none).

8. Fee and commission income

’000 EUR	2018 Group	2017 Group	2018 Bank	2017 Bank
Servicing current accounts	1,470	932	1,470	932
Asset management and fiduciary services	1,283	951	1,056	725
Brokerage operations	640	557	640	557
Structured products	291	438	291	438
Credit card maintenance	164	146	164	146
Other	75	53	75	53
Total	**3,923**	**3,077**	**3,696**	**2,851**

9. Fee and commission expense

’000 EUR	2018 Group	2017 Group	2018 Bank	2017 Bank
Asset management and brokerage services	220	216	209	209
Customer attraction	185	182	185	272
Settlements	114	85	114	84
Total	**519**	**483**	**508**	**565**

10. General administrative expenses

’000 EUR	2018 Group	2017 Group	2018 Bank	2017 Bank
Employee compensation and payroll taxes	4,212	4,164	3,958	3,953
Professional services	683	608	678	604
Depreciation and amortisation	447	465	445	463
Communications and information services	258	293	256	290
Payment cards expenses	240	223	240	223
Rent and utilities payments	212	212	212	212
IT service costs	180	185	180	185
Advertising and marketing	92	294	91	292
Other employee expenses	80	52	78	52
Repairs and maintenance	55	50	55	50
Other	592	546	586	535
Total	**7,051**	**7,092**	**6,779**	**6,859**

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, tax consultations by phone.

’000 EUR	2018 Group	2017 Group	2018 Bank	2017 Bank
Sworn auditor statutory audit	49	57	45	53
Sworn auditor other audits	-	4	-	4
Sworn auditor tax consultation	-	4	-	4
Total	**49**	**65**	**45**	**61**

In 2018 the Group employed an average of 83 (2017: 84) persons, whereas the Bank employed an average of 79 (2017: 79).

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

	31 Dec 2018 Group	31 Dec 2017 Group	31 Dec 2018 Bank	31 Dec 2017 Bank
Management	6	6	4	3
Heads of divisions and departments	17	15	17	15
Other personnel	66	66	64	64
Total at the end of the year	**89**	**87**	**85**	**82**

11. Impairment loss

Total net asset impairment allowance included in statement of income:

'000 EUR	2018 Group	2017 Group	2018 Bank	2017 Bank
Balances due from financial institutions	1	-	1	-
Debt securities	(159)	(975)	(159)	(975)
Loans and advances due from customers	211	66	211	66
Other financial assets and other assets	(187)	-	(187)	-
Recovered written-off assets	-	4	-	4
Total impairment allowance and provisions charged to income statement, net	**(134)**	**(905)**	**(134)**	**(905)**

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

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

11. Impairment loss (continued)

Changes in the Group and the Bank impairment allowance for the year ended 31 December 2017:

'000 EUR	2017 Group	2017 Bank
Impairment loss		
Loans – collectively assessed impairment	117	117
Increase	(177)	(177)
Decrease	294	294
Available-for-sale securities	(589)	(589)
Increase	(589)	(589)
Decrease	-	-
Held-to-maturity securities - specifically assessed impairment	(382)	(382)
Increase	(382)	(382)
Other non-financial assets	-	-
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)**	**(905)**

12. Income tax

Income tax recognised in the profit or loss:

’000 EUR	2018 Group	2017 Group	2018 Bank	2017 Bank
Deferred tax benefit/(expense)				
Change in deferred tax asset	-	(2,354)	-	(2,267)
Current corporate income tax	(10)	(3)	(10)	-
Total income tax recognised in profit or loss	**(10)**	**(2,357)**	**(10)**	**(2,267)**

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 introduced 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 tax legislation retains certain conditional transitional provisions where the new tax is not calculated on distribution of retained earnings accumulated under previous tax regime (there were no restrictions previously) 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 had 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 have 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 in the financial statements for the year ended 31 December 2017.

The Bank has tax loss EUR 20 million carried forward in corporate income tax declaration as of 31 December 2017 that could be used to decrease income tax on dividends in year 2018 in amount not exceeding 15% of accumulated tax loss. Since accumulated tax loss is not used in year 2018, tax loss carried forward can be used to decrease corporate income tax on dividends in the next 4 years, decreasing the accumulated tax loss by the amount used each year. Accumulated tax loss used to decrease corporate income tax in one year cannot exceed 50% of corporate income tax on dividends payable that year.

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 2018 Group	31 Dec 2017 Group	31 Dec 2018 Bank	31 Dec 2017 Bank
Cash	492	545	492	545
Balances due from central banks	25,166	23,378	25,166	23,378
Subtotal	**25,658**	**23,923**	**25,658**	**23,923**
Demand deposit due from financial institutions	18,282	30,909	18,032	30,827
Total	**43,940**	**54,832**	**43,690**	**54,750**

Deposits with the Bank of Latvia represent the balance outstanding on correspondent account in EUR. Credit institutions should comply with the compulsory reserve requirement calculated on the basis of attracted funding. The Bank’s compulsory reserve must be exceeded by a credit institution’s average monthly EUR balance on its correspondent account with the Bank of Latvia. The Bank is compliant with the requirement to hold the minimum reserves in amount of EUR 789 thousand (2017: EUR 956 thousand) with the Bank of Latvia.

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

’000 EUR	31 Dec 2018 Group	31 Dec 2017 Group	31 Dec 2018 Bank	31 Dec 2017 Bank
Assets				
Equity investments				
Financial institutions shares*	317	316	317	316
Corporate shares*	186	28	186	28
Total equity investments	**503**	**344**	**503**	**344**
Derivative financial instruments				
Foreign currency contracts	473	895	473	895
Foreign currency forward agreements	54	53	54	53
Total derivative financial instruments	**527**	**948**	**527**	**948**
Total assets at fair value	**1,030**	**1,292**	**1,030**	**1,292**
Liabilities				
Derivative financial instruments				
Foreign currency contracts	232	285	232	285
Foreign currency forward agreements	26	19	26	19
Total derivative financial instruments	**258**	**304**	**258**	**304**
Total liabilities at fair value	**258**	**304**	**258**	**304**
National amount				
Derivative financial instruments				
Foreign currency forward agreements	20,536	32,611	20,536	32,611
Foreign currency contracts	2,001	1,821	2,001	1,821
Total derivative financial instruments at national amount	**22,537**	**34,432**	**22,537**	**34,432**

*held for trading

Included in financial assets and financial liabilities at fair value through profit or loss at 31 December 2018 are EUR 1.03 million (2017: EUR 1.29 million) and EUR 0.3 million (2017: EUR 0.3 million) respectively which are classified as held for trading.

