JSC "Baltic International Bank"

2017 Annual Report

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The Bank's (Group's) Management Report

Dear Ladies and Gentlemen,

The year 2017 was rather eventful and threw up many major challenges. In 2017, the Bank embarked on implementing its business strategy approved at the end of 2016. The strategy envisages a business model geared towards various wealth management solutions and socially responsible investing (SRI) both in Latvia and overseas.

In 2017, Baltic International Bank worked actively to reinvent its business and align it with the new investment-based business model. Rearrangement of the Bank's asset structure and implementation of the new business model entailed changes in the structure and quantity of the Bank's customers. The Bank has also experienced substantial decline in its deposit base, as reflected in the Bank's balance sheet. The income structure has changed as well.

In the second half of 2017, Baltic International Bank significantly strengthened its customer service team and actively embarked on the new customer acquisition (NCA) process and on taking the business relationship with the current customers to the new level. Thus, all financials related to the customers' funds saw growth in the second half of 2017.

In the second half of 2017, the total volume of customer funds increased by 18% to reach EUR 444 million. The volume of newly-accepted deposits grew by 25.5%. By the end of 2017, assets under management reached EUR 68.17 million (EUR 68.17 million). The value of financial instruments in brokerage service totalled EUR 120.71 million (EUR 120.71 million).

The Bank's assets (the Group-related financials are shown in parenthesis) reached EUR 297.95 million (EUR 298.04 million), up 11.5% compared with the first half of 2017. The Bank's loan portfolio totalled EUR 62.73 (61.88) million or 21.1% (20.8%) of the Bank's total assets as of 31 December 2017.

The structure of the Bank's financial assets is dominated by investments in available-for-sale financial assets: EUR 42.19 million (EUR 42.19 million) or 14.2% (14.2%) of the total assets. High-quality liquid assets (assets carrying investment-grade rating and due from the Bank of Latvia) totalled EUR 159.44 million (EUR 159.44 million) or 53.5% (53.5%) of the total assets. Investments in government bonds totalled EUR 26.87 million (EUR 26.87 million) or 9.0% (9.0%) of the total assets.

The reshaping of the Bank's business model, the rearrangement of the asset structure, the resulting changes in the customer structure, and operations associated with evaluation of the quality of certain historically-formed assets exerted a planned short-term negative impact on the Bank's financial results. The Bank ended the year 2017 with loss of EUR 8.09 million (EUR 7.70 million). The financial results were also impacted by the Bank's investments in its information technologies and infrastructure and by investments in the Bank's team of employees and enhancement of their professional competencies.

The operating income totalled EUR 14.4 million (EUR 14.4 million). The structure of the Bank's operating income was dominated by gain on foreign currency trading and revaluation: 55.9% (55.8%). The percentage of the net fee and commission income increased up to 25.6% (25.6%) compared to the same period last year when the income accounted for 17.7% (17.7%). The percentage of the net interest income increased up to 13.8% (13.7%) compared to the same period last year when the income totalled 11.3% (11.2%).

The Bank's administrative expenses reached EUR 15.26 million (EUR 15.43 million), down 5.0% (4.2%) compared to the same period last year. Larger investments in the information systems and upgrades to the property, plant and equipment (PP&E) fuelled also depreciation and amortization expense which increased by 3.8% (3.8%) and reached EUR 1.53 million (EUR 1.53 million). Other expenses totalled EUR 2.42 million (EUR 3.77 million). A portion of the administrative expenses totalling EUR 1.79 million (EUR 1.79 million) was the compensation related to the transaction of sale of the Bank's real property in previous periods.

The Bank's liquidity ratios exceed the regulatory thresholds. As of 31 December 2017, the Bank's liquidity ratio was 92.28% (92.36%). The Bank maintains a well-diversified structure of liquid assets represented by bonds (19.92%), due from credit institutions (13.21%), due from the Bank of Latvia (65.87%) and cash (1.00%). The liquidity coverage ratio (LCR) totalled 375.45% (374.74%). The net stable funding ratio (NSFR), characterizing the availability of a stable funding profile in relation to the composition of assets and off-balance sheet activities, reached 157.08% (156.94%).

As of 31 December 2017, the Bank's own funds totalled EUR 24.85 million (EUR 25.01 million). The Bank's Tier 1 capital ratio was 9.39% (9.51%). The total SREP ratio (TSCR ratio) reached 13.00% (13.14%).

Due to the fact that the Bank (Group) has reported losses totalling EUR 8.09 million (EUR 7.70 million) for 2017, and the fact that the reshaping of the Bank' s business model entails financial losses, the Bank's shareholders decided to increase the share capital by EUR 6 million on 28 January 2018 of which EUR 2.1 million has been paid in and current expectation is that the full amount will be paid in by end of second quarter 2018. This enables the Bank to absorb the negative consequences.

In July 2017, the Bank's subsidiary JSC „BIB Alternative Investment Management" obtained the licence to operate as an alternative investment fund manager. Thus, the Bank provided its customers with the opportunity to invest both independently and jointly with the Bank.

The Bank invested significant amounts in the information technology systems and solutions aimed at enhancing IT safety and security, boosting effectiveness and efficiency of business processes, and improving the internal control system.

In 2017, Baltic International Bank continued to implement a wide range of social responsibility-specific projects, thus fostering development of Latvia's culture, art and public opinion. Baltic International Bank sponsored publication of the books comprised within the series of historical novels „Mēs. Latvija, XX gadsimts" ((We. Latvia, 20th Century). The Bank also sponsored publication of other masterpieces that are vitally important for the culture and history of Latvia. In 2017, the Bank supported development of newly-established businesses or start-ups. During the year, the Bank conducted BIB's Latvian Barometer, a unique monthly survey of public opinions and attitudes in Latvia which studies and analyses different topics and processes of national concern. As a sustainable business practitioner, the Bank implemented a vast array of initiatives specific to socially responsible businesses and received therefore the gold award from the Sustainability Index in 2017.

After the end of the reporting period, the Bank underwent senior management changes. Ilona Guchak, who had served as the Chairperson of the Management Board of "Baltic International Bank", filled the role of a member of the Supervisory Board with effect from 16 March 2018. The Deputy Chairperson of the Management Board Viktors Bolbats took the lead of the Bank. The changes are a part of the transformation process on which the Bank embarked already last year and which will enable the Bank to expand its business in new directions, penetrate new target markets and offer its customers bespoke high-end financial services. The Bank has been planning those well-thought-out changes for a long time. The will allow the Bank distribute the competences perfectly and take full advantage of new opportunities.

In February 2018, the Financial Crimes Enforcement Network (FinCEN), a bureau of the United States Department of the Treasury, issued its Proposal of Special Measure against ABLV Bank, as a Financial Institution of Primary Money Laundering Concern. The news triggered a chain of other events, proposals and decisions. Now, Latvia's financial sector is experiencing a worrying period that affects the assessment of all results and achievements. A determined action of all financial market players, the Financial and Capital Market Commission (FCMC) and other stakeholders plays decisively significant role in protecting the banking sector's reputation on a global scale. Overall, the banking sector has made substantial investments aimed at enhancing regulatory compliance in the recent years. And we are confident that we are well-positioned to develop banking business in Latvia while not exposing the banks and the country to extra risks. As a responsible participant of the financial sector, the Bank is taking an active stance in stabilizing the situation and restoring reputation of the Latvian banking community.

Having analysed the potential consequences of the event recently witnessed in Latvia, the inherent risks and legislative initiatives, the Bank purposefully continues to reduce its cooperation with high-risk customers while continuing to implement its strategy geared towards wealth management and investments both in Latvia and overseas. Bank implements its initiatives and steps in close liaison with the FCMC.

We express gratitude to all our employees for their work, active involvement in the Bank's projects and initiatives. We wish to thank our partners for fruitful cooperation that opens up ever-new opportunities and enables us to provide modern financial services to the Bank's customers. We highly appreciate the loyalty and trust of our customers, and we are committed to satisfying their financial needs. We wish to express our heartfelt gratitude to the shareholders for their strategic initiatives and long-standing support.

Statement on Corporate Governance published on Bank's website www.bib.eu.

26 April 2018

Valerī Belokon
Chairperson of the Supervisory Council

Viktor Bolbat
Deputy Chairperson of the Board

Supervisory Council and Management Board

Supervisory Council (as of 31 December 2017)

Name	Position held	Appointed	Re-appointed
Valeri Belokon	Chairperson of the Supervisory Council	15/09/2010	11/10/2016
Vlada Belokon	Deputy Chairperson of the Supervisory Council	11/10/2016	-
	Member of the Supervisory Council	19/08/2011	11/10/2016
Andris Ozolinsh	Member of the Supervisory Council	27/11/2015	11/10/2016
Dr. Hans-Friedrich von Ploetz	Member of the Supervisory Council	30/03/2016	11/10/2016
Black Joseph Cofer	Member of the Supervisory Council	01/11/2016	-

Management Board (as of 31 December 2017)

Name	Position held	Appointed	Re-appointed
Ilona Gulchak	Chairperson of the Board	25/01/2008	25/01/2016
Viktor Bolbat	Member of the Board	03/11/2017	-
Alon Nodelman	Member of the Board	15/08/2003	13/08/2015
Bogdan Andrushchenko	Member of the Board	04/03/2016	-
Anda Saukane	Member of the Board	22/06/2017	-

In the year ended 31 December 2017, no changes have been made in the Supervisory Council membership.

During the year ended 31 December 2017 the following changes were made in the composition of JSC “Baltic International Bank” Management Board:

According to the Council’s resolution of 19 May 2017, Anda Saukane was elected as a member of the Board. According to the Council’s resolution of 25 September 2017, Viktor Bolbat was elected as a member of the Board. Natalja Tkachenko (02.05.2017) and Martins Neibergs (17.10.2017) have withdrawn her membership in the Management Board of JSC “Baltic International Bank”.

During the period from 1 January 2018 to the date of the approval of these financial statements the following changes were made in the composition of JSC “Baltic International Bank” Council and Management Board:

Viktors Bolbats has taken up the duties of the Deputy Chairperson of the Management Board with effect from 2 January 2018. Vlada Belokon has withdrawn her membership from the Supervisory Board with effect from 26 January 2018. Ilona Gulchak has withdrawn her membership from the Management Board and has taken up the duties of a member of the Supervisory Board with effect from 16 March 2018. Andris Ozoliņš leaves his posts as a member of the Supervisory Board and a member of the Audit Committee of Baltic International Bank with effect from 3 April 2018.

Statement of Management's Responsibility

Riga 26 April 2018

The management of JSC "Baltic International Bank" (the Bank) is responsible for the preparation of the consolidated financial statements of the Bank and its subsidiaries (the Group) as well as for the preparation of the separate financial statements of the Bank. The financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) on a going concern basis. Appropriate accounting policies have been applied on a consistent basis. Reasonable judgements and estimates have been made by the Management in the preparation of the financial statements.

The Financial Statements on pages 7 to 99 are prepared in accordance with the source documents and fairly present the financial position of the Group and Bank as at 31 December 2017 and the results of their performance and cash flows for the year ended 31 December 2017.

The Management of the Bank is responsible for the maintenance of proper accounting records, the safeguarding of the Group's and Bank's assets and the prevention and detection of fraud and other irregularities in the Group and Bank. The Management is also responsible for operating the Group and Bank in compliance with the Law on Credit Institutions, regulations of the Financial and Capital Market Commission and other legislation of the Republic of Latvia applicable to the credit institutions.

On behalf of the Management of the Bank and Group:

Valeri Belokon
Chairperson of the Supervisory Council

Viktor Bolbat
Deputy Chairperson of the Board

Separate and consolidated Financial Statements

GROUP CONSOLIDATED AND BANK SEPARATE STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2017

	Notes	Group 2017 EUR	Bank 2017 EUR	Group 2016 EUR	Bank 2016 EUR
Interest income	6	4 318 554	4 335 380	5 027 862	5 068 326
Interest expense	7	(1 825 765)	(1 825 699)	(1 868 840)	(1 868 172)
Net interest income		**2 492 789**	**2 509 681**	**3 159 022**	**3 200 154**
Fee and commission income	8	5 453 285	5 454 306	8 426 634	8 427 277
Fee and commission expense	9	(1 760 267)	(1 759 267)	(3 421 214)	(3 421 214)
Net fee and commission income		**3 693 018**	**3 695 039**	**5 005 420**	**5 006 063**
Dividend income		10 082	10 082	6 880	6 880
Net (loss)/profit on financial instruments	10	6 232	6 232	3 508 975	3 508 975
Net foreign exchange income	10	8 058 653	8 058 653	16 345 375	16 345 375
Other operating income		173 068	142 337	231 368	178 595
Total operating income		**14 433 842**	**14 422 024**	**28 257 040**	**28 246 042**
Administrative expenses	11	(15 430 565)	(15 255 807)	(16 112 602)	(16 058 999)
Other operating expenses	12	(2 215 172)	(2 209 840)	(540 640)	(433 783)
Net impairment profit/ (loss)	13	(3 973 492)	(5 880 283)	(10 593 452)	(10 925 699)
Loss on revaluation of investment property	26	(1 551 324)	(206 600)	(606 609)	(614 015)
(Loss)/profit before income tax		**(8 736 711)**	**(9 130 506)**	**403 737**	**213 546**
Income tax benefit/ (expense)	14	1 036 607	1 036 657	(78 245)	(78 195)
(Loss)/profit for the period		**(7 700 104)**	**(8 093 849)**	**325 492**	**135 351**
Other comprehensive income					
Items that are or may be reclassified to profit or loss					
Available for sale financial assets – net change in fair value		245 287	245 287	1 127 277	1 127 277
Available for sale financial assets, reclassified to profit or loss	10	41 150	41 150	(2 685 356)	(2 685 356)
Total comprehensive loss for the period		**(7 413 667)**	**(7 807 412)**	**(1 232 587)**	**(1 422 728)**

The accompanying notes on pages 15 to 99 are an integral part of these Financial Statements.

The Financial Statements on pages 7 to 99 have been authorised for issue by the Council and the Board on 26 April 2018, and signed on their behalf by:

Valeri Belokon
Chairperson of the Supervisory Council

Viktor Bolbat
Deputy Chairperson of the Board

Separate and consolidated Financial Statements

GROUP CONSOLIDATED AND BANK SEPARATE
STATEMENT OF FINANCIAL POSITION

ASSETS	**Notes**	**Group 31.12.2017 EUR**	**Bank 31.12.2017 EUR**	**Group 31.12.2016 EUR**	**Bank 31.12.2016 EUR**
Cash and due from central banks	15	105 915 335	105 915 335	70 152 023	70 152 023
Financial assets held-for-trading		99 557	99 557	1 177 668	1 177 668
Securities held-for-trading	*17*	*99 192*	*99 192*	*628 345*	*628 345*
Derivative financial instruments	*18*	*365*	*365*	*549 323*	*549 323*
Due from credit institutions	19	26 820 640	26 820 640	17 975 622	17 975 622
Financial assets at fair value through profit or loss	20	4 551 118	4 551 118	8 073 653	8 073 653
Loans and receivables	21	61 884 950	62 733 584	69 395 046	70 999 468
Available for sale instruments	22	42 191 618	42 191 618	85 746 243	85 746 243
Securities held-to-maturity	23	16 295 393	16 295 393	16 691 688	16 691 688
Investments in equity accounted investees	24	1 144 547	1 144 547	1 144 547	1 144 547
Investments in subsidiaries	25	-	1 789 880	-	2 065 229
Investment property	26	7 186 581	4 656 734	5 885 430	2 355 073
Property and equipment	27	16 752 607	16 752 408	17 249 525	17 249 227
Intangible assets	28	4 184 320	4 184 320	4 107 870	4 107 870
Current income tax assets		14 299	14 299	14 943	14 943
Deferred expenses and accrued income	29	2 590 254	2 585 272	2 431 404	2 434 401
Other assets	30	8 405 772	8 212 518	8 044 283	8 201 925
Total assets		**298 036 991**	**297 947 223**	**308 089 945**	**308 389 580**

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Separate and consolidated Financial Statements

GROUP CONSOLIDATED AND BANK SEPARATE
STATEMENT OF FINANCIAL POSITION

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	Group 31.12.2017 EUR	Bank 31.12.2017 EUR	Group 31.12.2016 EUR	Bank 31.12.2016 EUR
Liabilities					
Derivative financial instruments	18	461 641	461 641	-	-
Due to credit institutions	31	14 438 637	14 438 637	15 956 666	15 956 666
Deposits	32	238 940 736	239 108 094	229 938 778	230 073 991
Debt securities in issue	33	1 668 612	1 668 612	10 123 468	10 123 468
Accrued expenses, provisions and deferred income	34	1 628 374	1 624 235	1 613 447	1 612 671
Deferred tax liabilities	14	-	-	1 036 657	1 036 657
Other liabilities	35	1 817 689	1 741 471	1 537 803	1 486 025
Subordinated liabilities	36	14 638 255	14 638 255	16 026 412	16 026 412
Total liabilities		**273 593 944**	**273 680 945**	**276 233 231**	**276 315 890**
Shareholders' equity					
Share capital	37	31 496 395	31 496 395	31 496 395	31 496 395
Reserve capital	37	835 152	835 152	835 152	835 152
Property revaluation reserve	27	34 900	34 900	34 900	34 900
Available for sale instruments revaluation reserve	22	160 266	160 266	(126 171)	(126 171)
Accumulated losses		(8 083 666)	(8 260 435)	(383 562)	(166 586)
Accumulated losses for the previous years		*(383 562)*	*(166 586)*	*(709 054)*	*(301 937)*
(Loss)/profit for the period		*(7 700 104)*	*(8 093 849)*	*325 492*	*135 351*
Total shareholders' equity		**24 443 047**	**24 266 278**	**31 856 714**	**32 073 690**
Total liabilities and shareholders' equity		**298 036 991**	**297 947 223**	**308 089 945**	**308 389 580**
Commitments and contingencies					
Sureties (guarantees)	38	210 102	210 102	1 549 746	1 549 746
Commitments to customers	38	6 292 907	6 378 065	9 717 384	9 803 278
Total commitments and contingencies		**6 503 009**	**6 588 167**	**11 267 130**	**11 353 024**

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Valeri Belokon
Chairperson of the Supervisory Council

Viktor Bolbat
Deputy Chairperson of the Board

Separate and consolidated Financial Statements
GROUP CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
for the year ended 31 December 2017

	Notes	Share capital EUR	Reserve capital EUR	Property revaluation reserve EUR	Available for sale instru-ments revaluation reserve EUR	Retained earnings/ (accumu-lated losses) EUR	TOTAL EUR
Balance as of 31 December 2015		**29 496 389**	**835 152**	**34 900**	**1 431 908**	**(709 054)**	**31 089 295**
Total comprehensive loss							
Net profit for the period		-	-	-	-	325 492	325 492
Other comprehensive loss		-	-	-	(1 558 079)	-	(1 558 079)
Total comprehensive loss		**-**	**-**	**-**	**(1 558 079)**	**325 492**	**(1 232 587)**
Transactions with owners, recorded directly in equity							
Increase in share capital	37	2 000 006	-	-	-	-	2 000 006
Total transactions with owners, recorded directly in equity		**2 000 006**	**-**	**-**	**-**	**-**	**2 000 006**
Balance as of 31 December 2016		**31 496 395**	**835 152**	**34 900**	**(126 171)**	**(383 562)**	**31 856 714**
Total comprehensive loss							
Net loss for the period		-	-	-	-	(7 700 104)	(7 700 104)
Other comprehensive income		-	-	-	286 437	-	286 437
Total comprehensive loss		**-**	**-**	**-**	**286 437**	**(7 700 104)**	**(7 413 667)**
Balance as of 31 December 2017		**31 496 395**	**835 152**	**34 900**	**160 266**	**(8 083 666)**	**24 443 047**

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Chairperson of the Supervisory Council

Viktor Bolbat
Deputy Chairperson of the Board

Separate and consolidated Financial Statements
BANK SEPARATE STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
for the year ended 31 December 2017

	Notes	Share capital EUR	Reserve capital EUR	Property revaluation reserve EUR	Available for sale instru-ments revaluation reserve EUR	Retained earnings/ (accumu-lated losses) EUR	TOTAL EUR
Balance as of 31 December 2015		**29 496 389**	**835 152**	**34 900**	**1 431 908**	**(301 937)**	**31 496 412**
Total comprehensive loss							
Net profit for the period		-	-	-	-	135 351	135 351
Other comprehensive loss		-	-	-	(1 558 079)	-	(1 558 079)
Total comprehensive loss		**-**	**-**	**-**	**(1 558 079)**	**135 351**	**(1 422 728)**
Transactions with owners, recorded directly in equity							
Increase in share capital	37	2 000 006	-	-	-	-	2 000 006
Total transactions with owners, recorded directly in equity		**2 000 006**	**-**	**-**	**-**	**-**	**2 000 006**
Balance as of 31 December 2016		**31 496 395**	**835 152**	**34 900**	**(126 171)**	**(166 586)**	**32 073 690**
Total comprehensive loss							
Net loss for the period		-	-	-	-	(8 093 849)	(8 093 849)
Other comprehensive income		-	-	-	286 437	-	286 437
Total comprehensive loss		**-**	**-**	**-**	**286 437**	**(8 093 849)**	**(7 807 412)**
Balance as of 31 December 2017		**31 496 395**	**835 152**	**34 900**	**160 266**	**(8 260 435)**	**24 266 278**

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Valeri Belokon
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Separate and consolidated Financial Statements
GROUP CONSOLIDATED AND BANK SEPARATE STATEMENT OF CASH FLOWS
for the year ended 31 December 2017

		Group 31.12.2017 EUR	Bank 31.12.2017 EUR	Group 31.12.2016 EUR	Bank 31.12.2016 EUR
Cash flows from operating activities					
(Loss)/profit before income tax		(8 736 711)	(9 130 506)	403 737	213 546
Amortisation and depreciation	27, 28	1 525 345	1 525 246	1 468 917	1 468 917
Impairment loss	13	3 973 492	5 880 283	10 593 452	10 925 699
Unrealised loss on revaluation of investment property	26	1 551 324	206 600	606 609	614 015
Interest expense on issued bonds & subordinated liabilities		923 790	923 790	776 355	776 355
Foreign exchange differences on available for sale, held to maturity, issued debt securities and subordinated liabilities		1 643 466	1 643 466	(263 576)	(263 576)
(Profit)/loss on disposal of property and equipment and investment property		118 472	(14 377)	(1 809)	(1 809)
Increase in cash and cash equivalents from operating activities before changes in assets and liabilities		**999 178**	**1 034 502**	**13 583 685**	**13 733 147**
Decrease/ (increase) in loans		3 187 332	3 236 216	(8 165 206)	(8 273 141)
Decrease/ (increase) in due from credit institutions		2 757 172	2 757 172	(2 476 945)	(2 476 945)
Decrease/ (uncrease) in financial assets held-for-trading		529 153	529 153	(596 330)	(596 330)
Decrease/ (increase) in financial assets classified as at fair value, as recorded in the statement of profit or loss		3 522 535	3 522 535	(8 073 653)	(8 073 653)
(Increase)/ decrease in deferred expenses and accrued income		(165 156)	(157 177)	134 011	130 450
Decrease/ (increase) in other assets		(389 203)	(138 144)	(4 596 715)	(4 717 560)
Increase in due to credit institutions		-	-	10 372 692	10 372 692
Increase / (decrease) in deposits		9 001 958	9 034 103	(243 307 153)	(243 188 376)
Increase/ (decrease) in derivative liabilities		(87 317)	(87 317)	(3 056)	(3 056)
Decrease in accrued expenses, provisions and deferred income		14 927	11 564	(1 399 481)	(1 398 927)
Increase/(decrease) in other liabilities		279 886	255 446	(640 052)	(583 934)
Increase/(decrease) in cash and cash equivalents resulting from operating activities		**19 650 465**	**19 998 053**	**(245 168 203)**	**(245 075 633)**

The accompanying notes on pages 15 to 99 are an integral part of these Financial Statements.

Separate and consolidated Financial Statements
GROUP CONSOLIDATED AND BANK SEPARATE STATEMENT OF CASH FLOWS
for the year ended 31 December 2017

	Group 31.12.2017 EUR	Bank 31.12.2017 EUR	Group 31.12.2016 EUR	Bank 31.12.2016 EUR
Interest paid on issued bonds & subordinated liabilities	(988 945)	(988 945)	(210 566)	(210 566)
Increase/ (decrease) in cash and cash equivalents from operating activities	**18 661 520**	**19 009 108**	**(245 378 769)**	**(245 286 199)**
Cash flow from investing activities				
Acquisition of property and equipment, intangible assets and investment property	(1 902 337)	(1 104 876)	(1 651 316)	(1 620 167)
Proceeds from sale of property and equipment and investment property	334 775	14 377	1 809	1 809
Acquisition of shares in equity accounted investees	-	(824 651)	-	(125 001)
Proceeds from the sale of stakes in undertakings	-	-	-	3 136
Purchase of available-for-sale instruments	(41 929 859)	(41 929 859)	(42 759 945)	(42 759 945)
Redemption of available-for-sale instruments	82 379 911	82 379 911	173 829 209	173 829 209
Purchase of securities held-to-maturity	(5 727 700)	(5 727 700)	(7 067 925)	(7 067 925)
Redemption of held-to-maturity investments	5 355 015	5 355 015	-	-
Increase in cash and cash equivalents as a result of investing activities	**38 509 805**	**38 162 217**	**122 351 832**	**122 261 116**

The accompanying notes on pages 15 to 99 are an integral part of these Financial Statements.

Separate and consolidated Financial Statements
GROUP CONSOLIDATED AND BANK SEPARATE STATEMENT OF CASH FLOWS
for the year ended 31 December 2017

	Notes	Group 31.12.2017 EUR	Bank 31.12.2017 EUR	Group 31.12.2016 EUR	Bank 31.12.2016 EUR
Cash flows from financing activities					
Issuance of shares		-	-	2 000 006	2 000 006
Subordinated liabilities	36	498 776	498 776	1 390 171	1 390 171
Cash paid out to repay subordinated debt	36	(1 131 120)	(1 131 120)	(2 285 497)	(2 285 497)
Issuance of debt securities	33	-	-	1 897 353	1 897 353
Buyback of debt securities	33	(7 655 450)	(7 655 450)	(8 299 329)	(8 299 329)
Decrease in cash and cash equivalents as a result of financing activities		**(8 287 794)**	**(8 287 794)**	**(5 297 296)**	**(5 297 296)**
Increase/ (decrease) in cash and cash equivalents		**48 883 531**	**48 883 531**	**(128 324 233)**	**(128 322 379)**
Cash and cash equivalents at the beginning of the period		81 076 040	81 076 040	209 400 273	209 398 419
Cash and cash equivalents at the end of the period	16	**129 959 571**	**129 959 571**	**81 076 040**	**81 076 040**

The accompanying notes on pages 15 to 99 are an integral part of these Financial Statements.

The Financial Statements on pages 7 to 99 have been authorised for issue by the Council and the Board on 26 April 2018, and signed on their behalf by:

Valeri Belokon
Chairperson of the Supervisory Council

Viktor Bolbat
Deputy Chairperson of the Board

Separate and consolidated Financial Statements

Notes to the separate and consolidated Financial Statements
for the year ended 31 December 2017

1 GENERAL INFORMATION

These are Parent and Consolidated Financial Statements comprise the financial statements of JSC „Baltic International Bank” (hereinafter referred to as the “Bank”) and its subsidiaries (hereinafter together with the Bank referred to as the “Group”). The subsidiaries are as follows: real estate company “BIB Real Estate” SIA (acquired on 11 June 2009) that in turn owns several subsidiaries, „Claim Management” LLC acquired on 14 July 2016 and AS „BIB Alternative Investment Management” (registered on 5 December 2016) which provides investment services.

JSC "Baltic International Bank" is a joint stock company registered in the Republic of Latvia. The registered office address is: Kalēju iela 43, Riga, LV-1050, Latvia. On 8 April 1993, the Bank of Latvia approved JSC "Baltic International Bank" as a credit institution and issued Banking Licence No. 103. The Bank of Latvia and the Financial and Capital Market Commission of the Republic of Latvia (“FCMC’) regulate the activities of the Bank.

