BlueOrange

Financial services by Baltikums Bank AS

BALTIKUMS BANK AS

Group Consolidated and Bank Separate Annual Report for the year ended 31 December 2016

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Baltikums Bank AS | Smilšu iela 6, Rīga, LV-1050, Latvija | Registration No. 40003551060 | SWIFT code: CBBRLV22
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Report of Council and Management Board

BALTIKUMS BANK AS ACTIVITIES AND FINANCIAL PERFORMANCE IN 2016

Baltikums Bank AS is a joint–stock company established on 22 June 2001 and entered into the Register of Enterprises of the Republic of Latvia under uniform registration No. 40003551060. The bank's address is Smilšu iela 2016, Rīga, LV–1050, Republic of Latvia. On 8 June 2001, the bank received license No. 06.01.05.002/337 for conducting the activities of a credit institution, and the bank has operated in accordance with the applicable legislation of the Republic of Latvia and the European Union.

2016 was a financially successful year for Baltikums Bank AS. Timely analysis of market developments and the ability to make appropriate adjustments have enabled the bank to maintain its pace of development and introduce new solutions.

According to audited data, income from the bank's core activities during the reporting period increased by 21%, reaching EUR 44.6 million. Equity (including subordinated capital) reached EUR 84 million, which is 8% higher than the year before. The amount of assets held by the bank (including assets under management) constituted EUR 674 million at year–end.

To mitigate potential reputational risks, the bank has methodically reduced the extent of its cooperation with certain categories of its clients. Following a number of strategic decisions that were made in the reporting period, the amount of deposits held with the contracted 16% to EUR 565 million. The bank's plan for 2017 includes a substantial expansion of its client base by attracting new categories and types of lower–risk clients.

The bank's key financial performance indicators have remained high: liquidity at the end of the reporting period stood at 70.03%, with capital adequacy at 21.04%, return on equity (ROE) at 13.7 %, and return on assets (ROA) at 1.1%.

Lending volumes exhibited a substantial increase, with loans granted to clients of the bank for a total of EUR 63.1 million. This represented a year–on–year increase of 56% of total issued loans and granted loan issue obligations, to EUR 170 million.

Almost half of the loans (46%) are invested in the economy of Latvia, contributing valuably to the development of local businesses, and the remaining 54% were allocated to clients' international projects.

During the reporting period, considerable investments were allocated to technological initiatives. The bank developed solutions for using a variety of communications channels and expanded its online banking functionality substantially.

To encourage recognition as an international financial platform, the bank is gradually entering the retail service market. In 2017, the bank will be using a new brand – BlueOrange – for its financial activities. Simplicity, affordability and convenience were the cornerstones of this innovative business model. In–house intellectual resources were put to use developing and implementing effective IT solutions.

The bank's new website www.blueorangebank.com was launched to coincide with the new brand. It provides new ways for clients to interact with the bank remotely, making services more accessible. Thanks to the new mobile Digipass app, clients no longer have to carry a dedicated device with them.

Last year, interest for e–commerce increased considerably. In this area, the bank actively engaged with local business. In cooperation with partners, the bank introduced dedicated service packages. Plans for 2017 include expansion of services to trade and service companies by installing POS terminals and providing digital invoicing capabilities.

These results clearly demonstrate how the bank offers its clients the most useful and efficient solutions. It intends to maintain the pace of technological development to enable clients to conduct business successfully and manage their assets from anywhere in the world.

Report of Council and Management Board

The bank's priorities for 2017 are: automation of business processes and development of technological platforms; implementation of a state of the art full–featured mobile app and web platform for trading – BlueOrangeFX.com; the launch of an API (application programming interface) for the bank's systems that will power its cooperation with high–tech companies; continued investments in consolidating and boosting the bank's growth as a financial institution.

In 2016, 50 new professionals joined the bank's team for a total staff of 320, which is solid evidence of the bank's continued growth and development.

On behalf of the Bank's management,

Aleksandrs Peškovs
Chairman of the Council

Dmitrijs Latiševs
Chairman of the Board

6 March 2017

Council and Board of the Bank

Council as at 31 December 2016

Name, Surname	Position	Date of Appointment
Aleksandrs Peškovs	Chairman of the Council	22 June 2001
Sergejs Peškovs	Member of the Council	22 June 2001
	Deputy Chairman of the Council	25 July 2002
Andrejs Kočetkovs	Member of the Council	22 June 2001

Board as at 31 December 2016

Name, Surname	Position	Date of Appointment
Dmitrijs Latiševs	Member of the Board	1 July 2002
	Deputy Chairman of the Board	25 April 2003
	Chairman of the Board	27 April 2011
Inga Preimane	Member of the Board	11 January 2016
Ēriks Zaics	Member of the Board	11 January 2016

On 11 January 2016, Inga Mukāne was released from her duties of a member of the Board.
On 1 November 2016, Mihails Kuzņecovs was released from his duties of a member of the Board.

On behalf of the Bank's management,

Aleksandrs Peškovs
Chairman of the Council

Dmitrijs Latiševs
Chairman of the Board

6 March 2017

Statement of the Management's Responsibility

The management of Baltikums Bank AS (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 Group consolidated and Bank separate financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union on a going concern basis. Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgments and estimates have been made by the Management in the preparation of the Group consolidated and Bank separate financial statements.

The Group consolidated and Bank separate financial statements on pages 10 to 83 are prepared in accordance with the source documents and present fairly the financial position of the Group as at 31 December 2016 and the consolidated results of its operations and cash flows for the year then ended, as well as the financial position of the Bank as at 31 December 2016 and the results of its operations and cash flows for the year ended 31 December 2016.

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

On behalf of the Bank's management,

Aleksandrs Peškovs
Chairman of the Council

Dmitrijs Latiševs
Chairman of the Board

6 March 2017

Independent Auditors' Report

To the shareholders of Baltikums Bank AS

Our Opinion on the Separate and Consolidated Financial Statements

We have audited the accompanying separate financial statements of Baltikums Bank AS ("the Bank") and accompanying consolidated financial statements of the Bank and its subsidiaries ("the Group") set out on pages 10 to 83 of the accompanying separate and consolidated Annual Report, which comprise:

- the separate and consolidated balance sheet as at 31 December 2016,
- the separate and consolidated income statement for the year then ended,
- the separate and consolidated statement of comprehensive income for the year then ended,
- the separate and consolidated statement of changes in equity for the year then ended,
- the separate and consolidated statement 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 separate and consolidated financial position of the Bank and the Group, respectively, as at 31 December 2016, and of their separate and consolidated financial performance and their separate and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for Opinion

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

We are independent of the Bank and 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.

Reporting on Other Information

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

- the Management Report, as set out on pages 2 to 3 of the accompanying separate and consolidated Annual Report,

- the Statement of Management Responsibility, as set out on page 5 of the accompanying separate and consolidated Annual Report;

Our opinion on the separate and consolidated financial statements does not cover the other information included in separate and consolidated the Annual Report, and we do not express any form of assurance conclusion thereon, except as described in the *Other Reporting Responsibilities in Accordance with the Legislation of the Republic of Latvia* 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, 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, in accordance with the 'Law on Audit Services' of the Republic of Latvia with respect to the Management Report, our responsibility is to consider whether the Management Report is prepared in accordance with the Financial and Capital Market Commission requirements – regulation No. 46 'Regulations on the Preparation of Annual Reports and Annual Consolidated Accounts for Banks, Investment Brokerage Firms and Investment Management Companies'.

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 financial statements; and
- the Management Report has been prepared in accordance with the Financial and Capital Market Commission requirements – regulation No. 46 'Regulations on the Preparation of Annual Reports and Annual Consolidated Accounts for Banks, Investment Brokerage Firms and Investment Management Companies'.

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 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 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 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 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 skepticism 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 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 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 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.

KPMG Baltics SIA
Licence No. 55

Armine Movsisjana

Armine Movsisjana
Chairperson of the Board
Latvian Certified Auditor
Certificate No. 178
Riga, Latvia
6 March 2017

GROUP CONSOLIDATED AND BANK SEPARATE INCOME STATEMENT

	Note	2016		2015	
		Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Interest income		11 103	11 103	9 138	9 137
Interest expenses		(3 159)	(3 159)	(2 457)	(2 457)
Net interest income	6	**7 944**	**7 944**	**6 681**	**6 680**
Fee and commission income		23 282	23 286	18 994	18 997
Fee and commission expense		(7 905)	(7 905)	(4 061)	(4 061)
Net fee and commission income	7	**15 377**	**15 381**	**14 933**	**14 936**
Net profit from trading and revaluation of financial instruments	8	2 542	2 542	755	755
Net foreign exchange income	9	7 381	7 380	7 524	7 525
Share of profit of associates	21	–	–	149	–
Other operating income	10	335	282	1 179	519
Total operating income		**33 579**	**33 529**	**31 221**	**30 415**
Administrative expenses	11	(17 151)	(16 075)	(16 302)	(15 512)
Other operating expenses	12	(1 696)	(2 053)	(1 769)	(2 474)
Net impairment losses	13	(7 983)	(7 727)	(4 050)	(3 956)
Total operating expenses		**(26 830)**	**(25 855)**	**(22 121)**	**(21 942)**
Profit before taxation		**6 749**	**7 674**	**9 100**	**8 473**
Corporate income tax	14	128	137	(1 043)	(1 041)
Net profit for the year		**6 877**	**7 811**	**8 057**	**7 432**
Attributable to:					
Equity holders of the Bank		*6 851*	*7 811*	*8 062*	*7 432*
Non-controlling interest		*26*	–	*(5)*	–

The accompanying notes on pages 17 to 83 form an integral part of these financial statements.

The Council and the Board of the Bank approved the issue of these financial statements as presented from page 10 to 83 on 6 March 2017. The financial statements are signed on behalf of the Council and the Board of the Bank by:

Aleksandrs Peškovs
Chairman of the Council

Dmitrijs Latiševs
Chairman of the Board

6 March 2017

GROUP CONSOLIDATED AND BANK SEPARATE STATEMENT OF OTHER COMPREHENSIVE INCOME

	2016		2015	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Net profit for the year	**6 877**	**7 811**	**8 057**	**7 432**
Other comprehensive income				
Items that are or may be reclassified to profit or loss				
Foreign exchange revaluation reserve	(18)	–	1	–
Revaluation reserve – AFS financial assets	86	86	(80)	(80)
Total other comprehensive income/(loss)	**68**	**86**	**(79)**	**(80)**
Total comprehensive income	**6 945**	**7 897**	**7 978**	**7 352**
Attributable to:				
Equity holders of the Bank	*6 919*	*7 897*	*7 983*	*7 352*
Non controlling interest	*26*	–	*(5)*	–

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Chairman of the Council

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Chairman of the Board

6 March 2017

GROUP CONSOLIDATED AND BANK SEPARATE STATEMENT OF FINANCIAL POSITION

Assets	Note	2016		2015	
		Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Cash and due from the central banks	15	153 865	153 865	146 784	146 784
Loans and receivables from banks	16	181 180	181 141	342 460	342 410
Demand deposits with credit institutions		*118 886*	*118 847*	*165 020*	*164 970*
Term deposits with credit institutions		*57 247*	*57 247*	*163 403*	*163 403*
Loans issued to credit institutions		*5 047*	*5 047*	*14 037*	*14 037*
Financial assets at fair value through profit or loss		3 045	3 045	13 811	13 811
Fixed income securities	17	*2 955*	*2 955*	*13 568*	*13 568*
Derivatives	32	*90*	*90*	*243*	*243*
Financial assets available for sale	18	68 998	68 998	57 443	57 443
Fixed income securities		*68 009*	*68 009*	*56 848*	*56 848*
Non fixed income securities		*989*	*989*	*595*	*595*
Loans and receivables	19	114 920	114 920	75 619	75 619
Held–to–maturity financial assets	20	82 786	82 786	83 861	83 861
Investments in associates	21	827	-	890	–
Investments in subsidiary undertakings	21	-	19 085	–	15 315
Investment property	22	3 684	2 527	3 684	2 527
Property and equipment	23	23 204	4 928	18 088	2 592
Intangible assets	24	1 216	1 214	1 453	884
Prepayments and accrued income		221	221	165	165
Other assets	25	17 956	17 705	10 458	10 284
Income tax receivables		262	262	997	998
Deferred tax assets		795	795	–	–
Total assets		**652 959**	**651 492**	**755 713**	**752 693**

The accompanying notes on pages 17 to 83 form an integral part of these financial statements.

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Aleksandrs Peškovs
Chairman of the Council

Dmitrijs Latiševs
Chairman of the Board

6 March 2017

GROUP CONSOLIDATED AND BANK SEPARATE STATEMENT OF FINANCIAL POSITION

Liabilities and Equity	Note	2016		2015	
		Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Due to credit institutions on demand	26	3 504	3 504	2 725	2 725
Derivatives	32	136	136	60	60
Financial liabilities carried at amortized cost		582 779	585 240	688 028	689 751
Deposits and balances due to financial institutions	27	–	–	*191*	*191*
Deposits	28	*557 730*	*560 191*	*664 895*	*666 618*
Deposits (subordinated)	28	*5 112*	*5 112*	*5 117*	*5 117*
Debt securities (subordinated)	29	*19 937*	*19 937*	*17 825*	*17 825*
Deferred income and accrued expenses		987	987	376	376
Provisions	30	–	–	495	495
Current income tax liabilities		*6*	–	–	–
Other liabilities	31	2 746	2 553	4 423	4 361
Total liabilities		**590 158**	**592 420**	**696 107**	**697 768**
Shareholders' equity					
Share capital	33	39 493	39 493	39 493	39 493
Statutory reserves	33	24	24	24	24
Revaluation reserve – AFS financial assets		20	20	(66)	(66)
Other reserves	21, 33	(2 417)	(2 400)	(2 399)	(2 400)
Retained earnings		21 243	21 935	18 142	17 874
Total equity attributable to equity holders of the Bank		**58 363**	**59 072**	**55 194**	**54 925**
Non controlling interest	21	4 438	–	4 412	–
Total equity and liabilities		**652 959**	**651 492**	**755 713**	**752 693**
Contingent liabilities and commitments	35	55 447	55 459	34 335	34 352

The accompanying notes on pages 17 to 83 form an integral part of these financial statements.

The Council and the Board of the Bank approved the issue of these financial statements as presented from page 10 to 83 on 6 March 2017. The financial statements are signed on behalf of the Council and the Board of the Bank by:

Aleksandrs Peškovs
Chairman of the Council

Dmitrijs Latiševs
Chairman of the Board

6 March 2017

GROUP CONSOLIDATED STATEMENT OF CHANGES IN THE SHAREHOLDERS' EQUITY

	Share capital	Statutory reserves	Revaluation reserve – AFS financial asset	Other reserves	Retained earnings	Total equity attributable to equity holders of the parent	Non controlling interest	Total equity
	EUR`000	EUR`000	EUR`000	EUR'000	EUR`000	EUR`000	EUR`000	EUR`000
Balance as at 31 December 2014	39 493	24	14	(2 400)	14 217	51 348	4 846	56 194
Comprehensive income for the reporting period:								
Revaluation reserve – AFS financial assets	–	–	(80)	–	–	**(80)**	–	**(80)**
Foreign exchange revaluation reserve	–	–	–	1	–	**1**	–	**1**
Net profit/ (loss) for the reporting period	–	–	–	–	8 062	**8 062**	(5)	**8 057**
Total comprehensive income for the reporting period	–	–	**(80)**	**1**	**8 062**	**7 983**	**(5)**	**7 978**
Adjustment of profit/(loss) of previous years	–	–	–	–	(137)	**(137)**	–	**(137)**
Transactions with shareholders recorded directly in equity:								
Reduction of share capital of a subsidiary	–	–	–	–	–	**–**	(429)	**(429)**
Dividends paid	–	–	–	–	(4 000)	**(4 000)**	–	**(4 000)**
Balance as at 31 December 2015	39 493	24	(66)	(2 399)	18 142	55 194	4 412	59 606
Comprehensive income for the reporting period:								
Revaluation reserve – AFS financial assets	–	–	86	–	–	**86**	–	**86**
Foreign exchange revaluation reserve	–	–	–	(18)	–	**(18)**	–	**(18)**
Net profit for the reporting period	–	–	–	–	6 851	**6 851**	26	**6 877**
Total comprehensive income for the reporting period	–	–	**86**	**(18)**	**6 851**	**6 919**	**26**	**6 945**
Transactions with shareholders recorded directly in equity:								
Dividends paid	–	–	–	–	(3 750)	**(3 750)**	–	**(3 750)**
Balance as at 31 December 2016	39 493	24	20	(2 417)	21 243	58 363	4 438	62 801

The accompanying notes on pages 17 to 83 form an integral part of these financial statements.