15. Balances due from financial institutions

'000 EUR	31 Dec 2018 Group	31 Dec 2017 Group	31 Dec 2018 Bank	31 Dec 2017 Bank
Not impaired or past due				
Nostro accounts				
Latvian commercial banks	250	800	-	718
OECD banks[1]	18,032	28,784	18,032	28,784
Non-OECD banks	-	1,325	-	1,325
Credit ratings[2]				
Rated A- and above	10,280	24,964	10,280	24,964
Rated from BBB- to BBB+	7,456	3,745	7,206	3,745
Rated from BB- to BB+	-	1,211	-	1,211
Rated not below B+	-	148	-	148
Another lower rating	-	28	-	28
Not rated	546	813	546	731
Total nostro accounts	**18,282**	**30,909**	**18,032**	**30,827**
Loans and deposits[3]				
Latvian commercial banks	-	10,638	-	10,638
OECD banks[3]	10,826	23,243	10,826	23,243
Non-OECD banks	-	-	-	-
Credit ratings[2]				
Rated A- and above	8,736	20,971	8,736	20,971
Rated from BBB- to BBB+	-	70	-	70
Not rated	2,090	12,840	2,090	12,840
Total loans and deposits not impaired	**10,826**	**33,881**	**10,826**	**33,881**
Total balances due from financial institutions	**29,108**	**64,790**	**28,858**	**64,708**

1. Nostro accounts held with OECD banks include balances with 3 counterparties (31 December 2017: 4) none of which exceed 36% (31 December 2017: 19%) of the total account balance. The respective counterparties do not have credit ratings lower than BBB+ (31 December 2017: BBB+) as at 31 December 2018.
2. Balances due from financial institutions are classified by average credit rating from three international rating agencies: Moody's Investors Service, Standard & Poor's, Fitch Ratings.
3.Loans and deposits held with OECD banks include balances with 2 financial institutions (31 December 2017: 4) none of which individually exceeds 30% (31 December 2017: 26%) of the total balance. As at 31 December 2018 the respective credit rating of one financial institution is A+, and the other do not have credit ratings (31 December 2017: BBB+) The financial institution, whose credit rating is not available, is registered and operates in the EU.

As at 31 December 2018 and 2017 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 2018 and 2017 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 2018 and 2017 none of these balances individually exceeded 36 % and 26 % 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 2018 was EUR 26,222 thousand (31 December 2017: EUR 52,368 thousand) and it included three banks (31 December 2017: 4) with the credit rating not lower than BBB+(31 December 2017: A-).

16. Loans and advances due from customers

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

'000 EUR	31 Dec 2018 Group	31 Dec 2017 Group	31 Dec 2018 Bank	31 Dec 2017 Bank
Corporate entities	24,657	29,790	24,657	29,790
Private individuals	12,603	15,000	12,603	15,000
Financial auxiliaries and other financial intermediaries	770	1,304	770	1,304
Total loans and advances due from customers	**38,030**	**46,094**	**38,030**	**46,094**
Total impairment allowance	**(327)**	**(708)**	**(327)**	**(708)**
Loans and advances due from customers, net	**37,703**	**45,386**	**37,703**	**45,386**

Two loans in the total amount of 178 thousand EUR had active restructured status as at 31 December 2018 (2017: two loans, 7,228 thousand EUR). Impairment allowance in the total amount of 30 thousand EUR (2017: 0 EUR) has 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 2018 Group/Bank				31 Dec 2017 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	30,023	59,998	56	-	29,371	62,348	698	-
Consumer loans	4,673	11,696	196	-	4,484	8,628	118	-
Reverse repo	669	996	-	-	1,566	2,984	-	-
Mortgage loans	873	2,683	-	-	5,612	15,843	-	-
Other	-	-	1,540	-	974	1,959	3,271	1,144
Loans and advances due from customers	**36,238**	**75,373**	**1,792**	-	**42,007**	**91,762**	**4,087**	**1,144**
Impairment allowance	(109)	-	(218)	-	(362)	-	(346)	-
Loans and advances due from customers, net	**36,129**	**75,373**	**1,574**	-	**41,645**	**91,762**	**3,741**	**1,144**

16. Loans and advances due from customers (continued)

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

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

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

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

’000 EUR	31 Dec 2018 Group	31 Dec 2017 Group	31 Dec 2018 Bank	31 Dec 2017 Bank
Loans and advances due from customers				
Russia	18,448	26,931	18,448	26,931
OECD countries	13,941	12,844	13,941	12,844
Latvia	979	158	979	158
Other countries*	4,670	6,161	4,670	6,161
Total loans and advances due from customers	**38,038**	**46,094**	**38,038**	**46,094**
Total impairment allowance	**(327)**	**(708)**	**(327)**	**(708)**
Loans and advances due from customers, net	**37,711**	**45,386**	**37,711**	**45,386**

* 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.)

Significant credit exposures

As at 31 December 2018 Group and Bank had four borrowers, whose total debt exceeded 10% of Group’s and Bank’s issued Loan amount which occurred as a result of the overall decrease of loan portfolio. Total amount of these borrowers’ debt was equal to EUR 16,700 thousand. As of 31 December 2017, 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 2018 and 2017 the Group was in compliance with this requirement.

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

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

'000 EUR	31 Dec 2018 Group	31 Dec 2017 Group	31 Dec 2018 Bank	31 Dec 2017 Bank
Debt and other fixed-income instruments				
Government and municipal bonds				
European Union	17,380	8,052	17,380	8,052
Latvia	876	2,380	876	2,380
Other countries	8,480	2,494	8,480	2,494
Total government and municipal bonds	**26,736**	**12,926**	**26,736**	**12,926**
Financial authorities and institutions bonds				
Latvia	-	1,149	-	1,149
European Union	2,518	1,210	2,518	1,210
Total Financial authorities and institutions bonds	**2,518**	**2,359**	**2,518**	**2,359**
Corporate bonds				
European Union and EEA	1,105	2,199	1,105	2,199
Latvia	1,103	1,109	1,103	1,109
Other countries	2,249	1,755	2,249	1,755
Total corporate bonds	**4,457**	**5,063**	**4,457**	**5,063**
Total debt and other fixed-income instruments	**33,711**	**20,348**	**33,711**	**20,348**
Non-fixed income investments				
Investment funds and shares	-	724	-	724
Total non-fixed income investments	**-**	**724**	**-**	**724**
Total debt securities measured at fair value through other comprehensive income	**33,711**	**-**	**33,711**	**-**
Total Available-for-sale financial assets	**-**	**21,072**	**-**	**21,072**

Geographical allocation is based on countries of principal entities.