Established to cater to the needs of both individuals and corporate customers, JSC “Baltic International Bank” provides a comprehensive range of financial services: personal and corporate loans, acceptance of money deposits and other funds, funds transfers, treasury and capital market services carried out according to customer instructions and for the Bank’s own trading purposes.

2 BASIS OF PREPARATION

Statement of Compliance

The Financial Statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union ("EU") and in accordance with the requirements of the Latvian Financial and Capital Market Commission ("FCMC") in force as at the reporting date. The local accounting legislation requires the preparation of the Group consolidated and Bank separate financial statements in accordance with IFRS as adopted by the European Union.

The Financial Statements were authorised for issue by the Management Board and by the Supervisory Council on 26 April 2018. The financial statements may be amended by the shareholders and re-issue of the statements may be required.

The Financial Statements for the years ended 31 December 2017 and 31 December 2016 are available at the Bank’s website (www.bib.eu).

Functional and Presentation Currency

These Group consolidated and Bank separate financial statements are presented in euro. Subsidiaries of the Group and the Bank operate in the functional currency of euro.

Basis of measurement

The Financial Statements are prepared on the historical cost basis except for the following:
• financial instruments held-for-trading and financial assets designated at fair value through profit or loss are stated at fair
• derivative instruments are stated at fair value;
• available-for-sale assets are stated at fair value, except for those whose fair value cannot be determined reliably and derivative instruments linked to such available-for sale assets;
• investment property is measured at fair value;
• part of property and equipment – motor vehicles – that is measured using a revaluation model.

Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires management to make judgements, estimates and assumptions that affect the application of policies and 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.

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

Judgements:

Going concern

These financial statements have been prepared on a going concern basis. Uncertainty in relation to ability to continue as a going concern is disclosed in Note 52.

Key sources of estimation uncertainty

The key sources of estimation uncertainty are as follows: allowances for credit losses, impairment of financial instruments, valuation of investment property and measurement of fair values.

Allowances for credit losses for loans and receivables and other assets

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Loans and Documentary Operations Department, see also Notes 13, 21, 29 and 30.

Impairment of available for sale equity investments

The Bank has investments in Available for sale equity instruments. The Bank regularly conducts an impairment test for securities held on its books. For the purposes of impairment loss measurement, the Bank's management makes estimates of any expected changes in future cash flows from a specific financial instrument based on analysis of financial position of the issuer of the financial instrument. For Available-for-sale equity instruments impairment is recognised when fair value of the instrument has declined significantly or for a prolonged period of time. Please refer to Note 22 for more detail.

Valuation of investment property

Investment property is stated at its fair value with all changes in fair value recorded to profit or loss. When measuring the fair value of the investment property, the management relies on external valuations and assesses such valuations in light of the current market situation. Please refer to Note 26 for more detail.

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

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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. When applicable, the Group measures the fair value of an instrument using quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.
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 determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. For certain instruments no price quotes are available and the Group and the Bank resorts to valuation techniques like discounted cash flow and applying multiples to financial captions like revenue or EBITDA.

The Group has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the management.

Where third-party information, such as broker quotes or pricing services, are used to measure fair value, Finance Director 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 the broker or pricing service is approved by the Group for use in pricing the relevant type of financial or non-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;

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. Further information about fair value analysis is disclosed in note 50.

Further information about the assumptions made in measuring fair values see Notes 17, 18, 20, 22, 26, 50.

3 SIGNIFICANT ACCOUNTING POLICIES

Changes in accounting policies

Except for the changes below, the Group and Bank has consistently applied the accounting policies set out in Note 3 to all periods presented in these Group consolidated and Bank's separate financial statements.

During 2017 the Group and the Bank adopted Amendments to IAS 7, thus increasing disclosure relating to cash flow statement. In particular, enhanced information is disclosed in Notes 33, 36 and 53.

The following guidance did not have any impact on these financial statements - Annual Improvements to IFRSs, and amendments to IAS 12.

Separate and consolidated Financial Statements

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New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017.

IFRS 9: Financial instruments (effective for annual periods beginning on or after 1 January 2018)

In July 2014, the International Accounting Standard Board issued the final versions on IFRS 9 Financial Instruments.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

Classification and measurement

From classification and measurement perspective, the new standard requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the Group and the Bank's business model for managing the assets and the instruments' contractual cash flow characteristics.

The IAS 39 measurement categories will be replaced by:

Fair value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI), and amortised cost. IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortised cost or fair value through OCI instruments as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instrument that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement.

The accounting for financial liabilities will largely be the same as the requirements of IAS 39.

The Bank is in process of its IFRS 9 implementation. It has performed its business model assessment, but its assessment of whether the terms and condition of the financial assets to be potentially classified as FVOCI or amortised cost assets meet the Solely Payment of Principal and Interest criteria. Since the SPPI assessment the below description should be recognized to be provisional:

• The majority of loans and balances due from banks, loans and advances to customers, cash collateral for reverse repo agreements and balances with financial institutions that are classified as loans and receivables under IAS 39 are expected to be measured at amortised cost under IFRS 9. The Bank has identified a significant loan exposure with carrying amount of 5.3 million, which it will have to account at fair value going forward. The Bank is in process of determining the fair value of this exposure.
• The majority of the debt securities classified as available for sale under IAS 39 are expected to be measured at FVOCI. Some securities, however, will be classified as FVPL, either because of their contractual cash flow characteristics or the business model within which they are held.
• The majority of debt securities classified as held to maturity also further will be measured at amortised cost.

Impairment of financial assets

IFRS 9 also fundamentally changes requirements for impairment recognition. The standard replaces IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. The Group and the Bank will now be required to recognize allowances for expected credit losses for all loans and other debt financial assets not held at FVPL. Further ECL requirements will need to be applied to loan commitments and financial guarantee contracts. The allowance is based on the expected credit loss associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset.

The Bank plans to establish a policy to perform an assessment at the end of each reporting period of the whether credit risk has increased significantly since initial recognition by considering the change in the risk of default occurring over the remaining life of the financial instrument.

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In comparison to IAS 39, the Bank expects the impairment charge under IFRS 9 to be more volatile than under IAS 39 and to result in an increase in the total level of current impairment allowances.

The Bank is planning to group its loans into Stage 1, Stage 2 and Stage 3, based on the applied impairment methodology, as described below:
• Stage 1 – Performing loans: when loans are fist recognized, the Bank recognizes an allowance based on twelve months expected credit losses. Under IAS 39 the Bank has been recording an allowance based on individual assessment of loans where losses arising from future loss events were not recognized. The change is expected to increase the impairment allowance compared to the current approach.
• Stage 2 – Loans with significant increase in credit risk: when a loan shows a significant increase in credit risk since initial recognition, the Bank records an allowance for the lifetime expected credit loss. Since this is a new concept compared to IAS 39, it will result in substantial additional increase in the allowance as most such assets are not considered to be credit-impaired under IAS 39.
• Stage 3 – Impaired loans: Financial assets will be recognized in Stage 3 when there is objective evidence that the loan is impaired. The Bank recognizes the lifetime expected credit losses for these loans and in addition, the Bank accrues interest income on the amortised cost of the loan net of allowances. The criteria of the objective evidence are the same as under the current IAS 39 methodology, and accordingly, the Bank expects the population to be generally the same under both standards. The individual impairment allowance will continue to be calculated on the same basis as under IAS 39, and collateral values will be adjusted to reflect the amounts that can be expected to be realized.

The Bank will record impairment for FVOCI debt securities depending on whether they are classified as Stage 1, 2, or 3, as explained above. However, the expected credit losses will not reduce the carrying amount of these financial assets in the statements of financial position, which remain at fair value. Instead, an amount equal to the allowance that would arise if the asset were measured at amortised cost will be recognized in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss.

For FVOCI debt securities considered to be ‘low risk’, the Bank intends to apply a policy which assumes that the credit risk on the instrument has not increased significantly since initial recognition and will calculate ECL as explained in Stage 1 above. Such instruments will generally include trade, investment grade securities where the borrower has strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily reduce the ability of the borrower to fulfil its contractual cash flow obligations.

Whilst the Bank is in final stages of launching the ECL model in practice, assumptions and data input processes are not fully calibrated yet and work is ongoing on process improvements, it is currently expected that the combined effect from increases in impairment allowance for loans and debt securities to be accounted for at amortised cost will increase by approximately EUR 1 million. Increase in impairment allowances is primarily driven by impairment raised on commercial loans.

Forward-looking information

The Bank will use internal information coming from internal economic experts combine it with published external information from government and private economic forecasting services. Both the Risk and Finance management teams will need to approve the forward-looking assumptions before they are applied for different scenarios.

IFRS 9 implementation strategy

In the Bank, the task force supervises the process of implementation of IFRS 9. The task force is composed of the representatives of risk, finance, internal operations and IT functions. The meeting's agenda issues focus on a detailed evaluation of the main assumptions, approval of the decisions and progress of the Group-wide implementation process, including evaluation of whether sufficient resources have been allocated towards the project.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

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The Group and the Bank plan to take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes.

Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognised in retained earnings and reserves as at 1 January 2018.
- The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.
- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- The designation of certain investments in equity instruments not held for trading as at FVOCI.

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

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

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

The Group and the Bank earn fee and commission income (other than fees included in the calculation of the effective interest rate) mostly on provision of the following services:
- retail banking;
- corporate banking;
- brokerage;
- asset management; and
- financial guarantees issued.

The Group and the Bank will be performing a detailed impact assessment.

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

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use (ROU) asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard- i.e. lessors continue to classify leases as finance or operating leases.

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

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16.

The Group and the Bank have started an initial assessment of the potential impact on its consolidated and separate financial statements. So far, the most significant impact identified is that the Group and the Bank will recognise new assets and liabilities for its operating leases of office premises. In addition, the nature of expenses related to those leases will now change because IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for ROU assets and interest expense on lease liabilities. The Group and the Bank have not yet decided whether it will use the optional exemptions.

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Transition

The Group and the Bank currently plan to apply IFRS 16 initially on 1 January 2019. As a lessee, the Group and the Bank can either apply the standard using a:
- retrospective approach; or
- modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases. The Group and the Bank have not yet determined which transition approach to apply. As a lessor, the Group is not required to make any adjustments for leases except where it is an intermediate lessor in a sub-lease.

The Group and the Bank have not yet quantified the impact on its reported assets and liabilities of the adoption of IFRS 16. The quantitative effect will depend on, inter alia, the transition method chosen, the extent to which the Group and the Bank use the practical expedients and recognition exemptions, and any additional leases that the Group and the Bank enter into. The Group and the Bank are also in the process of assessing the impact on its CET1 ratio, particularly in respect of ROU assets in leases where the Group and the Bank are as lessees. The Group and the Bank expect to disclose its transition approach and quantitative information before adoption. For operating lease expenses and operating lease commitments please refer to Note 11.

Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively. Early application is permitted)

The amendments clarify share-based payment accounting on the following areas:
• the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
• share-based payment transactions with a net settlement feature for withholding tax obligations; and
• a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity settled.

The Group and the Bank expect that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements because the Group and the Bank do not enter into share-based payment transactions.

Amendments to IFRS 4 – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts.

Effective for annual periods beginning on or after 1 January 2018 to be applied prospectively. The amendments address concerns arising from implementing IFRS 9 before implementing the replacement standard that the IASB is developing for IFRS 4. The amendments introduce two optional solutions:
- one solution is a temporary exemption from IFRS 9, effectively deferring its application for some insurers;
- the other is an overlay approach to presentation to alleviate the volatility that may arise when applying IFRS 9 before the forthcoming insurance contracts standard.

The Group and the Bank expect that the amendments, will not have a material impact on the presentation of the financial statements because the Group and the Bank does not provide insurance services.

Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture (The effective date has not yet been determined by the IASB, however earlier adoption is permitted; not endorsed by EU).

The Amendments clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that:
• a full gain or loss is recognised when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets which constitute a business (whether it is housed in a subsidiary or not), while
• a partial gain or loss is recognised when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

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The Group and the Bank do not expect that the amendments, when initially applied, will have material impact on the financial statements as the Group and the Bank do not have transactions involving sale or contribution of assets.

Amendments to IAS 40 Transfers of Investment Property

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

The Group and the Bank do not expect that the amendments will have a material impact on the financial statements because the Group and the Bank transfer a property asset to, or from, investment property only when there is an actual change in use.

IFRIC 22 Foreign Currency Transactions and Advance Consideration (Effective for annual periods beginning on or after 1 January 2018; not endorsed by EU)

The Interpretation clarifies how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. In such circumstances, the date of the transaction is the date on which the Group and the Bank initially recognise the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The Group and the Bank do not expect that the Interpretation, when initially applied, will have material impact on the financial statements as the Group and the Bank use the exchange rate on the transaction date for the initial recognition of the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

Annual Improvements to IFRSs

The Group is in the process of evaluating the potential effect if any of other changes from these new standards and interpretations.

Basis of Consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from is 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 on which control commences until the date on which control ceases.

Transactions eliminated on consolidation

Intra-Group balances and transactions, and any unrealised gains arising from intra-Group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Bank's interest in the enterprise. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

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Related parties

Related parties represent both legal entities and private individuals related to the company in accordance with the following rules:

a) A person or a close member of that person's family is related to a reporting entity if that person:
i. has control or joint control over the reporting entity;
ii. has significant influence over the reporting entity; or
iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
b) An entity is related to a reporting entity if any of the following conditions applies:
i. the entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
ii. one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
iii. both entities are joint ventures of the same third party;
iv. one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
v. the entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity;
vi. the entity is controlled, or jointly controlled by a person identified in (a);
vii. a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Related party transaction - a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

Foreign currency translation

Transactions denominated in foreign currencies are translated into the functional currency (euro) at the European Central Bank's official exchange rate prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into euro at the European Central Bank's official exchange rate prevailing at the end of the period. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at cost and fair value are retranslated at the exchange rate at the date that the cost or fair value was determined. Foreign currency differences arising on retranslation are recognised in statement of comprehensive income, except for differences arising on the retranslation of available-for-sale equity instruments, which are recognised in other comprehensive income.

Currency name			**31.12.2017**		**31.12.2016**
1 GBP	=	EUR	0.8872300	EUR	0.8561800
1 RUB	=	EUR	69.392000	EUR	64.3000000
1 USD	=	EUR	1.1993000	EUR	1.0541000

Income and expense recognition

With the exception of financial assets held-for-trading and other financial instruments at fair value through profit or loss, interest income and expense are recognised in the profit or loss using the effective interest rate method. Interest income on financial assets held-for-trading and on other financial instruments at fair value through profit or loss comprises coupon interest received.

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The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently. When calculating the effective interest rate, the Group and Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract, transaction costs and all other premiums or discounts that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

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 the interest income over the estimated life of the financial instrument using the effective interest rate method.

Other fees, commissions and other income and expense items are recognised when the corresponding service has been provided.

Dividend income is recognised in the profit or loss on the date that the dividend is declared.

Financial instruments

Securities acquired by the Bank are categorised into portfolios in accordance with the Bank's intent at the time of the acquisition of the securities and pursuant to the Bank's investment strategy. The Bank developed a security investment strategy and, reflecting the intent of the acquisition, allocated securities to "Securities held-to-maturity", "Financial assets at fair value through profit or loss" and "Securities available-for-sale".

All financial instruments held by the Bank are recognised at trade date and are initially measured at fair value plus for instruments not at fair value through profit or loss any directly attributable transaction cost. The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that used only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Loans and receivables are recognised on drawdown. From the date of signing a contractual agreement till drawdown they are accounted for as loan commitments off balance sheet.

Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss include those that are classified as held-for-trading (including derivative financial instruments) and those that are originally designated in this category.

Held-for-trading instruments are securities and shares that the Bank principally holds for the purpose of reselling and generating a profit from short-term fluctuations in the prices of the instruments. Securities held-for-trading are subsequently re-measured to fair value based on market prices. Realised and unrealised gains or losses are recorded as net trading income or net trading loss, respectively.

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Derivative financial instruments

Derivative financial instruments include swap, forward, futures, spot transactions and options in interest rate, foreign exchange, precious metals and stock markets, and any combinations of these instruments.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured 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 trades in derivative instruments for risk hedging purposes, the Group does not adopt hedge accounting.

Securities available-for-sale

Securities available-for-sale are acquired to be held for an indefinite period of time. Securities, whose quoted market value is not determined in an active market and whose fair value cannot be reliably measured, are carried at acquisition cost. All other securities available-for-sale are carried at fair value. Gains or losses resulting from the change in fair value of available-for-sale securities, except for impairment losses, are recognised in other comprehensive income until the financial asset is derecognised; thereafter, the cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss. Securities available-for-sale are initially measured at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

Securities held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity. Securities held-to-maturity include government securities and corporate bonds which after initial recognition at fair value plus transaction costs that are directly attributable to its acquisition, are recognised at amortised cost and are securities with respect to which the Bank has a positive intent and ability to hold to maturity. Securities held-to-maturity are accounted at trade date. Subsequently the effective interest rate method is applied for amortising discounts over the term to maturity.

Loans and receivables

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than (a) those that the Bank intends to sell immediately or in the short-term, (b) those that the Bank upon initial recognition designates as at the fair value through profit or loss or as available-for-sale; or (c) those for which the holder may not recover substantially all of its initial investments, other than because of credit deterioration.

After initial recognition at fair value less transaction costs that are directly attributable to its acquisition, loans are measured at amortised cost using the effective interest rate method.

When a loan is considered to be uncollectible it is written off against the related allowance for credit losses; subsequent recoveries are credited to the impairment loss expense in the profit or loss.

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Due to credit institutions

Due to credit institutions comprise all liabilities resulting from transactions with domestic and foreign credit institutions as well as liabilities to the Bank of Latvia and other central banks, including vostro balances due to credit institutions, due to credit institutions for outstanding foreign exchange deals and interbank loans.

Due to credit institutions are initially measured at fair value and subsequently are carried at amortised cost using the effective interest rate method.

Deposits

Deposits are liabilities carried at amortised cost and include current accounts and deposits from customers and deposits.

Issued debt securities

The Group and the Bank recognise issued debt securities at the date when the respective funds are sold. After initial recognition when these financial liabilities are stated at fair value, including direct transaction costs, those are subsequently carried at amortised cost using the effective interest method. When issued debt securities are sold at a discount, the difference is amortised applying the effective interest method until the debt matures and charged to the profit or loss as interest expense.

Derecognition

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or when the Bank 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 Bank also derecognises certain assets when it writes off balances pertaining to the assets deemed to be uncollectible.

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.

Fair value measurement of financial assets and financial liabilities

The methods described below have been used for the determination of fair values. When applicable, further information about the assumptions made in determining fair values is disclosed in the respective notes.

Due from credit institutions

The fair value of placements on demand, overnight deposits and floating rate placements is their carrying amount. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

Loans and receivables from customers

The estimated fair value of loans represents the discounted amount of estimated future cash flows expected to be received. The interest rates used to discount estimated cash flows are based on the prevailing money-market interest rates curve plus an adequate credit spread.

Shares and other securities with non-fixed income

The fair value of shares and other securities with non-fixed income is determined by reference to their quoted bid price at the reporting date, if available. For non-listed shares, where disposal is limited, the assumption was made that the reliable estimate of fair value is not possible; such items are carried at cost less impairment.

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Derivative financial instruments

The fair value of currency swaps is estimated by discounting the contractual cash flows to be received and to be paid in appropriate foreign currencies for the residual maturity, and translating the difference of the discounted cash flows into eiro, applying the exchange rate set by the European Central Bank. EURIBOR and LIBOR interest rates are used as benchmark for risk-free interest rate for discounting purposes.

Due to credit institutions and deposits

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of overnight deposits is their carrying amount. The estimated fair value of fixed interest-bearing deposits not quoted in the active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

Impairment

Financial assets

At each reporting date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower or issuer, restructuring of a loan or advance by the Group and Bank on terms that the Group and Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

All loans and receivables from customers and held-to-maturity and available-for-sale investment securities are assessed for specific impairment. Accordingly, the Bank does not set aside a collective impairment allowance on loans and receivables due from customers and held-to-maturity investment securities.

Loans and receivables are stated in the statement of financial position at amortised cost, less any allowances for credit losses. Impairment losses and recoveries are recognised monthly based on regular loan reviews. Allowances during the period are reflected in the profit or loss.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables or held to maturity financial investments. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

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

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

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Non-financial assets

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

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

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

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

Repossessed collateral

As part of the normal course of business the Group and the Bank occasionally take possession of property that originally was pledged as security for a loan. When the Group or the Bank acquires (i.e. gains a full title to) a property in this way, the property's classification follows the nature of its intended use by the Group or the Bank. When the Group or the Bank is uncertain of its intentions with respect to land and buildings that it has repossessed or the Group or Bank plans to hold the property to earn rentals or for capital appreciation, those properties are classified as investment property. Other types of repossessed collateral are classified as other assets and IAS 2 Inventories is applied to account for these assets.

Intangible assets

The Bank's intangible assets comprise software licences. The intangible assets are accounted for at their historical cost less amortisation and impairment, if any. The intangible asset's amortisation term of two to twenty years is determined by the Bank based on the intangible asset's useful life, if any; in the event that such a term is not stated, the Bank amortises the intangible asset over a period of 5 years. The Bank applies the straight-line method of amortisation of intangible assets.

Property and equipment

Property and equipment, exept for motor vehicles, are recorded in the Financial Statements at their historical cost less accumulated depreciation and impairment, if any.

Depreciation periods for individual categories of assets are as follows:

Buildings	50 years
Machinery	5 years
Motor vehicles	5 years
Other tangible fixed assets	10 years
Computers	5 years

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Land and assets under construction are not depreciated. Costs relating to the maintenance and repair of the Group`s and Bank's property and equipment are included in the profit or loss when they arise. Whenever a complete repair and renovation prolong the asset's useful life (change the value of the asset), then the repair and renovation expenditure amount is added to the fixed asset's carrying amount.

Depreciation methods, useful lives and residual values are reviewed annually.

Items of property and equipment are carried at cost less accumulated depreciation and accumulated impairment losses, except for motor vehicles which are carried at revalued amounts as described below. Cost is the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire an asset at the time of its acquisition or construction. The cost includes expenditures that are directly attributable to the acquisition of the asset.

Motor vehicles are subject to revaluation on a regular basis, at least every 5 years. The frequency of revaluation depends upon the extent of the estimated movements in the fair values of the vehicles being revalued. A revaluation increase on a vehicle is recognised in other comprehensive income except to the extent that it reverses a previous revaluation decrease recognised in the income statement, in which case it is recognised in the income statement.

A revaluation decrease on a vehicle is recognised in the income statement except to the extent that it reverses a previous revaluation increase recognised in other comprehensive income, in which case it is recognised in other comprehensive income.

Fair value of vehicles is determined using the comparative method, which is based on recent market transactions with comparable vehicles. For valuation of selected vehicles, for which there are no observable data on recent market transactions, management relies on external valuations based on comparative valuation method and assesses the reliability of such valuation in light of the current market situation.

Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the supply of services or for administrative purposes. Some investment property has been acquired through the enforcement of security over loans and advances.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclasiffication becomes its deemed cost for subsequent accounting.

Investment property is initially recognised in the statement of financial position at its acquisition cost. Subsequently, the investment property is revalued and accounted for at its fair value based on its market price. Fair market value for land plots, buildings and other real property items is determined on the basis of annual property appraisals from certified appraisers. Gain or loss from the change in the value is recorded in the profit or loss and reported under the item "Gain or loss on revaluation of investment property".

Lease

Operating lease (The Group and the Bank as the lessees)
Operating lease payments are recognised in the income statement over the lease term on a straight-line basis.

Income and expense

With the exception of financial instruments held for trading and other financial instruments at fair value through profit or loss, interest income and expense are recognised in the consolidated statement of income using the effective interest rate method. Interest income on financial instruments held for trading and on other financial instruments at fair value through profit or loss comprises coupon interest only.

Accrued discounts and premiums on financial instruments at fair value through profit or loss are recognised in gains less losses from financial instruments at fair value through profit or loss, respectively.

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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 amortized to interest income over the estimated life of the financial instrument using the effective interest rate method.

Other fees, commissions and other income and expense items are recognised when the corresponding service has been provided.

Dividend income is recognised in the consolidated statement of income on the date that the dividend is declared.

Interests in equity-accounted investees

The Group's interests in equity-accounted investees comprise interests in associates and a joint ventures.

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies.

A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in associates and the joint venture are accounted for using the equity method.

Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity-accounted investees, until the date on which significant influence or joint control ceases. When the Group's share of losses exceeds its interest in the equity accounted investees, that interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the equity accounted investees.

Repo operations (repos)

Securities sold under sale and repurchase ("repo") agreements are accounted for as secured financing transactions, with the securities retained in the statement of financial position and the counterparty liability included in amounts payable under repo transactions. The difference between the sale and repurchase price represents the interest expense and is recognised in the profit or loss over the term of the repo agreement using the effective interest rate method.

Securities purchased under agreements to resell ("reverse repo") are recorded as amounts receivable under reverse repo transactions. The differences between the purchase and resale prices are treated as interest income and accrued over the term of the reverse repo agreement using the effective interest method.

If assets purchased under agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

Cash and cash equivalents

Cash and cash equivalents comprises cash and deposits with the Bank of Latvia and other credit institutions with an original maturity of less than 3 months, less balances due to the Bank of Latvia and credit institutions with an original maturity of less than 3 months.

Taxation

Current year

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

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.

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Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Changes in tax legislation

According to the new Law on Enterprise Income Tax of the Republic of Latvia adopted on 28 July 2017, and effective as of 1 January 2018, the 20% rate is only applied to distributed profits, while the 0% rate is expected to be applied to retained earnings. Under IAS 12 Income taxes, deferred tax assets and liabilities should be recognised by applying a rate expected to be applied to retained earnings. Therefore, deferred tax assets and liabilities are recognisable as nil. This principle was applied in the Company's financial statements for the year ended 31 December 2017.

Deferred tax assets and liabilities were reversed and changes were charged to profit or loss in the reporting period.

Provisions

A provision is recognised in the statement of financial position when the Group or Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Short-term employee benefits

Short-term employee benefits like salaries, social benefit payments, bonuses and vacation pay are measured on an undiscounted basis and are expensed as the related service is provided in accordance with accrual principle.

A provision is recognised for the amount expected to be paid under short-term cash bonus of profit sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The provision for employee holiday pay is calculated for each Group and Bank employee based on the total number of holidays earned but not taken, multiplied by the average daily remuneration expense for the preceding six months, to which the relevant social security expense is added.

Credit related commitments

In the normal course of business, the Bank enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Bank 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 liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably.

Financial guarantee liabilities and provisions for other credit related commitment are included within other liabilities.

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Dividends

The ability of the Group to declare and pay dividends is subject to the rules and regulations of the Latvian legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

Presentation of segment information

Segment is the Group's or the Bank's identifiable component which
- can be identified by types of products offered or types of services provided (business segment), or by types of products offered or types of services provided in a specific economic environment (geographical segment) and
- is exposed to risks and derives benefits which are different from those peculiar to other segments.

Information about business segment is used as the basic format whereby the Bank and the Group present segment information.

The Bank's Board is the chief operating decision maker.

The Group and the Bank specify that, according to certain requirements of IFRS 8: Operating Segments, the Group's sole business segment is the entire Bank and its operating results are reviewed regularly by the Group's and the Bank's Board to make decisions about resources to be allocated to the segment and assess its performance. Any other level if itemisation does not meet the quantitative thresholds set out by IFRS (adopted in the EU).

4 RISK MANAGEMENT

All aspects related to the risk management objectives of the Group and the Bank are consistent with those presented in the consolidated and separate financial statements as at and for the year ended 31 December 2016 , except for the changes described below. Throughout 2017, the Group and the Bank had active cooperation with the Financial and Capital Market Commission to improve a number of internal control systems.