The Council and the Board of the Bank approved the issue of these financial statements as presented from page 10 to 83 on 6 March 2017. The financial statements are signed on behalf of the Council and the Board of the Bank by:

Aleksandrs Peškovs
Chairman of the Council

Dmitrijs Latiševs
Chairman of the Board

6 March 2017

BANK SEPARATE STATEMENT OF CHANGES IN THE SHAREHOLDERS' EQUITY

	Share capital	Statutory reserves	Other reserves	Revaluation reserve – AFS financial assets	Retained earnings	Total capital and reserves
	EUR`000	EUR`000	EUR`000	EUR'000	EUR`000	EUR`000
Balance as at 31 December 2014	39 493	24	(2 400)	14	14 488	51 619
Comprehensive income for the reporting period:						
Revaluation reserve – AFS financial assets	–	–	–	(80)	–	**(80)**
Net profit for the reporting period	–	–	–	–	7 432	**7 432**
Total comprehensive income for the reporting period	**–**	**–**	**–**	**(80)**	**7 432**	**7 352**
Adjustment of profit/(loss) of previous years	–	–	–	–	(46)	(46)
Transactions with shareholders recorded directly in equity:						
Dividends paid	–	–	–	–	(4 000)	**(4 000)**
Balance as at 31 December 2015	39 493	24	(2 400)	(66)	17 874	54 925
Comprehensive income for the reporting period:						
Revaluation reserve – AFS financial assets	–	–	–	86	–	**86**
Net profit for the reporting period	–	–	–	–	7 811	**7 811**
Total comprehensive income for the reporting period	–	–	–	**86**	**7 811**	**7 897**
Transactions with shareholders recorded directly in equity:						
Dividends paid	–	–	–	–	(3 750)	**(3 750)**
Balance as at 31 December 2016	39 493	24	(2 400)	20	21 935	59 072

The accompanying notes on pages 17 to 83 form an integral part of these financial statements.

The Council and the Board of the Bank approved the issue of these financial statements as presented from page 10 to 83 on 6 March 2017. The financial statements are signed on behalf of the Council and the Board of the Bank by:

Aleksandrs Peškovs
Chairman of the Council

Dmitrijs Latiševs
Chairman of the Board

6 March 2017

GROUP CONSOLIDATED AND BANK SEPARATE STATEMENT OF CASH FLOWS

	Note	2016		2015	
		Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Cash flow from operating activities					
Profit before taxation		6 749	7 674	9 100	8 473
Adjustment of profit of previous years		-	-	(137)	(46)
Depreciation of intangible assets, property and equipment and investment property		480	327	374	221
Impairment of financial assets		7 983	7 727	4 050	3 956
Revaluation of investment property		-	-	2 253	1 674
Other changes in assets		68	86	(129)	(80)
(Gain)/loss from disposal of subsidiaries and investment property		-	-	(97)	(36)
Increase in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations		**15 280**	**15 814**	**15 414**	**14 162**
(Increase)/decrease in loans and receivables		(44 314)	(44 314)	(13 453)	(13 430)
(Increase)/decrease in term deposits with banks		5 158	5 158	20 322	20 322
(Increase)/decrease in available–for–sale financial assets		(11 555)	(11 555)	(56 295)	(56 824)
Increase in financial assets at fair value through profit or loss		10 766	10 766	40 392	40 392
(Increase)/decrease in held–to–maturity financial assets		1 241	1 241	(51 861)	(51 861)
(Increase)/decrease in prepayments and accrued income		(56)	(56)	(4)	(4)
Increase /(decrease) in other assets		(9 950)	(9 870)	(3 715)	(4 847)
Increase/(decrease) in customer deposits		(107 170)	(106 432)	114 841	115 929
Increase/(decrease) in held–for–trading financial liabilities		76	76	(531)	(531)
Increase/(decrease) in other liabilities and current tax liabilities		(1 122)	(1 250)	5 078	5 061
Increase/(decrease) in deferred income and accrued expenses		611	611	34	34
Net cash from/(used in) operating activities before tax		**(141 035)**	**(139 811)**	**70 222**	**68 403**
Corporate income tax paid		(916)	(916)	(2 164)	(2 164)
Net cash from/(used in) operating activities		**(141 951)**	**(140 727)**	**68 058**	**66 239**
Cash flow from investing activities					
Purchase of fixed and intangible assets		(6 040)	(2 993)	(2 843)	(2 029)
Disposal of property and equipment		-	-	172	131
Acquisition of subsidiaries, net of cash acquired		-	(4 260)	(1 041)	–
Sales of associated companies and subsidiaries		-	-	1 578	1 578
Net cash from/(used in) investing activities		**(6 040)**	**(7 253)**	**(2 134)**	**(320)**
Cash flows from financing activities					
Bonds issued		2 112	2 112	8 541	8 541
Dividends paid		(3 750)	(3 750)	(4 000)	(4 000)
Net cash received from financing activities		**(1 638)**	**(1 638)**	**4 541**	**4 541**
Net changes in cash and cash equivalents		**(149 629)**	**(149 618)**	**70 465**	**70 460**
Cash and cash equivalents at the beginning of reporting year		**481 170**	**481 120**	**410 705**	**410 660**
Cash and cash equivalents at the end of the reporting year	**34**	**331 541**	**331 502**	**481 170**	**481 120**

The accompanying notes on pages 17 to 83 form an integral part of these financial statements.

The Council and the Board of the Bank approved the issue of these financial statements as presented from page 10 to 83 on 6 March 2017. The financial statements are signed on behalf of the Council and the Board of the Bank by:

Aleksandrs Peškovs
Chairman of the Council

Dmitrijs Latiševs
Chairman of the Board

6 March 2017

1. GENERAL INFORMATION

Baltikums Bank AS ("the Bank") is a Joint Stock Company registered with the Enterprise Register of Latvia on 22 June 2001. The address of the Bank is Smilšu iela 6, Rīga, LV 1050, Latvia. The Bank holds a banking license issued in Latvia and it acts in accordance with the legislation of the Republic of Latvia and the European Union. The primary lines of business for the Bank are servicing corporate customers and high net worth individuals, and managing investments and finances.

The sole shareholder of the Bank is Joint Stock Company BBG that holds 100% voting shares of the Bank. JSC BBG is a financial management company registered in Latvia and owned by four Latvian companies and two private individuals. The consolidated financial statements of the parent company AS BBG can be obtained from the Enterprise Register of Latvia.

The Bank has a number of subsidiaries in Latvia, special purpose entities in foreign countries and investments in associated companies. The above entities form the Group which comprises the following:

Name of the company	Country of incorporation, address	Line of business	Holding 31.12.2016 %	Holding 31.12.2015 %
SIA Baltikums International	M. Pils iela 13, Riga, Latvia,	Financial services	100	100
SIA CityCap Service	Kr. Valdemara iela 149, Riga, Latvia	Real estate development	100	100
SIA Zapdvina Development	Kr. Valdemara iela 149, Riga, Latvia	Real estate development	100	100
Kamaly Development EOOD	Etiera k–s ½B – 18, Sveti Vlas, Burgas obl., Nesebier 8256, Bulgary	Real estate development	100	100
UAB Kamaly Development	Klaipedos m. sav. Klaipedos m., Karklu g. 12, Lithuania	Management of collaterals overtaken by the bank	100	100
SIA Pils Pakalpojumi	Smilšu iela, Riga, Latvia	Real estate development	61	61
Foxtran Management Ltd	Suite 102, Blake Building, Corner Eyre & Huston Str., Beliza	Management of collaterals overtaken by the bank	100	100
Enarlia International Inc	Suite 102, Blake Building, Corner Eyre & Huston Str., Beliza	Management of collaterals overtaken by the bank	100	100
SIA Jēkaba 2	Jēkaba iela, Riga, Latvia	Real estate development	100	100
Baltikums E–Centre Limited	55 Park Lane – Suite 14, London W1 1NR, UK	Advisory services	100	100
Baltikums E–Centre Limited	Suite 2405, Progress commer. buld.9 irving str., Causeway Bay, Hong Kong	Advisory services	100	100

Investments in associated companies (the Bank and the Group):

Company	Country of incorporation, address	Line of business	Holding (%) 31.12.2016	Holding (%) 31.12.2015
AS Termo biznesa Centrs	Kr. Valdemāra iela 149, Riga, Latvia	Real estate development	26.15	26.15

2. BASIS OF PREPARATION

(1) Statement of Compliance

The financial statements of the Bank and the Group ("financial statements") have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, and regulations of the Financial and Capital Market Commission of the Republic of Latvia ('FCMC') in force as at 31 December 2016.

The Group consolidated and Bank separate financial statements were authorized for issue by the Board on 6 March 2017. Shareholders have the power to reject the financial statements prepared and issued by management and the right to request that new financial statements be issued.

(2) Functional and presentation currency

These consolidated and separate financial statements are presented in thousands of euros ('000 EUR), unless stated otherwise. Subsidiaries of the Group and the Bank operate in the functional currency of euro.

(3) Basis of measurement

The Group's consolidated financial statements and the Bank's separate financial statements are prepared on the historical cost basis except for the following:

- financial instruments at fair value through profit or loss are stated at fair value;
- available-for-sale assets are stated at fair value;
- repossessed collateral is valued at lower of cost and net realizable value.

3. SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been applied in the preparation of these Group Consolidated and Bank Separate Financial Statements. The accounting principles have been consistently applied except for the changes in accounting policies described in Note 3.22(a).

(1) Basis for consolidation

(i) 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 its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Investments in subsidiaries are carried in the Bank's separate financial statements at cost less impairment, if any.

(ii) Non controlling interest (NCI)

Non-controlling interest is measured as a proportion of fair value of net assets of the acquired subsidiary at the acquisition date. Changes in the Group's interest in a subsidiary other than resulting in the loss of control are recognised through equity (transactions with shareholders).

(iii) Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured by the Group at fair value when control is lost.

(iv) Special purpose entities

The Group has established a number of special purpose entities (SPE's) for trading and investment purposes. The SPE's are established under terms that impose strict limits on the decision–making powers of the SPE's management over the operations of the SPE. SPE's are consolidated by the Group because the Group owns 100% capital and has control over these SPE.

(v) Fund management

The Group manages and administers assets held in unit trusts and other investment entities on behalf of investors. The financial statements of these entities are not included in the Group consolidated financial statements except when the Group controls the trust or investment entity.

(vi) Acquisition of entities under common control

Acquisitions of controlling interests in entities that were under the control of the same controlling shareholder as the Group are accounted for on the date the common control was established. The acquired assets and liabilities are recognised at their carrying amount as recognised in the individual financial statements of the acquiree at the acquisition date. Any net transaction result is included as a separate reserve under equity.

(vii) Interest in equity-accounted investees

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

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.

Investments in associates and joint controlled entities are accounted for in the Group consolidated financial statements using the equity method. They are initially recognised at cost, including transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI in equity-accounted investees, until the date on which significant influence or joint control ceases.

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

(viii) 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 equity–accounted investees are eliminated to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(ix) Common Group accounting policy

In the preparation of the consolidated financial statements, the financial statements of those Group entities that use different accounting policies are adjusted to conform with the Group's accounting policy.

(2) Goodwill

Goodwill represents the excess of the cost of a business combination over the Bank's interest in the fair value of the net identifiable assets and contingent liabilities of the acquired subsidiary at the acquisition date. Goodwill on acquisitions of business combinations is included in intangible assets.

Goodwill is allocated to cash–generating units and is stated at cost less impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. Gains and losses on the disposal of an entity are determined after including the carrying amount of goodwill relating to the entity sold.

Negative goodwill arising on an acquisition is recognized immediately in the income statement.

(3) Foreign currency

Transactions in foreign currencies are translated into the respective functional currencies of Group companies at the exchange rate at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized 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 fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in the income statement except for the differences arising on the retranslation of available–for–sale equity instruments or a financial liability designated as the hedging instrument in a hedge of the net investment in a foreign operation or in a qualifying cash flow hedge, which are recognized in other comprehensive income.

The exchange rates for the most significant currencies as set by the European Central Bank at reporting date are as follows:

	31 December 2016	31 December 2015
USD	1.0541	1.0887

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into EUR at exchange rates set by the European Central Bank at the reporting date. The income and expenses of foreign operations are translated into the functional currency at the exchange rates of transaction dates.

Foreign currency differences are recognized in other comprehensive income and accumulated in the translation reserve, except to the extent that the translation difference is allocated to non–controlling interest.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in other comprehensive income and accumulated in the translation reserve.

(4) Financial instruments

a) Classification

Financial instruments are classified into the following categories:

Financial instruments at fair value through profit or loss are held–for–trading financial instruments and financial assets and liabilities that the Group and the Bank initially defines as assets and liabilities designated at fair value through profit or loss.

A financial instrument is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short–term profit–taking.

Derivatives are also categorized as held for trading unless they are designated as a hedging instrument for hedge accounting purposes.

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, and which are not designated at fair value through profit or loss, available for sale, or loans and receivables. Held–to–maturity financial instruments include certain debt securities.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than (a) those that the Group or the Bank intends to sell immediately or in the short-term, (b) those that the Group or 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. Loans and receivables include amounts due from credit institutions on term, loans and receivables from customers and other financial assets which comply with these classification criteria. Loans and receivables are accounted for at amortized cost using the effective interest method. Certain expenses, such as legal fees or sales commissions for employees acting as agents or other expenses that are incurred in securing a loan are treated as part of the cost of the transaction.

Available-for-sale financial assets are financial assets classified at inception as available for sale or assets other than classified as financial assets at fair value through profit and loss or held to maturity or loans and receivables. Available-for-sale instruments include short term investments and certain debt and equity securities. Generally, this category is assigned by the Bank and the Group to financial assets that are held for an indeterminate period of time and may be sold based on liquidity or interest rate needs, or as a result of changes in exchange rates and share prices.

Financial liabilities carried at amortised cost represent financial liabilities of the Group and the Bank other than financial instruments designated at fair value through profit or loss. This category includes due to credit institutions on term, customer deposits, issued bonds and other financial liabilities.

Financial liabilities carried at amortized cost are initially measured at fair value less directly attributable transaction costs and are subsequently remeasured to amortized cost using the effective interest rate.