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

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

’000 EUR	31 Dec 2018 Group	31 Dec 2017 Group	31 Dec 2018 Bank	31 Dec 2017 Bank
Debt and other fixed-income instruments				
Government and municipal bonds[1]				
Rated from AAA- to A-	25,701	10,774	25,701	10,774
Rated from BBB- to BBB+	529	1,093	529	1,093
Rated from BB- to BB+	-	1,059	-	1,059
Not rated	506	-	506	-
Total government and municipal bonds	**26,736**	**12,926**	**26,736**	**12,926**
Financial authorities and institutions bonds				
Rated from AAA to AA-	2,319	1,009	2,319	1,009
Rated from B- to B	199	1,350	199	1,350
Total Financial authorities and institutions bonds	**2,518**	**2,359**	**2,518**	**2,359**
Corporate bonds				
Rated from BB- to BB+	437	974	437	974
Rated from B+ and below	-	972	-	972
Not rated	4,020[2]	3,117[3]	4,020[2]	3,117[3]
Total corporate bonds	**4,457**	**5,063**	**4,457**	**5,063**
Total debt and other fixed-income instruments	**33,711**	**20,348**	**33,711**	**20,348**
Non-fixed income investments	**-**	**724**	**-**	**724**
Total debt securities measured at fair value through other comprehensive income	**33,711**	**-**	**33,711**	**-**
Total Available-for-sale financial assets	**-**	**21,072**	**-**	**21,072**

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. According to IFRS 9 seven issuers’ financial instruments (FI) in the total amount of EUR 3,642 thousand have been included in Stage 1. One issuer’s FI in the amount of 478 TEUR have been included in Stage 2. One issuer’s FI in the amount of EUR 99 thousand have been included in Stage 3.
3. 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. Debt securities measured at amortized cost

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

'000 EUR	31 Dec 2018 Group	31 Dec 2017 Group	31 Dec 2018 Bank	31 Dec 2017 Bank
Debt and other fixed-income instruments				
Government and municipal bonds				
European Union	5,569	9,630	5,569	9,630
Total government and municipal bonds, gross	**5,569**	**9,630**	**5,569**	**9,630**
Impairment allowance	**18**	**-**	**18**	**-**
Total government and municipal bonds, net	**5,551**	**9,630**	**5,551**	**9,630**
Financial institutions and corporate bonds				
European Union and EEA	-	77	-	77
Total financial institutions and corporate bonds	**-**	**77**	**-**	**77**
Total debt securities measured at amortized cost, net	**5,551**	**-**	**5,551**	**-**
Total held-to-maturity investments	**-**	**9,707**	**-**	**9,707**

Geographical allocation is based on countries of principal entities.

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

'000 EUR	31 Dec 2018 Group	31 Dec 2017 Group	31 Dec 2018 Bank	31 Dec 2017 Bank
Debt and other fixed-income instruments				
Government and municipal bonds[1]				
Rated from AAA- to AAA+	-	2,091	-	2,091
Rated from AA- to AA+	3,501	3,330	3,501	3,330
Rated A- and above	-	524	-	524
Rated from BBB- to BBB+	2,050	3,685	2,050	3,685
Total government and municipal bonds, net	**5,551**	**9,630**	**5,551**	**9,630**
Financial institutions and corporate bonds				
Not rated	-	77	-	77
Total financial institutions and corporate bonds	**-**	**77**	**-**	**77**
Total debt securities measured at amortized cost, net	**5,551**	**-**	**5,551**	**-**
Total held-to-maturity investments	**-**	**9,707**	**-**	**9,707**

[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

Bank's investment in subsidiary

'000 EUR	31 Dec 2018	31 Dec 2017
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 2018	100 %
31 December 2017	100 %

Financial position of the subsidiary

'000 EUR	As at 31 Dec 2018	As at 31 Dec 2017
Non-current assets	2	3
Current assets	1,437	1,494
Current liabilities	(17)	(34)
Net assets	**1,422**	**1,463**
Group share in net assets	**100 %**	**100 %**
	2018	**2017**
Income	235	302
Expenses	(275)	(236)
Income tax	-	(90)
Profit or loss	**(40)**	**(24)**
Group share in profit or loss	**100%**	**100%**
Impairment of investment in subsidiary	-	(582)
Carrying amount	**1,292**	**1,292**

During the year ended 31 December 2018 and 2017 the Group did not receive dividends from investment in subsidiary.
In 2013 the Bank invested EUR 1,874 thousand in a subsidiary Signet Asset Management Latvia IPAS which as at 31 December 2018 had the net asset value of EUR 1,422 thousand which mainly consists of cash and term deposits of EUR 1,373 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; no additional impairment was required as a result of the assessment.
The assessment was based on discounted dividend model. The profit after tax was assumed to be a proxy for free cash flows available for dividend distribution to the shareholders. The discount rate was calculated based on cost of equity that was determined in amount of 13.51% (2017: 11.50%). The model expects that in 2019 the subsidiary will have a significant increase of income (+ EUR 83 thousand, that is + 36%), and moderate growth in the coming years (in average + EUR 40 thousand, that is + 11%). The Bank applied terminal growth rate of 2%.
The Bank still considers that Signet Asset Management Latvia IPAS is a significant business line having sustainable development and growth prospects for the future.

20. Investment in associates

In 2016, the Bank invested in investment company's SIA “LS Medical Property” share capital EUR 544 thousand with the participation of 32%. During 2018 and 2017 investment was increased by a total of EUR 256 thousand up to EUR 800 thousand, retaining the ownership of 32%. As the Bank does not have the control over SIA “LS Medical Property” the investment is not consolidated in the Group’s consolidated financial statements.