The Bank's activities expose it to a variety of financial and non-financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risks is core to the financial business, and these risks are an inevitable consequence of being in business. The Bank's strategic aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effect on the Bank's financial performance.

The risk management system, being an integral part of internal control system of the Bank, is based on the principal requirements of effective supervision of banks by Financial and the Capital Market Commission and the Basel Committee on Banking Supervision.

The most important types of risk are compliance and reputational risk, credit risk, liquidity risk, interest rate risk, foreign exchange risk and operational risk. The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

Risk management in the Bank is centralised and is carried out by the Management Board under policies approved by Supervisory Council. Risk management polices are subject to yearly review. There are three committees in the Bank responsible for risk management - the Credit Committee, the Resources Supervision Committee and Customer Due Diligence Committee. In addition, internal audit is responsible for the independent review of risk management and control environment.

The Management Board of the Bank is responsible for monitoring and implementation of risk mitigation measures and making sure that the Bank operates within the established risk parameters. The Head of Risk Department of the Bank is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks.

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The Bank's risk management policies are designed to identify, analyse, and measure significant risks, to set appropriate risk limits and controls, and to monitor the risk and adherence to limits by means of reliable and up-to-date management information system. Since 2015, the Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 has been applied on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms and the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms.

Compliance risk

The Bank is committed to maintaining a robust compliance-risk management framework, which makes it possible to
- prevent losses or imposition of legal obligations or legal/regulatory sanctions or deterioration of the Bank's reputation
- ensure that the Bank adheres to compliance laws, rules and standards.

The Bank regularly evaluates the level of compliance risk and ensures minimisation of the risk level by setting forth risk mitigation measures and taking preventive action to ensure compliance.

The Bank has formulated and approved its policy whose purpose is to establish an effective Bank-wide framework for managing compliance risk in order to prevent losses or imposition of legal obligations or legal/regulatory sanctions or deterioration of the Bank's reputation and to ensure that the Bank adheres to compliance laws, rules and standards.

The policy sets forth the basic principles of managing and monitoring compliance risk, establishes for the Bank's senior management and functional units clear lines of roles / responsibilities and authority for managing compliance risk, the core principles for identifying, measuring and assessing compliance risk, prescribes risk mitigation measures, provides for employee compliance training, and the manner for submitting relevant reports and information.

According to the requirements of the policy, the Bank draws up and regularly updates its internal regulatory documents required to ensure a proper management of compliance risk.

The Bank manages compliance risk in accordance with annual action plans approved by the Bank's Board. The action plans prescribe compliance risk management-specific measures: revision and improvement of the compliance-risk management framework to align it with the changes in the Bank's business activities and external conditions that affect the activities.

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

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

At least once every year, the Bank carries out the assessment of compliance risk associated with all areas of the Bank's business and lines of business. Depending on the results obtained, the Bank undertakes (if necessary) compliance risk mitigation-specific measures, such as improvement of the internal regulatory and guidance documents, establishing more stringent controls (random checks/spot audits), employee training, and other relevant activities.

The Bank's money-laundering and terrorist financing risk (ML/TF risk)

The Bank has implemented and aims to adhere to the requirements and principles of the AML/CFT (Anti-Money-Laundering and Combating the Financing of Terrorism) regime, as set forth by:
- the applicable laws and regulations of the Republic of Latvia
- the Financial and Capital Market Commission's (FCMC) regulations and recommendations
- the international AML/CFT regulatory framework (legal instruments and recommendations)
- international best practices.

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The Bank has formulated and adopted the AML/CFT Policy intended as an element of an effective and efficient ML/TF risk management system designed to prevent the Bank's involvement in money laundering and terrorist financing. The Policy sets forth the Bank's strategy, the tasks and responsibilities of the Bank's senior management and functional units while managing ML/TF risk, the process of identifying, evaluating and monitoring ML/TF risk, risk mitigation measures, training Bank's staff on AML/CFT matters, manner of submitting relevant reports and information, the basic principles and elements of the Bank's Internal Control System specifically intended to ensure the Bank's AML/CFT compliance.

To reduce ML/TF risk, the Bank has established the Internal Control System (ICS) whose purpose is to ensure the Bank's compliance with the AML / CFT laws and to document internal control review processes. The ICS specifically provides the requirements for and controls over:
- initial customer due diligence (CDD) before establishing a business relationship with a new customer
- identification of customers and their authorised representatives
- initial (primary) enhanced due diligence (EDD) applied to customers assessed as high risk
- assessment of customer's ML/TF risk profile
- enhanced due diligence (EDD) applied to customers during the course of the existing business relationship
- supervision and monitoring of customers' transactions
- identification (detection) of unusual and suspicious transactions
- discontinuance of the existing business relationship with a customer if the Bank cannot obtain the information required for enhanced due diligence (EDD)
- retaining of the information, documents and results obtained during customer identification, customer due diligence and supervision (monitoring) of customers' transactions
- the rights, duties and responsibilities of Bank's staff while fulfilling the requirements of the Bank's ICS.

Based on the above internal regulations, the Bank is precluded from entering into a business relationship with a non-identified customer, with a customer whose identity has not been verified and/or if customer due diligence has not been carried out in accordance with the applicable laws and the Bank's internal regulatory and guidance documents. The Bank is also precluded from opening anonymous or numbered accounts and/or establishing business relationships with customers whose economic (business) activity is not acceptable to the Bank and / or who pose excessively high reputational risk or compliance risk.

AML / CFT training is another important measure aimed at mitigating ML/TF risk. The Bank holds regular employee training sessions to ensure that its employees charged with preventing ML/TF risks have practical working knowledge of AML / CFT legislation, both at the national and international levels, and of all relevant documents and industry best practices and standards, and know how to carry customer due diligence, identify unusual and suspicious transactions, file SARs (Suspicious Activity Reports) or STRs (Suspicious Transaction Reports) and refrain from suspicious transactions.

Ongoing improvements to Bank's AML ICS and implementation of an action plan in response to the results of the audit conducted in 2016 by US consultants and FCMC's inspection results from 2016

In early 2016, the Bank was issued a penalty by the FCMC for shortcomings in AML sphere identified during the FCMC's inspection. The FCMC's observations related to the following ICS areas:
- Client and their transaction AML risk assessment;
- Monitoring of customer business links and transactions;
- Level of due diligence exerted over customers' transactions.

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In response to the above, the Bank took the following actions already in 2016:
- developed the Money Laundering and Terrorist Financing Risk Management Strategy 2017-2020;
- developed the new risk scoring system used to quantify ML/TF risk posed by the customers;
- embarked on implementing new IT solutions for ML/TF risk management;
- revisited internal control processes around customer due dilligence procedures;
- enlarged customer Supervision Department's staffing;
- made amendments to its AML/CFT training system.
- revised the procedure and manner in which the Bank cooperates with its intermediaries (agents), set forth tougher requirements to the existing and potential partners empowered and entitled to conduct customer identification, and implemented other significant changes;
- underwent an independent audit of its internal control system (ICS) conducted by U.S. consultants (described further below);
- inspected the customer base with a focus on those customers in respect of which the Bank was required to conduct enhanced due diligence (EDD) measures in accordance with the applicable laws of the Republic of Latvia, and made the decision to terminate the business relationship with the customers posing disproportionately high reputational, regulatory and/or ML/TF risk.

Following the FCMC's recommendations in 2016, the Bank entered into an agreement with a US advisory firms Exiger LLC and Lewis Baach Kaufmann. These consultants were tasked with evaluating the Bank's anti-money-laundering and counter terrorism financing and sanctions programme for compliance with the US Bank Secrecy Act, Patriot Act, the OFAC sanctions program and the requirements of other binding acts or regulatory guidance, and to identify gaps and recommendations for improvement.

The evaluation was focused on the following key areas: management and accountability in the anti-money-laundering and counter terrorism financing programme, internal controls, training measures, independent testing and audit, and information systems used for anti-money-laundering and counter terrorism financing. A number of recommendations were included in the resulting report, based on which the Bank's management supplemented its action plan developed after the FCMC's inspection discussed above with measures aimed at improving the internal control system for anti-money-laundering and counter terrorism financing in the area of customer transaction monitoring, risk assessment and management, and an overhaul of the information systems supporting AML. As part of the measures the Bank developed a number of new enhanced internal regulations and procedures for more efficient management of ML/TF risks. Among these the most important were:
- Methods for Identification and Measurement of Money Laundering and Terrorist Financing Risk Exposure;
- Redesigned risk scoring system and enhanced procedure for identifying and measuring client's risk, and re-worked Money Laundering and Terrorist Financing Risk Management Policy.

In addition, the following internal procedures have been redesigned, enhancing analysis methods and making the procedures more comprehensive for the staff:
- Initial Customer Due Diligence Procedure;
- Procedure for Performing Customer Due Diligence During the Business Relationship;
- Procedure for Detecting Unusual and Suspicious Transactions;

The Bank also introduced a Sanctions Policy, approved by the Supervisory Board. The Officer in charge of the sanctions monitoring was appointed in the Bank. As part of the measures, a decision was also taken by the Management Board to implement new information system in order to cover screening, monitoring, risk assessment, KYC and sanctions functionality of the ICS. The products of TONBELLER AG were installed and running from 2017 instead of previously used AML Suite. They are as follows:
- Siron AML (Risk Profiling and Money-Laundering Alerts Through Customizable Scenarios),
- Siron RAS (For risk analysis),
- Siron KYC (Integrated Risk Classification for New and Existing Customers),
- Siron Embargo (Matching Payments with Sanction Lists)

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This is a fully integrated solution that corresponds to specific business model of the Bank and is in line with the requirements of FCMC and best practice. It enhances the Bank's ability to:
- Detect Suspicious and Unusual transactions;
- Analyze deviations from usual customers' activity;
- Sanction screening;
- Filling SARs (Suspicious Activity Reports);
- Conduct list checking; Enable rules (including LV legislation & other rules);
- Evaluate different risk indicators;
- To assign risk categories for customers (Low, Middle, High, Very High).

The Bank implemented the above additional measures and provided additional training to staff during 2017 which, in the management's view, allowed for improvements in its internal control system and internal regulations. The Bank has been significantly investing into developing a robust internal control system. It concerned many areas: hiring additional qualified personnel, acquiring and integrating new IT tools and access to databases, training staff directly and indirectly engaged into mitigating ML/TF risks.

Ongoing review of Bank's AML internal control system by the FCMC in 2018

Further to the reviews outlined above, in the first half of 2018, the FCMC started a full scope AML/CFT review at the Bank in order to evaluate Bank's compliance with the Latvian AML/CFT Law and to verify whether the Bank's practice was compliant with the regulations of the FCMC and other relevant laws. As at the date of these separate and consolidated financial statements, the Bank has not received any preliminary results or findings of the review.

Credit risk

The Bank takes on exposures to credit risk, which is the risk that counterparty will cause a financial loss for the Bank by failing to discharge a contractual obligation. Credit risk is the most significant risk for the Bank's business and therefore exposures to credit risk are subject to careful management.

Sources of credit risk

Credit risk of the Bank arises principally from the placements with credit institutions as well as from lending and investment activities and transactions in derivative financial instruments. There is also credit risk in financial instruments such as letters of credit, guarantees and payment cards' overdraft commitments. There is a delivery risk in relation to foreign exchange transactions.

For the Bank as a payment bank, exposure to credit risk may interfere with liquidity management activities as the Bank should maintain sufficient funds on accounts with principal correspondents to provide necessary customers' payments, which sometimes causes significant concentrations with particular counterparties.

Management and control of credit exposures

The Bank manages, limits and controls concentrations of credit risk whenever they are identified, in particular, to individual counterparties and groups, and to industries and countries.

The Group and Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one counterparty, or group of counterparties, and to geographical and industry segments. Such limits are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary.

Exposures to credit risk are managed through regular analysis of the ability of the existing and potential borrowers and counterparties to meet interest and principal repayment obligations and by changing lending limits where appropriate. The financial analysis, the analysis of external ratings and analysis of business environment of borrowers and counterparties is taken into consideration for such decision-making.

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According to regulations, any credit risk exposure to a non-related counterparty may not exceed 25% of the Bank's equity. Regulation states though that some exposures, such as due from credit institutions with maturity up to 1 year, are not considered to be credit risk exposures for regulatory requirements noted above.
The Group and Bank uses different credit risk management techniques for credit institutions and non-banks, but techniques are applied consistently to all financial instruments used, including sureties and commitments exposures with particular counterparty or group of related counterparties, as well as delivery risk in relation to foreign exchange transactions.

Limits on exposures to credit institutions are set by Resources Supervision Committee and approved by the Management Board. Limits on exposures to non-banks are considered by Credit Committee and approved by the Management Board or Supervisory Council according to the approval authorities.

Exposures to related groups of counterparties and counterparties related to the Group and Bank are also subject to regulatory requirements.

According to regulations the total credit risk exposures to parties related to Bank shall not exceed 15% of the Bank's equity.

Credit risk mitigation policies

The Bank employs a range of credit risk mitigation techniques. The most traditional of these is taking security for funds disbursements, which is common practice. The Bank implements guidelines on the criteria for specific classes of collateral taken.

The amount of collateral required may vary depending on the type of exposure but usually it is set at least to cover principal amount of the outstanding debt.

The Bank's exposures to credit institutions are usually unsecured.

Quantitative disclosures

Further quantitative disclosures in respect of credit risk are presented in Notes 17, 19, 21, 22, 23, 48.

Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in raising funds to meet its commitments. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions, including the Bank. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

Liquidity risk management process

The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due.

The Bank seeks to actively support a diversified and stable funding base comprising debt securities in issue, long-term and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The Bank's liquidity policy is reviewed and approved by the Management Board. The policy states that the Bank is obliged to hold sufficient liquid assets reserve to meet its financial commitments, however not less than 60% of the Bank's total current liabilities.

The Bank calculates the mandatory liquidity ratio on a daily basis in accordance with the requirements of the Financial and Capital Market Commission.

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The Bank's liquidity ratio as at 31 December 2017 was 92.28%, compared to 70.02% as at 31 December 2016.

The liquidity management policy of the Bank requires:
• projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
• maintaining a diverse range of funding sources;
• managing the concentration and profile of debts;
• maintaining debt financing plans;
• maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow;
• maintaining liquidity and funding contingency plans;
• monitoring statement of financial position liquidity ratios against regulatory requirements.

Monitoring and reporting take the form of cash flow measurement and projections for the next day and month respectively, as these are key periods for liquidity management. The starting point for these projections is an analysis of the contractual maturity of the financial liabilities and the expected collection data of the financial assets.

The Treasury Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

Daily projections are based on assets and liabilities contractual maturities monitoring and analysis of information concerning customers' incoming and outgoing payments. Monthly projections are based on assets and liabilities term structure analysis.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department. Under the normal market conditions, liquidity reports covering the liquidity position of the Bank are presented to senior management on a weekly basis. Decisions on the Bank's liquidity management are made by the Treasury Committee and implemented by the Treasury Department.

Quantitative disclosures

Further quantitative disclosures in respect of liquidity risk are presented in Notes 43 and 44.

Currency (foreign exchange) risk

Foreign exchange risk relates to the effects of fluctuations in the prevailing foreign currency exchange rates on the Bank's financial position and cash flows.

The Bank has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. For further information on the Bank's exposure to currency risk at year end refer to Note 45 and Note 46.

An analysis of sensitivity of the Bank's net income for the year and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2017 and 31 December 2016 and a simplified scenario of a 10% drop in the value of the euro versus other currencies is shown in Note 46.

Foreign exchange risk management process

Currency risk management policy determines and regulates risk control and regulatory principles related to the currency exchange transactions that help the Bank in controlling its foreign currency open positions.

Limits on open foreign currency positions in a single currency and aggregate open foreign currency position are set for both overnight and intra-day positions, which are monitored daily.

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

Quantitative disclosures

Further quantitative disclosures in respect of foreign exchange risk are presented in Note 45 and Note 46.

Interest rate risk

Interest rate risk represents the risk that there may be changes in the future cash flows connected with financial instruments (cash flow interest rate risk) or fair value of financial instruments (fair value interest rate risk) resulting from changes in the interest rates on the market. The period when interest rate of the financial instruments is constant determines how it is exposed to the interest rate risk.

Sources of interest rate risk

Interest rate risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period.

The Bank is exposed to the cash flow interest rate risk which represents the effect of changes in the interest rates on the Bank's net interest margin and the amount of net interest income due to an inadequate term structure of interest rate sensitive assets and liabilities. The Bank is not exposed to significant interest rate risk of the fair value of financial instruments.

Interest risk management process

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.

Quantitative disclosures

An analysis of sensitivity of the net income for the year and equity as a result of changes in fair value of held-for-trading and financial assets available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2017 and 31 December 2016 and a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves is shown in Note 47.

Market risk

The Bank devotes close attention to managing and analysing market risk. Bank has adopted the Financial Instruments Portfolio Management Policy that sets forth:

- the objectives and targets of Financial Instruments Portfolio management;
- the core principles of Financial Instruments Portfolio management;
- procedure for conducting portfolio-level stress testing (to stress-test Financial Instruments Portfolio);
- authority and responsibility concerning the management of Financial Instruments Portfolio.

The Bank's Securities Division is responsible for implementing the Financial Instruments Portfolio Management Policy. The Bank's Internal Audit Function regularly verifies whether the Policy is followed daily. The Bank has adopted the Securities Portfolio Risk Management Procedure, which at sets forth the criteria for evaluating risks inherent in securities held in the portfolio, in order to prevent the adverse effects of market risk and credit risk on the Bank's financial condition.

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 Bank takes a long or short position in a financial instrument.

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An analysis of sensitivity of the Bank's net profit/loss in the statement of comprehensive income for the year and equity to changes in securities prices based on positions existing as at 31 December 2017 and 31 December 2016 and a simplified scenario of a 5% change in all securities prices is as follows:

	Net income 31.12.2017 EUR	Equity 31.12.2017 EUR	Net income 31.12.2016 EUR	Equity 31.12.2016 EUR
5% increase in securities prices	594	230 455	410 792	639 603
5% decrease in securities prices	(594)	(230 455)	(410 792)	(639 603)

The sensitivity analyses of the Group's and the Bank's net profi/loss in the statements of comprehensive income for the year and equity to changes in securities prices do not vary significantly.

Operational risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events - various types of human (staff members) or technical (software and hardware failures) errors, contingencies, fire and other factors of this sort. To prevent losses caused by operational risk, the Bank has adopted internal guidance documents, such as the internal by-law, fire safety regulations, technical system and facility safety regulations, information classification rules and other rules, regulations and directives. The Bank's Board has appointed a task force whose task is to ensure the implementation of the regulatory requirements set forth in the aforesaid internal guidance documents.

5 CAPITAL MANAGEMENT

The Financial and Capital Market Commission sets and monitors capital requirements for the Bank and the Group.

The Bank defines as capital those items defined by statutory regulation as capital. Under the current capital requirements set by Financial and Capital Market Commission, banks have to maintain a ratio of capital to risk weighted assets ("statutory capital ratio") above the prescribed minimum level of 8%.

According to the specific requirement of the FCMC, the Bank is required to maintain a capital adequacy ratio above minimum level – 12.9% for the period starting from 1 December 2017 to 31 December 2018 (from 1 October 2016 till 30 September 2017: 10.2%). In addition to the minimum level which is set by the FCMC, the Bank has to comply with the requirement regarding capital buffers (is defined in Credit Institutions Law) which currently are equal to 2.5%. Capital buffers have to ensure by Common Equity Tier 1 capital. The Bank's risk based capital adequacy ratio, as at 31 December 2017, was 13.00% (31 December 2016: 16.48%).

The Bank's objectives when managing capital, which is a broader concept than the "equity" on the face of statement of financial position, are:
• to comply with the capital regulatory requirements;
• to safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders;
• to maintain the strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee and the European Community directives, as implemented by the Financial and Capital Market Commission. The required information is filed with the Financial and Capital Market Commission on a monthly basis.

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The Credit Institution Law and regulations developed by the Financial and Capital Market Commission for the application of the norms of this law, require Latvian banks to maintain a capital adequacy ratio of 8%, i.e., the Bank's capital ratio against the risk weighted assets and memorandum items and the sum of notional risk weighted assets and memorandum items. The sum of notional risk weighted assets and memorandum items is determined as the sum of capital requirements of market risks, multiplied by 12.5.

The guidelines of the Financial and Capital Market Commission for calculation of capital adequacy agree with the recommendations under the Basel Capital Accord and amendments thereto. According to the Basel Capital Accord, the capital adequacy ratio should be at least 8%.

Quantitative disclosures

Further quantitative disclosures in respect of capital management are presented in Note 42.

6 INTEREST INCOME

	Group 2017 EUR	**Bank 2017 EUR**	**Group 2016 EUR**	**Bank 2016 EUR**
Loans	3 041 938	3 061 978	3 490 120	3 530 584
Loans,	*3 027 789*	*3 047 829*	*3 476 959*	*3 517 423*
including interest income on impaired loans	*23 331*	*23 331*	*93 066*	*98 928*
Payment cards	*14 149*	*14 149*	*13 161*	*13 161*
Available for sale instruments	543 082	543 082	775 435	775 435
Securities held-to-maturity	510 419	510 419	508 979	508 979
Due from credit institutions	128 005	128 005	122 899	122 899
Interest income for negative interest rate applied to current account balances	17 820	17 820	59 653	59 653
Securities held-for-trading	14 865	14 865	34 033	34 033
Financial assets at fair value through profit or loss	2 925	2 925	-	-
Due from Bank of Latvia	-	-	630	630
Other interest income	59 500	56 286	36 113	36 113
	4 318 554	**4 335 380**	**5 027 862**	**5 068 326**

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7 INTEREST EXPENSE

	Group 2017 EUR	Bank 2017 EUR	Group 2016 EUR	Bank 2016 EUR
Liabilities at amortised cost	1 422 216	1 422 241	1 426 839	1 426 178
Deposits	*492 461*	*492 486*	*645 998*	*645 337*
Subordinated liabilities	*770 448*	*770 448*	*525 390*	*525 390*
Debt securities	*153 342*	*153 342*	*250 965*	*250 965*
Due to credit institutions	*5 965*	*5 965*	*4 486*	*4 486*
Contributions to Deposit Guarantee Fund	184 878	184 878	234 348	234 348
Contributions to Single Resolution Fund	114 044	114 044	145 044	145 044
Financial stability fee	104 536	104 536	62 602	62 602
Other interest expense	91	-	7	-
	1 825 765	**1 825 699**	**1 868 840**	**1 868 172**

8 FEE AND COMMISSION INCOME

	Group 2017 EUR	Bank 2017 EUR	Group 2016 EUR	Bank 2016 EUR
Accounts administration charges	2 165 708	2 166 729	1 749 932	1 750 575
Servicing of transactions	1 390 865	1 390 865	3 155 444	3 155 444
Trust operations	704 622	704 622	782 209	782 209
Payment cards	478 793	478 793	1 273 264	1 273 264
Securities accounts administration charges	477 690	477 690	934 852	934 852
Forex transactions	132 006	132 006	178 556	178 556
Fees and commissions from banks	48 087	48 087	110 927	110 927
Letters of credit and guarantees	29 787	29 787	184 101	184 101
Cash operations	8 273	8 273	10 980	10 980
Transactions in precious metals	7 331	7 331	18 139	18 139
Other	10 123	10 123	28 230	28 230
	5 453 285	**5 454 306**	**8 426 634**	**8 427 277**

The shrinking number of customers complemented by the Bank’s de-risking activities contributed to the overall decline in the amount of income from customer service.

In 2017, the volume of USD-denominated customer payments decreased by significantly compared to 2016. The decrease has also substantially affected the income.

In September 2016, the Bank approved new charges for banking services. The Bank increased personalized service fees and started charging its new fee for consideration of current-account-opening package. This allowed the Bank to boost the income disclosed in the item ‘accounts administration charges’.

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9 FEE AND COMMISSION EXPENSE

	Group 2017 EUR	Bank 2017 EUR	Group 2016 EUR	Bank 2016 EUR
Payment cards	736 917	736 917	1 325 283	1 325 283
Services of agents and brokers	493 485	493 485	1 172 395	1 172 395
Securities-based transactions	261 494	260 494	532 136	532 136
Services of correspondent banks	268 354	268 354	391 357	391 357
Foreign exchange operations	17	17	43	43
	1 760 267	**1 759 267**	**3 421 214**	**3 421 214**

10 NET FOREIGN EXCANGE INCOME AND GAIN ON FINANCIAL INSTRUMENTS

	Group 2017 EUR	Bank 2017 EUR	Group 2016 EUR	Bank 2016 EUR
Gain on foreign exchange operations	6 571 628	6 571 628	16 282 336	16 282 336
Gain on revaluation of positions in foreign currency	1 487 025	1 487 025	63 039	63 039
	8 058 653	**8 058 653**	**16 345 375**	**16 345 375**
Profit/ (loss) from trading in held-for-trading securities	40 144	40 144	(3 983)	(3 983)
Transfer from available-for-sale revaluation reserve on disposal of available-for-sale instruments	(41 150)	(41 150)	2 736 420	2 736 420
Profit on revaluation of held-for-trading securities	12 124	12 124	2 752	2 752
(Loss)/profit on revaluation of financial assets designated at fair value through profit or loss	(4 886)	(4 886)	773 786	773 786
	6 232	**6 232**	**3 508 975**	**3 508 975**
	8 064 885	**8 064 885**	**19 854 350**	**19 854 350**

The decline in the gain on forex transactions in 2017 was driven by the drop in transactions with certain high-risk jurisdictions. In 2017, the Bank ceased to conduct swaps in the aforesaid jurisdictions. The counterparties were not able to comply with MiFID II requirements in a timely manner, which in turn affected the volume of interbank transactions.

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11 ADMINISTRATIVE EXPENSES

	Group 2017 EUR	Bank 2017 EUR	Group 2016 EUR	Bank 2016 EUR
Staff salaries	7 194 113	7 190 796	6 572 370	6 565 399
Professional services	1 949 721	1 948 196	2 464 882	2 464 045
Social insurance payments and solidarity tax	1 594 018	1 593 232	1 456 708	1 455 063
Amortisation and depreciation (Notes 26, 27)	1 525 345	1 525 246	1 468 917	1 468 917
Renovation and maintenance of property and equipment	983 392	972 009	1 103 925	1 097 484
Representation expenses	858 402	858 402	1 162 988	1 162 988
Business trips	294 458	294 458	347 480	347 480
Communication	158 040	158 021	179 030	172 888
Taxes	138 407	138 407	379 693	379 693
Event organisation	94 404	94 404	291 746	291 746
Motor vehicles	74 901	74 901	85 956	82 043
Sworn auditor statutory audit	65 508	65 508	54 281	54 281
Stationary goods and household equipment	61 652	61 652	61 031	61 031
Insurance	50 599	50 382	48 322	47 965
Security	39 627	39 627	56 105	56 105
Advertising and publicity	31 194	31 194	27 710	27 710
Sworn auditor other audits un consultations	25 489	25 489	41 622	41 622
Charity and sponsorship	11 005	11 005	153 789	153 789
Other	280 290	122 878	156 047	128 750
	15 430 565	**15 255 807**	**16 112 602**	**16 058 999**

The Group and Bank leases a number of offices and land plots under operating leases. The leases typically run for a period of 1 year, with an option to renew the lease after that date. Lease payments are increased every three to five years to reflect market rentals. Some leases provide for additional rent payments that are based on changes in a local price index.

Audit and other fees paid to the independent auditor company, which has audited these financial statements, are presented within administrative expenses. Other audits and consultations included audit related services to fulfil regulatory requirements on custodian responsibilities and deposit guarantee fund contribution reporting, other advisory services related to IFRS 9 gap identifications, IT advsiory and regulatory reporting solutions.

Increase in other administrative expenses in Group level is due to loss from sale of investment property. Please refer to note 26 for more details.

The amount of lease expenses is included within representation expenses and expenses associated with repairs and maintenance of fixed assets and motor vehicles.