Subordinated deposits have a fixed term of at least five years from the date of placement and they are repayable before maturity only in the event of termination of the Bank's operations or the Bank's bankruptcy and such deposits rank before shareholders' claims. Subordinated debts are repayable before maturity only in the event of termination of the Bank's operations, or the Bank's bankruptcy.

b) Recognition

The Group and the Bank initially recognizes loans and advances, deposits, debt securities issued and subordinated liabilities on the date at which they are originated. Regular way purchases and sales of financial assets are recognized on the settlement date at which the Group commits to purchase or sell the asset. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognized on the trade date at which the Group and the Bank becomes a party to the contractual provisions of the instrument.

c) Amortized cost measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method, minus any reduction for impairment.

The effective interest rate is a method of calculating the amortized cost of a financial asset or liability, which is based on the recognition of interest income and expenses over a specific 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. When calculating the effective interest rate, the management estimates cash flows considering all contractual terms of the financial instrument but does not consider future losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

d) Measurement

A financial asset or financial liability is initially measured at fair value plus (for a financial asset or liability other than measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition of the financial asset or liability, in the case of a financial asset or liability other than measured at fair value through profit or loss.

Subsequent to initial recognition, all financial assets and liabilities measured at fair value through profit or loss and all available for sale financial assets are measured at fair value except those available for sale instruments which have no quoted market price in an active market or for which no reliable fair value measurement is possible. Such instruments are carried at cost less transaction costs and impairment.

All financial liabilities other than those measured at fair value through profit or loss, loans and receivables and held to maturity assets are measured at amortized cost using the effective interest rate method. All such instruments are subject to revaluation when impaired.

Profit or loss arising from changes in the fair value of financial instruments measured at fair value through profit or loss are recognized in the income statement. Profit or loss arising from changes in the fair value of available-for-sale financial instruments is recognized in equity through other comprehensive income (except for impairment losses and foreign exchange gains and losses on monetary assets) until the asset is derecognized, at which time the cumulative gain or loss previously recognized in equity is recognized in profit or loss. Interest on an available-for-sale financial asset is recognized in the income statement using the effective interest rate method.

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

e) Derecognition

A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire or when the Group and the Bank transfer substantially all of the risks and rewards of ownership of the financial asset. Any interest in transferred financial assets that is created or retained by the Group and the Bank is recognized as a separate asset or liability.

The Group and the Bank derecognize a financial liability when its contractual obligations are discharged or cancelled or expire.

f) Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Group and the Bank have a legal right to set off the amounts and intend either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the trading activity.

(5) Identification and measurement of impairment of financial assets

At each reporting date the Group and the Bank assesses whether there is objective evidence that the financial assets other than 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 impairment event has an impact on the future cash flows of the asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group and the Bank on terms that the Group and the 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.

The Group and Bank consider evidence of impairment for loans and advances and held-to-maturity investment securities at specific asset level. All loans and receivables from customers and held-to-maturity 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 are stated at the amount of the principal outstanding, less any impairment allowances. Impairment losses and recoveries are recognized monthly based on regular loan reviews. Allowances during the period are recognized in the income statement.

Impairment losses on assets carried at amortized 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 recognized in the income statement and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognized 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 the income statement.

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

If, in a subsequent period, the fair value of an impaired available for sale bond increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in income statement, the impairment loss is reversed, with the amount of the reversal recognised in income statement. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is not reversed through the income statement and is recognized directly in other comprehensive income.

(6) Fair value measurement

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 and the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

The Group and the Bank have 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 CFO.

Specific controls include:

- Verification of observable pricing;
- Re-performance of model valuations;
- A review and approval process for new models against observed market transactions;
- Analysis and investigation of significant daily valuation movements;
- Review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments compared to previous month.

The methods described below have been used for the determination of fair values.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions with the same instrument or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognized in the profit and loss statement depending on the individual facts and circumstances of the transaction but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

When available, the Group and Bank measure the fair value of an instrument using quoted prices 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.

If a market for a financial instrument is not active, the Group and the Bank determine fair value using a valuation technique. Valuation techniques include recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group and the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments.

Where third–party information, such as broker quotes or pricing services, are used to measure fair value, the Group and the Bank assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS. This includes:

- Verifying that equity broker or pricing service is approved by the Group and Bank for use in pricing the relevant type of financial instrument;
- Understanding how the fair value has been arrived at and the extent to which it represents actual market transactions;
- When prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement.

Fair value is classified into various levels of the fair value hierarchy, based on data used in the measurement methods:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

The Group and the Bank recognize transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. The Group and the Bank recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred. For further analysis of the basis for fair value refer to Note 45.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Group and the Bank has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a quoted bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the provisions of the instrument. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Group and the Bank believes a third-party market participant would take them into account in pricing a transaction.

Due from other 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

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 non-fixed income securities

The fair value of shares and other non-fixed income securities is determined by reference to their quoted bid price at the reporting date, if available. For a number of non-listed shares where disposal was limited, it was assumed that it was not possible to make a reliable estimate of fair value.

The fair value of S.W.I.F.T shares was determined based on the "transfer amount", approved for the respective year by the shareholders' meeting, representing the price for new share allocation and the participants' quit price.

Derivatives

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 euro, applying the exchange rate published by the European Central Bank. EURIBOR and LIBOR interest rates are used for discounting purposes.

Liabilities to other credit institutions and customers

The estimated fair value of deposits with no stated maturity, which includes non–interest–bearing deposits, is the amount repayable on demand, as they are largely due 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 an active market is based on discounted cash flows using interest rates for new deposits with similar remaining maturities.

(7) Derivatives

Derivatives include foreign currency swaps and forwards. As at 31 December 2016 and 2015 all derivatives of the Group and the Bank were classified as financial instruments held for trading.

Derivatives are initially recognized 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 income statement.

Although the Group and the Bank trades in derivative instruments for risk hedging purposes, the Group and the Bank does not apply hedge accounting.

(8) Repo transactions

Repo transactions are recognized as financing transactions. When the Bank or the Group is the seller of securities, securities continue to be recognized on the statement of financial position. Proceeds from the sale are recognized as a liability to the purchaser of the securities. When the Bank or the Group is the purchaser of securities, the purchased securities are not recognized in the statement of financial position. The amount paid for securities is recognized as a loan provided to the seller. The Group is involved in two types of such transactions – classic repo and buy/sellback transactions. The result of repo and buy/sellback transactions is recognized in the income statement on an accrual basis as interest income or expense.
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.

(9) 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 production or supply of goods or services or for administrative purposes.
If the use of the property has been changed, investment properties are reclassified to property and equipment.
Investment property is initially measured at cost. Subsequently investment property is carried at its cost less any accumulated depreciation and any accumulated impairment losses. The useful life of investment property has been estimated at 20 years with the annual depreciation rate of 5%.

(10) Repossessed assets

As part of the normal course of business the Group and the Bank occasionally take title to property and other assets that originally were pledged as security for a loan. When the Group and Bank acquires (i.e. gains a full title to) an asset in this way, the asset's classification follows the nature of its intended use by the Group and Bank.
Repossessed property is valued at lower of cost and net realizable value.

(11) Property and equipment

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.
Current repair and maintenance costs are charged to the income statement as incurred. Capital repairs of property and equipment are added to property and equipment at cost, and its useful life is extended. Upon increasing the carrying amount of an item of property and equipment by expenses incurred to replace a material component, the replaced component is derecognised according to the derecognition requirements.

Items of property and equipment are derecognised when disposed or when no economic benefits are expected from the use or disposal of these items in the future. Gains or losses from derecognition of items of property and equipment are determined as the difference between the proceeds from disposal and the net carrying amount of the asset at the date of disposal, and are recognised in the income statement.
Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the individual assets. Depreciation is calculated from the date acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.
Depreciation methods, useful lives and residual amounts are reviewed at each reporting date.

Land and buildings

The cost of land and buildings disclosed in the financial statements is their assumed fair value measured at the date of acquisition. Subsequent measurement is carried out on a cost basis similar to other items of property and equipment. Land is not depreciated.

Corporate assets

Corporate assets include group of assets such as the building of a headquarters of the Group and the Bank. Corporate assets are stated at cost less accumulated depreciation and impairment losses. Depreciation is calculated assuming the useful life of the building is 20 years and the annual depreciation rate is 5%.

Construction in progress and capital repairs of real estate properties

Construction in progress and capital repairs of real estate properties include costs directly attributable to construction in progress, including a corresponding proportion of direct overheads incurred during the establishment of the item of property and equipment. Depreciation of such assets is calculated from the date when the assets are put into operation.
For real estate properties that are in use at the acquisition date, depreciation is not discontinued after reconstruction begins. Depreciation is calculated assuming the useful life of the building is 20 years and the annual depreciation rate is 5%.

Leasehold improvements

Depreciation of leasehold improvements is calculated over the remaining period of lease. Depreciation is calculated from the date when leasehold improvements are completed and ready for use.

Useful lives of other property and equipment

The estimated useful lives are as follows:

Furniture and equipment	20%
Computers	25%
Other	20%

(12) Intangible assets

Intangible assets, except goodwill, are identifiable non–monetary assets without physical substance (licenses, software that is separately identifiable from electronic devices and others) held for rendering of services or other purposes if it is expected that an economic benefit attributable to these assets will flow to the Group and the Bank.
Intangible assets are recorded at cost less accumulated amortization and amortized to the profit or loss in equal amounts over the useful life of the intangible asset. The annual amortization rate for software is 20%.
The Group's and the Bank's policy on goodwill is described in Note 3.2.

(13) Recognition of income and expenses

All significant categories of income and expenses, including interest income and expenses, are recognized on an accrual basis.

Interest income and expenses are recognized in the income statement based on the effective interest rate of the asset/liability. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group and Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.
Interest income and expenses include discount or premium amortization or other difference between the carrying amount of an interest bearing instrument and its value on the maturity date calculated based on the effective interest rate method.
Fees and commissions (excluding commissions for long–term loans issued) are accounted for when collected or incurred. Income and expenses that refer to the reporting period are reflected in the income statement regardless of the date of receipt or payment. Loan origination fees together with the related direct costs, are deferred and amortised to interest income over the estimated life of the financial instrument using the effective interest rate method.
Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realized and unrealized fair value changes, interest, dividends and foreign exchange differences.

(14) Credit liabilities

In the normal course of business, the Group and the Bank enter 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 Group and 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 or loan agreement.
A financial guarantee liability is recognized initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognized less cumulative amortization or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognized when losses are considered probable and can be measured reliably. Financial guarantee liabilities and provisions for other credit related commitments are included within other liabilities.

(15) Taxes

Income tax expense comprises current and tax deferred tax. Income tax expense is recognized in the income statement except to the extent that it relates to the items recognized in other comprehensive income or directly in equity.
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.
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 recognized 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 tax profit, 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 recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. 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.

(16) Dividends

The Group and Bank receive dividends from the equity instruments that are recorded to income when the right to receive payment is established. Proposed dividends are recognized in the financial statements only when approved by the shareholders.

(17) Cash and cash equivalents

Cash and cash equivalents are cash on hand and amounts due from the Bank of Latvia and other credit institutions with initial maturities of up to 3 months, except liabilities towards the Bank of Latvia and other credit institutions with initial maturities of up to 3 months.

(18) Leases

Operating lease (the Group and the Bank as lessee)
Payments made under operating leases are recognized in the profit and loss on a straight–line basis over the term of the lease..

Operating lease (the Group as lessor)

An operating lease is a lease other than a finance lease. Assets leased out under an operating lease, are presented within property and equipment in the statement of financial position, less accumulated depreciation. They are depreciated over their expected useful lives on a basis consistent with similar owned Property and equipment. Income is recognised on a straight–line basis over each lease term.

(19) Provisions

Provisions are recognized in the statement of financial position when the Group and the Bank have a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.
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.

(20) Short–term employee benefits

Short term employee benefits, including salaries and social security contributions, bonuses and vacation benefits are included in net operating expenses on an accrual basis. The Group and the Bank pay fixed security contributions to the State Social Fund on behalf of its employees during the employment period in accordance with local legal requirements and the Group and the Bank will have no obligations to pay further contributions relating to retired employees.

(21) Assets under management

Assets managed by the Bank and the Group on behalf of customers are not treated as assets of the Bank and the Group. The Group and the Bank assume no risk in relation to these assets.

(22) New standards and interpretations

(a) Changes in accounting policies

Except for the changes below, the Group and the Bank have consistently applied the accounting policies set out in Note 3 to all periods presented in these consolidated financial statements.
The Group and the Bank have adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2016.
The following guidance with effective date of 1 January 2016 did not have any impact on these consolidated financial statements:

- IFRS 11: Accounting for Acquisitions of Interests in Joint Operations
- IAS 1 – Presentation of Financial Statements
- IAS 16 – Property, Plant and Equipment and IAS 38 – Intangible Assets
- IAS 16 – Property, Plant and Equipment and IAS 41 – Agriculture
- IAS 19 – Defined Benefit Plans: Employee Contributions
- IAS 27 – Separate Financial Statements
- Annual Improvements to IFRSs

(b) 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 2016, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group and the Bank are set out below. The Group and the Bank do not plan to adopt these standards early.

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

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 Financial Instruments.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Group and the Bank currently plan to apply IFRS 9 initially on 1 January 2018.

The actual impact of adopting IFRS 9 on the Group's consolidated financial statements and Bank's separate financial statements in 2018 is not known and cannot be reliably estimated because it will be dependent on the financial instruments that the Group and the Bank hold and economic conditions at that time as well as accounting elections and judgements that it will make in the future. The new standard will require the Group and the Bank to revise its accounting processes and internal controls related to reporting financial instruments and these changes are not yet complete.

IFRS 9 implementation strategy

The Group's and the Bank's IFRS 9 implementation process is governed by a Banking Operations Accounting, Control and Reporting department . Financial Risk Management and Analysis department is responsible for development of the impairment models.

Classification and measurement

From classification and measurement perspective, the new standard will require 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, except for the treatment of gains or losses arising from the Group and Bank's own credit risk relating to liabilities designated as FVPL. Such movements will be presented in OCI with no subsequent reclassification to the income statements, unless an accounting mismatch in profit or loss would arise.

Having completed its initial assessment, the Bank has concluded that:

- The majority of loans and advance to bank, 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.
- Financial assets and liabilities held for trading and financial assets and liabilities designated at FVPL are expected to continue to be measured at FVPL.
- 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.
- Debt securities classified as held to maturity are expected to continue to be measured at amortised cost.

Impairment of financial assets

IFRS 9 will also fundamentally change the loan loss impairment methodology. The standard will replace IAS 39's incurred loss approach with a forward–looking expected credit loss (ECL) approach. The Bank will be required to record and allowance for expected loss for all loans and other debt financial assets not held at FVPL, together with 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.

To calculate ECL, the Bank will estimate the risk of a default occurring on the financial instrument during its expected life. ECLs are estimated based on the present value of all cash shortfalls over the remaining expected of the financial asset, i.e. the difference between: the contractual cash flows that due to the Bank under the contract, and the cash flows that the Bank expects to receive, discounted at the effective interest rate of the loan.

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 and allowance based on twelve months expected credit losses. Under IAS 39 the Bank has been recording an allowance for Incurred But Not Identified (IBNI) impairment losses. The change is expected to increase the impairment allowance compared to the current IBNI 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 .

  The bank intends to assess the increase in credit risk by comparing it at initial recognition of the possibility of default over the course of the entire life of the loan, to the risk of default at the end of each reporting period. Further, a significant increase in credit risk is assumed to have taken place if the borrower falls more than 30 days past due in making its contractual payments, if the Bank expects to grant the borrower forbearance, or the facility is placed on the Bank's watch list.