’000 EUR	31 Dec 2018	31 Dec 2017
Investments SIA ”LS Medical Property”	800	672

	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 2018	32 %
31 December 2017	32 %

Financial position of the associate

’000 EUR	As at 31 Dec 2018	As at 31 Dec 2017
Non-current assets	2,089	1,726
Current assets	133	378
Current liabilities	(55)	(4)
Net assets	**2,167**	**2,100**
Bank’s share 32% in net assets	**694**	**672**
	2018	**2017**
Expenses	(214)	(117)
Loss	**(214)**	**(117)**
Bank’s share 32% in loss	**(69)**	**(37)**
Carrying amount	**694**	**635**

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

20. Investment in associates (continued)

In December 2018 the Bank and its customers have obtained 33.34% of share capital (the Bank directly 10.32%) in SIA "Citra Kaļķu" as a result of a loan restructuring, which gives the Bank significant influence. In addition, the Bank exercises significant influence through its representative on the management board of SIA "Citra Kaļķu". Therefore, the Bank considers its investment in SIA "Citra Kaļķu" as investment in associate. The entity is not a subsidiary, since the Bank does not have control and therefore it does not consolidate the investee.

'000 EUR	31 Dec 2018
Investments SIA "Citra Kaļķu"	1,312

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

Financial position of the associate

'000 EUR	As at 31 Dec 2018
Non-current assets	10,947
Current assets	19
Non-current liabilities	(1,132)
Current liabilities	(16)
Net assets	**9,818**
Bank's share 10.32% in net assets	**1,013**
	2018
Income	131
Expenses	(20)
Loss	**111**
Bank's share 10.32% in profit, since acquisition	**11**
Impairment of investment in associate	**(299)**
Net carrying amount	**1,024**

Upon acquisition of SIA "Citra Kaļķu" (hereinafter – SIA) the Bank adjusted fair value of the investee's assets, based on their highest and best use that was determined to be a construction of a higher class hotel on SIA's land plot. As a basis for valuation the Bank used a valuation report prepared by an external certified real estate appraiser.

20. Investment in associates (continued)

In subsequent development of a project for hotel construction the Bank has attracted a real estate (hereinafter – RE) development sector expert, as well as other experts in order to prepare a financial model of the development project, which contains the following key parameters and sources for validation of the parameters:

- occupancy rate which is based on average hotel occupancy rate in Riga adjusted for location; occupancy rate is lower in first years and gradually increases in subsequent years. As a basis for the forecast and validation of the rate the Bank used a report by an external real estate appraiser on higher class hotels, opinions and research results of external experts, as well as forecasts by a RE development sector expert;
- hotel room rates, which were validated using offers published in open internet sources and hotel reservation systems for hotels operating in Riga city centre for different times of the year, as well as forecasts by a RE development sector expert;
- income from hotel restaurant, which was validated using experience and calculations by Bank's cooperation partner specialising in RE project development, opinions and research results of external experts, as well as Bank's experience from other projects related to financing of hotels;
- hotel construction term, which was validated using publicly available information about construction of a comparative hotel, as well as forecasts by a RE development sector expert;
- hotel sales price, which was validated using Bloomberg data about EV/EBITDA ratios for hotels operating in Europe;
- construction costs, which were validated using experience and calculations by Bank's cooperation partner specialising in RE project development;
- capitalisation rate, which was validated using experience and calculations by Bank's cooperation partner specialising in RE project development, opinions and research results of external experts, as well as Bank's experience from other projects related to financing of hotels.

In order to make sure that hotel construction project can be developed on SIA's land plot, the Bank used Riga city territorial plan and Regulations on Usage and Construction of the Riga Historical Centre and its Protection Zone Territory.

Applying the assumptions described above, net present value of the project was determined at EUR 10,947 thousand. As a result, the Bank has corrected the value of investment proportionally to its share ownership, decreasing it by EUR 299 thousand to EUR 1,024 thousand.

Key parameters and results of sensitivity analysis for the hotel development project are presented below. Sensitivity analysis was prepared to calculate changes in net present value of the project in cases when key hotel parameter will be worse than forecasted.

Parameter	Parameter value	Net present value EUR'000, from unfavourable changes in the parameter by 5%	Net present value EUR'000, from unfavourable changes in the parameter by 10%
Occupancy rate	65% (in 4th year of operations)	8,740	6,533
Hotel room rate	130 EUR on average	8,740	6,533
Income from restaurant	Up to 30% (restaurant income share in total income)	10,690	10,434
Hotel sales price	EUR 55,532 thousand excl. VAT 21%	9,133	7,320
Construction costs	EUR 22,967 thousand	9,897	8,849
Capitalisation rate	7%	8,554	6,417

21. Property and equipment

Group '000 EUR	Leasehold improvements	Other	Total
Cost			
At 1 January 2018	2,330	1,512	3,842
Additions	-	64	64
At 31 December 2018	**2,330**	**1,576**	**3,906**
Depreciation			
At 1 January 2018	857	990	1,847
Depreciation charge	143	161	304
At 31 December 2018	**1,000**	**1,151**	**2,151**
Carrying value			
At 31 December 2018	**1,330**	**425**	**1,755**
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**
At 31 December 2016	1,616	551	2,167

Banka '000 EUR	Leasehold improvements	Other	Total
Cost			
At 1 January 2018	2,330	1,478	3,808
Additions	-	64	64
At 31 December 2018	**2,330**	**1,542**	**3,872**
Depreciation			
At 1 January 2018	857	959	1,816
Depreciation charge	143	160	303
At 31 December 2018	**1,000**	**1,119**	**2,119**
Carrying value			
At 31 December 2018	**1,330**	**423**	**1,753**
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**
At 31 December 2016	1,616	548	2,164

22. Goodwill and other intangible assets

Group '000 EUR	Goodwill	Software	Other	Total
Cost				
At 1 January 2018	-	625	219	844
Additions	-	5	5	10
At 31 December 2018	**-**	**630**	**224**	**854**
Amortisation				
At 1 January 2018	-	377	154	531
Amortisation charge	-	115	27	142
At 31 December 2018	**-**	**492**	**181**	**673**
Carrying value				
At 31 December 2018	**-**	**138**	**43**	**181**
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**
At 31 December 2016	788	235	112	1,135