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Operating lease payments recognised in the income statement during 2017:

	Koncerns 2017 EUR	Banka 2017 EUR	Koncerns 2016 EUR	Banka 2016 EUR
Operating lease expenses	218 535	218 535	264 685	264 685
	218 535	**218 535**	**264 685**	**264 685**

At 31 December 2017, the future minimum lease payments under non-cancellable operating leases were payable as follows:

	Koncerns 2017 EUR	Banka 2017 EUR	Koncerns 2016 EUR	Banka 2016 EUR
Less than one year	41 559	41 559	227 437	227 437
Between one and five years	162 203	162 203	197 105	197 105
More than five years	45 794	45 794	-	-
	249 556	**249 556**	**424 542**	**424 542**

12 OTHER OPERATING EXPENSES

	Group 2017 EUR	Bank 2017 EUR	Group 2016 EUR	Bank 2016 EUR
Expenses on out of court settlement	1 792 757	1 792 757	-	-
Negative interest income from placement of funds with banks	266 079	266 079	275 966	275 966
Association membership fees	125 018	125 018	114 801	114 801
Loss from transactions in precious metals	14 182	14 182	-	-
Services of agents and brokers	6 804	6 804	12 620	12 620
Other	10 332	5 000	137 253	30 396
	2 215 172	**2 209 840**	**540 640**	**433 783**

During 2017, a party that had previously purchased foreclosed assets from the Bank in 2015 claimed that certain documentation in relation to the ownership of the foreclosed assets was incomplete and was challenged by local authorities. Recognizing these shortcomings and aiming for a settlement without prolonged legal disputes both parties reached an agreement whereby the Bank paid one-off compensation to the other party.

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13 ANALYSIS OF CHANGES IN IMPAIRMENT LOSS ALLOWANCE FOR ASSET EXPOSURES

Group

	Allowances for claims on the credit institutions EUR	Allowances for loans EUR	Allowances for securities available-for-sale EUR	Allowances for accrued income and other assets EUR	Total EUR
Allowances as of 31 December 2015	**1 112**	**13 050 492**	**-**	**293 383**	**13 344 987**
Increase in allowances	17	7 331 534	3 274 235	62 612	**10 668 398**
Reversal of allowances	(1 123)	(73 823)		-	**(74 946)**
Net impairment loss for the period	**(1 106)**	**7 257 711**	**3 274 235**	**62 612**	**10 593 452**
Amounts written-off	-	(3 045 967)	-	(2 712)	**(3 048 679)**
Difference due to fluctuations in foreign currency exchange rates	(6)	312 183	-	(2 032)	**310 145**
Allowances as of 31 December 2016	**-**	**17 574 419**	**3 274 235**	**351 251**	**21 199 905**
Increase in allowances	-	1 968 260	2 130 681	53 703	**4 152 644**
Reversal of allowances	-	(153 757)	-	(25 395)	**(179 152)**
Net impairment loss for the period	**-**	**1 814 503**	**2 130 681**	**28 308**	**3 973 492**
Amounts written-off	-	(28 701)	-	(30 547)	**(59 248)**
Difference due to fluctuations in foreign currency exchange rates	-	(992 586)	-	(1 978)	**(994 564)**
Allowances as of 31 December 2017	**-**	**18 367 635**	**5 404 916**	**347 034**	**24 119 585**

Bank

	Allowances for claims on the credit institutions EUR	Allowances for loans EUR	Allowances for securities available-for-sale EUR	Allowances for investments in subsidiaries, accrued income and other assets EUR	Total EUR
Allowances as of 31 December 2015	**1 112**	**13 500 649**	**-**	**175 214**	**13 676 975**
Increase in allowances	17	7 663 781	3 274 235	62 612	**11 000 645**
Reversal of allowances	(1 123)	(73 823)	-	-	**(74 946)**
Net impairment loss for the period	**(1 106)**	**7 589 958**	**3 274 235**	**62 612**	**10 925 699**
Amounts written-off	-	(3 045 967)	-	(2 712)	**(3 048 679)**
Difference due to fluctuations in foreign currency exchange rates	(6)	312 183	-	(2 032)	**310 145**
Allowances as of 31 December 2016	**-**	**18 356 823**	**3 274 235**	**233 082**	**21 864 140**
Increase in allowances	-	2 675 164	2 130 681	1 253 590	**6 059 435**
Reversal of allowances	-	(153 757)	-	(25 395)	**(179 152)**
Net impairment loss for the period	**-**	**2 521 407**	**2 130 681**	**1 228 195**	**5 880 283**
Amounts written-off	-	(28 701)	-	(30 547)	**(59 248)**
Difference due to fluctuations in foreign currency exchange rates	-	(992 586)	-	(1 978)	**(994 564)**
Allowances as of 31 December 2017	**-**	**19 856 943**	**5 404 916**	**1 428 752**	**26 690 611**

In respect of both natural persons and companies, the Bank strictly adheres to its policy and internal regulatory documents relating to the evaluation of the allowances. The Bank also follows the relevant recommendations from the FCMC. The Bank therefore thoroughly analyses a borrower's income and expenses for the then-current period and the potential dynamics thereof as a whole. In addition, the Bank places an enhanced focus on evaluation and determination of the value of the property offered as the security. The Bank regularly re-evaluates the value to keep it up-to-date in accordance with the internal regulatory documents. This enables the Bank to track the dynamics of the value, adjust it where necessary, and make allowances.

Increase in allowances for other assets and accrued income relates to allowance for investment in Bank's subsidiaries.

Increase in allowances for available- for-sale financial assets relates to the decrease in the fair value of Tamar Energy, Ltd. Please refer to Note 22.

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14 INCOME TAX

(a) Income tax charge

	Group	Bank	Group	Bank
	31.12.2017	31.12.2017	31.12.2016	31.12.2016
	EUR	EUR	EUR	EUR
Current income tax expense	50	-	50	-
Deferred income tax (benefit)/expense	(1 036 657)	(1 036 657)	78 195	78 195
	(1 036 607)	**(1 036 657)**	**78 245**	**78 195**

The Group's and the Bank's applicable tax rate is 15% (2016: 15%).

According to the new Law on Enterprise Income Tax of the Republic of Latvia adopted on 28 July 2017, and effective as of 1 January 2018, a 20% rate is only applied to distributed profits while a 0% rate is expected to be applied to undistributed profits. Therefore, deferred tax assets and liabilities are recognisable at nil amount. This principle has been applied in the Bank's financial statements for the year ended 31 December 2017. The carrying amounts of deferred tax assets and liabilities were reversed and changes were charged to profit or loss in 2017.

(b) Reconciliation between tax benefit and accounting profit

	Group	Bank	Group	Bank
	31.12.2017	31.12.2017	31.12.2016	31.12.2016
	EUR	EUR	EUR	EUR
(Loss)/profit before income tax	**(8 736 711)**	**(9 130 506)**	**403 737**	**213 546**
Theoretically calculated tax at tax rate of 15%	(1 310 507)	(1 369 576)	60 561	32 032
Effect of non-deductible expenses	1 108 211	1 049 143	1 519 105	1 516 219
Effect of non-taxable income	(448 118)	(330 031)	(1 501 421)	(1 470 056)
Effect of legislative changes on deferred tax	(386 193)	(386 193)	-	-
	(1 036 607)	**(1 036 657)**	**78 245**	**78 195**

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(c) Deferred taxes

These deductible temporary differences, which have no expiry dates, are listed below at their tax effected accumulated values:

					Group and Bank	
	Assets 31.12.2017 EUR	**Assets 31.12.2016 EUR**	**Liabilities 31.12.2017 EUR**	**Liabilities 31.12.2016 EUR**	**Deferred tax assets/ (liabilities) 31.12.2017 EUR**	**Deferred tax assets/ (liabilities) 31.12.2016 EUR**
Financial instruments at fair value	-	17 077	-	-	**-**	**17 077**
Property and equipment	-	-	-	(1 134 711)	**-**	**(1 134 711)**
Intangible assets	-	-	-	(509 939)	**-**	**(509 939)**
Investment property	-	190 540	-	-	**-**	**190 540**
Provision for unused vacation	-	46 094	-	-	**-**	**46 094**
Commodities	-	-	-	(5 022)	**-**	**(5 022)**
Tax loss carry-forwards	-	359 304	-	-	**-**	**359 304**
Recognised net deferred tax assets/(liabilities)	**-**	**613 015**	**-**	**(1 649 672)**	**-**	**(1 036 657)**

(d) Movement in temporary differences

			Group and Bank
	Carrying amount 31.12.2016 EUR	**Recognised in income statement 2 017 EUR**	**Carrying amount 31.12.2017 EUR**
Financial instruments at fair value through profit or loss	17 077	(17 077)	-
Property and equipment	(1 134 711)	1 134 711	-
Intangible assets	(509 939)	509 939	-
Investment property	190 540	(190 540)	-
Provision for unused vacation	46 094	(46 094)	-
Commodities	(5 022)	5 022	-
Tax loss carry-forwards	359 304	(359 304)	-
	(1 036 657)	**1 036 657**	**-**

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			Group and Bank
	Carrying amount 31.12.2015 EUR	Recognised in income statement 2016 EUR	Carrying amount 31.12.2016 EUR
Financial instruments at fair value through profit or loss	17 023	54	17 077
Property and equipment	(1 051 869)	(82 842)	(1 134 711)
Intangible assets	(546 856)	36 917	(509 939)
Investment property	98 438	92 102	190 540
Provision for unused vacation	46 923	(829)	46 094
Commodities	11 331	(16 353)	(5 022)
Tax loss carry-forwards	466 548	(107 244)	359 304
	(958 462)	**(78 195)**	**(1 036 657)**

15 CASH AND BALANCES WITH BANK OF LATVIA

	Group 31.12.2017 EUR	Bank 31.12.2017 EUR	Group 31.12.2016 EUR	Bank 31.12.2016 EUR
Cash	1 578 991	1 578 991	2 800 306	2 800 306
Balance with the Bank of Latvia	104 336 344	104 336 344	67 351 717	67 351 717
	105 915 335	**105 915 335**	**70 152 023**	**70 152 023**

The Bank is required to ensure that the monthly average balance with the Bank of Latvia exceeds the statutory reserve requirement ratio for commercial banks. During 2016 and 2015 the Bank complied with the reserve requirements.

16 CASH AND CASH EQUIVALENTS

	Group 31.12.2017 EUR	Bank 31.12.2017 EUR	Group 31.12.2016 EUR	Bank 31.12.2016 EUR
Cash	1 578 991	1 578 991	2 800 306	2 800 306
Balance with the Bank of Latvia	104 336 344	104 336 344	67 351 717	67 351 717
	105 915 335	**105 915 335**	**70 152 023**	**70 152 023**
Due from other credit institutions with up to 3 months original maturity	24 322 873	24 322 873	12 720 683	12 720 683
Due to other credit institutions with up to 3 months original maturity	(278 637)	(278 637)	(1 796 666)	(1 796 666)
	129 959 571	**129 959 571**	**81 076 040**	**81 076 040**

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17 SECURITIES-HELD-FOR TRADING

	Group and Bank 31.12.2017 EUR	Group and Bank 31.12.2016 EUR
Debt securities	87 319	486 159
Bonds of other issuers and other fixed-income securities rated Baa	*85 269*	-
Bonds of other issuers and other fixed-income securities rated Ba	-	*486 159*
Bonds of other issuers and other fixed-income securities rated Caa	*2 050*	-
Shares and other variable income securities	11 873	142 186
Non-rated shares and other variable income securities	*11 873*	*142 186*
	99 192	**628 345**

The table below shows the securities recorded by issuer profile:

	Group and Bank 31.12.2017 EUR	Group and Bank 31.12.2016 EUR
Debt securities of credit institutions	2 050	486 159
Debt securities of private enterprises	85 269	-
Total debt securities	**87 319**	**486 159**
State-owned companies enterprises	4 717	12 335
Shares of private enterprises	7 156	9 162
Investment certificates	-	120 689
Total shares	**11 873**	**142 186**
	99 192	**628 345**

The table below shows the geographical concentration of securities:

	Group and Bank 31.12.2017 EUR	Group and Bank 31.12.2016 EUR
Debt securities of entities registered in EU countries	2 050	-
Debt securities of entities registered in OECD countries	85 269	-
Debt securities of entities registered in CIS countries	-	486 159
Total debt securities	**87 319**	**486 159**
Shares of entities registered in the Republic of Latvia	1 536	2 080
Shares of entities registered in other EU countries	-	120 689
Shares of entities registered in OECD countries	2 385	3 206
Shares of entities registered in CIS countries	7 952	16 211
Total shares	**11 873**	**142 186**
	99 192	**628 345**

As of 31 December 2017 and 31 December 2016, the Bank did not possess any debt securities serving as collateral for repo transactions.

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18 DERIVATIVE FINANCIAL INSTRUMENTS

The table below summarises the contractual amounts of the Group's and the Bank's forward foreign exchange contracts outstanding at 31 December 2017 and 31 December 2016. The foreign currency amounts presented below are translated at rates prevalent at the reporting date. The resultant unrealised gains and losses on these unmatured contracts, along with the amounts payable and receivable on the matured but unsettled contracts, have been recognised in the profit or loss.

		Group and Bank		**Group and Bank**
	31.12.2017	**31.12.2017**	**31.12.2016**	**31.12.2016**
	Assets	**Liabilities**	**Assets**	**Liabilities**
	EUR	**EUR**	**EUR**	**EUR**
Notional amount				
Currency SWAPS	40 729 983	41 186 880	35 534 224	35 000 000
Foreign currency FORWARD contracts	815 144	815 035	201 339	200 000
FUTURES contracts (gold)	239 716	-	206 539	-
	41 784 843	**42 001 915**	**35 942 102**	**35 200 000**
Fair value				
Currency SWAPS	132	457 029	534 224	-
Foreign currency FORWARD contracts	233	124	1 339	-
FUTURES contracts (gold)	-	4 488	13 760	-
	365	**461 641**	**549 323**	**-**

19 DUE FROM CREDIT INSTITUTIONS

	Group and Bank	**Group and Bank**
	31.12.2017	**31.12.2016**
	EUR	**EUR**
Receivable on demand	24 323 327	11 936 813
Amounts with no stated maturity or serving as collateral and security deposits	2 073 825	4 856 258
Other deposits	423 488	1 182 551
	26 820 640	**17 975 622**

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The table below shows the geographical concentration of due from credit institutions:

	Group and Bank 31.12.2017 EUR	**Group and Bank 31.12.2016 EUR**
Due from credit institutions incorporated in the Republic of Latvia (Moody's ratings):	1 961 732	2 547 940
rated Ba	*1 499 711*	-
not rated	*462 021*	*2 547 940*
Due from credit institutions incorporated in other EU countries (Moody's ratings):	12 128 276	13 898 910
rated A	*4 928 662*	*618 755*
rated Baa	-	*3 972 284*
not rated	*7 199 614*	*9 307 871*
Due from credit institutions incorporated in OECD countries outside the EU (Moody's ratings):	167	-
not rated	*167*	-
Due from credit institutions incorporated in other countries (Moody's ratings):	12 730 465	1 528 772
rated Ba	*7 431 967*	*1 323 945*
rated B	*4 767 917*	*182 885*
rated Caa	*70 275*	*369*
rated Ca	-	*20 683*
not rated	*460 306*	*890*
	26 820 640	**17 975 622**

Concentration of placements with banks and other financial institutions

As at 31 December 2017 and 31 December 2016, the Group and the Bank had five and four banks and financial institutions, whose balances exceeded 10% of total placements with banks and other financial institutions. The gross value of these balances as of 31 December 2017 and 31 December 2016 were EUR 23 256 162 and EUR 15 111 650, respectively.

20 FINANCIAL ASSETS AT FAIR VALUE TROUGH PROFIT OR LOSS

In October 2017, the Bank bought from a client of the Bank the right of claim against a high net worth individual with nominal value of GBP 4 500 000 for GBP 4 000 000. The deal was carried out based on examination of the documents substantiating the claim of right and based on the assessment of the individual’s creditworthiness. The assignment agreement concluded with the client of the Bank includes a buyback option for the client under which the client has the right, but not the obligation, to buy back (until 30 June 2018) the right of claim by paying 5.5 percent of the value of the claim of right assigned for the period of time during which the Bank has been the owner of the claim of right. In light of the aforesaid assignment agreement and the buyback right reserved therein, the claim rights were designated as fair value through profit or loss and the fair value is assessed by the Bank’s management based on the inherent interest rate in the buyback option that the Bank is of the view will be exercised before 30 June 2018. The fair value of the exposure was assessed at EUR 4 551 119 as of 31 December 2017.

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21 LOANS AND RECEIVABLES

(a) Loans by type

	Group 31.12.2017 EUR	Bank 31.12.2017 EUR	Group 31.12.2016 EUR	Bank 31.12.2016 EUR
Commercial loans	34 486 914	34 836 797	41 248 037	41 692 124
Mortgage loans	16 899 628	18 647 278	23 093 993	25 036 732
Overdrafts	2 671 409	2 911 818	992 996	992 996
Industrial loans	6 237 952	6 237 952	913 565	913 565
Consumer loans	436 511	436 511	189 610	189 610
Payment cards	121 531	121 531	163 600	163 600
Trade finance	-	-	2 702 008	2 702 008
Other	16 827 214	16 827 214	11 077 647	11 077 647
	77 681 159	**80 019 101**	**80 381 456**	**82 768 282**
Reverse repos	2 571 426	2 571 426	6 588 009	6 588 009
	80 252 585	**82 590 527**	**86 969 465**	**89 356 291**
Allowances (Note 13)	(18 367 635)	(19 856 943)	(17 574 419)	(18 356 823)
	61 884 950	**62 733 584**	**69 395 046**	**70 999 468**

(b) Loan profile by country of risk

	Gross loans 31.12.2017 EUR	Allowances 31.12.2017 EUR	Group Net loans 31.12.2017 EUR
Republic of Latvia	31 971 152	(9 824 461)	22 146 691
Other EU countries	27 229 486	(3 060 895)	24 168 591
Non-EU OECD countries	7 602 161	(1 136 486)	6 465 675
Ukraine	8 454 257	(1 768 927)	6 685 330
Other CIS countries	4 535 965	(2 117 305)	2 418 660
Other countries	459 564	(459 561)	3
	80 252 585	**(18 367 635)**	**61 884 950**

	Gross loans 31.12.2017 EUR	Allowances 31.12.2017 EUR	Bank Net loans 31.12.2017 EUR
Republic of Latvia	34 309 094	(11 313 769)	22 995 325
Other EU countries	27 229 486	(3 060 895)	24 168 591
Non-EU OECD countries	7 602 161	(1 136 486)	6 465 675
Ukraine	8 454 257	(1 768 927)	6 685 330
Other CIS countries	4 535 965	(2 117 305)	2 418 660
Other countries	459 564	(459 561)	3
	82 590 527	**(19 856 943)**	**62 733 584**

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			Group
	Gross loans	**Allowances**	**Net loans**
	31.12.2016	**31.12.2016**	**31.12.2016**
	EUR	**EUR**	**EUR**
Republic of Latvia	31 909 801	(8 370 098)	23 539 703
Other EU countries	29 456 210	(1 893 441)	27 562 769
Non-EU OECD countries	4 009 487	-	4 009 487
Ukraine	15 520 832	(4 901 349)	10 619 483
Other CIS countries	6 072 420	(2 409 458)	3 662 962
Other countries	715	(73)	642
	86 969 465	**(17 574 419)**	**69 395 046**

			Bank
	Gross loans	**Allowances**	**Net loans**
	31.12.2016	**31.12.2016**	**31.12.2016**
	EUR	**EUR**	**EUR**
Republic of Latvia	38 296 627	(9 152 502)	29 144 125
Other EU countries	29 456 210	(1 893 441)	27 562 769
Non-EU OECD countries	9 487	-	9 487
Ukraine	15 520 832	(4 901 349)	10 619 483
Other CIS countries	6 072 420	(2 409 458)	3 662 962
Other countries	715	(73)	642
	89 356 291	**(18 356 823)**	**70 999 468**

(c) Loans by customer profile

	Group	**Bank**	**Group**	**Bank**
	31.12.2017	**31.12.2017**	**31.12.2016**	**31.12.2016**
	EUR	**EUR**	**EUR**	**EUR**
Loans to corporate clients	51 721 864	54 059 806	54 521 824	56 908 650
Loans to financial institutions	7 389 132	7 389 132	9 740 358	9 740 358
Loans to individuals	19 970 468	19 970 468	21 225 055	21 225 055
Loans to senior management and staff members of the Bank	1 171 121	1 171 121	1 482 228	1 482 228
	80 252 585	**82 590 527**	**86 969 465**	**89 356 291**
Allowances (Note 13)	(18 367 635)	(19 856 943)	(17 574 419)	(18 356 823)
	61 884 950	**62 733 584**	**69 395 046**	**70 999 468**

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(d) Industry analysis of the loan portfolio

	Gross loans	Allowances	Group Net loans
	31.12.2017	**31.12.2017**	**31.12.2017**
	EUR	**EUR**	**EUR**
Finance	14 961 717	(4 816 571)	10 145 146
Real estate	17 926 383	(8 186 837)	9 739 546
Trade	10 450 979	(3 925 343)	6 525 636
Information and communication services	3 539 347	(34 302)	3 505 045
Manufacturing	1 995 553	-	1 995 553
Energy	1 003 152	-	1 003 152
Other services	7 661 298	(344)	7 660 954
Other	1 572 567	-	1 572 567
Loans to individuals	21 141 589	(1 404 238)	19 737 351
	80 252 585	**(18 367 635)**	**61 884 950**

	Gross loans	Allowances	Bank Net loans
	31.12.2017	**31.12.2017**	**31.12.2017**
	EUR	**EUR**	**EUR**
Real estate	20 264 325	(9 676 145)	10 588 180
Finance	14 961 717	(4 816 571)	10 145 146
Trade	10 450 979	(3 925 343)	6 525 636
Information and communication services	3 539 347	(34 302)	3 505 045
Manufacturing	1 995 553	-	1 995 553
Energy	1 003 152	-	1 003 152
Other services	7 661 298	(344)	7 660 954
Other	1 572 567	-	1 572 567
Loans to individuals	21 141 589	(1 404 238)	19 737 351
	82 590 527	**(19 856 943)**	**62 733 584**

	Gross loans	Allowances	Group Net loans
	31.12.2016	**31.12.2016**	**31.12.2016**
	EUR	**EUR**	**EUR**
Real estate	21 057 559	(8 655 517)	12 402 042
Finance	18 635 894	(3 048 736)	15 587 158
Trade	10 098 874	(4 205 447)	5 893 427
Information and communication services	3 769 717	(32 653)	3 737 064
Manufacturing	2 781 546	-	2 781 546
Energy	1 253 394	-	1 253 394
Other services	6 314 305	(1 581 982)	4 732 323
Other	350 893	-	350 893
Loans to individuals	22 707 283	(50 084)	22 657 199
	86 969 465	**(17 574 419)**	**69 395 046**

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	Gross loans	Allowances	Bank Net loans
	31.12.2016	**31.12.2016**	**31.12.2016**
	EUR	**EUR**	**EUR**
Real estate	23 444 385	(9 437 921)	14 006 464
Finance	18 635 894	(3 048 736)	15 587 158
Trade	10 098 874	(4 205 447)	5 893 427
Information and communication services	3 769 717	(32 653)	3 737 064
Manufacturing	2 781 546	-	2 781 546
Energy	1 253 394	-	1 253 394
Other services	6 314 305	(1 581 982)	4 732 323
Other	350 893	-	350 893
Loans to individuals	22 707 283	(50 084)	22 657 199
	89 356 291	**(18 356 823)**	**70 999 468**

(e) Breakdown of loans by groups of delayed payments and non-delinquent loans

	Net loans	Out of which impaired	Net loans	Group Out of which impaired
	31.12.2017	**31.12.2017**	**31.12.2016**	**31.12.2016**
	EUR	**EUR**	**EUR**	**EUR**
Past due by the following terms:				
Up to 1 month (inclusive)	298 259	-	1 147 526	-
1 to 3 months	399 898	374 211	2 638 950	-
3 to 6 months	422 918	-	542	-
More than 6 months	13 222 711	7 265 361	20 154 528	10 390 692
	14 343 786	**7 639 572**	**23 941 546**	**10 390 692**
Not past due on the reporting date	47 541 164	3 138 134	45 453 500	4 813 124
	61 884 950	**10 777 706**	**69 395 046**	**15 203 816**

	Net loans	Out of which impaired	Net loans	Bank Out of which impaired
	31.12.2017	**31.12.2017**	**31.12.2016**	**31.12.2016**
	EUR	**EUR**	**EUR**	**EUR**
Past due by the following terms:				
Up to 1 month (inclusive)	298 259	-	1 147 526	-
1 to 3 months	399 898	374 211	2 638 950	-
3 to 6 months	422 918	-	542	-
More than 6 months	12 933 042	6 975 692	20 154 528	10 390 692
	14 054 117	**7 349 903**	**23 941 546**	**10 390 692**
Not past due on the reporting date	48 679 467	4 125 478	47 057 922	5 935 399
	62 733 584	**11 475 381**	**70 999 468**	**16 326 091**

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The following table provides information on the credit quality of the loan portfolio:

			Group
	Gross loans	**Allowances**	**Net loans**
	31.12.2017	**31.12.2017**	**31.12.2017**
	EUR	**EUR**	**EUR**
Non-delinquent loans	52 853 885	(5 312 721)	47 541 164
Up to 1 month (inclusive)	298 259	-	298 259
1 to 3 months	740 112	(340 213)	399 899
3 to 6 months	423 161	(244)	422 917
More than 6 months	25 937 168	(12 714 457)	13 222 711
	80 252 585	**(18 367 635)**	**61 884 950**

			Bank
	Gross loans	**Allowances**	**Net loans**
	31.12.2017	**31.12.2017**	**31.12.2017**
	EUR	**EUR**	**EUR**
Non-delinquent loans	55 191 827	(6 512 360)	48 679 467
Up to 1 month (inclusive)	298 259	-	298 259
1 to 3 months	740 112	(340 213)	399 899
3 to 6 months	423 161	(244)	422 917
More than 6 months	25 937 168	(13 004 126)	12 933 042
	82 590 527	**(19 856 943)**	**62 733 584**

			Group
	Gross loans	**Allowances**	**Net loans**
	31.12.2016	**31.12.2016**	**31.12.2016**
	EUR	**EUR**	**EUR**
Non-delinquent loans	50 950 150	(5 496 650)	45 453 500
Up to 1 month (inclusive)	1 210 795	(63 269)	1 147 526
1 to 3 months	2 639 048	(98)	2 638 950
3 to 6 months	25 895	(25 353)	542
More than 6 months	32 143 577	(11 989 049)	20 154 528
	86 969 465	**(17 574 419)**	**69 395 046**

			Bank
	Gross loans	**Allowances**	**Net loans**
	31.12.2016	**31.12.2016**	**31.12.2016**
	EUR	**EUR**	**EUR**
Non-delinquent loans	53 336 976	(6 279 054)	47 057 922
Up to 1 month (inclusive)	1 210 795	(63 269)	1 147 526
1 to 3 months	2 639 048	(98)	2 638 950
3 to 6 months	25 895	(25 353)	542
More than 6 months	32 143 577	(11 989 049)	20 154 528
	89 356 291	**(18 356 823)**	**70 999 468**

Movements in the loan impairment allowance for the years ended 31 December 2017 and 31 December 2016 are disclosed in Note 13.