  If a transition to Stage 2 was initially caused by factors other than increased likelihood of default, a loan may only return to Stage 1 after a two–year probationary period.
- **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.

  If, as a result of the Bank's refusal to adopt measures regarding the borrower, a loan is written off, the new loan will be classified as impaired.

  The Bank intends to transition loans from Stage 3 if they no longer match impairment criteria at the end of a two-year probationary period.

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.

When estimating lifetime ECLs for undrawn loan commitments, the Bank will:

- Estimate the expected portion of the loan commitment that will be drawn down over the expected life of the loan commitment, and
- Calculate the present value of cash shortfalls between the contractual cash flows that are due to the Bank and the cash flows that the Bank expects to receive (for that expected portion of the loan drawn down).

For financial guarantee contracts, the Bank will estimate the lifetime ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that is incurs less any amounts that the guarantor expect to receive from the holder, the debtor or any other party.

For revolving facilities such as credit cards and overdrafts, the Bank measures ECLs by determining the period over which it expects to be exposed to credit risk, taking into account the credit risk management actions that it expects to take once the credit risk has increase and that serve to mitigate losses.

Forward-looking information

The Bank will incorporate the forward–looking information in the assessment of significant increase in credit risk and the measurement of ECLs.
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.

Limitation of estimation techniques

The models applied by the Bank may not always capture all characteristics of the market at a point in time as they cannot be recalibrated at the same pace as changes in market conditions. Interim adjustments are expected to be needed until the base models are updated. Although the Bank will use data that is as current as possible, models used to calculate ECLs will be based on data that is one month in arrears and adjustments will be made for significant event occurring prior to the reporting date. The governance over such adjustments is still in development.

Capital management

The Bank is in the process of evaluating how the new ECL model will impact the Bank's ongoing regulatory capital structure and further details will be provided once the assessment is complete. Based on the analysis to date, the bank anticipates a negative effect on its regulatory capital . The magnitude of the effect will depend, amongst other things, on whether the capital rules will be amended to reflect IFRS 9 or to include transition provision for the effect of IFRS 9.

Transition

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

- 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.

Timeline for implementing IFRS 9

The Group and the Bank expect that it will be in a position to provide quantitative information on the impact of the transition to IFRS 9 on its financial position and performance in its 2017 interim financial statements. This will include the impact on its CET1 and key regulatory ratios.

The quantitative information is expected to be based on the portfolios and information as at 31 March 2017. Business, portfolios and economic conditions will continue to evolve and therefore such quantitative information compiled ahead of the transition date will not be an estimate of the future transition impact but rather an indicative application of the ECL methodology to portfolios existing at 31 March 2017 and forecasts at that date.

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

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

IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

The Group and the Bank has completed an initial review of the potential impact of the adoption of IFRS 15 on its consolidated and separate financial statements. 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) on provision of the following services:

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

The initial review indicates that IFRS 15 will not have a material impact on the timing of recognition or measurement of fees and commission income. The Group and the Bank are currently performing a detailed impact assessment and expects to disclose additional information in its 2017 financial statements.

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

IFRS 16 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 straightline 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. 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.

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 expect to disclose its transition approach and quantitative information before adoption.

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

The amendments clarify share–based payment accounting on the following areas:

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

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

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

The Amendments clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that:

- a full gain or loss is recognised when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets which constitute a business (whether it is housed in a subsidiary or not), while a partial gain or loss is recognised when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

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

(vi) Amendments to IAS 7 (Effective for annual periods beginning on or after 1 January 2017, to be applied prospectively. Early application is permitted)

The amendments require new disclosures that help users to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non–cash changes (such as the effect of foreign exchange gains or losses, changes arising for obtaining or losing control of subsidiaries, changes in fair value).

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

(vii) Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses (Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively)

The amendments clarify how and when to account for deferred tax assets in certain situations and clarify how future taxable income should be determined for the purposes of assessing the recognition of deferred tax assets.

It is expected that the new Amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the Group and the Bank because the Group and the Bank already measures future taxable profit in a manner consistent with the Amendments..

(viii) Amendments to IAS 40 Transfers of Investment Property

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

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.

(ix) IFRIC 22 Foreign Currency Transactions and Advance Consideration (Effective for annual periods beginning on or after 1 January 2018).

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

(x) Annual Improvements to IFRSs

Annual improvements to IFRSs 2014–2016 cycle were issued on 8 December 2016 and introduce two amendments to two standards and consequential amendments to other standards and interpretations that result in accounting changes for presentation, recognition or measurement purposes. The amendments on IFRS 12 Disclosure of Interest in Other Entities are effective for annual periods beginning on or after 1 January 2017 and amendments on IAS 28 Investments in Associates and Joint Ventures are effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively. Earlier application is permitted.

None of these amendments are expected to have a significant impact on the consolidated financial statements of the Group and the Bank.

4. RISK MANAGEMENT

Within the framework of the internal control system, the Group and the Bank have developed and follow the risk management policy or fundamental principles approved by the Council, which are defined below:

1) general guidelines observed by the Group and the Bank in their activities aimed at decreasing all types of risks which may lead to losses;

2) description of risk transactions and other risks to which the Group and the Bank are exposed;

3) identification and management of the significant risks, including measurement, evaluation, control, and preparation of risk reports;

4) setting limits and restrictions for risk transactions together with regular control and development;

5) updating of normative documents regarding the risk management process according to market changes.

The risk management policy describes and determines the aggregate of measures to ensure that the possibility of suffering losses is minimized in the event the invested resources are not repaid in due time or the Bank or the Group suffers other losses.

The Bank's Board supervises the risk management system; the main decisions are made by the Investment Committee and Credit Committee according to their respective operational regulations. Risk management on a daily basis is ensured by independent risk management departments. The risk management system is monitored by the Internal Audit Service on a regular basis is being continuously developed pursuant to the development of the Group and the Bank and activities on financial markets. Risk management is carried out both on the Group and Bank level.

(1) Credit risk

Credit risk is the risk of potential loss resulting from the non-fulfilment of contractual obligations by the Group's or the Bank's debtor or counterparty.

Credit risk is managed in accordance with the Credit Risk Management Policy approved by the Council. This policy details the basic principles of credit risk management, identification, assessment, mitigation and control.

The management of risks related to ordinary loans involves the assessment of the potential borrower's credit standing that is performed by the Financial Analysis and Risk Management Department. Decisions on granting loans are made by the Credit Committee based on the above analysis and evaluation of collateral. Subsequent to loan granting, the Financial Analysis and Risk Management Department performs a regular analysis of the borrower's financial position, which enables the Bank and the Group to take prompt action in the case of deterioration of the borrower's financial position.

Credit risk that is related to inter-bank operations (or operations with financial institutions), including the credit risk related to inter-bank settlements and the Bank's investments in debt securities, is controlled by the Bank's Investment Committee that sets limits for transactions with each counter party and issuer.

The Bank and the Group monitor the concentration of significant assets, liabilities, as well as contingent liabilities and commitments' credit risk by geographical regions (i.e. countries, groups of countries, specific regions within the countries etc.), customer groups (i.e. central governments, local authorities, state enterprises, private enterprises, private individuals, etc.) and industries. Credit risks are presented in Note 43.

(2) Currency risk

Foreign exchange risk is the risk of potential loss as a result of the revaluation of assets, liabilities, as well as contingent liabilities and commitments denominated in foreign currencies due to change in exchange rates.

The Bank and the Group continuously monitor the open positions of foreign currencies and regularly assesses the structure of assets and liabilities by currency.

An analysis of sensitivity of the Bank's net profit or loss for the year and comprehensive income to changes in the foreign currency exchange rates based on positions existing as at 31 December 2016 and 2015 and a simplified scenario of a 20% change in the USD to EUR exchange rates is as follows:

EUR'000	2016		2015	
	Profit or loss	Shareholders' equity	Profit or loss	Shareholders' equity
20% appreciation of USD against EUR	61	61	187	187
20% depreciation of USD against EUR	(61)	(61)	(187)	(187)

An analysis of the foreign currency position is presented in Note 41.

(3) Interest rate risk

Interest rate risk is related to potential losses incurred by the Group and the Bank due to movements in interest rates.

For the purpose of controlling the interest rate risk, the Investment Committee performs regular analyses of assets and liabilities by maturity and type of interest. A change of interest rates by 100 basis points would result in the following changes in profit or loss and capital and reserves:

	2016	2015
	EUR'000	EUR'000
EUR	1 642	1 595
USD	1 780	2 154

The interest reprising analysis is disclosed in Note 42.

(4) Debt securities price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when the Group takes a long or short position in a financial instrument.

The debt securities price risk is managed by the Bank by setting limits on the total amount of the trading portfolio, as well as purchasing debt securities with relatively short maturities that are less sensitive to price risk.

An analysis of sensitivity of the Group's net income for the year and equity to changes in securities prices based on positions existing as at 31 December 2016 and 2015 and a simplified scenario of a 10% change in all securities prices is as follows:

EUR'000	2016		2015	
	Profit or loss	Shareholders' equity	Profit or loss	Shareholders' equity
10% increase in securities prices	296	6 801	1 357	5 685
10% decrease in securities prices	(296)	(6 801)	(1 357)	(5 685)

(5) Liquidity risk

Liquidity risk is the risk of potential loss as a result of sales of assets or acquisition of resources at unfavourable prices in order for the Group and the Bank to fulfil its liabilities to creditors and depositors.

The Bank focuses on a conservative approach to liquidity management. The Bank allocates funds (attracted mainly from deposits) to assets in order to maintain an asset structure that is appropriate to support the Bank's operations (executing of customers' transactions) and comply with regulatory requirements concerning the liquidity ratio even in case of a significant outflow of client deposits or a significant decrease in liquidity on the securities market.

Liquidity risk management procedures are described in the Liquidity Management Policy and consist of several components: liquidity risk indicator system, balance sheet planning, stress testing, and limits for investments in assets of limited liquidity.

The purpose of liquidity risk indicators is to reflect the actual level of the Bank's liquidity risk and quickly identify any increase in liquidity risk. The Bank's Liquidity Risk Management Policy determines specific actions to improve the Bank's liquidity position when liquidity risk indicators reach certain levels.

The aim of liquidity risk stress testing is to measure the deficit or surplus of the Bank's liquid assets that may occur due to significant outflows of customer deposits or a significant decrease in liquidity on the securities market. Based on the results of stress testing, the Bank's Investment Committee sets limits on investments in assets of limited liquidity.

Details of the reported ratio of net liquid assets versus current liabilities at the reporting date were as follows:

	2016	2015
As at 31 December	70.03%	77.39 %

Net liquid assets include cash and cash equivalents, bonds and receivables from credit institutions net of current liabilities. Liquidity analysis is presented in Note 40.

(6) Country risk

Country risk is the risk of potential losses arising from transactions with residents of foreign countries (or their securities) due to changes in the economic, political, and legal environment of the respective countries.

Before entering into transactions with residents of foreign countries, the Group and the Bank perform an assessment of the influence of economic, social, political and legal circumstances on the residents' ability to fulfil their obligations.

(7) Operational risk

Operational risk is the risk of losses resulting from inadequate or improper internal processes, human and systems error, or external events, including legal risk but excluding strategic and reputational risk.

The Group and the Bank's organizational structure, precise job descriptions, clear division of decision–making and operational control responsibilities, automation processes, as well as control procedures allow the Group and the Bank to monitor operational risks.

The Bank has also developed an action plan for various emergency situations. The Bank and the Group have set up an independent "Internal Audit Service" (IAS) whose primary function is to ensure that the activities of the Bank and the Group comply with effective laws and regulations, approved plans, policies and other internal documents of the Bank and to review the conformity with the internal control procedures governing the functions of the Group's and the Bank's departments.

(8) Management of money laundering and terrorist financing risk and the Customer Policy

The Group and the Bank devote significant efforts to compliance with international and national laws and regulations on the prevention of money laundering and terrorism financing. There is an approved Money Laundering and Terrorism Financing Risk Management Policy in place at the Bank which details the basic principles for the management of money laundering and terrorism financing risk as well as risk identification, mitigation and control mechanisms. The implementation of the Money Laundering and Terrorism Financing Risk Management Policy in the Bank is ensured by way of approved internal documents and an appropriate organisational structure based on three–tier protection and control principles. Tier 1 control is comprised of the employees of business units who attract and service customers and ensure compliance with the 'Know Your Customer' ("KYC") principle both at customer acceptance and during business relationships. Tier 2 control is effected by customer transaction monitoring and support units that perform an analysis of customer acceptance and transactions using a host of tools, including automated ones, and monitor and report on transactions. Tier 3 control is effected by the Internal Audit Service that performs independent and regular assessments of risk management practices.

The internal control system of the Bank is built on the principle of separation of certain duties and responsibilities between structural units and employees, it stipulates the provisions for the operation of the operational monitoring and compliance units, and there is a Customer Compliance Control Committee established as part of it.

The Bank's Customer Policy ensures compliance with the principle of "know your customer" at the Bank; and the primary goal of this policy is to specify guidelines for initiating cooperation with customers and matters of due diligence, requirements for identification of customers and their beneficial owners, analysis of their businesses and business partners.

In addition to customer identification requirements, the Customer Policy requires to conduct interviews and fill out customer questionnaires. This information is used as the basis for the new customer profile which is the most important component of the customer's file and the key objective for creating this profile is to gain an understanding of the customer's business and its profile and to set the level of risk for the particular customer. All activities of the Bank and the Group are aimed at increasing the security of financial transactions. This approach permits the Group and the Bank to develop an optimum service offering for each customer in the future while managing and mitigating the risk of unusual and suspicious financial transactions. As the relationship between the customer and the Bank progresses, further understanding of the customer's business deepens. The customer's profile is supplemented and updated on a regular basis with the results of research of the customer's business and transactions. Through knowing the customer's business, monitoring their transactions and refraining from the performance of suspicious financial transactions the Group and the Bank are able to comply with international and local legislation on the prevention of money laundering and terrorism financing in order to preclude the Group and the Bank from getting involved in potential laundering of proceeds derived from criminal activity and terrorism financing.

In 2016, at the instructions of the Financial and Capital Market Commission the Bank signed an agreement with a US-based consulting firm Lewis Baach Kaufmann Middlemiss which was engaged to assess the compliance of the Bank's anti-money laundering and terrorism financing and sanctions programme with the US Bank Secrecy Act, Patriot Act, OFAC sanctions programme and other binding acts or regulations, to identify any gaps and provide recommendations for closing such gaps. The review was focussed on the following key areas: management of and responsibilities within the AML/CFT programme, internal controls, trainings, independent testing and auditing, and the information systems used in the AML/CFT procedures. After the review, the Bank received a report containing recommendations for process improvements and prepared an action plan for implementation. The action plan includes measures to improve the internal control system for AML/CFT in relation to monitoring of customer transactions and risk assessment and management, and to improve information systems.

The Bank is working on the implementation of the action plan and to the date of these financial statements significant measures have been made in terms of improving the internal control system, amendments to internal documents have been approved, employees have received additional training, and the Bank has developed methodology for the prevention of money laundering and terrorism financing risk. One of the key long–term objectives for the Bank is to improve its information systems, and it is being considered now whether to purchase a new system for monitoring of customer transactions. Overall, the Bank plans to complete the implementation the action plan by the end of 2017.

(9) Capital management

The Bank's Capital Adequacy Management Policy requires maintenance of a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business as well as to ensure the Bank's capital at an adequate level for covering potential risks arising from current and future operations.