Bank '000 EUR	Software	Other	Total
Cost			
At 1 January 2018	625	218	843
Additions	5	5	10
At 31 December 2018	**630**	**223**	**853**
Amortisation			
At 1 January 2018	377	153	530
Amortisation charge	115	27	142
At 31 December 2018	**492**	**180**	**672**
Carrying value			
At 31 December 2018	**138**	**43**	**181**
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**
At 31 December 2016	235	111	346

23. Other assets

’000 EUR	31 Dec 2018 Group	31 Dec 2017 Group	31 Dec 2018 Bank	31 Dec 2017 Bank
Other financial assets				
Settlement of payment cards[1]	752	523	752	523
Other financial assets	**752**	**523**	**752**	**523**
Other non-financial assets				
Accrued income	71	159	68	134
Prepayments	229	143	207	143
Settlement of tax	19	22	19	17
Other	67	44	66	44
Other non-financial assets	**386**	**368**	**360**	**338**
Impairment allowance	**(12)**	**-**	**(12)**	**-**
Total other assets	**1,126**	**891**	**1,100**	**861**

[1] Impairment allowance for credit cards in total amount of EUR 2 thousand is presented under expected credit loss allowance

24. Deposits

Client deposits split by their profile

’000 EUR	31 Dec 2018 Group	31 Dec 2017 Group	31 Dec 2018 Bank	31 Dec 2017 Bank
Current accounts and demand deposits	**88,220**	**119,384**	**88,317**	**120,060**
Private individuals	26,636	42,500	26,636	42,500
Corporates	61,584	76,884	61,681	77,560
Term deposits	**13,672**	**15,730**	**14,737**	**16,345**
Private individuals	6,798	8,126	6,798	8,126
Corporates	6,874	7,604	7,939	8,219
Total current accounts and demand deposits	**101,892**	**135,114**	**103,054**	**136,405**

Geographical analysis of the deposits

’000 EUR	31 Dec 2018 Group	31 Dec 2017 Group	31 Dec 2018 Bank	31 Dec 2017 Bank
Current accounts and demand deposits	**88,220**	**119,384**	**88,317**	**120,060**
OECD countries	40,061	72,913	40,061	72,913
Russia	7,153	27,230	7,153	27,230
Latvia	37,478	10,205	37,575	10,881
Other countries	3,528	9,036	3,528	9,036
Term deposits	**13,672**	**15,730**	**14,737**	**16,345**
Latvia	4,198	5,778	5,263	6,393
OECD countries	5,184	6,018	5,184	6,018
Russia	1,027	1,543	1,027	1,543
Other countries	3,263	2,391	3,263	2,391
Total current accounts and demand deposits	**101,892**	**135,114**	**103,054**	**136,405**

Concentrations of current accounts and customer deposits

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

25. Subordinated liabilities

’000 EUR	31 Dec 2018 Group	31 Dec 2017 Group	31 Dec 2018 Bank	31 Dec 2017 Bank
Subordinated borrowings				
Private individuals	13,216	12,468	13,216	12,468
Corporates	5,022	5,022	5,022	5,022
Total Subordinated borrowings	**18,238**	**17,490**	**18,238**	**17,490**

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	2018 Group	2017 Group	2018 Bank	2017 Bank
Balance of subordinated borrowings at 1 January	**17,490**	**21,034**	**17,490**	**21,034**
Decrease in subordinated borrowings	(300)	-	(300)	-
Changes from financing cash flows				
Other changes Liability-related				
Interest expense	975	1,005	975	1,005
Interest paid	(365)	(2,520)	(365)	(2,520)
Interest paid in advance decrease / (increase)	438	(2,029)	438	(2,029)
Total liability-related other changes	**1,048**	**(3,544)**	**1,048**	**(3,544)**
Balance of subordinated borrowings at 31 December	**18,238**	**17,490**	**18,238**	**17,490**

Concentrations of subordinated borrowings

As of 31 December 2018 and 2017, 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	
						31.12.2018	31.12.2017
Private individual - non-resident	USD	6,000	5 %	09.12.2014	09.12.2019	4,995	5,003
Corporates - non-resident	EUR	5,000	5.2635 %	24.08.2015	24.08.2020	5,022	5,022

26. Other liabilities

’000 EUR	31 Dec 2018 Group	31 Dec 2017 Group	31 Dec 2018 Bank	31 Dec 2017 Bank
Suspense liabilities and money in transit	581	474	581	474
Accrued expenses	366	301	362	297
Provision for employee vacations	235	256	225	232
Deferred income	195	159	195	159
Other	54	74	51	158
Total other liabilities	**1,431**	**1,264**	**1,414**	**1,320**

27. Share capital

Issued capital and share premium

'000 EUR	31 Dec 2018		31 Dec 2017	
	Number of shares	EUR	Number of shares	EUR
Authorised share capital as of 1 January	459,582	32,170,740	459,582	32,170,740
Issued and fully paid share capital as of 1 January	459,582	32,170,740	459,582	32,170,740
Authorised share capital as of 31 December	459,582	32,170,740	459,582	32,170,740
Issued and fully paid share capital as of 31 December	**459,582**	**32,170,740**	**459,582**	**32,170,740**

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

The shareholders of the Bank as of 31 December 2018 and 31 December 2017 were as follows:

Shareholder	31 Dec 2018			31 Dec 2017		
	Number of shares	Paid share capital (EUR)	Share capital ownership %	Number of shares	Paid share capital (EUR)	Share capital ownership %
Signet Global Investors Limited	114,896	8,042,720	25.00 %	114,896	8,042,720	25.00 %
SIA "Hansalink"	102,487	7,174,090	22.30 %	102,487	7,174,090	22.30 %
Arkadiy Perelshtein	45,490	3,184,300	9.90 %	45,490	3,184,300	9.90 %
SIA "Fin.lv" *	40,360	2,825,200	8.79 %	40,360	2,825,200	8.79 %
Leonid Kaplan	31,200	2,184,000	6.79 %	31,200	2,184,000	6.79 %
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 %	16,085	1,125,950	3.50 %
Soloman Rutenberg	16,085	1,125,950	3.50 %	16,085	1,125,950	3.50 %
Total	**459,582**	**32,170,740**	**100 %**	**459,582**	**32,170,740**	**100 %**

* Joint control with a shareholding of 18.21%.

On 20 September 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.