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(f) Analysis of collateral

The following table provides the analysis by collateral type of the loan portfolio:

	Group		Bank	
	Net loans	% of loan portfolio	Net loans	% of loan portfolio
	31.12.2017	31.12.2017	31.12.2017	31.12.2017
	EUR	EUR	EUR	EUR
Real estate	39 273 109	63.46%	40 121 743	63.96%
Commercial pledge	10 073 000	16.28%	10 073 000	16.06%
Traded securities	2 571 426	4.16%	2 571 426	4.10%
Deposits	2 191 185	3.54%	2 191 185	3.49%
Other collateral	190 120	0.31%	190 120	0.30%
No collateral	7 586 110	12.26%	7 586 110	12.09%
	61 884 950	**100%**	**62 733 584**	**100%**

	Group		Bank	
	Net loans	% of loan portfolio	Net loans	% of loan portfolio
	31.12.2016	31.12.2016	31.12.2016	31.12.2016
	EUR	EUR	EUR	EUR
Real estate	49 374 788	71.15%	50 979 210	71.80%
Traded securities	6 588 009	9.49%	6 588 009	9.28%
Commercial pledge	4 672 968	6.74%	4 672 968	6.58%
Deposits	326 238	0.47%	326 238	0.46%
Other collateral	432 622	0.62%	432 622	0.61%
No collateral	8 000 421	11.53%	8 000 421	11.27%
	69 395 046	**100%**	**70 999 468**	**100%**

The amounts shown in the table above represent the carrying value of the loans, and do not necessarily represent the fair value of the collateral.

Mortgage loans are secured by underlying housing real estate. Payment cards overdrafts are secured by deposits and guarantees. Consumer loans are secured by other types of collateral.

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees.

Brokerage account balances and security deposits paid to the counterparties are classified as unsecured loans. The gross value of these balances as of 31 December 2017 and 31 December 2016 were EUR 5 663 648 and EUR 7 800 973, respectively.

During the year ended 31 December 2017, the Group and Bank has obtained ownership of the assets by taking over control of collateral accepted as security for commercial loans. Additions were EUR 3 289 208 and EUR 2 508 261, respectively. During the year ended 31 December 2016, the Group and Bank have not obtained ownership of assets through acquiring control over the property serving as collateral for commercial loans.

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	Group	Bank	Group	Bank
	31.12.2017	31.12.2017	31.12.2016	31.12.2016
	EUR	EUR	EUR	EUR
Land plots	1 638 696	1 638 696	-	-
Office building	869 565	869 565	-	-
Apartments	780 947	-	-	-
	3 289 208	**2 508 261**	**-**	**-**

(g) Significant credit exposures

As at 31 December 2017 and 31 December 2016 the Bank had no borrowers, including related parties whose outstanding loan balances exceed 10% of loans to customers.

As at 31 December 2017 the Group and Bank has exposure to individual loan exposures whose recoverability is dependent on outcome of judicial outcome of court proceedings outside of Latvia. Whilst the management is confident about its legal position in both cases, the length of time that these court proceedings could take place is subject to uncertainty. The net carrying amount of these loans was EUR 9.31 million as at 31 December 2017 and EUR 10.64 million as at 31 December 2016. The Bank has also recognized EUR 458 thousand worth of accrued income relating to one of the exposures, collectability of which is also dependent on the outcome of the judicial proceedings.

According to regulatory requirements, the Bank is not allowed to have a credit exposure to one client or a group of related clients of more than 25% of its equity. The Bank was in compliance with this requirement during the years ended 31 December 2017 and 31 December 2016.

(h) Breakdown of loans with inherent country risk (Ukraine) by groups of delayed payments and non-delinquent loans

The following table provides information on the credit quality of the loan portfolio:

			Group and Bank
			Group
	Gross loans	Allowances	Net loans
	31.12.2017	31.12.2017	31.12.2017
	EUR	EUR	EUR
Non-delinquent loans	6 761 898	(956 528)	5 805 370
Up to 1 month (inclusive)	1 654	-	1 654
1 to 3 months	656	-	656
3 to 6 months	508	-	508
More than 6 months	1 689 541	(812 399)	877 142
	8 454 257	**(1 768 927)**	**6 685 330**

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			Group and Bank
			Group
	Gross loans	Allowances	Net loans
	31.12.2016	31.12.2016	31.12.2016
	EUR	EUR	EUR
Non-delinquent loans	8 057 268	(1 088 287)	6 968 981
Up to 1 month (inclusive)	5 481	-	5 481
1 to 3 months	381	-	381
3 to 6 months	526	(438)	88
More than 6 months	7 457 176	(3 812 624)	3 644 552
	15 520 832	**(4 901 349)**	**10 619 483**

Ukraine's economic situation has remained unstable during 2017. The effects of the ongoing political and economic difficulties are hard to predict but may have further severe effects on the Ukrainian economy.

The Bank is following closely the economic and political developments in Ukraine in relation to the Bank's exposures in this country.

The following is an overview of the Bank’s and the Group’s net exposure to Ukraine (as at 31 December 2017):
• Loans – 4 173 566 EUR (4 570 318 EUR - as at 31 December 2016)
• Reverse repo deals - 2 511 764 EUR (6 049 165 EUR - as at 31 December 2016)
• Contingent liabilities and commitments to customers – 801 659 EUR (725 739 EUR - as at 31 December 2016)

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22 AVAILABLE FOR SALE INSTRUMENTS

	Group and Bank 31.12.2017 EUR	Group and Bank 31.12.2016 EUR
Debt securities of central governments	12 993 463	33 624 194
Debt securities of central governments rated Aaa	*1 614 473*	-
Debt securities of central governments rated A	*11 378 990*	*8 828 065*
Debt securities of central governments rated Baa	-	*4 034 424*
Debt securities of central governments rated Ba	-	*20 761 705*
Debt securities of credit institutions	9 095 331	19 048 450
Debt securities of credit institutions rated Aaa	*8 242 779*	*19 048 450*
Debt securities of credit institutions rated Ba	*852 552*	-
Debt securities of financial institutions	14 158 627	28 497 385
Debt securities of financial institutions rated Aaa	*12 505 061*	*28 497 385*
Debt securities of financial institutions rated Aaa	*1 653 566*	-
Debt securities of public non-financial Corporations	1 335 091	-
Public non-financial Corporations rated Baa	*898 625*	-
Public non-financial Corporations rated Ba	*436 466*	-
Shares and other variable income securities	4 609 106	4 576 214
Tamar Energy, Ltd	*1 014 393*	*3 145 074*
Green Gateway Fund 2 GmbH and Co KG	*1 500 000*	-
Visa Europe	*875 295*	*681 437*
Montello Real Estate Opportunity Fund	*566 661*	-
Imprimatur Capital Technology Venture Fund, LP	*434 974*	*531 920*
Capital, JSC	*180 863*	*180 863*
S.W.I.F.T., SCRL	*36 920*	*36 920*
	42 191 618	**85 746 243**

Tamar Energy is a renewable energy business focusing entirely on anaerobic digestion in the United Kingdom. Bank owns 5 percent of shares in Tamar Energy. In 2016 the value of investment in Tamar Energy was valued based on EBITDA and revenue multiples. In late 2017, Tamar Energy investors received an offer from a third party whereby investors were offered the choice between unquoted debt and equity securities of a merged entity that would take over Tamar Energy and an alternative in form of cash settlement. Based on Tamar energy management advice investors voted to accept the offer and the Bank has opted for the debt and equity security option. Settlement took place in February 2018. Valuation as at 31 December 2017 was based on the cash alternative offer considered an observable data point for fair value determination. Decrease in the fair value was recognised as impairment in profit or loss.

Green Gateway Fund 2 is a closed end investment fund investing in sustainable green energy projects. Investment represents the first cash contribution made by the Bank in final quarter of 2017. Valuation of investment in the fund is based on cost since no investment activity was commenced in 2017. The Bank's total expected commitment is EUR 5 million and current incurred commitment is EUR 1.5 million.

Montello Real Estate Opportunity Fund is an open-end fund investing United Kingdom real estate. Investors can exit the fund with a month's notice based on a quoted price by the fund manager. This is also used as a basis for fair value determination.

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Imprimatur Capital Technology Venture Fund makes seed investments in SMEs which become its portfolio companies. The Fund's purpose is to invest in technology-related SMEs, develop their business potential and then sell its ownership interests in such SMEs at a profit and for the benefit of the Fund and its Investors. The assessment is based on the report submitted by the manager and showing the value of the investments. Please refer to note 48 on sensitivity analysis of the fair value of this exposure.

Investment in Capital is measured at cost less impairment as the Bank believes there is no readily available active market to detemine the fair value.

The fair value of S.W.I.F.T. SCRL and Visa Europe is reported according to a certain withdrawal price as of 31 December 2017 and 31 December 2016.

On 31 December 2017, debt securities with carrying amount of EUR 17 393 964 (2016: EUR 3 888 483) were pledged to secure the obtained long-term refinancing from central bank disclosed in Note 31.

The table below shows the geographical concentration of securities:

	Group and Bank 31.12.2017 EUR	**Group and Bank 31.12.2016 EUR**
Debt securities registered in the Republic of Latvia	5 735 075	3 888 483
Debt securities of entities registered in EU countries	24 299 224	54 259 655
Debt securities of entities registered in OECD countries	5 797 035	18 288 439
Debt securities of entities registered in CIS countries	898 626	-
Debt securities of entities registered in other countries	852 552	4 733 452
Total debt securities	**37 582 512**	**81 170 029**
Shares of entities registered in the Republic of Latvia	615 837	712 783
Shares of entities registered in other EU countries	3 117 974	3 181 994
Shares of entities registered in OECD countries	875 295	-
Shares of entities registered in other countries	-	681 437
Total shares	**4 609 106**	**4 576 214**
	42 191 618	**85 746 243**

23 SECURITIES HELD-TO-MATURITY

	Group and Bank 31.12.2017 EUR	**Group and Bank 31.12.2016 EUR**
Government bonds	13 879 276	13 469 250
Bonds and other fixed-income securities	2 416 117	3 222 438
	16 295 393	**16 691 688**

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The following table shows the distribution of securities held-to-maturity by issuer profile:

	Group and Bank 31.12.2017 EUR	Group and Bank 31.12.2016 EUR
Debt securities of central governments (Moody's ratings)	13 879 276	13 469 249
Debt securities of central governments rated A	*11 598 560*	*10 791 351*
Debt securities of central governments rated Baa	*2 280 716*	*2 677 898*
Debt securities of credit institutions (Moody's ratings)	84 084	578 906
Debt securities of credit institutions rated Ba	*84 084*	*578 906*
Public non-financial Corporations (Moody's ratings)	642 470	-
Public non-financial Corporations rated Ba	*642 470*	-
Debt securities of private enterprises (Moody's ratings)	1 689 563	2 643 533
Debt securities of private enterprises rated Ba	*1 689 563*	*2 643 533*
	16 295 393	**16 691 688**

The table below shows the geographical concentration of held-to-maturity securities:

	Group and Bank 31.12.2017 EUR	Group and Bank 31.12.2016 EUR
Debt securities of Republic of Latvia	5 243 407	2 889 328
Debt securities of entities registered in EU countries	10 615 972	10 220 938
Debt securities of entities registered in OECD countries	-	2 589 912
Debt securities of entities registered in CIS countries	-	482 771
Debt securities of entities registered in other countries	436 014	508 739
	16 295 393	**16 691 688**

24 INVESTMENTS IN EQUITY ACCOUNTED INVESTEES

	Ownership %	Country of incorporation	Purpose	Group and Bank 31.12.2017 EUR	Group and Bank 31.12.2016 EUR
LLC "Komunikācijas un projekti"	50	Latvia	Investments	1 144 547	1 144 547
				1 144 547	**1 144 547**

The management assessed future cash flows to be generated by the investee and as a result of this assessment concluded that there is no objective evidence of impairment of the investment.

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	LLC "Komunikācijas un projekti"	
	31.12.2017	**31.12.2016**
	EUR	**EUR**
Current assets	16 667	15 758
Non-current assets	2 370 250	2 370 250
Total assets	**2 386 917**	**2 386 008**
Current liabilities	50	21 883
Non-current liabilities	124 475	86 237
Total liabilities	**124 525**	**108 120**
Net assets	**2 262 392**	**2 277 888**
Income	2	108
Expenses	(15 570)	(15 626)
Profit/(loss)	**(15 568)**	**(15 518)**
Group share in net assets	**1 131 196**	**1 138 944**
Group share in profit/(loss)	**(7 784)**	**(7 759)**

25 INVESTMENTS IN SUBSIDIARIES

The subsidiaries of the Bank are as follows:

Name	**Ownership**	**Carrying amount of investment**		**Equity of subsidiary**	**Profit/ (loss) of subsidiary in reporting period**
		31.12.2017	**31.12.2016**	**31.12.2017**	
		EUR	**EUR**	**EUR**	**EUR**
“BIB Real Estate” LLC	100	1 624 879	1 940 228	1 405 973	(839 413)
“Gaujas Īpašumi” LLC (through BIB Real Estate)	100	-	-	(423 744)	(370 281)
“Global Investments” LLC (through BIB Real Estate)	100	-	-	(471 144)	(3 429)
„Claim Management” LLC	100	1	1	(99 511)	(450)
„BIB Alternative Investment Management” JSC	100	165 000	125 000	163 228	(1 772)
		1 789 880	**2 065 229**		

During 2017 the Bank increased the share capital of “BIB Alternative Investment Management” JSC by EUR 45 thousand and share capital of “BIB Real Estate” LLC by EUR 785 thousand.

As a result of revised valuation of investment property held within BIB Real Estate, the value of investment in this subsidiary has been reassessed and the recognized impairment allowance in amount of EUR 1 100 thousand is based on the fair value value of the investment property held within the BIB Real Estate sub-group.

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26 INVESTMENT PROPERTY

For investment property, the Bank applies a fair-value-based accounting model. The fair value of the investment property item is based on the appraisals from independent appraisers who hold a recognised and relevant professional qualification and have recent experience in appraising similar property.The independent valuators provide the fair value of the Group's investment property portfolio every year. The Group or Bank evaluates the assumptions made by the external appraisers and can alter some of the assumptions where these are found to be unsupportable. If certain assumptions are identified as unsupportable, Management will generally revise valuations downwards as compared to the external valuations. In 2017, the Group and the Bank engaged the appraisers to revise assumptions used in the assessment approach, and the revision entailed the loss.

Investment property	**Group**	**Bank**
	EUR	**EUR**
As of 31 December 2015	**6 461 188**	**2 969 088**
Additions	30 851	-
Revaluation	(606 609)	(614 015)
As of 31 December 2016	**5 885 430**	**2 355 073**
Additions	3 305 722	2 508 261
Revaluation	(1 551 324)	(206 600)
Sale	(320 398)	-
Loss from sale	(132 849)	-
As of 31 December 2017	**7 186 581**	**4 656 734**

During the year ended 31 December 2017, the Group and Bank has obtained ownership of the assets by taking over control of collateral accepted as security for commercial loans. Please refer to Note 21 for more detail.

During 2017, Group sold real estate property objects in Jurmala: apartments and construction objects and related land plots. The sale loss totalled EUR 132 849.

Amounts recognised in the profit or loss (apart from revaluation and disposal result):

	Group	**Bank**
	EUR	**EUR**
Rental income earned on investment property	85 108	68 075
Direct operating expenses (including repairs and maintenance costs) incurred in connection with the investment property which has earned a rental income during the reporting year	(51 164)	(51 164)
Direct operating expenses (including repairs and maintenance costs) incurred in connection with the investment property which has not earned a rental income during the reporting year	(15 854)	(4 471)

External, independent property valuators, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued, determined the fair value of investment property. The independent valuators provide the fair value of the Group's investment property portfolio every year.

The investment property has been categorised as a Level 3 in the fair value hierarchy. Significant unobservable inputs include also the adjusted sales prices set out in the table below. These are assessed as unobservable inputs since the adjustments made to the sales prices is considered to be significant enough to require Level 3 designations. The following table shows the valuation technique used in measuring the fair value of investment property, as well as the significant unobservable inputs used:

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Investment property:

Type	EUR	Valuation technique	Significant unobservable inputs: Input	31.12.2017	31.12.2016	Inter-relation between significant unobservable inputs and fair value measurement
Land plots in Riga (Taleru street project)*		2017: Income approach	Sales price varies from EUR to EUR per m2	20	20	The estimated fair value would increase (decrease) if:
2017:	600 000	2016: Income approach and comparable transaction combination	Discount rate of %	6.4 - 11.2	8-10	• Sales price per m2 was higher (lower)
2016:	600 000		Construction costs EUR per m2	700	700	• The discount rate was lower (higher)
			The final sale price EUR per m2	950 - 1 050	1 200	• Construction costs per m2 would be less (greater)
						• The final sale price per m2 was higher (lower)
Land plots in Jurmala (Skudru street)		Comparable transaction method	Sales price varies from EUR to EUR per m2	16 - 24	60-84	The estimated fair value would increase (decrease) if:
2017:	159 600					• Sales price per m2 was higher (lower)
2016:	551 300					
Land plots in Latvia		Comparable transaction method	Sales price varies from EUR to EUR per m2	1-12	1-14	The estimated fair value would increase (decrease) if:
2017:	615 100					• Sales price per m2 was higher (lower)
2016:	1 320 400					-
Land plots in Ukraine *		Comparable transaction method	Sales price varies from EUR to EUR per m2	6-7	-	The estimated fair value would increase (decrease) if:
2017:	1 638 696					• Sales price per m2 was higher (lower)
2016:	-					
Construction objects and related land plots in Riga (Ieriķu street) *		Income approach	Rental income per m2 of EUR	1-7	3-5	The estimated fair value would increase (decrease) if:
2017:	869 200	Discounted cash flows technique: the model is based on discounted cash flows from rental income.	Discount rate of %	5.62-7.62	6.63-9.75	• Rental income per m2 was higher (lower)
2016:	1 075 800		Occupancy rate of %	90	90	• The discount rate was lower (higher)
						• The occupancy rate was higher (lower)

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Type		EUR	Valuation technique	Significant unobservable inputs: Input	31.12.2017	31.12.2016	Inter-relation between significant unobservable inputs and fair value measurement
Construction objects and related land plots in Jurmala (Rītupes street)			Comparable transaction method	Sales price varies from EUR to EUR per m2	720	831	The estimated fair value would increase (decrease) if:
	2017:	372 000					• Sales price per m2 was higher (lower)
	2016:	571 257					-
Construction objects and related land plots in Belarus *			The sale price specified in the sale agreement	The final sale price EUR per m2	914	914	The estimated fair value would increase (decrease) if:
	2017:	354 034					• Sales price per m2 was higher (lower)
	2016:	354 034					
The attic and land plot in Riga (Tallinas street)			2017: Income approach	Rental income per m2 of EUR	5-7	-	The estimated fair value would increase (decrease) if:
	2017:	280 000	2016: Comparable transaction method	Discount rate of %	8-12	-	• The discount rate was lower (higher)
	2016:	457 000		The final sale price EUR per m2	1 618	1 438	• Sales price per m2 was higher (lower)
Apartments in Riga (Merķeļa street)			Comparable transaction method	Sales price varies from EUR to EUR per m2	1571-2325	1600-2300	The estimated fair value would increase (decrease) if:
	2017:	322 200					• Sales price per m2 was higher (lower)
	2016:	374 400					
Apartments in Jurmala			2017: -	Sales price varies from EUR to EUR per m2	-	3529-4022	The estimated fair value would increase (decrease) if:
	2017:	-	2016: Comparable transaction method				• Sales price per m2 was higher (lower)
	2016:	256 000					

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Type		EUR	Valuation technique	Significant unobservable inputs			Inter-relation between significant unobservable inputs and fair value measurement
				Input	31.12.2017	31.12.2016	
Apartments in Bulgaria			Comparable transaction method	Sales price varies from EUR to EUR per m2	1281-1900	-	The estimated fair value would increase (decrease) if:
	2017:	780 947		Discount rate of %	1	-	• Sales price per m2 was higher (lower)
	2016:	-					
Premises in Belarus *			The sale price specified in the sale agreement	Sales price varies from EUR to EUR per m2	842	842	The estimated fair value would increase (decrease) if:
	2017:	325 239					• Sales price per m2 was higher (lower)
	2016:	325 239					
Commercial properties in Ukraine *			Comparable transaction method	Sales price varies from EUR to EUR per m2	157-168	-	The estimated fair value would increase (decrease) if:
	2017:	869 565					• Sales price per m2 was higher (lower)
	2016:	-					

Investment property: 7 186 581 - 2017

Investment property: 5 885 430 - 2016

Bank’s investment property is marked with *

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27 PROPERTY AND EQUIPMENT

					Group
	Buildings and land (own use) EUR	**Motor vehicles EUR**	**Office equipment EUR**	**Construction in progress EUR**	**Total EUR**
Acquisition cost					
As of 31 December 2015	**16 682 359**	**351 460**	**3 819 711**	**323 544**	**21 177 074**
Additions	-	-	660 054	145 895	805 949
Disposals	-	-	(1 375)	-	(1 375)
Reclassification	324 035	-	-	(324 035)	-
Proceeds of subsidiary	-	-	(983)	-	(983)
As of 31 December 2016	**17 006 394**	**351 460**	**4 477 407**	**145 404**	**21 980 665**
Additions	-	137 088	198 474	74 026	409 588
Disposals	-	(46 814)	(8 237)	-	(55 051)
As of 31 December 2017	**17 006 394**	**441 734**	**4 667 644**	**219 430**	**22 335 202**
Depreciation					
As of 31 December 2015	**(1 902 170)**	**(163 189)**	**(1 786 787)**	**-**	**(3 852 146)**
Depreciation	(289 653)	(52 633)	(538 273)	-	(880 559)
Disposals	-	-	609	-	609
Adjustments	-	-	956	-	956
As of 31 December 2016	**(2 191 823)**	**(215 822)**	**(2 323 495)**	**-**	**(4 731 140)**
Depreciation	(295 088)	(56 091)	(547 084)	-	(898 263)
Disposals	-	42 420	4 388	-	46 808
As of 31 December 2017	**(2 486 911)**	**(229 493)**	**(2 866 191)**	**-**	**(5 582 595)**
Net book value					
As of 31 December 2015	**14 780 189**	**188 271**	**2 032 924**	**323 544**	**17 324 928**
As of 31 December 2016	**14 814 571**	**135 638**	**2 153 912**	**145 404**	**17 249 525**
As of 31 December 2017	**14 519 483**	**212 241**	**1 801 453**	**219 430**	**16 752 607**

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	Buildings and land (own use) EUR	Motor vehicles EUR	Office equipment EUR	Construction in progress EUR	Total EUR
Acquisition cost					
As of 31 December 2015	**16 682 359**	**351 460**	**3 816 203**	**323 544**	**21 173 566**
Additions	-	-	659 756	145 895	**805 651**
Disposals	-	-	(1 375)	-	**(1 375)**
Reclassification	324 035	-	-	(324 035)	**-**
As of 31 December 2016	**17 006 394**	**351 460**	**4 474 584**	**145 404**	**21 977 842**
Additions	-	137 088	198 474	74 026	**409 588**
Disposals	-	(46 814)	(8 237)	-	**(55 051)**
As of 31 December 2017	**17 006 394**	**441 734**	**4 664 821**	**219 430**	**22 332 379**
Depreciation					
As of 31 December 2015	**(1 902 170)**	**(163 189)**	**(1 783 306)**	**-**	**(3 848 665)**
Depreciation	(289 653)	(52 633)	(538 273)	-	**(880 559)**
Disposals	-	-	609	-	**609**
As of 31 December 2016	**(2 191 823)**	**(215 822)**	**(2 320 970)**	**-**	**(4 728 615)**
Depreciation	(294 989)	(56 091)	(547 084)	-	**(898 164)**
Disposals	-	42 420	4 388	-	**46 808**
As of 31 December 2017	**(2 486 812)**	**(229 493)**	**(2 863 666)**	**-**	**(5 579 971)**
Net book value					
As of 31 December 2015	**14 780 189**	**188 271**	**2 032 897**	**323 544**	**17 324 901**
As of 31 December 2016	**14 814 571**	**135 638**	**2 153 614**	**145 404**	**17 249 227**
As of 31 December 2017	**14 519 582**	**212 241**	**1 801 155**	**219 430**	**16 752 408**

During 2017, the Group disposed of some of its property and equipment. Profit on disposal of the property and equipment totalled EUR 14 377.

The fair value of motor vehicles was determined by an independent appraiser by using the comparable transaction method based on recent market transactions with similar vehicles between independent parties. The evaluation of motor vehicles was carried out in 2015.

The fair value of motor vehicles, taking into account their evaluation carried out in 2015 and the accumulated depreciation, is not significantly different from the carrying amount. The revaluated property and equipment fall within Level 3 of the fair value hierarchy. The management believes that any fair value sensitivity is not material to the financial statements.

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28 INTANGIBLE ASSETS

	Group and Bank Software EUR
Acquisition cost	
As of 31 December 2015	**5 939 692**
Additions	814 516
Disposals	(111 717)
As of 31 December 2016	**6 642 491**
Additions	703 532
As of 31 December 2017	**7 346 023**
Amortisation	
As of 31 December 2015	**(2 057 980)**
Amortisation	(588 358)
Disposals	111 717
As of 31 December 2016	**(2 534 621)**
Amortisation	(627 082)
As of 31 December 2017	**(3 161 703)**
Net book value	
As of 31 December 2015	**3 881 712**
As of 31 December 2016	**4 107 870**
As of 31 December 2017	**4 184 320**

29 DEFERRED EXPENSES AND ACCRUED INCOME

	Group 31.12.2017 EUR	Bank 31.12.2017 EUR	Group 31.12.2016 EUR	Bank 31.12.2016 EUR
Deferred expenses	1 516 206	1 515 453	1 271 287	1 270 055
Accrued income	1 087 606	1 083 377	1 167 369	1 171 598
	2 603 812	**2 598 830**	**2 438 656**	**2 441 653**
Allowances (Note 13)	(13 558)	(13 558)	(7 252)	(7 252)
	2 590 254	**2 585 272**	**2 431 404**	**2 434 401**

Additional information about uncertainty in relation to certain part of accrued income is disclosed in Note 21.

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30 OTHER ASSETS

	Group 31.12.2017 EUR	Bank 31.12.2017 EUR	Group 31.12.2016 EUR	Bank 31.12.2016 EUR
Financial assest				
Claim rights against Segesta	5 446 620	5 446 620	-	-
Accounts receivable	1 068 956	857 476	1 074 061	1 113 534
Funds placed in guarantee funds	177 539	177 539	415 532	415 532
Unsettled spot forex transactions	57 258	57 258	27 052	27 052
Money in transit (replenishment of a correspondent account)	23 344	23 344	4 516 779	4 516 779
Others	3 842	3 786	532 762	532 762
Non financial assest				
Precious metals	983 318	983 318	1 029 710	1 029 710
Prepayments	576 977	576 977	572 727	572 727
Prepaid taxes	401 394	401 394	219 659	219 659
	8 739 248	**8 527 712**	**8 388 282**	**8 427 755**
Allowances (Note 13)	(333 476)	(315 194)	(343 999)	(225 830)
	8 405 772	**8 212 518**	**8 044 283**	**8 201 925**

On 12 October 2016 the Bank purchased the claim rights against Segesta Limited for GBP 6 250 000 from VB Football Assets (VBFA) - a party owned by the Bank's majority shareholders. Transaction was conducted based on an external valuation of the claim rights. The claim rights arose out of an investment agreement (concluded in 2008 between VBFA and Segesta Limited) and the performance thereof by Segesta Limited was subject to a legal dispute.

The performance of the initial investment agreement dated 21 July 2008 (here referred to as the Agreement) was the gist of the dispute. Under the Agreement and based on a cessation agreement with a related party, VBFA had the rights to total investment of GBP 6 600 000 in Blackpool Football Club (BFC) to enable it to build the South Stand and the South West Corner of the stadium (here referred to as the Stands) on the land owned by Blackpool FC based in United Kingdom. Segesta Limited was obliged to ensure the availability of GBP 1 million to implement the project. The remaining funds to complete construction were borrowed from BFC Limited. As at 31 December 2016, the Bank re-evaluated the legal uncertainty involved based on the developments with the legal proceedings and revalued the claim rights to GBP 6 912 500 (EUR 8 073 653).