Under the capital requirements introduced by Regulation (EU) No 575/2013 of the European Parliament and of the Council and the FCMC banks need to maintain a ratio of capital to risk weighted assets ("statutory capital ratio") above the prescribed minimum level. Although the minimum required level as at 31 December 2016 was 8%, according to a special request by the FCMC the Bank was required to ensure the minimum capital adequacy of 13.75% during the period 1 October 2016 to 30 September 2017 (14.9% for the period 1 October 2015 to 30 September 2016). As at 31 December 2016 the Bank and the Group were in compliance with the capital adequacy and the minimum capital requirement specified in the law On Credit Institutions and the rules of the FCMC, as well as in compliance with the higher ratio required by the FCMC. For the calculation of capital adequacy refer to Note 44.

In addition to the calculation of the capital adequacy ratio in accordance with the capital adequacy minimum requirements set by FCMC, the Bank regularly conducts its own internal capital adequacy assessment in order to ensure that it covers all the risks assumed by the Bank and whether they are covered by the capital.

5. USE OF ESTIMATES AND JUDGMENTS

Key sources of estimation uncertainty

The preparation of financial statements in conformity with IFRS as adopted by EU requires management to make judgments, 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, the actual results ultimately may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to the accounting estimates are recognized 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.

Judgments:

These consolidated and separate financial statements include financial information of subsidiaries. The annual evaluation described in Note 3(1) (i) of the Group structure and identification of entities in which the Group has control requires judgement to be made by the Group management.

Key sources of estimation uncertainty:

(i) Impairment of financial assets carried at amortised cost

For financial assets carried at amortised cost, impairment is determined based on the accounting policy described in Note 3.

Financial assets are evaluated for impairment individually for each counterparty and it 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 judgments about the counterparty's financial situation and potential net realizable value of any underlying collateral. Each impaired asset is assessed individually and the Credit Risk Function approves the workout strategy and the estimate of cash flows considered recoverable.

(ii) Fair value of financial instruments

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 the accounting policies, Note 3. For financial instruments that trade infrequently and have no observable prices, 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. The Bank uses valuation models based on quoted market prices of similar products.

To determine the amount of impairment loss the Bank's management makes estimates of any expected changes in future cash flows from a specific financial instrument based on an analysis of the financial position of the issuer of the financial instrument.

(iii) Impairment of non-financial assets

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

When measuring the recoverable value of the investment property, management relies on external valuations based either on income valuation method or comparative valuation method and assesses the reliability of such valuation in light of the current market situation. Income method is based on discounted estimated future cash flows from the property. Comparative method is based on recent market transactions with comparable property.

Since the corporate assets, including headquarters, do not generate separate cash inflows, the recoverable amount of an individual corporate asset cannot be determined unless management has decided to dispose of the asset. As a consequence, if there is an indication that a corporate asset may be impaired, recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of this cash-generating unit or group of cash-generating units. An impairment loss is recognized 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 recognized in the income statement. 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 recognized 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 amortization, if no impairment loss had been recognized.

(iv) Valuation of repossessed collateral

Depending on the classification, repossessed collaterals are valued at lower of cost and net realizable value or fair value. Accordingly, the management estimates the net realizable value of assets whenever there are indications that the carrying amount may have decreased below its cost. If this is the case, assets are written down to their net realizable value.

The fair value of assets acquired in a business combination is based on the discounted estimated cash flows from individual assets and/or external valuations.

(v) Deferred tax asset recognition

A deferred tax asset is recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

6. NET INTEREST INCOME

	2016		2015	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Interest income				
Interest income on assets at amortized cost:	7 752	7 752	5 971	5 971
Deposits with credit institutions	*794*	*794*	*1 480*	*1 480*
Loans and receivables	*6 958*	*6 958*	*4 491*	*4 491*
Interest income from securities at fair value through profit or loss	414	414	829	829
Interest income from available-for-sale financial assets	445	445	30	29
Interest income from held-to-maturity securities	2 492	2 492	2 308	2 308
Total interest income	**11 103**	**11 103**	**9 138**	**9 137**
Interest expenses				
Interest expenses from liabilities measured at amortized cost:	440	440	520	520
Deposits	*440*	*440*	*520*	*520*
Interest expenses on issued bonds	1 170	1 170	811	811
Payments to the Deposit Guarantee Fund and other funds	882	882	745	745
Other interest expenses	667	667	381	381
Total interest expenses	**3 159**	**3 159**	**2 457**	**2 457**
Net interest income	**7 944**	**7 944**	**6 681**	**6 680**

In 2016, the Bank did not have interest income from impaired loans (2015: EUR 40 thousand) and consequently did not recognise impairment allowances for such interest income (2015: an allowance of EUR 40 thousand).

7. NET COMMISSION AND FEE INCOME

	2016		2015	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Fee and commission income				
Payments	6 891	6 891	7 730	7 730
Corporate banking fee income	594	594	530	530
Securities transactions	1 614	1 614	2 383	2 383
Trust operations	707	707	822	822
Account servicing	3 116	3 120	2 513	2 516
Cash transactions and payment card transactions	10 360	10 360	5 016	5 016
Total fee and commission income	**23 282**	**23 286**	**18 994**	**18 997**

	2016		2015	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Fee and commission expense				
Correspondent accounts	719	719	812	812
Cash transactions and payment card transactions	6 849	6 849	2 919	2 919
Securities transactions	337	337	330	330
Total fee and commission expense	**7 905**	**7 905**	**4 061**	**4 061**
Net fee and commission income	**15 377**	**15 381**	**14 933**	**14 936**

2016 growth of e-commerce activity impacted on commission income and expense's result from cash transactions and payment card transactions.

8. NET PROFIT/LOSS FROM TRADING AND REVALUATION OF FINANCIAL INSTRUMENTS

	2016		2015	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Net profit/(loss) from trading with financial assets and liabilities held-for-trading	439	439	(657)	(657)
Net profit from revaluation of financial assets and liabilities	145	145	1 412	1 412
Net profit from sale of available-for-sale financial assets (shares)	1 958	1 958	–	–
Net profit from trading and revaluation of financial instruments	**2 542**	**2 542**	**755**	**755**

During 2016, Visa Inc. completed the purchase of Visa Europe from all European participating banks. As a result of this sale the Bank realized a profit of EUR 1 958 thousand upon settlement in cash and partial deferred consideration.

9. PROCEEDS FROM TRADING AND REVALUATION OF FOREIGN EXCHANGE

	2016		2015	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Net profit from foreign exchange transactions	7 331	7 332	7 635	7 635
Net proft/(loss) from revaluation of foreign exchange	50	48	(111)	(110)
Net foreign exchange gains	**7 381**	**7 380**	**7 524**	**7 525**

10. OTHER OPERATING INCOME

	2016		2015	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Fines received	67	66	221	220
Profit from disposal of an associated company	-	-	35	35
Rental income from real estate	53	1	53	2
Profit from disposal of real estate (Tallinn)	-	-	36	36
Gain on disposal of property and equipment	1	-	6	6
Dividends received	2	2	2	2
Social tax refund from the budget	30	30	24	24
Recovery of written-off assets	2	2	-	-
Compensation received for default	-	-	584	-
Other	180	181	218	194
Total other operating income	**335**	**282**	**1 179**	**519**

11. ADMINISTRATIVE EXPENSES

	2016		2015	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Salaries to the members of the Board and Council	663	663	753	739
Staff remuneration	8 278	7 868	7 579	7 189
Compulsory state social security contributions	2 045	1 983	1 727	1 663
Other staff costs	297	282	334	320
Communications and transport	500	456	489	449
Professional services	1 586	1 561	2 022	1 973
Rent, public utilities and maintenance	1 219	1 245	1 151	1 332
Depreciation and amortization costs	480	327	437	284
Computer network	431	431	307	307
Advertisement and marketing expenses	134	131	123	122
Other taxes	813	733	841	748
Insurance	111	109	115	88
Audit fee	65	65	49	49
Other	529	221	375	249
Total administrative expenses	**17 151**	**16 075**	**16 302**	**15 512**

The average number of employees in the Group in 2016 was 311 (2015 - 297) and that in the Bank was 295 (2015 – 278).

In 2016, the auditor received a fee of EUR 65 thousand, of which EUR 52 thousand was for the audit of the financial statements (consolidated annual report) and EUR 13 thousand for other audit engagements. In 2015, the fee amounted to EUR 49 thousand, of which EUR 42 thousand was for the audit of the financial statements (consolidated annual report) and EUR 7 thousand for other audit engagements.

(a) Information on the remuneration by category of positions as at 31.12.2016

Group	Fixed remuneration EUR'000	Average number of employees	Variable remuneration EUR'000	Average number of employees
Board, Council	637	6	26	3
Positions that have a material impact on the risk profile	1 359	47	216	28
Other employees	6 101	258	602	220
Total	**8 097**	**311**	**844**	**251**

Information on the remuneration by category of positions as at 31.12.2016

Bank	Fixed remuneration EUR'000	Average number of employees	Variable remuneration EUR'000	Average number of employees
Board, Council	637	6	26	3
Positions that have a material impact on the risk profile	1 359	47	216	28
Other employees	5 691	242	602	220
Total	**7 687**	**295**	**844**	**251**

Information on the remuneration by category of positions as at 31.12.2015

Group	Fixed remuneration EUR'000	Average number of employees	Variable remuneration EUR'000	Average number of employees
Board, Council	647	9	106	6
Positions that have a material impact on the risk profile	1 454	36	125	36
Other employees	5 816	252	184	236
Total	**7 917**	**297**	**415**	**278**

Information on the remuneration by category of positions as at 31.12.2015

Bank	Fixed remuneration EUR'000	Average number of employees	Variable remuneration EUR'000	Average number of employees
Board, Council	633	6	106	6
Positions that have a material impact on the risk profile	1 454	36	125	36
Other employees	5426	236	184	236
Total	**7 513**	**278**	**415**	**278**

(b) Operating leases

Leases as lessee (Group)

Non-cancellable operating lease rentals are payable as follows:

	31 Dec 2016 '000 EUR	31 Dec 2015
Less than one year	298	383
Between one and five years	1	299
More than five years	–	–
	299	**682**

The Group leases a number of premises under operating lease. The leases typically run for an initial period of one to five years, with an option to renew the lease after that date. None of the leases includes contingent rentals.

During the current year EUR 382 thousand was recognised as an expense in the profit or loss in respect of operating leases (2015: EUR 478 thousand).

Leases as lessee (Bank)

Non-cancellable operating lease rentals are payable as follows:

	31 Dec 2016 '000 EUR	31 Dec 2015 '000 EUR
Less than one year	380	485
Between one and five years	234	549
More than five years	467	525
	1 081	**1 559**

The Bank leases a number of premises under operating lease. The leases typically run for an initial period of one to five years, with an option to renew the lease after that date. None of the leases includes contingent rentals.

During the current year EUR 485 thousand was recognised as an expense in the profit or loss in respect of operating leases (2015: EUR 582 thousand).

12. OTHER OPERATING EXPENSES

	2016		2015	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Membership fees	192	192	166	166
Fees for real estate management	117	15	93	16
Fines	1	1	5	5
Profit from disposal of subsidiaries	–	–	10	96
Royalties for the use of a trademark	1 189	1 189	1 284	1 284
Other	177	636	211	907
Result of disposal of repossessed movable property	20	20	–	–
Total other operating expenses	**1 696**	**2 053**	**1 769**	**2 474**

In 2016, as part of its operating activities Baltikums Bank AS made payments of EUR 1 189 thousand (2015: EUR 1 284 thousand) for the use of the registered trademark Baltikums to the owner of this trademark (licensor).

13. IMPAIRMENT OF FINANCIAL AND NON-FINANCIAL ASSETS

Impairment of assets for the Group

	2016 EUR'000	2015 EUR'000
Total allowances as at the beginning of the reporting period	**7 579**	**3 537**
Increase in the impairment allowance for loans	5 013	1 369
Increase in the impairment allowance for other assets	2 395	–
Allowances for investment properties	–	1 953
Allowances for investments in associates	63	441
Release of previously recognized allowances for loans	(27)	(53)
Release of previously recognized allowances for held-to-maturity financial assets	(139)	–
Impairment of goodwill	564	194
Impairment of real estate	114	146
Change for the year	**7 983**	**4 050**
Loans and overdrafts written off during the year	(376)	(24)
Assets written off during the year	(44)	–
Change of previously recognized allowances due to currency fluctuations	16	16
Total allowance as at the end of the reporting period	**15 158**	**7 579**

Impairment of assets for the Bank

	2016 EUR'000	2015 EUR'000
Total allowances as at the beginning of the reporting period	**8 018**	**4 070**
Increase in the impairment allowance for loans	5 013	1 369
Increase in the impairment allowance for other assets	2 390	–
Impairment of investment properties	–	1 463
Impairment of investments in subsidiaries	490	1 177
Release of previously recognized allowances for loans	(27)	(53)
Release of previously recognized allowances for held-to-maturity financial assets	(139)	–
Change for the year	**7 727**	**3 956**
Loans and overdrafts written off during the year	(376)	(24)
Assets written off during the year	(44)	–
Change of previously recognized allowances due to currency fluctuations	81	16
Total allowance as at the end of the reporting period	**15 406**	**8 018**

14. CORPORATE INCOME TAX

	2016		2015	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Corporate income tax	(667)	(658)	(1 043)	(1 041)
Deferred tax expense	795	795	–	–
Total current year tax expense	**128**	**137**	**(1 043)**	**(1 041)**

The table below shows the reconciliation between the current tax expense and the theoretically calculated tax amount using the basic tax rate, which was 15% in 2016 and 2015.

	2016		2015	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Profit before tax	6 749	7 674	9 100	8 473
Theoretically calculated tax at rate 15%	(1 012)	(1 151)	(1 365)	(1 271)
Non-deductible expenses and exempt income, net	345	493	290	198
Unrecognised deferred tax changes	–	–	32	32
Recognised deferred tax changes	795	795	–	–
Total income tax expense	**128**	**137**	**(1 043)**	**(1 041)**

Deferred tax assets and liabilities

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets/(liabilities) as of 31 December 2016 and 2015.

EUR '000	Assets		Liabilities		Net	
	2016	2015	2016	2015	2016	2015
Property and equipment	–	–	(135)	(79)	(135)	(79)
Investment property	597	–	–	–	597	–
Other assets	333	–	–	–	333	–
Total deferred tax asset/(liabilities)	**930**	–	**(135)**	**(79)**	**795**	**(79)**

The rate of tax applicable to deferred tax was 15% (2015: 15%).

15. CASH AND DUE FROM THE CENTRAL BANK

	2016		2015	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Cash	361	361	686	686
Balance with the Bank of Latvia (including the minimum reserve deposit)	153 504	153 504	146 098	146 098
Total	**153 865**	**153 865**	**146 784**	**146 784**

According to the regulations of the Financial and Capital Market Commission, the total amount of funds on the account with the Central Bank should not be less than the amount of the obligatory reserves calculated from the average amount of customer deposits during the month. The obligatory reserve as at 31 December 2016 was EUR 5 676 thousand (2015: EUR 6 093 thousand).