Reserves

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

28. Operating leases

Operating lease rentals are payable as follows:

'000 EUR	31 Dec 2018 Group	31 Dec 2017 Group	31 Dec 2018 Bank	31 Dec 2017 Bank
Less than one year	142	142	142	142
Between one and five years	566	566	566	566
More than five years	613	755	613	755
Total operating leases	**1,321**	**1,463**	**1,321**	**1,463**

The Bank leases its headquarters under operating lease. The lease ends on 1 May 2028, with an option to renew the lease after that date. Lease payments are fixed. None of the leases include 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 (2017: EUR 142 thousand). From 2019, lease payments will not be recognized in the income statement in accordance with IFRS 16, but as depreciation of entitlement to use the asset and interest expense on the lease liability.

29. Assets under management

Asset management services

The Group through its Subsidiary provides asset management services to individuals and companies. The Group receives management fee for providing these services. The assets under management of the Subsidiary are not included in neither the consolidated nor separate statement of financial position.
As of 31 December 2018 the Group had EUR 344.99 million (2017: EUR 140.25 million) assets under management of which the Bank held EUR 290.11 million (2017: EUR : 82.49 million) and the Subsidiary held EUR 54.87 million (2017: EUR 57.76 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 2018 the total amount in custody on behalf of customers was EUR 159.07 million (31 December 2017: EUR 150.09 million).

30. Related party transactions

Transactions with members of the Key Management Personnel

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

'000 EUR	2018 Group	2017 Group	2018 Bank	2017 Bank
Remuneration to the Key Management Personnel	684	629	572	542

The outstanding balances as of 31 December 2018 and 31 December 2017 with members of the Key Management Personnel are as follows:

'000 EUR	31 Dec 2018 '000 EUR	31 Dec 2017 '000 EUR
Statement of financial position		
Assets		
Other assets	8	55
Liabilities		
Current accounts	57	35

Transactions with related parties of the Bank

The outstanding balances as of 31 December 2018 and as of 31 December 2017 and related profit or loss amounts of transactions for the year ended 31 December 2018 and 31 December 2017 with other related parties are as follows:

'000 EUR	2018					2017				
	Subsidiary company	Associate companies	Share-holders*	Other	Total	Subsi-diary company	Associate company	Share-holders	Other	Total
Statement of financial position										
Assets										
Available-for-sale financial assets	-	-	-	-	**-**	-	-	-	300	**300**
Loans to customers	-	147	-	504	**651**	-	-	-	127	**127**
Total assets	**-**	**147**	**-**	**504**	**651**	**-**	**-**	**-**	**427**	**427**
Liabilities										
Current accounts and deposits due to customers	1,163	124	617	61	**1,965**	1,292	247	6	1,917	**3,462**
Total liabilities	**1,163**	**124**	**617**	**61**	**1,965**	**1,292**	**247**	**6**	**1,917**	**3,462**
Income/ (expenses)										
Fee and commission income	-	-	2	101	**103**	93	14	2	22	**131**
Interest income/ (expenses)	(7)	-	-	2	**(5)**	(12)	-	34	112	**134**

* with a shareholding of over 10%

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

31. Financial assets pledged

'000 EUR	2018 Group	2017 Group	2018 Bank	2017 Bank
Short term deposits with credit institutions	-	1	-	1
Other deposits with financial institutions	444	949	444	949
Total financial assets pledged	**444**	**950**	**444**	**950**

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

32. Commitments and guarantees

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

'000 EUR	31 Dec 2018 Group	31 Dec 2017 Group	31 Dec 2018 Bank	31 Dec 2017 Bank
Contracted amount				
Loan commitments	145	1,977	145	1,977
Unutilised credit line	1	1	1	1
Undrawn overdraft facilities[1]	690	609	690	609
Total commitments and guarantees	**836**	**2,587**	**836**	**2,587**

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

33. 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.

2018, '000 EUR	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss	317	527	186	1,030
Financial instruments designated at fair value through profit or loss	32,303	-	1,408	33,711
	32,620	**527**	**1,594**	**34,741**
Financial liabilities				
Financial liabilities at fair value through profit or loss	-	258	-	258
	-	**258**	**-**	**258**
2017, '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**

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	Financial instruments designated at fair value through profit or loss	Total
2018			
Balance at 1 Jan 2018	-	**1,360**	**1,360**
Total gains and losses:			
in profit or loss	(3)	91	**88**
in OCI	-	27	**27**
Purchases	189	505	**694**
Settlements	-	(575)	**(575)**
Balance at 31 Dec 2018	**186**	**1,408**	**1,594**
'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	-	(8,399)	(8,399)
Balance at 31 Dec 2017	**-**	**1,360**	**1,360**

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 instruments designated at fair value through profit or loss	Available for sale instruments
	2018	2017
Total gains and losses included in profit or loss:	**38**	**(450)**
Net realised gain for financial instruments from Level 3	91	125
Impairment loss for financial instruments from Level 3	(53)	(575)
Total losses recognised in other comprehensive income	**27**	**(178)**
Financial instruments – net change in fair value	27	(178)

As of 31 December 2018 the Group and Bank's fair value hierarchy Level 3 portfolio is represented by 5 bond issuers operating in Real estate, Technology & Offshore Supply Vessel sectors. As of 31 December 2017 the Group and Bank's fair value hierarchy Level 3 portfolio is represented by 1 Investment fund and 6 bond issuers operating in Real estate, Financial, Technology & Offshore Supply Vessel sectors.
Precise discount rate 7.00% - 10.75% (2017: 0.00% - 10.75%) is an unobservable variable due to low liquidity of these instruments.
As of 31 December 2018 change of discount rate by 300 bps will have the following effect on The Group's and Bank's value of Level 3 portfolio fair value:

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

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

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 2018, '000 EUR	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash and due from central bank[1]	-	-	-	25,658	25,658
Balances due from financial institutions[2]	-	-	-	18,282	18,282
Financial assets measured at amortized cost	5,551	-	48,425	54,976	54,080
Other financial assets[3]	-	-	-	752	752
Financial liabilities					
Deposits	-	-	101,787	101,787	101,892
Subordinated liabilities	-	-	19,865	19,865	18,238
31 December 2017, '000 EUR	**Level 1**	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
Financial assets					
Cash and due from central bank[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 due to central bank	-	-	-	1	1
Deposits	-	-	134,848	134,848	135,114
Subordinated liabilities	-	-	19,772	19,772	17,490