In 2017, the claim rights against Segesta were included in a pool of wider claims by VBFA against other owners of Blackpool football club and Segesta (together the Respondents). This was the approach taken by the United Kingdom court on the basis that joining several different claims of different parties linked to Bank's majority shareholders' (together Plaintiffs) investments made in Blackpool football club would allow for an easier resolution of the disputes. On 6 November 2017 United Kingdom court ruled in favour of Plaintiffs and ordered the Respondents to pay GBP 31.3 million to VBFA to settle the claim. This amount would settle both other claims raised by VBFA against the Respondents and the claim by the Bank against Segesta. VBFA is the key claimant according to the court decision and as such will receive the settlement amount for its own benefit and that of the Bank; however, the court's decision did not provide for the split among these separate claim rights.

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Therefore, VBFA and the Bank have concluded an agreement based on which the Bank ceded the claim rights to VBFA in return for a consideration of GBP 7.0 million to be made no later than 31 December 2018 reflecting the expected timeline for VBFA to receive the funds from Respondents. After these developments, the asset was recognised under other assets as the previous asset was derecognised due to a substantial change in its terms. After partial settlement of GBP 2 million the claim rights as at 31 December 2017 are carried at GBP 4 832 405 (EUR 5 446 620) reflecting also the time value of the receivable. The Group and the Bank closely follow the progress made by VBFA and its solicitors in proceeding against the Respondents. Based on the information available the Bank's management is of the view that VBFA will use its rights to settle the Bank's part of the claim for the cumulative amount of GBP 7 million, which is supported both by the payments made already and the progress with foreclosure on assets of the Respondents.

Precious metals are stated at fair value (level 1 of the fair value hierarchy).

The impairment allowance was made for accounts receivable.

31 DUE TO CREDIT INSTITUTIONS

	Group and Bank 31.12.2017 EUR	Group and Bank 31.12.2016 EUR
Repayable on demand	278 637	1 796 666
Term balances	14 160 000	14 160 000
	14 438 637	**15 956 666**

The table below shows geographical concentration:

	Group and Bank 31.12.2017 EUR	Group and Bank 31.12.2016 EUR
Due to central bank	14 160 000	14 160 000
Credit institutions incorporated in the Republic of Latvia	277 790	1 539 355
Credit institutions incorporated in other EU countries	-	1
Credit institutions incorporated in other non-OECD countries	847	257 310
	14 438 637	**15 956 666**

As at 31 December 2017 and 31 December 2016 due to credit institutions did not include any deposits serving as collateral for the outstanding loans.

Concentration of due to credit institutions

As at 31 December 2017 and 31 December 2016, the Group and Bank had balances with one credit institution, which exceeded 10% of total placements by credit institutions. The gross values of these balances as of 31 December 2017 and 31 December 2016 were EUR 14 160 000.

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32 DEPOSITS

	Group 31.12.2017	Bank 31.12.2017	Group 31.12.2016	Bank 31.12.2016
Repayable on demand	**EUR**	**EUR**	**EUR**	**EUR**
Corporate customers	117 021 947	117 189 305	147 019 562	147 154 775
Financial institutions	1 094 892	1 094 892	1 123 318	1 123 318
Public organisations	40	40	-	-
State-owned companies	-	-	976	976
Individuals	41 422 195	41 422 195	47 923 031	47 923 031
	159 539 074	**159 706 432**	**196 066 887**	**196 202 100**
Term deposits				
Corporate customers	36 912 942	36 912 942	19 294 017	19 294 017
Financial institutions	2 155 423	2 155 423	-	-
Individuals	40 333 297	40 333 297	14 577 874	14 577 874
	79 401 662	**79 401 662**	**33 871 891**	**33 871 891**
Total deposits	**238 940 736**	**239 108 094**	**229 938 778**	**230 073 991**

Blocked accounts

As at 31 December 2017, the Bank maintained customer deposit balances of EUR 5 976 670 (as at 31 December 2016: EUR 5 782 244) which were blocked by the Bank as collateral for loans and commitments and sureties granted by the Bank.

Concentrations of current accounts and customer deposits

As of 31 December 2017 and 31 December 2016, the Bank had no clients whose account balance exceeded 10% of the total of all customer account balances.

33 DEBT SECURITIES IN ISSUE

	Group and Bank 31.12.2017	Group and Bank 31.12.2016
	EUR	**EUR**
Bonds in issue	1 668 612	10 123 468
	1 668 612	**10 123 468**

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Reconciliation of movements of liabilities to cash flows arising from financing activities (bonds):

	Group and Bank Bonds in issue EUR
As of 31 December 2016	**10 123 468**
Change from financing cash flows	
Repayment of bonds issued	(7 655 450)
Total changes from financing cash flows	**(7 655 450)**
The effect of changes in foreign exchange rates	**(764 037)**
Liability – related	
Interest expense	153 342
Interest paid	(188 711)
Total liability-related other changes	(35 369)
As of 31 December 2017	**1 668 612**

	Group and Bank Bonds in issue EUR
As of 31 December 2015	**16 429 701**
Change from financing cash flows	
Repayment of bonds issued	(8 299 329)
Total changes from financing cash flows	**(6 401 976)**
The effect of changes in foreign exchange rates	**(51 189)**
Liability – related	
Interest expense	250 965
Interest paid	(104 033)
Total liability-related other changes	146 932
As of 31 December 2016	**10 123 468**

During the year ended 31 December 2017, an average annual interest rate of 2.1% was applied to the debt securities in issue. During the year ended 31 December 2016, an average annual interest rate of 2.01% was applied to the debt securities in issue. The securities issued in 2016 are publicly traded.

					Group and Bank 31.12.2017
Notional amount		**Coupon Rate**	**Issuance Date**	**Maturity Date**	**Book value, EUR**
USD	2 000 000	2.10%	21.06.2016	21.06.2018	1 668 612
					1 668 612

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Notional amount		Coupon Rate	Issuance Date	Maturity Date	Group and Bank 31.12.2016 Book value, EUR
EUR	1 000 000	1.80%	04.12.2015	04.12.2017	1 001 350
EUR	2 250 000	1.80%	31.07.2015	31.07.2017	2 266 987
USD	2 000 000	2.10%	21.06.2016	21.06.2018	1 898 460
USD	2 300 000	2.10%	31.07.2015	31.07.2017	2 201 176
USD	2 900 000	2.10%	04.12.2015	04.12.2017	2 755 495
					10 123 468

34 ACCRUED EXPENSES, PROVISIONS AND DEFERRED INCOME

	Group 31.12.2017 EUR	Bank 31.12.2017 EUR	Group 31.12.2016 EUR	Bank 31.12.2016 EUR
Accruals for other payments	1 055 371	1 055 306	1 053 498	1 053 498
Provision for unused vacation	292 781	292 670	307 400	307 289
Accrued payable to the Deposit Guarantee Scheme (DGS)	51 302	51 302	50 240	50 240
Other accrued expense	29 820	25 475	23 299	23 176
Deferred income	199 100	199 482	179 010	178 468
	1 628 374	**1 624 235**	**1 613 447**	**1 612 671**

35 OTHER LIABILITIES

	Group 31.12.2017 EUR	Bank 31.12.2017 EUR	Group 31.12.2016 EUR	Bank 31.12.2016 EUR
Money in transit	1 117 816	1 117 816	653 497	653 497
Staff salaries	219 813	219 813	190 456	190 456
Unsettled spot forex transactions	52 962	52 962	14 857	14 857
Collateral securing the obligations	3 494	3 494	4 743	4 743
Other accounts payable	423 604	347 386	674 250	622 472
	1 817 689	**1 741 471**	**1 537 803**	**1 486 025**

36 SUBORDINATED LIABILITIES

Subordinated deposits have a fixed term of seven years at their origination, and are repayable before maturity only on winding up or bankruptcy of the Bank and rank before shareholders' claims.

As at 31 December 2017, the Bank had one customer whose deposit exceeded 10% of the total volume of subordinated deposits.

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Depositor	Currency	Amount in currency	Interest rate	The date of conclusion of the loan agreement	Repayment date	Amount 31.12.2017 EUR	Group and Bank Amount 31.12.2016 EUR
Diana Belokon	GBP	2 500 914	7.00%	30.04.2013	14.01.2023	2 818 854	2 920 515
Total						**2 818 854**	**2 920 515**

	Group and Bank 31.12.2017 EUR	Group and Bank 31.12.2016 EUR
Residents of the Republic of Latvia		
Individuals	*9 248 257*	*10 223 372*
Residents of other countries		
Corporate customers	*500 139*	*500 069*
Individuals	*4 889 859*	*5 302 971*
	14 638 255	**16 026 412**

Reconciliation of movements of liabilities to cash flows arising from financing activities (subordinated liabilities)

	Group and Bank Subordinated liabilities EUR
As of 31 December 2016	**16 026 412**
Change from financing cash flows	
Subordinated liabilities	498 776
Cash paid out to repay subordinated debt	(1 131 120)
Total changes from financing cash flows	**(632 344)**
The effect of changes in foreign exchange rates	**(726 027)**
Liability – related	
Interest expense	770 448
Interest paid	(800 234)
Total liability-related other changes	(29 786)
As of 31 December 2017	**14 638 255**

	Group and Bank Subordinated liabilities EUR
As of 31 December 2015	**16 715 268**
Change from financing cash flows	
Cash paid out to repay subordinated debt	(2 285 497)
Total changes from financing cash flows	**(895 326)**
The effect of changes in foreign exchange rates	**1 101 796**
Liability – related	
Interest expense	525 390
Interest paid	(106 533)
Total liability-related other changes	418 857
As of 31 December 2016	**16 026 412**

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37 SHAREHOLDERS' EQUITY

The Bank's share capital totals EUR 31 496 395 and is divided into4 436 112 ordinary shares carrying identical voting rights (on 31 December 2016: 31 496 395 and 4 436 112, respectively). The nominal value of one share is EUR 7.10.

All shares are registered. Each share carries the right to one vote at the meetings of shareholders, a right to receive dividends as declared from time to time and a right to residual assets. Of the Bank's 92 shareholders, 27 are legal entities and 65 are individuals.

Reserve capital in the amount of EUR 835 152 (31 December 2016: EUR 835 152) is formed from the contributions made by the Bank's shareholders. The Bank's General Meeting of Shareholders makes the decision concerning further usage of reserve capital. Reserve capital can be used to:
- cover losses;
- increase the share capital;
- pay dividends.

	Quantity	Amount EUR
Total paid-in share capital 31 December 2015	**4 154 421**	**29 496 389**
Increase of paid-in share capital	281 691	2 000 006
Total paid-in share capital 31 December 2016	**4 436 112**	**31 496 395**
Total paid-in share capital 31 December 2017	**4 436 112**	**31 496 395**

Listed below are the shareholders who control more than 10 percent of the shares in the shareholders' equity:

	31.12.2017	31.12.2016
Valeri Belokon	69.90%	69.89%
Vilori Belokon	30.05%	30.01%

38 SURETIES AND COMMITMENTS

Sureties and guarantees, which represent irrevocable assurances and promise that the Bank will make payments to the beneficiary (third party) in the event that the obligor (customer) fails to honor his/her obligations to third parties, carry the same credit risk as loans.

Commitments to extend credit and liabilities for credit cards represent unused portions of authorisations to extend credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to the total unused commitments.

	Group 31.12.2017 EUR	Bank 31.12.2017 EUR	Group 31.12.2016 EUR	Bank 31.12.2016 EUR
Sureties and guarantees	**210 102**	**210 102**	**1 549 746**	**1 549 746**
Commitments to customers	**6 292 907**	**6 378 065**	**9 717 384**	**9 803 278**
Commitments to extend credit	1 328 000	1 413 158	745 482	831 376
Unused creditcard limits	346 095	346 095	567 593	567 593
Other commitments	4 618 812	4 618 812	8 404 309	8 404 309
	6 503 009	**6 588 167**	**11 267 130**	**11 353 024**

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39 TRUST AGREEMENTS

The Bank enters into trust agreements with individuals and legal entities, residents and non-residents of the Republic of Latvia. The Bank accepts no risk for its trust operations; all risks are retained by its clients. As of 31 December 2017, assets administered by the Bank totaled EUR 68 169 151. As of 31 December 2016, the Bank's administered assets stood at EUR 81 980 301.

40 LITIGATION

In the ordinary course of business, the Group and the Bank are exposed to litigation risks. The management believes that the ultimate loss, if any, arising in connection with litigation or complaints will not have a materially adverse effect on the Bank's financial position or results of future operations. No provisions were recognized as at 31 December 2017 and 2016.

41 RELATED PARTY TRANSACTIONS

The outstanding balances as of 31 December 2017 and related income statement amounts of transactions for the year ended 31 December 2017 with related parties (subsidiary transactions are eliminated at Group level and represent related party transactions at Bank level only) are as follows:

				Group
31 December 2017	**Associate**	**Shareholders, Members of the Supervisory Council and Management Board**	**Related to shareholders and management**	**Total**
	EUR	**EUR**	**EUR**	**EUR**
Assets				
Loans and receivables	124 422	439 856	3 547 580	**4 111 858**
Liabilities				
Deposits	1 656	74 093	6 155 074	**6 230 823**
Subordinated liabilities	-	-	4 317 759	**4 317 759**
Income/expenses				
Interest income	3 978	1 043	61 512	**66 533**
Interest expense	-	2 227	2 119	**4 346**
Fee and commission expense	-	-	326 156	**326 156**
Remuneration expense	-	1 041 030	-	**1 041 030**

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					Bank
31 December 2017	**Subsidiary EUR**	**Associate EUR**	**Shareholders, Members of the Supervisory Council and Management Board EUR**	**Related to shareholders and management EUR**	**Total EUR**
Assets					
Loans and receivables	848 634	124 422	439 856	3 287 366	**4 700 278**
Other assets	101 207	-	-	-	**101 207**
Liabilities					
Deposits	167 358	1 656	74 093	6 155 074	**6 398 181**
Subordinated liabilities	-	-	-	4 317 759	**4 317 759**
Income/expenses					
Interest income	20 065	3 978	1 043	61 512	**86 598**
Interest expense	25	-	2 227	2 119	**4 371**
Fee and commission expense	-	-	-	326 156	**326 156**
Remuneration expense	-	-	1 041 030	-	**1 041 030**
Impairment loss	1 906 791	-	-	-	**1 906 791**

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				Group
31 December 2016	**Associate**	**Shareholders, Members of the Supervisory Council and Management Board**	**Related to shareholders and management**	**Total**
	EUR	**EUR**	**EUR**	**EUR**
Assets				
Loans	107 999	281 954	2 879 306	**3 269 259**
Liabilities				
Deposits	776	75 173	472 275	**548 224**
Subordinated liabilities	-	-	4 420 806	**4 420 806**
Income/expenses				
Interest income	3 978	3 978	3 978	**15 912**
Interest expense	-	2 369	82 689	**85 058**
Remuneration expense	-	1 006 970	-	**1 006 970**

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					Bank
31 December 2016	**Subsidiary EUR**	**Associate EUR**	**Shareholders, Members of the Supervisory Council and Management Board EUR**	**Related to shareholders and management EUR**	**Total EUR**
Assets					
Loans and receivables	1 604 422	107 999	281 954	2 879 306	**4 873 681**
Other assets	92 413	-	-	-	**92 413**
Liabilities					
Deposits	135 213	776	75 173	472 275	**683 437**
Subordinated liabilities	-	-	-	4 420 806	**4 420 806**
Income/expenses					
Interest income	24 608	3 978	3 978	3 978	**40 520**
Interest expense	-	-	2 369	82 689	**85 058**
Remuneration expense	-	-	1 006 970	-	**1 006 970**
Impairment loss	623 060	-	-	-	**623 060**

All related party transactions are at arm's length. See also Note 30.

42 CAPITAL ADEQUACY CALCULATION

The Financial and Capital Market Commission sets forth capital requirements for the Bank as a whole and supervises the adherence to the requirements.

According to the specific requirement of the FCMC, the Bank ir required to maintain capital adequacy ratio above minimum level – 12.9% for the period starting from 1 December 2017 till 31 December 2018 (from 1 October 2016 till 30 September 2017: 10.2%). In addition to the minimum level which is set by the FCMC, the Bank has to comply with the requirement regarding capital buffers (is defined in Credit Instituution Law) which currenctly are equal to 2.5%. Capital buffers have to ensure by Common Equity Tier 1 capital. To ensure compliance with capital adequacy levels the Bank's shareholders have commenced a process of increasing the share capital.

The Bank also monitors its capital adequacy levels calculated in accordance with the requirements of the New Basel Capital Accord, commonly known as Basel III.

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The following table shows the composition of the Bank's capital position calculated in accordance with the requirements of the Basle Accord, as at 31 December 2017:

Total equity capital	**Group EUR**	**Bank EUR**
Paid-in share capital	31 496 395	31 496 395
Reserve capital and other reserves	835 152	835 152
Accumulated losses for the previous years	(383 562)	(166 586)
Loss for the period	(7 700 104)	(8 093 849)
Intangible assets	(4 184 320)	(4 184 320)
Specific decline in Tier 1 capital, as stipulated by the applicable law	(2 073 852)	(2 073 852)
Available for sale instruments revaluation reserve	156 133	156 133
Less revaluation of investment property	(40 228)	(27 079)
Tier 1 Core Capital	**18 105 614**	**17 941 994**
Subordinated liabilities	8 982 260	8 982 260
Specific decline in Tier 2 capital, as stipulated by the applicable law	(2 073 852)	(2 073 852)
Tier 2 Supplementary Capital	**6 908 408**	**6 908 408**
TOTAL CAPITAL	**25 014 022**	**24 850 402**
Capital charge for credit risk inherent in the Bank's book	12 170 641	12 214 103
The total capital charge for market risks	63 321	86 494
Capital charge for operational risk	2 989 929	2 986 979
The own funds requirement for credit valuation adjustment (CVA) risk	1 391	1 391
Total capital charge	**15 225 282**	**15 288 967**
CAPITAL ADEQUACY RATIOS		
Common Equity Tier 1 capital ratio	9.51%	9.39%
Tier 1 capital ratio	9.51%	9.39%
CAPITAL ADEQUACY RATIOS 31 December 2017	**13.14%**	**13.00%**
CAPITAL ADEQUACY RATIOS 31 December 2016	**16.20%**	**16.48%**

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of – 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 sureties and commitments, with some adjustments to reflect the more contingent nature of the potential losses.

The Bank is subject to minimum capital adequacy requirements calculated in accordance with the Basle Accord established by covenants under liabilities incurred by the Bank.

To calculate the required capital charge in accordance with the minimum regulatory capital requirements, Bank applies the following approaches:

- capital charge for credit risk – the Standardised Approach;
- capital charge for market risk –the Standardised Approach;
- capital charge for operational risk – the Basic Indicator Approach.

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43 TERM STRUCTURE OF ASSETS AND LIABILITIES

The following tables are based on regulatory instructions of the Financial and Capital Market Commission and show the term structure of assets and liabilities. This term structure will not necessarily coincide with discounted cash flows.

Group

As of 31 December 2017	**Demand**	**Less than 1 month**	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**1 to 5 years**	**5 years and more**	**With no stated maturity or pledged as collateral**	**TOTAL**
ASSETS	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**
Cash and due from central banks	105 915 335	-	-	-	-	-	-	-	**105 915 335**
Due from credit institutions	20 917 334	164	423 488	-	-	-	-	5 479 654	**26 820 640**
Financial assets held-for-trading	94 286	1 686	-	-	-	-	1 535	2 050	**99 557**
Securities held-for-trading	*94 286*	*1 321*	-	-	-	-	*1 535*	*2 050*	***99 192***
Derivative financial instruments	-	*365*	-	-	-	-	-	-	***365***
Available for sale instruments	19 841 780	111 341	41 498	181 737	12 191	-	4 609 107	17 393 964	**42 191 618**
Securities held-to-maturity	-	381 929	674 699	528 161	-	14 710 604	-	-	**16 295 393**
Financial assets at fair value through profit or loss	-	-	-	-	4 551 118	-	-	-	**4 551 118**
Loans and receivables	1 510 536	5 934 252	2 983 849	5 244 271	4 696 567	28 008 232	(4 502 562)	18 009 805	**61 884 950**
Other financial assets	125 918	205 100	332 783	195 167	266 520	820 731	5 446 621	4 747 733	**12 140 573**
Non-financial assets	-	-	-	-	-	-	-	28 137 807	**28 137 807**
Total assets	**148 405 189**	**6 634 472**	**4 456 317**	**6 149 336**	**9 526 396**	**43 539 567**	**5 554 701**	**73 771 013**	**298 036 991**
LIABILITIES AND SHAREHOLDERS' EQUITY									
Due to credit institutions	278 637	-	-	-	-	-	-	14 160 000	**14 438 637**
Deposits	159 667 788	2 649 262	31 703 623	9 918 468	24 900 756	5 808 709	106 393	4 185 737	**238 940 736**
Debt securities in issue	-	-	-	1 668 612	-	-	-	-	**1 668 612**
Derivative financial instruments	-	457 153	4 488	-	-	-	-	-	**461 641**
Subordinated liabilities	-	1 679	-	668 786	496 197	9 164 264	4 307 329	-	**14 638 255**
Non-financial liabilities	2 802 728	507 144	209	3 122	13 756	115 257	-	3 847	**3 446 063**
Shareholders' equity	-	-	-	-	-	-	-	24 443 047	**24 443 047**
Total liabilities and shareholders' equity	**162 749 153**	**3 615 238**	**31 708 320**	**12 258 988**	**25 410 709**	**15 088 230**	**4 413 722**	**42 792 631**	**298 036 991**
Sureties and commitments *	5 165 739	-	-	-	-	-	-	4 013	**5 169 752**
Maturity gap	**(19 509 703)**	**3 019 234**	**(27 252 003)**	**(6 109 652)**	**(15 884 313)**	**28 451 337**	**1 140 979**	**x**	**x**

* Sureties and commitments are diminished by the amount of the issued guarantees and loans secured by the deposits placed with the Bank and totaling EUR 247 908.

As of 31 December 2016

Assets	149 539 947	11 417 716	2 282 695	8 452 746	8 709 672	34 329 154	12 709 461	80 648 554	**308 089 945**
Liabilities and equity	201 891 881	2 971 671	10 413 718	6 449 525	17 708 431	13 072 912	4 938 893	50 642 914	**308 089 945**
Sureties and commitments *	9 961 130	-	-	-	-	-	-	-	**9 961 130**
Maturity gap	**(62 313 064)**	**8 446 045**	**(8 131 023)**	**2 003 221**	**(8 998 759)**	**21 256 242**	**7 770 568**	**x**	**x**

* Sureties and commitments are diminished by the amount of the issued guarantees and loans secured by the deposits placed with the Bank and totaling EUR 247 908.

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Bank

As of 31 December 2017	Demand	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 years and more	With no stated maturity or pledged as collateral	TOTAL
ASSETS	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**
Cash and due from central banks	105 915 335	-	-	-	-	-	-	-	**105 915 335**
Due from credit institutions	20 917 334	164	423 488	-	-	-	-	5 479 654	**26 820 640**
Financial assets held-for-trading	94 286	1 686	-	-	-	-	1 535	2 050	**99 557**
Securities held-for-trading	*94 286*	*1 321*	-	-	-	-	*1 535*	*2 050*	***99 192***
Derivative financial instruments	-	*365*	-	-	-	-	-	-	***365***
Available for sale instruments	19 841 780	111 341	41 498	181 737	12 191	-	4 609 107	17 393 964	**42 191 618**
Securities held-to-maturity	-	381 929	674 699	528 161	-	14 710 604	-	-	**16 295 393**
Financial assets at fair value through profit or loss	-	-	-	-	4 551 118	-	-	-	**4 551 118**
Loans and receivables	1 510 536	6 046 570	2 983 849	5 244 271	4 836 476	28 894 307	(4 502 562)	17 720 137	**62 733 584**
Other financial assets	23 344	205 100	332 783	195 167	266 520	820 731	5 446 621	6 441 951	**13 732 217**
Non-financial assets	-	-	-	-	-	-	-	25 607 761	**25 607 761**
Total assets	**148 302 615**	**6 746 790**	**4 456 317**	**6 149 336**	**9 666 305**	**44 425 642**	**5 554 701**	**72 645 517**	**297 947 223**
LIABILITIES AND SHAREHOLDERS' EQUITY									
Due to credit institutions	278 637	-	-	-	-	-	-	14 160 000	**14 438 637**
Deposits	159 835 146	2 649 262	31 703 623	9 918 468	24 900 756	5 808 709	106 393	4 185 737	**239 108 094**
Debt securities in issue	-	-	-	1 668 612	-	-	-	-	**1 668 612**
Derivative financial instruments	-	457 153	4 488	-	-	-	-	-	**461 641**
Subordinated liabilities	-	1 679	-	668 786	496 197	9 164 264	4 307 329	-	**14 638 255**
Non-financial liabilities	2 726 218	507 144	209	3 122	13 756	115 257	-	-	**3 365 706**
Shareholders' equity	-	-	-	-	-	-	-	24 266 278	**24 266 278**
Total liabilities and shareholders' equity	**162 840 001**	**3 615 238**	**31 708 320**	**12 258 988**	**25 410 709**	**15 088 230**	**4 413 722**	**42 612 015**	**297 947 223**
Sureties and commitments *	5 250 897	-	-	-	-	-	-	4 013	**5 254 910**
Maturity gap	**(19 788 283)**	**3 131 552**	**(27 252 003)**	**(6 109 652)**	**(15 744 404)**	**29 337 412**	**1 140 979**	**x**	**x**

* Sureties and commitments are diminished by the amount of the issued guarantees and loans secured by the deposits placed with the Bank and totaling EUR 247 908.

As of 31 December 2016									
Assets	149 700 586	11 967 025	2 282 695	8 529 428	9 297 033	34 720 224	12 709 461	79 183 128	**308 389 580**
Liabilities and equity	201 974 540	2 971 671	10 413 718	6 449 525	17 708 431	13 072 912	4 938 893	50 859 890	**308 389 580**
Sureties and commitments *	10 047 024	-	-	-	-	-	-	-	**10 047 024**
Maturity gap	**(62 320 978)**	**8 995 354**	**(8 131 023)**	**2 079 903**	**(8 411 398)**	**21 647 312**	**7 770 568**	**x**	**x**

* Sureties and commitments are diminished by the amount of the issued guarantees and loans secured by the deposits placed with the Bank and totaling EUR 247 908.

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44 CONTRACTUAL CASH FLOWS

Analysis of the Bank's financial liabilities' contractual undiscounted cash flows:

As of 31 December 2017	Demand and less than 1 month EUR	1 to 3 months EUR	3 to 6 months EUR	6 to 12 months EUR	More than 1 year EUR	Total gross amount outflow/ (inflow) EUR	Carrying amount EUR
Non-derivative liabilities							
Deposits and balances due to financial institutions	278 315	-	-	-	14 160 000	14 438 315	**14 438 637**
Current accounts and deposits due to customers	166 670 873	31 723 993	9 968 553	25 123 007	6 180 287	239 666 713	**239 108 094**
Other borrowed funds	1 679	-	2 365 150	512 104	15 992 773	18 871 706	**16 306 867**
Derivative liabilities							
- Inflow	(41 545 127)	-	-	-	-	(41 545 127)	**461 276**
- Outflow	42 001 915	-	-	-	-	42 001 915	**-**
Total	**167 407 655**	**31 723 993**	**12 333 703**	**25 635 111**	**36 333 060**	**273 433 522**	**270 314 874**
Credit related commitments	6 588 167	-	-	-	-	-	**-**

As of 31 December 2016	Demand and less than 1 month EUR	1 to 3 months EUR	3 to 6 months EUR	6 to 12 months EUR	More than 1 year EUR	Total gross amount outflow/ (inflow) EUR	Carrying amount EUR
Non-derivative liabilities							
Deposits and balances due to financial institutions	1 796 666	-	-	-	14 160 000	15 956 666	**15 956 666**
Current accounts and deposits due to customers	203 656 313	10 013 853	6 105 715	8 742 046	1 769 279	230 287 206	**230 073 991**
Other borrowed funds	59 811	404 262	361 685	9 186 091	18 549 854	28 561 703	**26 149 880**
Derivative liabilities							
- Inflow	(35 534 224)	(201 339)	-	-	-	(35 735 563)	**(549 323)**
- Outflow	35 000 000	200 000	-	-	-	35 200 000	**-**
Total	**204 978 566**	**10 416 776**	**6 467 400**	**17 928 137**	**34 479 133**	**274 270 012**	**271 631 214**
Credit related commitments	11 353 024	-	-	-	-	-	**-**

The analyses of contractual undiscounted cash flows on the Group's and the Bank's financial liabilties do not vary significantly.