16. DEPOSITS WITH CREDIT INSTITUTIONS

	2016		2015	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Demand deposits with credit institutions				
Credit institutions registered in Latvia	3 620	3 620	10 789	10 789
Credit institutions registered in OECD countries	72 658	72 658	128 082	128 082
Credit institutions of other countries	42 608	42 569	26 149	26 099
Total demand deposits with credit institutions	**118 886**	**118 847**	**165 020**	**164 970**
Loans issued to credit institutions	**5 047**	**5 047**	**14 037**	**14 037**
Term deposits with credit institutions	**57 247**	**57 247**	**163 403**	**163 403**
Total deposits with credit institutions	**181 180**	**181 141**	**342 460**	**342 410**

Demand deposits with credit institutions based on rating agency ratings are as follows:

	2016 '000 EUR	2015 '000 EUR
Rated from AAA to A-	95 682	162 478
Rated from BBB+ to BBB-	3 379	65 170
Rated from BB- to BB+	21 928	27 014
Rated below BB-	15 522	6 496
Not rated	44 630	81 252
Total deposits with credit institutions	**181 141**	**342 410**

As at 31 December 2016, the Bank had correspondent accounts with 43 banks (2015: 47). The largest account balances were with KBC BANK NV - EUR 27 231 thousand (2015: EUR 9 338 thousand), with the total amount exceeding 10% of total deposits with credit institutions. Another large balances include BANK OF CHINA - EUR 17 413 thousand (2015: EUR 1 053 thousand) and EUROCLEAR BANK S.A/N.V - EUR 15 904 thousand (2015: EUR 12 683 thousand). As at 31 December 2016 EUR 878 thousand was pledged with BANK OF CHINA (SHANCHAI RMB TRADING UNIT) as a reserve on correspondent account. As 31 December 2015, EUR 22 thousand was pledged with COMMERZBANK AG as a security for a letter of credit.

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016		2015	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Fixed income securities:				
US notes	–	–	6 061	6 061
Eurobonds issued by other financial institutions in Latvia	471	471	–	–
Eurobonds issued by companies and credit institutions of OECD countries	1 305	1 305	776	776
Eurobonds issued by companies and credit institutions of non-OECD countries	1 179	1 179	6 731	6 731
Total	**2 955**	**2 955**	**13 568**	**13 568**

An analysis of the credit quality of financial instruments at fair value through profit or loss, based on rating agency ratings where applicable, is as follows:

	2016 EUR'000	2015 EUR'000
Fixed income securities		
– Government and municipal bonds		
Rated from AAA to A-	–	6 061
Total Government and municipal bonds	**-**	**6 061**
– Corporate bonds and securities of credit institutions		
Rated from BB- to BB+	1 505	5 527
Rated below BB-	524	1 980
Not rated	926	–
Total corporate bonds and securities of credit institutions	**2 955**	**7 507**
Total fixed income securities	**2 955**	**13 568**

18. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2016		2015	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Fixed income securities				
Eurobonds issued by credit institutions	28 765	28 765	4 608	4 608
Eurobonds issued by central governments of OECD countries	5 329	5 329	24 692	24 692
Eurobonds issued by international organisations	33 915	33 915	27 548	27 548
Total	**68 009**	**68 009**	**56 848**	**56 848**
Shares and other non-fixed income securities				
Shares in VISA INC	394	394	–	–
Shares of Viduskurzemes AAO SIA	530	530	530	530
SWIFT shares	65	65	65	65
Total	**989**	**989**	**595**	**595**
Total financial assets available for sale	**68 998**	**68 998**	**57 443**	**57 443**

Available-for-sale financial assets based on rating agency ratings are as follows:

	2016 EUR'000	2015 EUR'000
Fixed income securities		
– Eurobonds issued by credit institutions		
Rated from AAA to A-	23 714	4 608
BBB+	5 051	–
Total Eurobonds issued by credit institutions	**28 765**	**4 608**
– Eurobonds issued by central governments of OECD countries		
Rated from AAA to A-	5 329	24 692
Total Eurobonds issued by central governments of OECD countries	**5 329**	**24 692**
– Eurobonds issued by international organisations		
Rated from AAA to A-	33 915	27 548
Total Eurobonds issued by international organisations	**33 915**	**27 548**
Total fixed income securities	**68 009**	**56 848**

19. LOANS AND RECEIVABLES

(a) Loans

	2016		2015	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Financial institutions	5 459	5 459	2 771	2 771
Corporates	110 824	110 824	70 791	70 791
Individuals	4 676	4 676	3 411	3 411
Total loans and receivables	**120 959**	**120 959**	**76 973**	**76 973**
Impairment allowance	(6 039)	(6 039)	(1 354)	(1 354)
Net loans and receivables	**114 920**	**114 920**	**75 619**	**75 619**

(b) Analysis of loans by type

	2016		2015	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Loan portfolio				
Corporate loans	56 596	56 596	31 128	31 128
Industrial loans	41 357	41 357	30 401	30 401
Payment card loans	834	834	600	600
Mortgage loans	8 104	8 104	6 093	6 093
Finance lease	1 956	1 956	1 983	1 983
Factoring	–	–	–	–
Other loans	1 332	1 332	1 490	1 490
Total loan portfolio	**110 179**	**110 179**	**71 695**	**71 695**
Securities-backed loans				
Reverse repo	10 780	10 780	5 278	5 278
Total securities-backed loans	**10 780**	**10 780**	**5 278**	**5 278**
Total loans and receivables	**120 959**	**120 959**	**76 973**	**76 973**
Impairment allowance	(6 039)	(6 039)	(1 354)	(1 354)
Net loans and receivables	**114 920**	**114 920**	**75 619**	**75 619**

(c) Geographical segmentation of the loans

	2016		2015	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Loans to residents of Latvia	55 566	55 566	39 697	39 697
Loans to residents of OECD countries	26 057	26 057	11 448	11 448
Loans to residents of non-OECD countries	39 336	39 336	25 828	25 828
Total loans and receivables	**120 959**	**120 959**	**76 973**	**76 973**
Impairment allowance	(6 039)	(6 039)	(1 354)	(1 354)
Net loans and receivables	**114 920**	**114 920**	**75 619**	**75 619**

(d) Ageing structure of the loan portfolio

Bank	Total	Of which not past due on the reporting date	Of which past due by the following terms				Net carrying amount of overdue loans
	EUR'000		Less than 30 days	31-90 days	91-180 days	More than 180 days	
31 December 2016							
Net carrying amount	**114 920**	106 912	6 199	2	2	1 805	8 008
Out of which impaired	**23 415**	16 041	6 199	2	2	1 171	7 374
31 December 2015							
Net carrying amount	**75 619**	73 334	0	371	1	1 913	2 285
Out of which impaired	**1 906**	–	–	–	–	1 906	1 906

The Group's ageing structure is not materially different from that of the Bank.

The amounts shown in the table are the carrying values of loans and do not necessarily represent the fair value of collateral. Impaired or overdue loans of EUR 7 999 thousand (2015: EUR 2 190 thousand) are secured by a collateral with a fair value of EUR 13 523 thousand (2015: EUR 3 001 thousand). Loans of EUR 9 thousand (2015: EUR 95 thousand) that are not impaired, secured by collateral or it is impracticable to determine the fair value of collateral are overdrafts.

(e) Impaired loans

	2016		2015	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Impaired loans, gross	29 454	29 454	3 260	3 260
Impairment allowance	(6 039)	(6 039)	(1 354)	(1 354)
Net loans and receivables	**23 415**	**23 415**	**1 906**	**1 906**

(f) Movements in the impairment allowance

Movements in the loan impairment allowance for the year ended 31 December 2016 and 2015 are as follows:

	2016		2015	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Opening balance	**1 354**	**1 354**	**60**	**60**
Increase in the impairment allowance for loans and receivables	5 013	5 013	1 369	1 369
Reversal of impairment loss	(27)	(27)	(53)	(53)
Loan and overdraft write offs	(376)	(376)	(24)	(24)
Effect of foreign currency translation	75	75	2	2
Closing balance	**6 039**	**6 039**	**1 354**	**1 354**

(g) Industry analysis of the loan portfolio (Group and the Bank)

	2016	2015
	EUR'000	EUR'000
Water transport	16 946	4 205
Financial services	12 088	4 610
Wholesale	44 923	28 200
Real estate	3 884	2 603
Leisure, recreation, sports	596	1 414
Overdrafts	2 641	904
Metal manufacture	8 089	14 349
Transport and storage	11 511	9 029
Private customers - mortgage loans and consumer loans	2 522	1 079
Manufacture of food products	1 867	1 463
Other services	9 853	7 763
Net loans and receivables	**114 920**	**75 619**

(h) Analysis of loans by type of collateral (Group and Bank)

EUR'000	31 December 2016	% of loan portfolio	31 December 2015	% of loan portfolio
Commercial buildings	28 660	25.2	26 480	35
Real estate - first mortgage	5 994	5	8 049	11
Commercial assets pledge	27 988	24	14 701	19
Commercial assets: water transport	16 946	14.9	4 205	5
Trading securities	10 780	9.4	5 278	7
Guarantee	1 907	1.6	1 986	3
Deposits	57	0.1	71	–
Inventories	19 820	17.4	13 544	18
No collateral	2 768	2.4	1 305	2
Net loans and receivables	**114 920**	**100**	**75 619**	**100**

(j) Restructured loans

As at 31 December 2016 and 2015, the loans restructured by the Group and the Bank possessed the following signs of restructuring:

EUR'000	2016 EUR'000	2015 EUR'000
Reduced interest rate	596	1 414
Loan holidays	11 308	5 585
Total restructured loans	**11 904**	**6 999**

(k) Repossessed assets

No collaterals were repossessed during 2016 and 2015.

(l) Significant credit exposures

As at 31 December 2016, the Bank had one borrower whose loan balances exceeded 10% of loans and receivables from customers and the balance represented EUR 12 916 thousand.
As at 31 December 2015, the Bank had three borrowers which are not a group of related borrowers whose total loan balances exceeded 10% of loans and receivables from customers and the balance represented EUR 31 590 thousand.
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 the Bank's equity. As at 31 December 2016 and 31 December 2015 the Bank was in compliance with this requirement.

20. HELD-TO-MATURITY FINANCIAL ASSETS

	2016		2015	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Debt securities and other fixed income securities				
Eurobonds issued by Latvian credit institutions	2 278	2 278	2 503	2 503
Eurobonds issued by companies and credit institutions of other countries	80 508	80 508	81 491	81 491
Total debt securities	**82 786**	**82 786**	**83 994**	**83 994**
Impairment allowance	–	–	(133)	(133)
Debt securities, net	**82 786**	**82 786**	**83 861**	**83 861**

Quality analysis of held-to-maturity financial assets, based on rating agency ratings, is as follows:

	2016 EUR'000	2015 EUR'000
Debt securities and other fixed income securities		
– Corporate bonds		
Rated from AAA to A-	33 650	45 816
Rated from BBB+ to BBB-	13 577	5 995
Rated from BB- to BB+	22 214	27 856
Rated below BB-	10 259	181
Not rated	3 086	4 013
Total corporate bonds	**82 786**	**83 861**
Debt securities and other fixed income securities	**82 786**	**83 861**

Analysis of movements in the impairment allowance

	2016 EUR'000	2015 EUR'000
Opening balance	133	119
Reversal of previously established allowances	(139)	–
Fluctuations of currency exchange rates	6	14
Closing balance	**–**	**133**

Reclassification out of held-for-trading financial instruments

Pursuant to the amendments to IAS 39 and IFRS 7, in 2008 the Bank reclassified certain trading assets to financial assets held to maturity.

Under the amendments to IAS 39 the reclassifications were made effective from **1 July 2008** at fair value as at that date. The table below sets out the financial assets reclassified and their carrying and fair values:

EUR '000	01 July 2008		31 December 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Held-for-trading assets reclassified to held-to-maturity financial assets	8 189	8 189	293	293
	8 189	**8 189**	**293**	**293**

The table below sets out the amounts actually recognized in the income statement and equity during 2016 in respect of financial assets reclassified out of trading assets:

EUR '000	Net income	Shareholders' equity
Period before reclassification		
Net loss on financial instruments at fair value through profit or loss reclassified to held-to-maturity financial assets	–	–
Period after reclassification		
Financial instruments reclassified to held-to-maturity financial assets		
Interest income	1	–
Coupon income	35	–

The table below sets out the amounts that would have been recognized in the period following reclassification during 2016 had the reclassifications not been made:

EUR '000	Profit or (loss)
Net loss on financial instruments at fair value through profit or loss reclassified to held-to-maturity financial assets	–

21. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

(a) Investments in subsidiaries (Group)

Company	Capital contribution	Carrying amount 31.12.2016	Carrying amount 31.12.2015
		EUR'000	EUR'000
SIA Baltikums International	100%	3 209	2 949
Impairment allowance		*(1 549)*	*(1 154)*
SIA Zapdvina Development	100%	7 024	3 024
Impairment allowance		*(806)*	*(806)*
SIA CityCap Service	100%	546	546
Impairment allowance		*(158)*	*(158)*
UAB Kamaly Development	100%	3	3
SIA Pils Pakalpojumi	61%	9 821	9 821
Non-reciprocal capital contribution by a parent into subsidiary		*(2 400)*	*(2 400)*
Impairment allowance		*(548)*	*(519)*
Jēkaba 2 SIA	100%	4 049	4 049
Impairment allowance		*(106)*	*(40)*
		19 085	**15 315**

In 2016, the Bank increased share capital of its subsidiary SIA Zapdvina Development by EUR 4 000 000.

After this increase, the share capital of SIA Zapdvina Development consisted of 6,498,018 shares with nominal value of EUR 1 amounting to EUR 6 498,018.

In 2015, the Bank recognised an additional impairment allowance for its investment in AS Zapdvina Development in the amount of EUR 356 thousand triggered by impairment of this subsidiary's assets. AS Zapdvina Development owns a land plot in Daugavpils.

In 2016, the Bank increased the share capital of its subsidiary, SIA Baltikums International, by 260 000 shares with nominal value of EUR 1 for a total of EUR 260 000. After this increase, the share capital of SIA Baltikums International consisted of 3 186 658 shares with nominal value of EUR 1 amounting to EUR 3 186 658.

In 2016, the Bank recognised an additional impairment allowance for its investment in SIA Baltikums International in the amount of EUR 395 thousand (2015: EUR 104 thousand) triggered by impairment of net assets of this subsidiary. SIA Baltikums International has three subsidiaries and an associate.

In October 2015, the Bank's subsidiary AS Pils Pakalpojumi decreased its share capital by 1 100 000 shares with nominal value EUR 1 which reduced the Bank's holding in the subsidiary by 671 000 shares and the share of AS BBG (non-controlling interest) by 429 shares. After this decrease, the share capital of SIA Pils pakalpojumi consisted of 1 528 052 shares with nominal value of EUR 1 amounting to EUR 1 528 052. The Bank holds 932,112 shares and AS BBG holds 595,940 shares.

In 2016, the Bank recognised an impairment allowance for its investment in AS Pils Pakalpojumi in the amount of EUR 29 thousand (2015: EUR 519 thousand) triggered by impairment of this subsidiary's assets.

In December 2014, AS Pils pakalpojumi issued 200 new shares and capitalised the loan issued by the Bank and accrued interest. The sales price for the new issue consisted of the nominal value of EUR 1 and a share premium. The share premium amounted to EUR 30 766 and the total amount for 200 shares was EUR 6 153 504. The new issue is a non-reciprocal capital contribution to the subsidiary by the Bank and is considered to be an equity transaction. As the non-controlling interest accounts for 39% of the shares of SIA Pils pakalpojumi according to IFRS 10 39% of the non-reciprocal capital contribution is allocated to the non-controlling interest amounting to EUR 2 400 thousand as disclosed in the consolidated financial statements. The result of this transaction is reflected in other reserves.

In 2016, the Bank recognised an impairment allowance of EUR 66 thousand (2015: EUR 40 thousand) for its investment in SIA Jēkaba 2 triggered by impairment of its net assets.