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 2018, '000 EUR	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash and due from central bank[1]	-	-	-	25,658	25,658
Balances due from financial institutions[2]	-	-	-	18,032	18,032
Financial assets measured at amortized cost	5,551	-	48,425	53,976	54,080
Other financial assets[3]	-	-	-	752	752
Financial liabilities					
Deposits	-	-	100,822	100,822	103,054
Subordinated liabilities	-	-	19,865	19,865	18,238
31 December 2017, '000 EUR	**Level 1**	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
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 due to central bank	-	-	-	1	1
Deposits	-	-	134,923	134,923	136,405
Subordinated liabilities	-	-	19,772	19,772	17,490

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

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

Financial instruments measured at fair value

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

Financial instruments not measured at fair value

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

34. Litigations

In the ordinary course of business, the Bank is involved in a number of litigations between the Bank and its clients. As at 31 December 2018, there were 4 ongoing litigations against the Bank with a total amount of EUR 8.671 million (31 December 2017: EUR 8.671 million). No adverse judgements for the Bank are expected in the aforementioned litigations, which is evidenced by the actual circumstances of the cases, judgements already passed that are favourable to the Bank, as well as the Bank's external legal advisers' opinions. As a result, no liabilities or provisions have been recognised for these litigations, as the likelihood that these claims will result in a loss or outflow of economic resources from the Bank is low.

In addition to litigations mentioned above, there is a claim brought against the Bank in a third country's court requesting a repayment of an interbank loan of EUR 13.7 million issued to the Bank and requesting to recognise financial pledge agreement null and void.

On 19 July 2018 the third country's court upheld the claim to repay the interbank loan and on 28 September 2018 the third country's court upheld the claim to recognise financial pledge agreement null and void. The Bank has appealed against the abovementioned court decisions in the supreme court of the third country; the case of appeal has not yet been heard. As of the date of approval of these financial statements, there have been no enforcement actions in relation to the court decisions.

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

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

35. Going Concern considerations

Several major changes in the operating environment of Latvian and Baltic financial services industry occurred during 2018 and early 2019:

- on 13 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, ABLV Banka. On 19 February 2018, following an outflow of funds from that bank, 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 the bank started;
- in response to these events, several amendments to Latvian legislation were adopted in 2018, which introduced significant restrictions on the risk profile of clients that banks may serve. Representatives of the Latvian government have publicly stated that the government's goal is to reduce the share of non-residents among the Latvian bank customers to 5%;
- on 23 August 2018, report on the 5th round of the Council of Europe's Moneyval Committee on Mutual Evaluation of Latvia was officially published, evaluating national measures to prevent money laundering and terrorist financing. Based on the outcome of Moneyval's evaluation procedures, Latvia has been subjected to enhanced supervision, and Latvia is required to submit a progress report within one year including an overview implementation status for the recommendations. Failure to implement these recommendations can lead to significant negative consequences for Latvia's access to international financial markets;
- in mid-2018 and early 2019, two large Scandinavian banks - Danske Bank and Swedbank - gained wide negative publicity in connection with suspected involvement in money laundering activities. Regulators in several countries have launched investigations into possible incompliances by Danske Bank in this area. On 19 February 2019, the Estonian Banking Supervision Institute, Finantsinspektsioon, issued an order to close the Danske Bank's branch in Estonia. On the same day, Danske Bank announced the closure of its branches in the Baltic States and the Russian Federation.

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

At the end of 2018 FCMC started an audit of effectiveness of the Bank's AML/CFT internal control system. The audit has not been completed as of the date of these financial statements and the Bank's management has not received any details about the audit result. In the light of recent experience in the banking sector, sanctions imposed based on audit results can not be excluded.

As described in Note 34, in the ordinary course of business, the Bank is involved in five litigations, with 5 claims raised against the Bank for the total amount of EUR 22.4 million. The Bank's management has performed an extensive legal analysis engaging local and international legal advisers, and is certain that courts' decisions will not result in any negative legal or financial consequences to the Bank. Although very unlikely, the outcome of these litigations could be substantially different from the conclusions reached in legal analysis.

The management of the Group has regular contacts with the key cooperation partners and regulatory institutions and carefully follows the potential changes in its operating environment.

35. Going Concern considerations (continued)

In July 2018 the Bank submitted adjusted strategy to FCMC, which continues to focus on providing investment banking and capital management services to high-net-worth clients and businesses owned by such clients, and incorporates recent changes in the Latvian legislation and also intention of Latvian authorities to substantially reduce the amount of non-resident deposits in the Latvian banking system. In 2018, the Bank implemented a range of improvements and process reorganizations to mitigate the risks associated with the above-mentioned circumstances (see Note 4) and during 2019, the Bank's management plans to continue working on the changes required by its defined strategy. The Bank's management considers that the adjusted strategy will allow the Bank to secure sustainable profits in the long-term.
Management recognizes that an uncertainty exists in relation to the future outcomes of the above mentioned events and their impact on the Group's and Bank's operations. However, the magement considers that the probability of impact from these events, together or separately, does not create significant doubts about the Group's and Bank's ability to continue as a going concern within the next 12 months since the approval of these financial statements.

36. Events subsequent to the reporting date

As of the last day of the reporting year until the date of signing these consolidated and separate financial statements there have been no events requiring adjustment of or disclosure in these financial statements or notes thereto.

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Independent Auditors' Report

To the shareholders of AS "Signet Bank"

Report on the Audit of the Separate and Consolidated Financial Statements

Our Opinion on the Separate and Consolidated Financial Statements
We have audited the separate financial statements of "Signet Bank" AS ("the Bank") and consolidated financial statements of the Bank and its subsidiary ("the Group") set out on pages 8 to 81 of the accompanying separate and consolidated Annual Report, which comprise:

- the separate and consolidated statement of financial position as at 31 December 2018;
- the separate and consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the separate and consolidated statement of changes in equity and reserves for the year then ended;
- the separate and consolidated statement of cash flows for the year then ended;
- notes to the separate and consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate and consolidated financial statements give a true and fair view of the separate and consolidated financial position of the Bank and the Group as at 31 December 2018, and of its separate and consolidated financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union (IFRS).