45 ANALYSIS OF ASSETS AND LIABILITIES BY CURRENCY PROFILE

As of 31 December 2017							**Group**
ASSETS	**EUR**	**USD**	**GBP**	**RUB**	**CHF**	**Other currencies**	**TOTAL EUR**
Cash and due from central banks	105 432 479	445 040	33 836	-	316	3 664	**105 915 335**
Due from credit institutions	6 634 583	14 039 388	5 896 517	66 343	56 321	127 488	**26 820 640**
Financial assets held-for-trading	3 950	95 607	-	-	-	-	**99 557**
Securities held-for-trading	*3 585*	95 607	-	-	-	-	***99 192***
Derivative financial instruments	*365*	-	-	-	-	-	***365***
Available for sale instruments	13 078 233	28 110 258	566 661	-	436 466	-	**42 191 618**
Securities held-to-maturity	2 208 850	14 086 543	-	-	-	-	**16 295 393**
Financial assets at fair value through profit or loss	-	-	4 551 118	-	-	-	**4 551 118**
Loans and receivables	31 714 894	16 899 349	13 267 400	3 304	-	3	**61 884 950**
Other financial assets	4 032 888	1 592 134	5 545 012	586	-	984 252	**12 154 872**
Non-financial assets	28 123 508	-	-	-	-	-	**28 123 508**
Total assets	**191 229 385**	**75 268 319**	**29 860 544**	**70 233**	**493 103**	**1 115 407**	**298 036 991**
LIABILITIES AND SHAREHOLDERS' EQUITY							
Due to credit institutions	14 160 244	278 393	-	-	-	-	**14 438 637**
Deposits	105 598 485	105 379 038	26 488 882	64 342	573 660	836 329	**238 940 736**
Debt securities in issue	-	1 668 612	-	-	-	-	**1 668 612**
Derivative financial instruments	461 641	-	-	-	-	-	**461 641**
Subordinated liabilities	7 563 619	3 915 844	3 158 792	-	-	-	**14 638 255**
Non-financial liabilities	2 861 295	450 145	104 767	4 062	12 211	13 583	**3 446 063**
Shareholders' equity	24 443 047	-	-	-	-	-	**24 443 047**
Total liabilities and shareholders' equity	**155 088 331**	**111 692 032**	**29 752 441**	**68 404**	**585 871**	**849 912**	**298 036 991**
GROSS POSITION	**36 141 054**	**(36 423 713)**	**108 103**	**1 829**	**(92 768)**	**265 495**	
Unsettled spot forex contracts	(2 170)	4 308	-	2 158	-	-	
Forward contracts	(36 112 987)	35 440 954	112 693	-	102 552	-	
NET POSITION	**25 897**	**(978 451)**	**220 796**	**3 987**	**9 784**	**265 495**	
Ratio to the shareholders' equity (%)*		-3.91%	0.88%	0.02%	0.04%		
As of 31 December 2016							
Assets	132 537 621	123 613 236	18 902 871	1 213 081	2 150 683	1 270 138	**279 687 630**
Liabilities and equity	98 269 317	159 476 310	14 052 578	1 195 322	2 175 945	1 063 759	**276 233 231**
Gross position	**34 268 304**	**(35 863 074)**	**4 850 293**	**17 759**	**(25 262)**	**206 379**	
Net position	**(32 074 208)**	**3 392 428**	**628 347**	**17 759**	**(25 262)**	**206 379**	

* Regulatory capital (net worth) totalling EUR 25 014 022 as of 31 December 2017 (as of 31 December 2016: 33 288 792).

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As of 31 December 2017							Bank
ASSETS	**EUR**	**USD**	**GBP**	**RUB**	**CHF**	**Other currencies**	**TOTAL EUR**
Cash and due from central banks	105 432 479	445 040	33 836	-	316	3 664	**105 915 335**
Due from credit institutions	6 634 583	14 039 388	5 896 517	66 343	56 321	127 488	**26 820 640**
Financial assets held-for-trading	3 950	95 607	-	-	-	-	**99 557**
Securities held-for-trading	*3 585*	*95 607*	-	-	-	-	***99 192***
Derivative financial instruments	*365*	-	-	-	-	-	***365***
Available for sale instruments	13 078 233	28 110 258	566 661	-	436 466	-	**42 191 618**
Securities held-to-maturity	2 208 850	14 086 543	-	-	-	-	**16 295 393**
Financial assets at fair value through profit or loss	-	-	4 551 118	-	-	-	**4 551 118**
Loans and receivables	32 563 528	16 899 349	13 267 400	3 304	-	3	**62 733 584**
Other financial assets	5 610 233	1 592 134	5 545 012	586	-	984 253	**13 732 218**
Non-financial assets	25 607 760	-	-	-	-	-	**25 607 760**
Total assets	**191 139 616**	**75 268 319**	**29 860 544**	**70 233**	**493 103**	**1 115 408**	**297 947 223**
LIABILITIES AND SHAREHOLDERS' EQUITY							
Due to credit institutions	14 160 244	278 393	-	-	-	-	**14 438 637**
Deposits	105 765 843	105 379 038	26 488 882	64 342	573 660	836 329	**239 108 094**
Debt securities in issue	-	1 668 612	-	-	-	-	**1 668 612**
Derivative financial instruments	461 641	-	-	-	-	-	**461 641**
Subordinated liabilities	7 563 619	3 915 844	3 158 792	-	-	-	**14 638 255**
Non-financial liabilities	2 780 938	450 145	104 767	4 062	12 211	13 583	**3 365 706**
Shareholders' equity	24 266 278	-	-	-	-	-	**24 266 278**
Total liabilities and shareholders' equity	**154 998 563**	**111 692 032**	**29 752 441**	**68 404**	**585 871**	**849 912**	**297 947 223**
GROSS POSITION	**36 141 053**	**(36 423 713)**	**108 103**	**1 829**	**(92 768)**	**265 496**	
Unsettled spot forex contracts	(2 170)	4 308	-	2 158	-	-	
Forward contracts	(36 112 987)	35 440 954	112 693	-	102 552	-	
NET POSITION	**25 896**	**(978 451)**	**220 796**	**3 987**	**9 784**	**265 496**	
Ratio to the shareholders' equity (%)*		-3.94%	0.89%	0.02%	0.04%		
As of 31 December 2016							
Assets	134 302 682	123 613 236	18 902 871	1 213 081	2 150 683	1 270 138	**281 452 691**
Liabilities and equity	98 351 976	159 476 310	14 052 578	1 195 322	2 175 945	1 063 759	**276 315 890**
Gross position	**35 950 706**	**(35 863 074)**	**4 850 293**	**17 759**	**(25 262)**	**206 379**	
Net position	**(30 608 782)**	**3 392 428**	**628 347**	**17 759**	**(25 262)**	**206 379**	

* Regulatory capital (net worth) totalling EUR 24 850 402 as of 31 December 2017 (as of 31 December 2016: 33 673 928).

46 SENSITIVITIES ANALYSIS

Currency (foreign exchange) risk

The sum of overall foreign exchange exposure and the net position in gold stood at 1.91% of the Group's and Bank's equity as of 31 December 2017 (as of 31 December 2016: 12.68%).

Figures show that a 10 percent strengthening of the euro against other currencies may have the following impact on the Group's and Bank's profit (in EUR):

	31.12.2017 USD	**31.12.2017 GBP**	**31.12.2017 RUB**	**31.12.2016 USD**	**31.12.2016 GBP**	**31.12.2016 RUB**
rate valid:	1.1993	0.88723	69.3920	1.0541	0.8562	64.3000
foreign currency position (in EUR):	(978 451)	220 796	3 987	3 392 428	628 347	17 759
profit/(loss) (in EUR):	(97 845)	22 080	399	339 243	62 835	1 776

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47 REPRICING MATURITIES OF ASSETS AND LIABILITIES

The following table shows the earlier of the interest rate contracted re-pricing dates or contractual maturity of financial assets and liabilities.

Group

As of 31 December 2017	Up to 1 month (inclusive)	1 to 3 months	3 to 6 months	6 to 12 months	One year and more	Non interest bearing	TOTAL
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
ASSETS							
Cash and due from central banks	104 336 344	-	-	-	-	1 578 991	**105 915 335**
Due from credit institutions	13 286 776	416 910	-	-	-	13 116 954	**26 820 640**
Financial assets held-for-trading	-	-	-	-	-	99 557	**99 557**
Securities held-for-trading	-	-	-	-	-	*99 192*	***99 192***
Derivative financial instruments	-	-	-	-	-	*365*	***365***
Available for sale instruments	-	428 585	-	13 314 725	23 492 435	4 955 873	**42 191 618**
Securities held-to-maturity	208 232	624 773	502 033	-	14 710 604	249 751	**16 295 393**
Financial assets at fair value through profit or loss	-	-	4 551 118	-	-	-	**4 551 118**
Loans and receivables	8 195 538	2 959 954	4 060 772	2 842 384	26 023 369	17 802 933	**61 884 950**
Other financial assets	-	-	-	-	5 446 621	6 693 952	**12 140 573**
Non-financial assets	-	-	-	-	-	28 137 807	**28 137 807**
Total assets	**126 026 890**	**4 430 222**	**9 113 923**	**16 157 109**	**69 673 029**	**72 635 818**	**298 036 991**
LIABILITIES AND SHAREHOLDERS' EQUITY							
Due to credit institutions	-	-	-	-	14 160 000	278 637	**14 438 637**
Deposits	92 885 553	31 675 838	9 886 795	24 837 092	5 910 932	73 744 526	**238 940 736**
Debt securities in issue	-	-	1 667 639	-	-	973	**1 668 612**
Derivative financial instruments	-	-	-	-	-	461 641	**461 641**
Subordinated liabilities	-	-	667 056	496 123	13 430 474	44 602	**14 638 255**
Non-financial liabilities	-	-	-	-	-	3 446 063	**3 446 063**
Shareholders' equity	-	-	-	-	-	24 443 047	**24 443 047**
Total liabilities and shareholders' equity	**92 885 553**	**31 675 838**	**12 221 490**	**25 333 215**	**33 501 406**	**102 419 489**	**298 036 991**
Net position sensitive to interest rate risk	**33 141 337**	**(27 245 616)**	**(3 107 567)**	**(9 176 106)**	**36 171 623**	**(29 783 671)**	
Effect on annual net interest income	**317 604**	**(227 047)**	**(19 422)**	**(22 940)**	**-**	**-**	**48 195**

A 100 basis point decrease/increase in interest rates is likely to have effect (decrease/increase) on the Group's annual net interest income to the amount of EUR 48 195 (as of 31 December 2016: EUR 84 195).

As of 31 December 2016	Up to 1 month (inclusive)	1 to 3 months	3 to 6 months	6 to 12 months	One year and more	Non interest bearing	TOTAL
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Assets	116 922 496	10 271 123	18 230 710	26 738 176	60 564 917	75 362 523	**308 089 945**
Liabilities and equity	118 137 751	10 382 362	6 395 468	17 619 136	32 102 002	123 453 226	**308 089 945**
Net position sensitive to interest rate risk	**(1 215 255)**	**(111 239)**	**11 835 242**	**9 119 040**	**28 462 915**	**(48 090 703)**	

Bank

As of 31 December 2017	Up to 1 month (inclusive)	1 to 3 months	3 to 6 months	6 to 12 months	One year and more	Non interest bearing	TOTAL
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
ASSETS							
Cash and due from central banks	104 336 344	-	-	-	-	1 578 991	**105 915 335**
Due from credit institutions	13 286 776	416 910	-	-	-	13 116 954	**26 820 640**
Financial assets held-for-trading	-	-	-	-	-	99 557	**99 557**
Securities held-for-trading	-	-	-	-	-	*99 192*	***99 192***
Derivative financial instruments	-	-	-	-	-	*365*	***365***
Available for sale instruments	-	428 585	-	13 314 725	23 492 435	4 955 873	**42 191 618**
Securities held-to-maturity	208 232	624 773	502 033	-	14 710 604	249 751	**16 295 393**
Financial assets at fair value through profit or loss	-	-	4 551 118	-	-	-	**4 551 118**
Loans and receivables	8 307 855	2 959 954	4 060 772	3 082 094	26 878 917	17 443 992	**62 733 584**
Other financial assets	-	-	-	-	5 446 621	8 285 596	**13 732 217**
Non-financial assets	-	-	-	-	-	25 607 761	**25 607 761**
Total assets	**126 139 207**	**4 430 222**	**9 113 923**	**16 396 819**	**70 528 577**	**71 338 475**	**297 947 223**
LIABILITIES AND SHAREHOLDERS' EQUITY							
Due to credit institutions	-	-	-	-	14 160 000	278 637	**14 438 637**
Deposits	92 885 553	31 775 863	9 886 795	24 837 092	5 910 932	73 811 859	**239 108 094**
Debt securities in issue	-	-	1 667 639	-	-	973	**1 668 612**
Subordinated liabilities	-	-	667 056	496 123	13 430 474	44 602	**14 638 255**
Non-financial liabilities	-	-	-	-	-	3 365 706	**3 365 706**
Shareholders' equity	-	-	-	-	-	24 266 278	**24 266 278**
Total liabilities and shareholders' equity	**92 885 553**	**31 775 863**	**12 221 490**	**25 333 215**	**33 501 406**	**102 229 696**	**297 947 223**
Net position sensitive to interest rate risk	**33 253 654**	**(27 345 641)**	**(3 107 567)**	**(8 936 396)**	**37 027 171**	**(30 891 221)**	
Effect on annual net interest income	**318 681**	**(227 880)**	**(19 422)**	**(22 341)**	**-**	**-**	**49 038**

A 100 basis point decrease/increase in interest rates is likely to have effect (decrease/increase) on the Bank's annual net interest income to the amount of 49 038 EUR (as of 31 December 2016: EUR 91 320).

As of 31 December 2016	Up to 1 month (inclusive)	1 to 3 months	3 to 6 months	6 to 12 months	One year and more	Non interest bearing	TOTAL
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Assets	117 471 803	10 271 123	18 304 466	27 298 312	60 948 812	74 095 064	**308 389 580**
Liabilities and equity	118 137 751	10 382 362	6 395 468	17 619 136	32 102 002	123 752 861	**308 389 580**
Net position sensitive to interest rate risk	**(665 948)**	**(111 239)**	**11 908 998**	**9 679 176**	**28 846 810**	**(49 657 797)**	

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48 CREDIT RISK

The table below shows the Bank's maximum exposure to credit risk for the components of the statement of financial position, including derivatives. Exposures are based on net carrying amounts as reported in the statement of financial position.

The maximum credit exposures are shown both gross, i.e. without taking into account any collateral and other credit enhancement, and net, i.e. after taking into account any collateral and other credit enhancement. The details on the type and amounts of collateral held are disclosed in the respective notes.

	Bank	
	Maximum credit risk exposure 31.12.2017 EUR	**Maximum credit risk exposure 31.12.2016 EUR**
Cash and due from central banks	104 336 344	67 351 717
Due from credit institutions	26 820 640	17 975 622
Financial assets held-for-trading	87 684	1 035 482
Securities held-for-trading	*87 319*	*486 159*
Derivative financial instruments	*365*	*549 323*
Available for sale instruments	37 582 512	81 170 029
Securities held-to-maturity	16 295 393	16 691 688
Financial assets at fair value through profit or loss	4 551 118	8 073 653
Loans and receivables	60 542 399	70 685 345
Other assets	6 250 829	6 379 829
Total financial assets	**251 915 801**	**261 289 712**
Sureties (guarantees)	166 764	1 459 935
Commitments to customers	6 320 381	7 559 477
Total commitments and contingencies	**6 487 145**	**9 019 412**
Total maximum credit risk exposure	**258 402 946**	**270 309 124**

The maximum exposures to credit risks for the components at the statement of financial position of the Group and the Bank do not vary significantly.

49 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES AND COMPARISON WITH FAIR VALUE

The estimated fair values of financial instruments at fair value through profit or loss, quoted available-for-sale assets, held-to-maturity investments and other borrowed funds are based on quoted market prices at the reporting date without any deduction for transaction costs.

The estimated fair values of all other financial assets and liabilities, except as described below, are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the reporting date.

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The estimated fair value of the Bank's financial assets and liabilities are as follows:

As of 31 December 2017	Financial assets/ liabilities at amortised cost	Financial assets/ liabilities at fair value through profit and loss	Financial assets available-for-sale	Total	Fair value
ASSETS	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**
Cash and due from central banks	105 915 335	-	-	**105 915 335**	**105 915 335**
Due from credit institutions	26 820 640	-	-	**26 820 640**	**26 819 769**
Financial assets held-for-trading	-	99 557	-	**99 557**	**99 557**
Securities held-for-trading	-	*99 192*	-	***99 192***	***99 192***
Derivative financial instruments	-	*365*	-	***365***	***365***
Available for sale instruments	-	-	42 191 618	**42 191 618**	**42 191 618**
Securities held-to-maturity	16 295 393	-	-	**16 295 393**	**16 157 749**
Financial assets at fair value through profit or loss	-	4 551 118	-	**4 551 118**	**4 551 118**
Loans and receivables	62 733 584	-	-	**62 733 584**	**63 224 529**
Other financial assets	13 732 217	-	-	**13 732 217**	**13 732 217**
Total financial assets	**225 497 169**	**4 650 675**	**42 191 618**	**272 339 462**	**272 691 892**
Due to credit institutions	14 438 637	-	-	**14 438 637**	**14 438 637**
Deposits	239 108 094	-	-	**239 108 094**	**239 002 120**
Debt securities in issue	1 668 612	-	-	**1 668 612**	**1 684 142**
Derivative financial instruments	-	461 641	-	**461 641**	**461 641**
Subordinated liabilities	14 638 255	-	-	**14 638 255**	**14 961 711**
Non-financial liabilities	3 365 706	-	-	**3 365 706**	**3 365 706**
Total liabilities	**273 219 304**	**461 641**	**-**	**273 680 945**	**273 913 957**

As of 31 December 2016	Financial assets/ liabilities at amortised cost	Financial assets/ liabilities at fair value through profit and loss	Financial assets available-for-sale	Total	Fair value
ASSETS	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**
Cash and due from central banks	70 152 023	-	-	**70 152 023**	**70 152 023**
Due from credit institutions	17 975 622	-	-	**17 975 622**	**17 974 740**
Financial assets held-for-trading	-	1 177 668	-	**1 177 668**	**1 177 668**
Securities held-for-trading	-	*628 345*	-	***628 345***	***628 345***
Derivative financial instruments	-	*549 323*	-	***549 323***	***549 323***
Available for sale instruments	-	-	85 746 243	**85 746 243**	**85 746 243**
Securities held-to-maturity	16 691 688	-	-	**16 691 688**	**16 973 497**
Financial assets at fair value through profit or loss	-	8 073 653	-	**8 073 653**	**8 073 653**
Loans and receivables	70 999 468	-	-	**70 999 468**	**68 991 516**
Other financial assets	13 861 045	-	-	**13 861 045**	**13 861 045**
Total financial assets	**189 679 846**	**9 251 321**	**85 746 243**	**284 677 410**	**282 950 385**
Liabilities					
Due to credit institutions	15 956 666	-	-	**15 956 666**	**15 956 666**
Deposits	230 073 991	-	-	**230 073 991**	**230 089 017**
Debt securities in issue	10 123 468	-	-	**10 123 468**	**10 226 822**
Subordinated liabilities	16 026 412	-	-	**16 026 412**	**16 349 172**
Non-financial liabilities	4 135 353	-	-	**4 135 353**	**4 135 353**
Total liabilities	**276 315 890**	**-**	**-**	**276 315 890**	**276 757 030**

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50 FAIR VALUE HIERARCHY

(a) Financial instruments measured at fair value

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

Group and Bank

As of 31 December 2017	Published price quotations (Level 1)	Valuation techniques based on market observable inputs (Level 2)	Valuation techniques not based on market observable inputs (Level 3)	Total
Financial assets	**EUR**	**EUR**	**EUR**	**EUR**
Available for sale instruments	37 582 512	603 581	3 824 662	**42 010 755**
Financial assets at fair value through profit or loss	99 192	-	4 551 118	**4 650 310**
Derivatives	-	365	-	**365**
	37 681 704	**603 946**	**8 375 780**	**46 661 430**
Financial liabilities				
Derivatives	-	461 641	-	**461 641**
	-	**461 641**	**-**	**461 641**

As of 31 December 2016	Published price quotations (Level 1)	Valuation techniques based on market observable inputs (Level 2)	Valuation techniques not based on market observable inputs (Level 3)	Total
Financial assets	**EUR**	**EUR**	**EUR**	**EUR**
Available for sale instruments	81 170 029	36 920	4 358 431	**85 565 380**
Financial assets at fair value through profit or loss	628 345	-	8 073 653	**8 701 998**
Derivatives	13 760	535 563	-	**549 323**
	81 812 134	**572 483**	**12 432 084**	**94 816 701**
Financial liabilities				
Derivatives	-	-	-	**-**
	-	**-**	**-**	**-**

Included in category "Published price quotations" (Level 1) are financial assets and liabilities that are measured by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm’s length basis. Main asset classes included in this category are financial assets for which the fair value is obtained via pricing vendors or binding broker quotes.

Included in category "Valuation techniques based on market observable inputs" (Level 2) are financial assets and liabilities that are measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions in the same instrument or based on available market data. Main asset classes included in this category are financial assets for which pricing is obtained via pricing services but where prices have not been determined in an active market, financial assets with fair values based on broker quotes, investments in hedge funds private equity funds with fair value obtained via fund managers and assets that are valued using own models whereby the majority of assumptions are market observable.

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Not based upon market observable (Level 3) input means that fair values are determined in whole or in part using a valuation technique (model) base on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. Main asset classes in this category are private equity funds and private companies.

During the current year, there have not been transfers between fair value levels.

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

	Available for sale instruments EUR	Financial assets at fair value through profit or loss EUR	Total EUR
As of 31 December 2016	**4 358 431**	**8 073 653**	**12 432 084**
Total comprehensive income:	(2 000 244)	(243 546)	**(2 243 790)**
in profit or loss	*(2 127 124)*	*(243 546)*	***(2 370 670)***
in OCI	*126 880*	-	***126 880***
Purchases	1 500 000	5 122 193	**6 622 193**
Sale	-	(572 924)	**(572 924)**
Settlements and resultant transfers to other assets	(33 525)	(7 828 258)	**(7 861 783)**
As of 31 December 2017	**3 824 662**	**4 551 118**	**8 375 780**

	Available for sale instruments EUR	Financial assets at fair value through profit or loss EUR	Total EUR
As of 31 December 2015	**2 284 796**	**-**	**2 284 796**
Total comprehensive income:	(3 253 383)	773 786	**(2 479 597)**
in profit or loss	*(465 294)*	*773 786*	***308 492***
in OCI	*(2 788 089)*	-	***(2 788 089)***
Purchases	723 916	7 299 867	**8 023 783**
Settlements and resultant transfers to other assets	(1 816 207)	-	**(1 816 207)**
Transfers into Level 3	6 419 309	-	**6 419 309**
As of 31 December 2016	**4 358 431**	**8 073 653**	**12 432 084**

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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:

Type	Valuation technique	Significant unobservable inputs: Input	31.12.2017	31.12.2016	Inter-relation between significant unobservable inputs and fair value measurement
Assets at fair value through profit or loss (forward exchange contracts)	Market comparison technique: The fair values are based on broker quotes. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments.	Not applicable	Not applicable	Not applicable	Not applicable
Available for sale assets	Quotes from brokers	Illiquid securities bid prices	-	-	The estimated fair value would increase (decrease) if:
			-	-	Bid price quote increases
Available for sale assets (closed end funds)	Valuation is based on fund manager dislosed net	Net Asset value	-	-	The estimated fair value would increase (decrease) if:
			-	-	Net asset value increase (decrease)

For the fair values of equity securities under available for sale category, reasonably possible change at the reporting date to one of the significant unobservable inputs, holding other inputs constant, would have the following effects:

	Effect on other comprehensive income: Increase	(Decrease)
As of 31 December 2017	**EUR**	**EUR**
Net asset value quote (10% movement)	43 497	(43 497)
Bid price movements (10% movement)	14 322	(14 322)
	57 819	**(57 819)**

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	Effect on other comprehensive income	
	Increase	**(Decrease)**
As of 31 December 2016	**EUR**	**EUR**
Net asset value quote (10% movement)	53 192	(53 192)
Bid price movements (10% movement)	(77 904)	77 904
	(24 712)	**24 712**

(b) Financial instruments not measured at fair value

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

Bank

	Level 1	**Level 2**	**Level 3**	**Total**	**Carrying amount**
As of 31 December 2017	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**
Financial assets					
Due from credit institutions	-	-	26 819 769	**26 819 769**	**26 820 640**
Loans and receivables	-	-	63 224 529	**63 224 529**	**62 733 584**
Available for sale instruments	-	-	180 863	**180 863**	**180 863**
Securities held-to-maturity	16 157 749	-	-	**16 157 749**	**16 295 393**
	16 157 749	**-**	**90 225 161**	**106 382 910**	**106 030 480**
Financial liabilities					
Due to credit institutions	-	14 438 637	-	**14 438 637**	**14 438 637**
Deposits	-	-	239 002 120	**239 002 120**	**239 108 094**
Debt securities in issue	-	-	1 684 142	**1 684 142**	**1 668 612**
Subordinated liabilities	-	-	14 961 711	**14 961 711**	**14 638 255**
Other liabilities	-	-	3 827 347	**3 827 347**	**3 827 347**
	-	**14 438 637**	**259 475 320**	**273 913 957**	**273 680 945**

	Level 1	**Level 2**	**Level 3**	**Total**	**Carrying amount**
As of 31 December 2016	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**
Financial assets					
Due from credit institutions	-	-	17 974 740	**17 974 740**	**17 975 622**
Loans and receivables	-	-	68 991 516	**68 991 516**	**70 999 468**
Available for sale instruments	-	-	180 863	**180 863**	**180 863**
Securities held-to-maturity	16 973 497	-	-	**16 973 497**	**16 691 688**
	16 973 497	**-**	**87 147 119**	**104 120 616**	**105 847 641**
Financial liabilities					
Due to credit institutions	-	15 956 666	-	**15 956 666**	**15 956 666**
Deposits	-	-	239 002 120	**239 002 120**	**230 073 991**
Debt securities in issue	-	-	10 226 822	**10 226 822**	**10 123 468**
Subordinated liabilities	-	-	16 349 172	**16 349 172**	**16 026 412**
Other liabilities	-	-	4 135 353	**4 135 353**	**4 135 353**
	-	**15 956 666**	**269 713 467**	**285 670 133**	**276 315 890**

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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:

Type	Valuation technique	ificant unobservable inputs
Loans and advances due from financial institutions	Discounted cash flows	Discount rates
Loans and advances due from customers	Discounted cash flows	Discount rates, default rates
Deposits and balances due to financial institutions	Discounted cash flows	Discount rates
Deposits and balances due to customers	Discounted cash flows	Discount rates
Other borrowed funds	Discounted cash flows	Discount rates

51 EVENTS SUBSEQUENT TO THE REPORTING DATE

Events which occurred during 2018 through the approval date of these separate and consolidated financial statements have illuminated significant risks to the stability of the financial sector of Latvia, and have also worsened its reputation, both locally and internationally.