In December 2015, the Bank recognised an impairment allowance for its investment in SIA CityCap Service in the amount of EUR 158 thousand triggered by impairment of net assets.

(b) Investments in subsidiaries by the Bank's subsidiary SIA Baltikums International

Company	**Capital contribution**	**Carrying amount 31.12.2016**	**Carrying amount 31.12.2015**
		EUR'000	**EUR'000**
KamalyDevelopment EOOD	100%	692	692
Impairment allowance		*(100)*	*(100)*
Foxtran Management Ltd. (Belize) - special purpose entity	100%	334	214
Impairment allowance		*(283)*	*(126)*
Enarlia International Inc. (Belize) - special purpose entity	100%	213	73
Impairment allowance		*(175)*	–
		681	**753**

During 2016, SIA Baltikums International increased the share capital of its subsidiary Foxtran Management Ltd. by EUR 120 000. After this increase, the share capital of Foxtran Management Ltd. consisted of 352 373 shares with nominal value of USD 1 amounting to USD 352 373 or EUR 334 thousand (according to the exchange rate published by the European Central Bank, 1.0541).

In 2016, an impairment allowance for the investment in the subsidiary Foxtran Management Ltd. was recognised in the amount of EUR 157 thousand (2015: nil) triggered by impairment of net assets of this subsidiary.

During 2016, SIA Baltikums International increased the share capital of its subsidiary Enarlia International Inc by EUR 140 000. After this increase, the share capital of Enarlia International Inc consisted of 224 605 shares with the nominal value USD 1 amounting to USD 224 605 or EUR 213 thousand (according to rate of the European Central Bank, 1.2141).

In 2016, an impairment allowance for the investment in the subsidiary Enarlia International Inc. was recognised in the amount of EUR 175 thousand (2015: nil) triggered by impairment of net assets of this subsidiary.

In 2015, SIA Baltikums International recognised an impairment allowances for its investment in KamalyDevelopment EOOD. KamalyDevelopment EOOD owns a property for which the fair value was established using the discounted cash flow approach and the market approach. The fair value of the property of KamalyDevelopment EOOD is based on two methods: market approach which relies on considering similar offers and the income approach which uses a 5% capitalisation rate. Based on this fair value measurement, an impairment loss of EUR 100 thousand was recognised.

(c) Equity-accounted investments in associates (Group and Bank)

Company	Capital contribution	УCarrying amount 31.12.2016 EUR'000		Carrying amount 31.12.2015 EUR'000	
		Group	Bank	Group	Bank
AAS Baltikums	19.45%	–	–	–	–
AS Termo biznesa Centrs	26.15%	1 848	–	1 848	–
Impairment allowance		*(1 021)*	–	(958)	–
Total		**827**	**–**	**890**	–

Group and Bank

	AS Termo biznesa Centrs	AAS Baltikums	Total
As at 31 December 2014	**1 331**	**1 505**	**2 836**
Impairment allowance	*(441)*	–	*(441)*
Adjustment of profit of previous years	–	(89)	**(89)**
Share in net profit of associated companies	–	149	**149**
Disposals	–	**(1 565)**	**(1 565)**
As at 31 December 2015	**890**	–	**890**
Impairment allowance	*(63)*	–	*(63)*
As at 31 December 2016	**827**	**–**	**827**

SIA Baltikums International has an associate AS Termo biznesa Centrs. The property owned by AS Termo biznesa Centrs was appraised on the basis of discounted cash flow using a weighted average rate of 9.14%. Based on an appraisal, in 2016 an impairment allowance of EUR 63 thousand (in 2015: EUR 441 thousand) was recognised. In 2016, SIA Baltikums International did not identify any other evidence for impairment of its investment in the associate AS Termo biznesa Centrs.

Financial information of the associate AS Termo biznesa centrs:

	Current assets	Long-term invest-ments	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Net assets	Income	Expenses	Net loss	Group's share in net assets 26.15%	Group's share in loss 26.15%
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
31 December 2015												
AS Termo biznesa Centrs	64	346	410	(17)	(21)	(38)	372	199	(203)	(4)	(97)	(1)
31 December 2016												
AS Termo biznesa Centrs	**58**	**343**	**401**	**(22)**	**(17)**	**(39)**	**362**	**216**	**(224)**	**(8)**	**(95)**	**(2)**

	AS Termo biznesa Centrs
Group's share in net assets 26.15% as at 31 December 2015	**(97)**
Fair value adjustment of building	*987*
Equity-accounted investments as at 31 December 2015	**890**
Group's share in net assets 26.15% as at 31 December 2016	**(95)**
Fair value adjustment of building	*922*
Equity-accounted investments as at 31 December 2016	**827**

As losses for 2016 are insignificant they have no impact on the Group results.

(d) Non-controlling interest in subsidiaries

The table provides summary information on the Group subsidiary AS Pils Pakalpojumi where the Group holds a significant NCI of 39% before the elimination of intra-group transactions:

	Current assets	Long-term invest-ments	Total assets	Current liabilities	Total liabilities	Net assets	Income	Expenses	Net loss	Carrying amount of non-control-ling interest	Profit / Loss attribu-table to NCI
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
31 December 2015											
AS Pils pa-kalpojumi	69	11 282	11 351	(37)	(37)	11 314	484	(495)	(11)	4 412	(5)
31 December 2016											
AS Pils pa-kalpojumi	**187**	**11 227**	**11 414**	**(33)**	**(33)**	**11 381**	**497**	**(430)**	**67**	**4 438**	**26**

22. INVESTMENT PROPERTY

Investment property of the Group represents the following:

	2016		2015	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Real estate in Latvia	3 516	1 940	3 516	1 940
Real estate in Lithuania	2 807	2 807	2 807	2 807
Real estate in Bulgaria	521	–	521	–
Impairment allowance (property in Lithuania and Latvia)	(3 160)	(2 220)	(3 160)	(2 220)
	3 684	**2 527**	**3 684**	**2 527**

	Group	Bank
	EUR'000	EUR'000
31 December 2014	**5 745**	**4 098**
Adjustment of the carrying amount (property in Latvia)	(1)	(1)
Depreciation of building (Estonia)	(4)	(4)
Disposals (property in Estonia)	(103)	(103)
Impairment allowance (property in Latvia)	*(1 953)*	*(1 463)*
31 December 2015	**3 684**	**2 527**
31 December 2016	**3 684**	**2 527**

Investment property is recognized at cost less accumulated depreciation and impairment loss. Investment property consists of land and commercial properties.

Management has measured the fair value of investment property as at 31 December 2016 and 2015 using market data.

In December 2015, the Group recognised an impairment allowance of EUR 1 953 thousand on property investments in Latvia. The property in Latvia was appraised using the comparison approach by reference to similar properties and it was concluded that its fair value was EUR 1 113 thousand. As a result, additional impairment allowances were recognised in the amount of EUR 1 953 thousand.

In December 2015, the Bank recognised an impairment allowance of EUR 1 463 thousand for investment property in Latvia. The property in Latvia was appraised using the comparison approach by reference to similar properties and it was concluded that its fair value was EUR 477 thousand. As a result, additional impairment allowances were recognised in the amount of EUR 1 463 thousand.

Income from renting out investment properties of the Group in 2016 amounted to EUR 53 thousand and maintenance expenses amounted to EUR 117 thousand.

Income from renting out investment properties of the Group in 2015 amounted to EUR 53 thousand and maintenance expenses amounted to EUR 93 thousand.
In 2016, the Bank did not identify other evidence for impairment of investment properties.
The table describes the valuation method used to arrive at the fair value of property, and the significant unobservable inputs. Carrying amount represents the fair value of the investment properties:

31.12.2016 (Group)

Type	Carrying amount, EUR '000	Valuation method	Significant unobservable inputs	Correlation between balance sheet data and fair value measurement, EUR '000
Land plot, Sporta iela, Rīga, Latvia	322	Comparison approach	Price per m^2 from EUR 39.8 to EUR 56.9	Fair value would increase (reduce) if the price per m^2 was higher (lower)
Land plot, Kungu iela, Liepāja, Latvia	60	Comparison approach	Price per m^2 from EUR 11.10 to EUR 15.85	Fair value would increase (reduce) if the price per m^2 was higher (lower)
Buildings and a land plot, Jurģu iela, Jūrmala, Latvia	95	Comparison approach	Price per m^2 from EUR 56.7 to EUR 81	Fair value would increase (reduce) if the price per m^2 was higher (lower)
Land plot, Klaipeda, Lithuania	2 050	Comparison approach	Price per m^2 from EUR 0.74 to EUR 1.06	Fair value would increase (reduce) if the price per m^2 was higher (lower)
Building, Bulgaria	521	Comparison approach	Price per m^2 from EUR 807 to EUR 1,153	Fair value would increase (reduce) if the price per m^2 was higher (lower)
Land plot, Mūku purvs, Latvia	386	Comparison approach	Price per m^2 from EUR 28.7 to EUR 41	Fair value would increase (reduce) if the price per m^2 was higher (lower)
Land plot, Akācijas iela, Daugavpils, Latvia	250	Comparison approach	Price per m^2 from EUR 7.8 to EUR 8.71	Fair value would increase (reduce) if the price per m^2 was higher (lower)
Total	**3 684**			

31.12.2015 (Group)

Type	Carrying amount, EUR '000	Valuation method	Significant unobservable inputs	Correlation between balance sheet data and fair value measurement, EUR '000
Land plot, Sporta iela, Rīga, Latvia	322	Comparison approach	Price per m^2 from EUR 39.8 to EUR 56.9	Fair value would increase (reduce) if the price per m^2 was higher (lower)
Land plot, Kungu iela, Liepāja, Latvia	60	Comparison approach	Price per m^2 from EUR 11.10 to EUR 15.85	Fair value would increase (reduce) if the price per m^2 was higher (lower)
Buildings and a land plot, Jurģu iela, Jūrmala, Latvia	95	Comparison approach	Price per m^2 from EUR 56.6 to EUR 80.8	Fair value would increase (reduce) if the price per m^2 was higher (lower)
Land plot, Klaipeda, Lithuania	2 050	Comparison approach	Price per m^2 from EUR 0.74 to EUR 1.06	Fair value would increase (reduce) if the price per m^2 was higher (lower)
Building, Bulgaria	521	Comparison approach	Price per m^2 from EUR 807 to EUR 1,153	Fair value would increase (reduce) if the price per m^2 was higher (lower)
Land plot, Mūku purvs, Latvia	386	Comparison approach	Price per m^2 from EUR 28 to EUR 40	Fair value would increase (reduce) if the price per m^2 was higher (lower)
Land plot, Akācijas iela, Daugavpils, Latvia	250	Comparison approach	Price per m^2 from EUR 7 to EUR 10	Fair value would increase (reduce) if the price per m^2 was higher (lower)
Total	**3 684**			

31.12.2016 (Bank)

Type	Carrying amount, EUR '000	Valuation method	Significant unobservable inputs	Correlation between balance sheet data and fair value measurement, EUR '000
Land plot, Sporta iela, Rīga, Latvia	322	Comparison approach	Price per m^2 from EUR 39.8 to EUR 56.9	Fair value would increase (reduce) if the price per m^2 was higher (lower)
Land plot, Kungu iela, Liepāja, Latvia	60	Comparison approach	Price per m^2 from EUR 11.10 to EUR 15.85	Fair value would increase (reduce) if the price per m^2 was higher (lower)
Buildings and a land plot, Jurģu iela, Jūrmala, Latvia	95	Comparison approach	Price per m^2 from EUR 56.7 to EUR 81	Fair value would increase (reduce) if the price per m^2 was higher (lower)
Land plot, Klaipeda, Lithuania	2 050	Comparison approach	Price per m^2 from EUR 0.74 to EUR 1.06	Fair value would increase (reduce) if the price per m^2 was higher (lower)
Total	**2 527**			

31.12.2015 (Bank)

Type	Carrying amount, EUR '000	Valuation method	Significant unobservable inputs	Correlation between balance sheet data and fair value measurement, EUR '000
Land plot, Sporta iela, Rīga, Latvia	322	Comparison approach	Price per m^2 from EUR 39.8 to EUR 56.9	Fair value would increase (reduce) if the price per m^2 was higher (lower)
Land plot, Kungu iela, Liepāja, Latvia	60	Comparison approach	Price per m^2 from EUR 11.10 to EUR 15.85	Fair value would increase (reduce) if the price per m^2 was higher (lower)
Buildings and a land plot, Jurģu iela, Jūrmala, Latvia	95	Comparison approach	Price per m^2 from EUR 56.6 to EUR 80.8	Fair value would increase (reduce) if the price per m^2 was higher (lower)
Land plot, Klaipeda, Lithuania	2 050	Comparison approach	Price per m^2 from EUR 0.74 to EUR 1.06	Fair value would increase (reduce) if the price per m^2 was higher (lower)
Total	**2 527**			

23. PROPERTY AND EQUIPMENT

	Land and buildings		Leasehold improvement		Vehicles		Office equipment		Total	
	EUR'000		EUR'000		EUR'000		EUR'000		EUR'000	
	Group	Bank	Group	Bank	Group	Bank	Group	Bank	Group	Bank
Cost										
31 December 2014	**14 981**	**–**	**779**	**779**	**122**	**122**	**1 030**	**910**	**16 912**	**1 811**
Additions	–	–	2 265	1 487	–	–	228	192	2 493	1679
Adjustment (write-off of a replaced component)	(146)	–	–	–	–	–	–	–	(146)	–
Disposals	–	–	–	–	(56)	(56)	(24)	(22)	(80)	(78)
31 December 2015	**14 835**	–	**3 044**	**2 266**	**66**	**66**	**1 234**	**1 080**	**19 179**	**3 412**
Additions	–	–	4 955	2 131	–	–	532	308	5 487	2 439
Disposals	–	–	–	–	–	–	(44)	(44)	(44)	(44)
Adjustment (write-off of a replaced component)	(114)	–	(3)	–	–	–	–	–	(117)	–
31 December 2016	**14 721**	–	**7 996**	**4 397**	**66**	**66**	**1 722**	**1 344**	**24 505**	**5 807**
Depreciation										
31 December 2014	**52**	–	–	–	**43**	**43**	**780**	**710**	**875**	**753**
Depreciation	126	–	–	–	16	16	136	113	278	129
Disposals	–	–	–	–	(45)	(45)	(17)	(17)	(62)	(62)
31 December 2015	**178**	**–**	**–**	**–**	**14**	**14**	**899**	**806**	**1 091**	**820**
Depreciation	125	–	–	–	14	14	115	89	254	103
Disposals	–	–	–	–	–	–	(44)	(44)	(44)	(44)
31 December 2016	**303**	–	–	–	**28**	**28**	**970**	**851**	**1 301**	**879**
Net carrying amount										
31 December 2015	**14 657**	**–**	**3 044**	**2 266**	**52**	**52**	**335**	**274**	**18 088**	**2 592**
31 December 2016	**14 418**	**–**	**7 996**	**4 397**	**38**	**38**	**752**	**493**	**23 204**	**4 928**

The two buildings that the Bank rents from its subsidiaries at Smilšu street and Jēkaba street are used as the Head office of the Bank. Currently, construction work is ongoing in these buildings and capitalised construction expenses as at the end of 2016 amounted to EUR 7 996 thousand (2015: EUR 3 044 thousand). From the Group's perspective, these buildings are considered to be corporate assets and are classified as property and equipment. According to the management, no signs of impairment were identified for these buildings as at 31 December 2016 and 31 December 2015 respectively.