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

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

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

Emphasis of Matter
We draw attention to note 34 of the accompanying separate and consolidated financial statements, according to which the Bank is a defendant in a legal process involving dispute over a financial instrument where management believes it has made a settlement. On 19 July 2018 a foreign Arbitration Court ruled in favour of the claimant and ordered the Bank to make payment for its outstanding liability around EUR 13,7 million as at 31 December 2018. Management of the Bank has made an extensive legal analysis covering jurisdiction in the Republic of Latvia as well as several EU and other countries and, based on legal advice it received, has concluded that, while there is a significant uncertainty as to the ultimate outcome of this legal process, it is less than probable that it will result in an outflow of economic benefits to settle the liability. Therefore, the Bank and the Group have not recognised any provisions related to this case.

We also draw attention to note 35 to the accompanying separate and consolidated financial statements which describes management's assessment of the Bank's and the Group's ability to continue as a going concern and its conclusion that there are no events or conditions 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 these matters.

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

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

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

Key audit matter	The loans and receivables due from customers consist of limited number of high value credit risk exposures for EUR 38 030 thousand by the gross amount as at 31 December 2018 with total impairment allowances of EUR 327 thousand as at 31 December 2018 (more details are provided in the note 16 of the separate and consolidated financial statements and information about the measurement policies is provided the note 3 (m)). 97,5% of loans to customers by the net carrying value as at 31 December 2018 are due from customers based and operating outside Latvia (more details on geographical analysis of the loan portfolio are provided in the note 16 of the separate and consolidated financial statements). Identification of a significant increase in credit risk and assessment of lifetime expected credit loss requires the management to exercise subjective judgment and develop complex financial models and therefore, we considered this as a key audit matter.
Our audit response	We assessed whether the accounting policies in relation to the impairment of loans to customers are in compliance with IFRS requirements especially the IFRS 9 which become effective on 1 January 2018. We assessed Bank's and

Group's expected credit loss assessment methodology for compliance with the new standard and challenged impairment allowances as at initial application and at 31 December 2018. We also have assessed that definition of default and the staging criteria have been defined in line with IFRS 9 requirements and were consistently applied. We tested control processes related to risk monitoring, identification of loss events and calculation of the impairment allowances.

We made detailed inspection of loan files covering 96,5% of outstanding loans to customers by the net carrying value as at 31 December 2018 (including all loans classified by the Bank as credit-impaired). As part of the procedure we assessed the customer financial situation and capacity to support debt repayments or, if this was not the case, management's exit plans and activities, as well as available sources of loan repayment. Majority of the loans issued by the Bank are collateral based loans therefore in most cases the key source of loan recovery, if a loan is non-performing, is realization of collateral provided for specific loans – mainly real estate. We involved our internal valuation specialists who performed detailed assessment of assumptions and information sources used in valuation reports provided by independent valuation specialists and the Bank's analysts, including independent checks on market prices for comparable properties and benchmarking assumptions used within the cash flow forecasts against market practice.

In cases where our assessment of the likely outcome of loan recovery process was different from that of the management, we required from management representatives work-out scenarios and associated changes in the cash flow forecast models. Where we could not obtain sufficient comfort that the existing level of loan loss allowances adequately represents the impairment in the value of particular loan, we proposed necessary changes in loan loss allowances as at 31 December 2018.

We have assessed the accuracy and completeness of the financial instrument related disclosures such as classification of loans and development in loan loss allowances, against the IFRS requirements.

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

Key audit matter	The balance sheet value of the Banks investments in subsidiary and associated companies as at 31 December 2018 is EUR 3 105 thousand (more details on these investments are provided in the notes 19 and 20 while information on the recognition and measurement principles are provided in the note 3 (d) (i and ii) of the separate and consolidated financial statements). Determination of the recoverable amounts for investments in subsidiaries and associated companies is associated with significant estimation uncertainty as it involves subjective management judgments with respect to future operating cash flows, growth rates and discount rates.

The above uncertainty was particularly high in respect of the Bank's investment in an associated company Citra Kaļķu SIA which was acquired as part of restructuring for a loan previously issued by the Bank and involves an early stage real estate development project.

Due to the circumstances described above, we defined the impairment of investments in the subsidiary and associate companies as a key audit matter.

Our audit response	We involved our internal valuation experts to assess valuations of the investments and the underlying assets performed by the Bank including matters such as selection of the valuation methods and key assumptions underlying fair value calculations – cash flow assumptions such as occupancy rates, rates of rent, building costs, discount rates, capitalisation rates and comparable market transactions which were assessed against external market information sources. We performed sensitivity analysis for key assumptions to assess their impact on the value of the investment. We assessed the adequacy of the Bank's disclosures related to the assumptions and significant judgments used in estimating recoverable amounts of investments in the subsidiary (the Bank) and associated companies (the Bank and the Group).

Other matters
"Signet Bank" AS separate and consolidated financial statements for the year ended 31 December 2017 were audited by another auditor who issued an unmodified opinion on 24 April 2018 on these financial statements.

Reporting on Other Information
The Bank's management is responsible for the other information. The other information comprises:

- the Management Report, as set out on pages 3 to 5 of the accompanying Annual Report,

- the Statement on Management Responsibility, as set out on page 7 of the accompanying Annual Report,

- the composition of the Supervisory Council and the Management Board, as set out on page 6 of the accompanying Annual Report.

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

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

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

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

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

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

- the information given in the Management Report for the financial year for which the separate and consolidated financial statements are prepared is consistent with the separate and consolidated financial statements; and

- the Management Report has been prepared in accordance with the requirements of the Regulation 46.

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

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

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

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

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

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

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

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

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

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

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

- Evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.

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

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

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

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

We were appointed by the shareholder's meeting on 12 November 2018 to audit the separate and consolidated financial statements of AS Signet Bank for the year ended 31 December 2018. Our total uninterrupted period of engagement is one year, covering the period ending 31 December 2018.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Bank and the Group;

- as referred to in the paragraph 37.6 of the Law on Audit Services of the Republic of Latvia we have not provided to the Bank and the Group the prohibited non-audit services (NASs) referred to of EU 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, we have not provided any other services apart from the audit, to the Bank and its controlled entities.

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

"BDO ASSURANCE" SIA
Licence No.182

Zane Vilsone
Director
on behalf of SIA "BDO ASSURANCE"

Modrīte Johansone
Member of the Board
Certified auditor
Licence No.135

Riga, Latvia
18 April 2019

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