On 13 February 2018, the Financial Crimes Enforcement Network (FinCEN) of the US Department of the Treasury issued a notice of proposed rulemaking (NPRM) under Section 311 of the US Patriot Act against one of the largest banks in Latvia. Following this announcement, the referred bank experienced an abrupt wave of withdrawal of deposits and a lack of access to USD funding, which in turn resulted in the bank being unable to make payments in USD. On 19 February 2018, following an outflow of deposits from the said institution, the European Central Bank (ECB) instructed the Latvian prudential regulator to introduce a prohibition on outbound payments from that bank. On 23 February 2018, ECB determined that the referred bank was failing or likely to fail in accordance with the Single Resolution Mechanism Regulation. On 26 February 2018, the shareholders of the said bank adopted a resolution to wind the bank up.

In response to the above developments, in March 2018, the Financial Sector Development Council of the Republic of Latvia approved the proposals concerning AML/CFT laws that are intended to, among other things, introduce a prohibition to service shell companies. In accordance with the AML/CFT law in force at the date of these financial statements, shell companies are generally considered to be companies without real substance as measured by certain criteria set out in law. Shell companies are primarily non-resident, and comprise part of the Bank's portfolio of non-resident customers. The legislation is expected to come into force shortly after the approval of these financial statements.

Having analyzed the possible consequences of the recent events in Latvia, the risks involved as well as legislative initiatives, the Bank continues on its path of decreasing its exposure high risk clients whilst continuing implementing its strategy geared towards wealth management and investments in Latvia and overseas. Initiatives and steps undertaken by the Bank are implemented in close cooperation with the FCMC.

In this context and given that the Bank is engaged in servicing non-resident clients which are generally higher risk than resident customers and whose servicing has exposed a number of Latvian banks to AML related regulatory fines and reputational crises, the Bank is currently focusing its attention on all aspects of risk management, continues to make enhancements to its internal controls and other activities to develop its business and facilitate efficient detection of any signs of criminal transactions as described in Note 4 Bank's money laundering and terrorist financing risk (ML/TF risk).

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In 2018, through the date of these separate and consolidated financial statements, the Bank's operations have been stable; the reputational and compliance crisis sparked by the developments in the financial market in Latvia has so far had no direct adverse financial effect on the Bank. The regulatory ratios for liquidity have remained above the minimum regulatory levels. Also, as the regulatory capital ratios were deteriorating during 2017, and while the Bank's shareholders actively support and uphold its expansion in Latvia and in other target markets, the shareholders' meeting held on 26 January 2018 made the decision to increase Bank's share capital by EUR 6,000,004.10 (six million four Euros and 10 cents) through issuing 845 071 (eight hundred forty five thousand seventy one) dematerialised ordinary registered shares. After the finalization of increase, the new subscribed share capital will total EUR 37 496 399,30 and will be represented by 5 281 183 registered voting shares.

Please refer to Note 47 Going concern for a description of further expedited measures planned by the Bank in relation to the pending changes in the AML/CFT laws and regulations and their potential impact on the Bank.

52 GOING CONCERN

The reputation of Latvia's banking sector has been seriously tarnished by the Proposal of Special Measure against ABLV Bank, as a Financial Institution of Primary Money Laundering Concern issued by the Financial Crimes Enforcement Network (FinCEN), a bureau of the United States Department of the Treasury (see Note 51 Events after the reporting period). The developments discussed in Note 51, to a varying degree, increase risks for the majority of the market participants.

In the Bank's case, the risks are mitigated to an extent by the fact that, since 2016, its business model has been geared away from the reliance on on-off payment fees towards various wealth management solutions and socially responsible investing (SRI) products for customers both in Latvia and overseas. The Bank offers its customers sustainable investment opportunities, and invests in sustainable projects together with its customers, thereby focusing the business on international transactions and investments. While serving foreign customers represents an integral part of the Bank's business model, in the above period, the Bank has diversified the markets where it proactively targets and acquires new customers. Currently, its customer portfolio comprises an increasing share of customers from the European Economic Area (EEA). It should be emphasized, however, that Latvia has been the Bank's home country for 25 years and in the long term perspective the Bank sees itself as part of this market.

In the period since 2016, the Bank has also carried out certain risk minimisation / de-risking measures towards reducing its dependence on transaction-specific business (execution of payments) while developing other areas enabling the Bank to generate fee and commission income (asset management, brokerage services, corporate finances), and hence ensure a holistic approach to customer financial needs and carry on a business creating a higher level of economic benefits for the Bank.

In addition to the above, the Bank has analysed its entire customer portfolio in light of this new business model and, during 2016 and 2017, has discontinued the business relationship with a significant number of customers which had not fit in with the new model and risk-taking policy. While, as discussed below, the process has so far had an adverse effect on the Bank's financial performance, in the Management Board's view, it builds a solid base for the Bank's future business.

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The customer base erosion resulted in the reduced operating income levels of the Group and the Bank in 2016 and 2017, due to, in particular, significantly lower commission income for the Bank which decreased by 26% in 2017. While the initiative to attract more EEA customers and strengthen the Bank's term deposit base somewhat mitigated the effects of the de-risking measures taken, it also lead to a decrease in net interest income during the second half of 2017 compared with previous periods and net interest income for the Bank decreased by 22% in 2017, in part also due to higher interest rates the Bank was required to pay to those new customers. An additional factor contributing to lower operating income during 2017 was the discontinuation of cooperation with certain banks in the foreign exchange sphere, which resulted in further decrease in foreign exchange income. Withstanding the above, the Bank has worked actively on reinventing itself and to on-board new customers and expand its services offering, with the intended focus of brokerage and asset management services, in the hope of returning to operating profits in short- to mid-term.

To turn the new strategy into reality, the Bank's senior management centres around the growth of the operating income and to this end expects to implement in 2018 a customer acquisition plan while diversifying the Bank's target markets. The Bank has reinforced its team of bankers, has formulated new investments decisions, and continues to develop new directions of the Bank's business. In view of the planned substantial growth of the business in the period from 2018 to 2019, it is critical for the Bank's shareholders to further support the business by means of additional capital-raising (apart from the EUR 6 million already announced and discussed above) up to EUR 5 million by the end of 2018.

Due to the fact that the Bank (Group) has reported net losses totalling EUR 8.09 million (EUR 7.70 million) for 2017, and the fact that the ongoing reshaping of the Bank's business models will be associated with further financial losses, as discussed in Note 51, the Bank's shareholders decided to increase its the share capital by EUR 6 million on 28 January 2018, of which EUR 2.1 million has been paid in by end of February 2018, and current expectation is that the full amount will be paid in by end of 2018. In the Management Board's view, this should enable the Bank to a significant extent absorb the negative consequences of the business transformation in the medium term.

On 30 November 2017, the Bank received the FCMC letter stating that it is required to maintain the following minimum statutory ratios with effect from 1 December 2017:
• the total SREP ratio (TSCR ratio): at least 12.90%;
• the liquidity ratio: at least 50%.

The total SREP ratio as at 31 December 2017 was 13.00% (13.14%), which is marginally above the minimum requirement described above and is further increased above the normative upon share capital increase subsequent to the year end as outlined in Note 51,while the liquidity ratio reached 92.28% (92.36%).

The Management Board evaluates the Bank's and the Group's ability to continue as a going concern not only based on the 2017 results but also in the light of the events after the reporting period which potentially affect the further conduct of the business. As the Bank has been implementing the new business model outlined above, the Management Board is confident that the model predominantly geared towards wealth management and investment products will enable the Bank to proactively target and acquire new customers which meet strategy-specific criteria and which pose an acceptable level of risk. All of the measures undertaken by the Bank and the Group in an effort to strengthen their internal control system (ICS) should also enable the Management Board to appropriately manage ML/TF risk (see Note HHH: (ML/TF risk). As at the date of approval of these separate and consolidated financial statements, the Bank and the Group have not experienced any significant outflow of its customer deposits, which are stable. New customers are being actively acquired and hence revenue streams have been growing on a month-on-month basis during the first three months of 2018.

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The Bank's and the Group's business is however expected to be affected by the legislative initiatives intended to restrict the opportunities for providing services to high-risk customers, as proposed in 2018 by the Latvian authorities and the FCMC (Note 51). The risk is posed by customers using corporate vehicles known as shell companies, which are considered to be companies without real substance as measured by certain criteria set out in law. Shell companies are primarily non-resident, and comprise up to 30% of the Bank's portfolio of non-resident customers applying the most prudent interpretation of the definition.

Certain of the Bank's customers do correspond to some of the red flag indicators of a shell company as designated in the applicable laws of the Republic of Latvia. While evaluating the risk stemming from the prohibition to provide services to shell companies, the Bank's management believes that the adherence to the new principles will entail definite losses with respect to the aforesaid customers and is likely to exert adverse impact on the amount of deposits and profitability of the business. However, this factor, in isolation, should not jeopardise medium and long-term maintenance of the statutory ratios (liquidity ratio, capital adequacy ratio) or the continuance of the business per se. Assuming that the Bank closes all accounts of the customers using corporate entities, which correspond to at least one of the red flag indicators of shell companies as currently defined in the law, the Bank's management expects that, all other factors remaining unchanged, the liquidity position of the Bank will remain in line with the regulatory requirements set for liquidity management.

While, as noted above, the Bank's full capital adequacy ratio as at year-end was just a little above the requirement set by FCMC and ceasing business relationships will all of the companies with any shell company red flag indicators would have negative impact on the Bank's profitability, the Bank's management expects that, all other factors remaining unchanged, the regulatory risk of falling below the regulatory requirements would be fully mitigated by the committed share capital increase described above.

Thus, the Bank's and the Group's management has prepared these 2017 separate and consolidated financial statements on a going concern basis. Accordingly, the financial statements do not reflect the amendments that would be necessary if the Bank would not be able to continue as a going concern in the future. However, management recognizes that a material uncertainty exists in respect of future events, which affects the assumptions and estimates disclosed herein and used by the management while devising the financial plans for 2018 and subsequent years, and making decisions concerning the appropriateness of applying the going concern principle. The key remaining sources of this uncertainty include:

— The outcomes of any AML/CFT and regulatory reviews conducted in the Bank, including the amounts and extent of any potential fines and sanctions, in the light of the outcome of regulator's AML inspections since 2015 and the ongoing inspection at the Bank in 2018.
— The ultimate extent of the ongoing and future regulatory and legislative changes affecting the financial services sector in the Republic of Latvia, and the ability of the Bank and the Group to implement the measures, including their prior approval by the regulator, to reduce the regulatory, compliance and reputational risks in the relevant timeframe. As the regulatory environment is uncertain, extended scope of restrictions on providing services to certain categories of international clients may have further adverse consequences for the Bank's and the Group's business. Should the regulatory landscape change further than as set out in the initial proposals, then the Bank may need to revisit its strategy even further.

— The ability of the Bank and the Group to implement the new business model, gain sufficient acceptable risk profile customer base to return to profits and maintain regulatory capital levels during the transition phase. As business volumes have decreased over the last two years, it is important for the Bank to acquire new clients and to expand the selected core business directions in the highly competitive environment. The financial success will depend on the ability of the Bank to implement its plans within the uncertain environment and the ability of the Bank's and the Group's shareholders to invest the necessary levels of additional share capital to support the future operations.

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53 ADJUSTMENTS TO THE PREVIOUS-YEAR FIGURES

According to the requirement of IAS 7 (effective for annual periods beginning on or after1 January 2017), in the course of preparation these Group consolidated and Bank separate financial statements, the Group and the Bank increased the amount of information disclosed in the statement of cash flow.

The change in the methodology, as resulting from first-time application of IAS 7, and adherence to the requirement of IAS 8 on retrospective application have not affected the Group's and the Bank's financial condition and performance results and have not led to any changes in the book value of the respective liabilities.

Statement of cash flow for the period ending 31 December 2016:

	Previous-year figures		Adjustments		The corrected figures	
	Group	Bank	Group	Bank	Group	Bank
	31.12.2016	31.12.2016			31.12.2016	31.12.2016
	EUR	EUR	EUR	EUR	EUR	EUR
Cash flows from operating activities						
Profit before income tax	403 737	213 546	-	-	403 737	213 546
Amortisation and depreciation	1 468 917	1 468 917	-	-	1 468 917	1 468 917
Impairment loss	10 593 452	10 925 699	-	-	10 593 452	10 925 699
Unrealised loss on revaluation of investment property	606 609	614 015	-	-	606 609	614 015
Interest expense on issued bonds & subordinated liabilities	-	-	776 355	776 355	776 355	776 355
Foreign exchange differences on available for sale, held to maturity, issued debt securities and subordinated liabilities	-	-	(263 576)	(263 576)	(263 576)	(263 576)
Profit on disposal of property and equipment and investment property	(1 809)	(1 809)	-	-	(1 809)	(1 809)
Increase in cash and cash equivalents from operating activities before changes in assets and liabilities	**13 070 906**	**13 220 368**	**512 779**	**512 779**	**13 583 685**	**13 733 147**
Increase in loans	(8 165 206)	(8 273 141)	-	-	(8 165 206)	(8 273 141)
Increase in due from credit institutions	(2 476 945)	(2 476 945)	-	-	(2 476 945)	(2 476 945)
Increase in financial assets held-for-trading	(596 330)	(596 330)	-	-	(596 330)	(596 330)
Increase in financial assets classified as at fair value, as recorded in the statement of profit or loss	(8 073 653)	(8 073 653)	-	-	(8 073 653)	(8 073 653)
Decrease in deferred expenses and accrued income	134 011	130 450	-	-	134 011	130 450
Increase in other assets	(4 599 219)	(4 720 114)	2 504	2 554	(4 596 715)	(4 717 560)
Increase in due to credit institutions	10 372 692	10 372 692	-	-	10 372 692	10 372 692
Decrease in deposits	(243 307 153)	(243 188 376)	-	-	(243 307 153)	(243 188 376)
Decrease in derivative liabilities	(3 056)	(3 056)	-	-	(3 056)	(3 056)
Decrease in accrued expenses, provisions and deferred income	(1 399 481)	(1 398 927)	-	-	(1 399 481)	(1 398 927)
Decrease in other liabilities	(640 052)	(583 934)	-	-	(640 052)	(583 934)
Decrease in cash and cash equivalents resulting from operating activities	**(245 683 486)**	**(245 590 966)**	**515 283**	**515 333**	**(245 168 203)**	**(245 075 633)**
Interest paid on issued bonds & subordinated liabilities	-	-	(210 566)	(210 566)	(210 566)	(210 566)
Corporate income tax paid	2 504	2 554	(2 504)	(2 554)	-	-
Decrease in cash and cash equivalents from operating activities	**(245 680 982)**	**(245 588 412)**	**302 213**	**302 213**	**(245 378 769)**	**(245 286 199)**
Cash flow from investing activities						
Acquisition of property and equipment, intangible assets and investment property	(1 651 316)	(1 620 167)	-	-	(1 651 316)	(1 620 167)
Proceeds from sale of property and equipment and investment property	1 809	1 809	-	-	1 809	1 809
Acquisition of shares in equity accounted investees	-	(125 001)	-	-	-	(125 001)
Proceeds from the sale of stakes in undertakings	-	3 136	-	-	-	3 136
Purchase of available-for-sale instruments	(42 759 945)	(42 759 945)	-	-	(42 759 945)	(42 759 945)
Redemption of available-for-sale instruments	173 829 209	173 829 209	-	-	173 829 209	173 829 209
Purchase of securities held-to-maturity	(7 067 925)	(7 067 925)	-	-	(7 067 925)	(7 067 925)
Increase in cash and cash equivalents as a result of investing activities	**122 351 832**	**122 261 116**	**-**	**-**	**122 351 832**	**122 261 116**
Cash flows from financing activities						
Issuance of shares	2 000 006	2 000 006	-	-	2 000 006	2 000 006
Subordinated liabilities	-	-	1 390 171	1 390 171	1 390 171	1 390 171
Cash paid out to repay subordinated debt	(688 856)	(688 856)	(1 596 641)	(1 596 641)	(2 285 497)	(2 285 497)
Issuance of debt securities	1 898 460	1 898 460	(1 107)	(1 107)	1 897 353	1 897 353
Buyback of debt securities	(8 204 693)	(8 204 693)	(94 636)	(94 636)	(8 299 329)	(8 299 329)
Other cash received/(expended) as a result of financing activities	**(4 995 083)**	**(4 995 083)**	**(302 213)**	**(302 213)**	**(5 297 296)**	**(5 297 296)**
Decrease in cash and cash equivalents	**(128 324 233)**	**(128 322 379)**	**-**	**-**	**(128 324 233)**	**(128 322 379)**
Cash and cash equivalents at the beginning of the period	209 400 273	209 398 419	-	-	209 400 273	209 398 419
Cash and cash equivalents at the end of the period	**81 076 040**	**81 076 040**	**-**	**-**	**81 076 040**	**81 076 040**

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Independent Auditors' Report

To the shareholders of JSC "Baltic International 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 accompanying separate financial statements of JSC "Baltic International Bank" ("the Bank") and consolidated financial statements of the Bank and its subsidiaries (collectively, "the Group") set out on pages 7 to 99 of the accompanying separate and consolidated annual report, which comprise:

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

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

Basis for Opinion

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

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

Material Uncertainty Related to Going Concern

We draw attention to Note 51 of the separate and consolidated financial statements, which describes recent developments in the financial sector of the Republic of Latvia. Following these developments, in March 2018, the government of the Republic of Latvia expressed its intent to strengthen the country's legal and regulatory framework for the sector. As part of the above, among other things, amendments will be introduced to the country's anti-money-laundering/combatting the financing of terrorism (AML/CFT) and financial sector legislation during the first six months of 2018, aimed specifically at introducing a prohibition to conduct business with shell companies, considered to be companies without real substance as measured by certain criteria set out in law.

The potential impact of the above changes on the Bank and the Group is discussed in detail in Note 52 of the separate and consolidated financial statements, which also describes key judgements and assumptions related to future events underlying the management's conclusion on the appropriateness of the application of the going concern basis in the preparation of these separate and consolidated financial statements. Any future regulatory penalties and sanctions, including those in the AML/CFT area, and the changing regulatory and legislative landscape may all have adverse consequences on the Bank's and the Group's operations and profitability, necessitating further adjustments to their business models. In addition, the Bank and the Group are in the process of implementing their new strategy, which contributed to the net losses generated in 2017, and to the resulting erosion of their respective capital positions close to the regulatory minimum requirements. Continued financial support from the shareholders and an ability to implement a viable new strategy are key assumptions that have been made by the management in their judgement about the Bank's and the Group's ability to continue as a going concern.

As also stated in Note 52, these events and conditions, along with other matters as set forth in Note 52, indicate that a material uncertainty exists that may cast significant doubt on the Bank's and the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

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

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

Impairment of loans (consolidated and separate financial statements)	
Key audit matter	*Our response*
The carrying amount of loans in the separate financial statements at 31 December 2017: EUR 62.7 m; impairment loss recognised in 2017: EUR 2.5 m; total impairment loss allowance as at 31 December 2017: EUR 19.9 m. *The carrying amount of loans in the consolidated financial statements as at 31 December 2017: EUR 61.9 m; impairment loss recognised in 2017: EUR 1.8 m; total impairment loss allowance as at 31 December 2017: EUR 18.4 m.* *We refer to the separate and consolidated financial statements: Note 3 (accounting policy), and Notes 13 and 21 (financial disclosures).* The Bank offers a variety of loan products issued to corporate clients and individuals. The Group and the Bank have a highly concentrated loan portfolio, with individually significant exposures constituting a high proportion of the total loan portfolio. As a consequence, the Bank and the Group management focus on individual impairment assessment as in their view that specific assessment covers substantially all of the credit risk associated with their loan portfolios, and as such provides the most appropriate basis for determination of impairment losses. The individual impairment assessment is based on the knowledge of each individual borrower and often on estimation of the fair value of the related collateral (primarily real estate). We identified this area as a significant risk during our audit because recognition and measurement of allowances for loan impairment is associated with significant estimation uncertainty as it requires the Management Board to exercise significant judgment and develop complex and subjective assumptions about both the timing of recognition and the amounts of such impairment.	Our audit procedures in the area included, among others: • testing of controls over the approval, recording and monitoring of loans. • for a sample of loans with higher risk characteristics, such as individually significant exposures to borrower groups, watchlist, restructured or in respect of borrowers in foreign jurisdictions and exposures with repayment delays, critically assessing, by reference to the underlying loan files, and through inquiries of the responsible loan officers, the existence of any impairment triggers; • where impairment triggers had been identified, through inquiries of the responsible loan officers, assessing the forecasts of future cash flows used in the Bank's and the Group's loan impairment calculations, which included evaluating key assumptions applied, such as discount rates, collateral values (assisted by our own valuation specialists), forecasted business performance as well as, where applicable, collateral sales costs and sales periods used in the forecasts; • in addition, for certain loan- or collateral-related legal proceedings in foreign jurisdictions: o inspecting independently obtained external attorney responses regarding the status of those proceedings to assess the completeness of the cases identified and their nature; o performing corroborating inquiries of the Bank's and the Group's external legal advisers and internal legal counsel regarding their assessment of the likelihood of the unfavourable outcome of the proceedings, the scenarios that can reasonably take place and the remaining timeline for the proceedings under those different scenarios; o considering the results of the above procedures, assessing the implications of

	the above facts and circumstances on the projected cash flows and collateral values and evaluating whether those implications were properly incorporated into the Bank's and the Group's projections.

The carrying amount of the Segesta claim rights (consolidated and separate financial statements)	
Key audit matter	***Our response***

The carrying amount of the Segesta claim rights in the separate and consolidated financial statements as at 31 December 2017: EUR 5.4 m;
 	
We refer to the separate and consolidated financial statements: Note 3 (accounting policy) and Note 20 (financial disclosures).
 	
In 2016, the Bank purchased claim rights against a United Kingdom (UK)-based entity, Segesta Limited ("Segesta") from VB Football assets SIA ("VBFA"), a party controlled by the Bank's majority shareholders. The rights were over the amounts due to VBFA under an investment agreement concluded in 2008. At the time of the rights purchase, the performance of the said agreement was the gist of a dispute in a UK court.
 	
During 2017, the claim rights were included in a pool of claims raised by the Bank's majority shareholders and their related parties (together, "the Plaintiffs") against Segesta and its related parties (together, "the Respondents"). In November 2017, the court ordered the Respondents to pay a total of GBP 31.3 million to settle the claims, including the amount claimed by the Bank from Segesta, as assumed in 2016.
 	
Also in November 2017, the Bank and VBFA concluded an agreement based on which the Bank ceded the claim rights to VBFA in return for a consideration of GBP 7.0 million to be made no later than 31 December 2018. After these developments, the asset was recognised under other assets as the previous asset was derecognised due to a substantial change in its terms. Following the receipt of a partial payment from VBFA, reflecting the progress of the foreclosure on the Respondents' assets, the claim rights as at 31 December 2017 were carried at EUR 5.4 million (GBP 4.8 million).
	Our audit procedures in this area included, among others:
	
	• updating our understanding of the Management Board's process of measuring the period-end carrying amount of the Segesta claim rights;
	
	• inspecting relevant court case documentation associated with the Plaintiffs' claim against the Respondents, with particular focus on the terms of the final judgment by the UK court dated November 2017;
	
	• assessing the availability and sufficiency of the sources of funds and assets to be foreclosed to settle the legal claims included in the court judgment. This included, but was not limited to, the following:
	  - inspecting the court documents regarding the Respondents' property assets and chattels to evaluate the potential cash flows that could be received through foreclosure, and
	  - making formal inquiries of the legal advisers employed by the Plaintiffs as to their assessment of the probability of successfully collecting the claim amounts through foreclosure;
	
	• inspecting the terms of the agreement concluded with VBFA and assessing the legal ramifications of the agreement;
	
	• tracing cash inflows to the Bank representing partial settlement of the amounts due under the VBFA agreement to supporting documents, such as international bank payment documents and payment orders;

<table>
<tr><td>The determination of the reporting-date carrying amount of the claim rights is complex and inherently subjective. Among other things, the amount is dependent on the assessment of the ultimate outcome of the foreclosure proceedings in the United Kingdom, which were still ongoing as at the date of this report. In addition, significant judgment is required of the Management Board in assessing the legal and accounting ramifications of the agreement concluded with VBFA, as discussed above. Due to the above factors, we considered this area to be our key audit matter.</td><td>assessing the accuracy and completeness of the disclosures in the separate and consolidated financial statements in respect of the Segesta claim, including those in respect of the uncertainties and sensitivities involved, against the requirements of the relevant financial reporting standards.</td></tr>
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<table>
<tr><th colspan="2">Fair value of investment property (separate and consolidated financial statements)</th></tr>
<tr><th>Key audit matter</th><th>Our response</th></tr>
<tr><td> The carrying amount of investment property in the separate financial statements as at 31 December 2017: EUR 4.7 m; fair value change recognised in 2017: EUR (0.2) m; The carrying amount of investment property in the consolidated financial statements as at 31 December 2017: EUR 7.2 m; fair value change recognised in 2017: EUR (1.6) m; We refer to the separate and consolidated financial statements: Note 3 (accounting policy) and Note 26 (financial disclosures). Investment property is held either to earn rental income or for capital appreciation or for both. The Bank's and the Group's investment property is represented by repossessed real estate, which it measures at its fair value, with all changes therein recorded in profit or loss. The valuation of the Bank's and the Group's investment properties requires the Management Board to apply significant judgement and produce complex estimates, using the input obtained from the external contracted appraisers, particularly in relation to the key assumptions, being those relating to discount rates, cash flow projections and/or comparable market transactions. Due to the above factors, we considered this area to be our key audit matter. </td><td> Our procedures in the area included, among others: updating our understanding of the Bank's and the Group's approach to estimating the fair value of investment property;
assessing the competence, experience and objectivity of the external appraisers engaged by the Bank and the Group to perform valuations of their investment properties;
assisted by our own valuation specialists, challenging the fair value estimates for real estate through inquiries of the Bank's and the Group's repossessed real estate management unit's officers, and also assessing the reasonableness of the key assumptions and inputs in those valuations, such as the discount rates, occupancy rates and property characteristics, by reference to our understanding of the underlying assets and the real estate market, and also assessing the appropriateness of the comparable transactions and comparable properties used in the valuations.
assessing the accuracy and completeness of the Bank's and the Group's disclosures related to the assumptions and significant judgements used to estimate the fair values of investment properties against the requirements of the relevant financial reporting standards.</td></tr>
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Reporting on Other Information

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

- the Bank's and the Group's Management Report, as set out on pages 3 to 6 of the accompanying Annual Report,
- Supervisory Council and Management Board section, as set out on page 7 of the accompanying Annual Report,
- the Statement of Management's Responsibility, as set out on page 8 of the accompanying Annual Report, and
- the Statement of Corporate Governance, as set out in a separate statement prepared by management and available on the Bank's website - www.bib.eu.

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 explicitly stated in the *Other Reporting Responsibilities in Accordance with the Legislation of the Republic of Latvia* section of our report.

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

If, based on the work we have performed and in light of the knowledge and understanding of the Bank, the Group and their environment obtained 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

In addition, pursuant to 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 has been 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 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 Regulation No. 46.

In accordance with the Law on Audit Services of the Republic of Latvia with respect to the Statement of Corporate Governance, our responsibility is to consider whether the Statement of Corporate Governance includes the information required in section 56.[2], third paragraph, clause 1 of the 'Financial Instruments Market Law' of the Republic of Latvia.

In our opinion, the Statement of Corporate Governance includes the information required in section $56.^{2}$, third paragraph, clause 1 of the 'Financial Instruments Market Law' of the Republic of Latvia.

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

Management is responsible for the preparation of the separate and consolidated financial statements that give a true and fair view in accordance with IFRSs as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of the 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.

Auditors' Responsibility for the Audit of the Separate and Consolidated Financial Statements

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

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

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

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

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

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

We were appointed by the annual shareholders' meeting on 31 March 2017 to audit the separate and consolidated financial statements of JSC "Baltic International Bank" for the year ended 31 December 2017. Our total uninterrupted period of engagement is 11 years, covering the years ended 31 December 2007 to 31 December 2017.

KPMG

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

KPMG Baltics SIA
License No 55

Armine Movsisjana
Chairperson of the Board
Riga, Latvia
26 April 2018

Rainers Vilāns
Sworn Auditor
Certificate No 200