24. INTANGIBLE ASSETS

Group	Goodwill EUR'000	Software EUR'000	Total EUR'000
Acquisition cost			
31 December 2014	**768**	**1 396**	**2 164**
Acquired in the reporting period	–	350	350
Disposed in the reporting period	(10)	(59)	(69)
Impairment of goodwill	(194)	–	(194)
31 December 2015	**564**	**1 687**	**2 251**
Acquired in the reporting period	–	554	554
Disposed in the reporting period	–	(18)	(18)
Impairment of goodwill	(564)	–	**(564)**
31 December 2016	–	**2 223**	**2 223**
Amortization for the reporting period			
31 December 2014	–	**644**	**644**
Amortization for the reporting period	–	154	154
31 December 2015	–	**798**	**798**
Amortization for the reporting period	–	226	226
Amortization of assets disposed in the reporting period	–	(17)	(17)
31 December 2016	–	**1 007**	**1 007**
Net carrying amount			
31 December 2015	–	**889**	**1 453**
31 December 2016	–	**1 216**	**1 216**

In 2016, based on the impairment testing the Group has written of goodwill of EUR 564 thousand, which had resulted from the acquisition of the subsidiary KamalyDevelopment EOOD, acquired in 2010. Cash flow projections based on current state of performance revealed full impairment. In 2015 the Group did not identify impairment of goodwill as the value of investment was expected to increase.

In 2015, based on the impairment testing the Group has written of goodwill of EUR 194 thousand, which had resulted from the acquisition of the subsidiaries - AS Pils Pakalpojumi EUR 192 thousand (acquired in 2011), and SIA Jēkaba 2 EUR 2 thousand (acquired in 2014).

Bank	Software EUR'000
Acquisition cost	
31 December 2014	**1 370**
Disposed in the reporting period	(53)
Acquired in the reporting period	350
31 December 2015	**1 667**
Disposed in the reporting period	(17)
Acquired in the reporting period	554
31 December 2016	**2 204**
Amortization	
31 December 2014	**633**
Amortization for the reporting period	150
31 December 2015	**783**
Amortization for the reporting period	224
Amortization of assets disposed in the reporting period	(17)
31 December 2016	**990**
Net carrying amount	
31 December 2015	**884**
31 December 2016	**1 214**

25. OTHER ASSETS

	2016		2015	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Other financial assets				
Security deposit (MasterCard Europe, VISA Card)	7 987	7 987	2 417	2 417
Receivables under transactions with credit cards	3 608	3 608	2 471	2 471
Advance payment for acquisition of shares	2 730	2 730	–	–
Receivables under SPOT transactions	256	256	–	–
Other receivables	362	303	379	328
Deferred payment for VISA shares	121	121	–	–
Other non-financial assets				
Assumed collaterals – movable property	6 634	6 634	6 685	6 685
Overpaid taxes (VAT and other)	243	46	140	17
Total other assets	**21 941**	**21 685**	**12 092**	**11 918**
Allowances for other assets	(3 985)	(3 980)	(1 634)	(1 634)
Other assets, net	**17 956**	**17 705**	**10 458**	**10 284**

In 2016, security deposits of EUR 7 987 thousand (2015: EUR 2 417 thousand) were reserved for potential transactions connected with MasterCard Europe and VISA Card systems.

In 2016, the Bank paid an advance of EUR 2 730 thousand for purchase of 39% shares of SIA "Pils Pakalpojumi", which form 50% of the purchase price. The deal should be finalised during 2017.

Repossessed collaterals include two yachts. Repossessed collateral is valued at lower of cost and net realizable value. Management has measured the fair value of repossessed collaterals as at 31 December 2016 and 2015 using market data.

Movements in the impairment allowance

Movements in the other assets impairment allowance for the year ended 31 December 2016 and 2015 are as follows:

	2016		2015	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Opening balance	**1 634**	**1 634**	**1 634**	**1 634**
Increase in the impairment allowance for assumed collaterals - movable property	2 346	2 346	–	–
Increase in the impairment allowance for other assets	49	44	–	–
Other assets write offs	(44)	(44)	–	–
Closing balance	**3 985**	**3 980**	**1 634**	**1 634**

The net fair value of the Group's and the Bank's repossessed collaterals of EUR 6 634 thousand in 2016 was estimated to be EUR 2 654 thousand (2015: EUR 5 051 thousand).

As at 31 December 2016, the Group and Bank recognised an additional impairment allowance of EUR 2 346 thousand for repossessed properties. In 2014 the Group and the Bank has recognised impairment allowance of EUR 1 634 thousand for repossessed properties based on the external valuation report using market approach. Since there was no significant development after the last valuation report, the Group and the Bank concluded that the value of repossessed properties has further decreased in 2016.

The fair value of other non-financial assets of EUR 2 654 thousand is categorized within Level 3 of the Fair Value Hierarchy.

In 2016, the Bank sold movable property, Golf course equipment in Lithuania (carrying amount at the moment of the sale EUR 51 thousand, compensation received EUR 31 thousand).

The table describes the valuation method used to arrive at the fair value of other assets, and the significant unobservable inputs as at 31 December 2016:

Type	Carrying amount, net of allowances, EUR '000	Valuation method	Significant unobservable inputs, EUR '000	Correlation between balance sheet data and fair value measurement
Moveable property, yacht White Rose	1 233	Comparison approach	Unit price 1 233	Fair value would increase (reduce) if the unit price was higher (lower)
Moveable property, yacht Silver Rose	1 421	Comparison approach	Unit price 1 421	Fair value would increase (reduce) if the unit price was higher (lower)
Total	**2 654**			

The table describes the valuation method used to arrive at the fair value of other assets, and the significant unobservable inputs as at 31 December 2015:

Type	Carrying amount, net of allowances, EUR '000	Valuation method	Significant unobservable inputs, EUR '000	Correlation between balance sheet data and fair value measurement
Moveable property, Golf course equipment, Lithuania	51	Comparison approach	Unit price 51	Fair value would increase (reduce) if the unit price was higher (lower)
Moveable property, yacht White Rose	2 500	Comparison approach	Unit price 2 500	Fair value would increase (reduce) if the unit price was higher (lower)
Moveable property, yacht Silver Rose	2 500	Comparison approach	Unit price 2 500	Fair value would increase (reduce) if the unit price was higher (lower)
Total	**5 051**			

26. DUE TO CREDIT INSTITUTIONS ON DEMAND

	2016		2015	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Credit institutions registered in Latvia	1 763	1 763	1 404	1 404
Credit institutions registered in OECD countries	212	212	584	584
Credit institutions registered in other countries (non-OECD)	1 529	1 529	737	737
	3 504	**3 504**	**2 725**	**2 725**

As at 31 December 2016 the Bank had two credit institutions whose account balances each exceeded 10% of total deposits on demand with other credit institutions. Total balances of accounts of these credit institutions as at 31 December 2016 amounted to EUR 3 017 thousand.
As at 31 December 2015 the Bank had four credit institutions whose account balances each exceeded 10% of total deposits on demand with other credit institutions. Total balances of these credit institutions as at 31 December 2015 amounted to EUR 2 137 thousand.

27. DUE TO CREDIT INSTITUTIONS

	2016		2015	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Credit institutions registered in other countries (non-OECD)	–	–	191	191
	–	**–**	**191**	**191**

28. FINANCIAL LIABILITIES CARRIED AT AMORTIZED COST: DEPOSITS

	2016		2015	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Current accounts:				
Financial institutions	27 306	27 448	56 693	56 790
Corporate entities	430 468	432 787	485 086	486 712
Individuals	83 285	83 285	103 072	103 072
	541 059	**543 520**	**644 851**	**646 574**
Term deposits:				
Subordinated liabilities	5 112	5 112	5 117	5 117
Other financial institutions	1 076	1 076	1 293	1 293
Corporate entities	13 656	13 656	16 709	16 709
Individuals	1 939	1 939	2 042	2 042
	21 783	**21 783**	**25 161**	**25 161**
Total deposits	**562 842**	**565 303**	**670 012**	**671 735**

As at 31 December 2016, the Bank maintained customer deposit balances of EUR 11 841 thousand which were reserved by the Bank as collateral for loans and other credit instruments granted by the Bank (as at 31 December 2015: EUR 11 258 thousand).
As at 31 December 2016 the Bank had no customers/customer groups with deposits exceeding 10% of the total customer deposits (as at 31 December 2015: none).

29. FINANCIAL LIABILITIES CARRIED AT AMORTIZED COST: SUBORDINATED DEBT SECURITIES

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

This issue is offered to a limited number of investors and it does not represent a public offer in the understanding of the Financial Instruments Market Law of Latvia.

	2016		2015	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Issued subordinated bonds	19 626	19 626	17 596	17 596
Accrued interest payments	311	311	229	229
Total	**19 937**	**19 937**	**17 825**	**17 825**

The table below summarises issued bonds with the following maturities and carrying amount:

ISIN	Currency	Issue size	Par value	Date of issue	Date of maturity	Discount/ coupon rate, %	Group / Bank 31/12/2016	Group / Bank 31/12/2015
Subordinated bonds								
LLV0000801082	USD	880	1 000	05.12.2012	12.11.2019	6	835	808
LV0000801074	EUR	10 000	1 000	05.12.2012	12.11.2019	6	3 200	3 200
LV0000801629	EUR	10 000	1 000	25.11.2014	28.11.2021	6	10 000	10 000
LV0000801611	USD	10 000	1 000	25.11.2014	28.11.2021	6.0	111	108
LV0000801728	EUR	20 000	1 000	16.04.2015	24.04.2022	6.0	5 480	3 480
Issued debt securities, total ('000 EUR)							**19 626**	**17 596**

30. PROVISIONS

	Group	Bank
	EUR'000	EUR'000
31 December 2014	**510**	**510**
Decrease in provisions	(15)	(15)
31 December 2015	**495**	**495**
Decrease in provision	(495)	(495)
31 December 2016	**–**	**–**

Provisions consist of provisions for unused vacations of employees. Decrease in provision due to reclassification to accrued expense as per changes in legislation which came in force since 1 January 2016.

31. OTHER LIABILITIES

	2016		2015	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Other financial liabilities				
Credit card payments	983	983	839	839
Receivables under SPOT transactions	–	–	3	3
Receivables under VP transactions	33	33	–	–
Funds in transit	8	8	6	6
Suspense accounts	995	995	3 000	3 000
Other liabilities, balances of closed customers' accounts	199	199	198	198
Other non-financial liabilities				
Operating and other liabilities	331	331	307	310
Tax settlements	4	4	5	5
VAT payable	4	–	6	–
Other liabilities	189	–	59	–
	2 746	**2 553**	**4 423**	**4 361**

32. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

Group and Bank	2016		2015	
	EUR'000		EUR'000	
	Carrying amount	Nominal value	Carrying amount	Nominal value
Assets				
Future contracts	90	16 463	243	55 407
Total derivative financial assets	**90**	**16 463**	**243**	**55 407**
Liabilities				
Future contracts	136	16 509	60	55 224
Total derivative liabilities	**136**	**16 509**	**60**	**55 224**

As at 31 December 2016 the Bank had 7 outstanding foreign exchange forward contracts and none with related parties (in 2015 - 15 contracts, including none with related parties).

33. SHARE CAPITAL AND RESERVES

As at 31 December 2016 the authorized share capital comprised 28 209 653 ordinary shares (2015: 28 209 653). As at 31 December 2016, share capital comprised 28 209 653 shares with total nominal value of EUR 39 493 514.20. Nominal value of one share is EUR 1.40. The structure of the holders of ordinary shares did not change. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at the shareholders' meetings. All shares rank equally with regard to the Bank's residual assets.

	2016		2015	
	Quantity	EUR'000	Quantity	EUR'000
Share capital				
Ordinary shares with voting rights	28 209 653	39 493	28 209 653	39 493
	28 209 653	**39 493**	**28 209 653**	**39 493**

The reserve capital of EUR 24 thousand is not subject to any restrictions and can be distributed to the shareholders following an appropriate decision.
As at 31 December 2016 and 31 December 2015, reserves constitute of the non-reciprocal contribution into the subsidiary's capital, EUR 2 400 thousand. As at 31 December 2016 on the Group level there was a foreign exchange revaluation reserve of EUR 17 thousand.

Dividends

Dividends payable are restricted to the maximum retained earnings of the Bank, which are determined according to the legislation of Latvia. In accordance with the legislation of Latvia, the amount of reatianed earnings available for distribution at the reporting date is EUR 21 935 thousand (2015: EUR 17 874 thousand).
During 2016, dividends of EUR 3.7 million were distributed (2015: EUR 4 million).

34. CASH AND CASH EQUIVALENTS

	2016		2015	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Cash and balances due from central banks	153 865	153 865	146 784	146 784
Due from credit institutions on demand and within 3 months	181 180	181 141	337 302	337 252
Due to credit institutions on demand and within 3 months	(3 504)	(3 504)	(2 916)	(2 916)
Total cash and cash equivalents	**331 541**	**331 502**	**481 170**	**481 120**

35. CONTINGENT LIABILITIES

At any time the Bank has outstanding commitments to extend credit. These commitments take the form of approved loans and credit card limits and overdraft facilities.

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years.

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognized at the reporting date if counterparties failed to completely perform as contracted.

	2016		2015	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Letters of credit	–	–	397	397
Unused loan facilities	53 273	53 273	31 767	31 767
Unused credit card facilities	2 076	2 088	1 927	1 944
Guarantees	98	98	244	244
Total	**55 447**	**55 459**	**34 335**	**34 352**

The total contractual amounts of the above loan commitments may differ from the cash flow that may actually be required in future as these commitments may expire before they are claimed. All letters of credit in 2015 were secured with customer deposits.

36. LITIGATION

Management is unaware of any significant actual, pending or likely claims against the Bank and its subsidiaries.

37. ASSETS UNDER MANAGEMENT

	2016		2015	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Assets under management				
Due from credit institutions registered in Latvia	2 858	2 858	400	400
Balances due from foreign credit institutions	223	223	4 082	4 082
Loans to customers	4 846	4 846	5 185	5 185
Non fixed income securities	3 595	3 595	2 382	2 382
Fixed income securities	8 977	8 977	8 465	8 465
of which: pledged under repo transactions	*1 931*	*1 931*	*1 840*	*1 840*
Other assets	1 961	1 961	933	933
Total assets under management	**22 460**	**22 460**	**21 447**	**21 447**
Liabilities under management				
Non-resident trust liabilities	16 010	16 010	19 495	19 495
Resident trust liabilities	6 450	6 450	1 952	1 952
Total liabilities under management	**22 460**	**22 460**	**21 447**	**21 447**

As at 31 December 2016 there were no assets under management from related parties (as at 31 December 2015: none).

38. TRANSACTIONS WITH RELATED PARTIES

Related parties are defined as shareholders who have a significant influence over the Bank, companies in which they have a controlling interest, members of the Council and the Board, key management personnel, their close relatives and companies in which they have a controlling interest, as well as associated companies. All transactions with related parties have been carried out at an arm's length.

Loans, deposits and other claims and liabilities to related parties include the following:

	2016		2015	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Loans to related parties				
incl. the parent company	1 750	1 750	–	–
incl. members of the Council and the Board	138	138	7	7
incl. other	163	163	463	463
Other requirements	2 734	2 767	–	30
Total loans and other claims	**4 785**	**4 818**	**470**	**500**
Term and demand deposits and loans				
incl. from the parent company	152	152	221	221
incl. from subsidiaries of the parent company	18	18	24	24
incl. from subsidiaries	–	2 461	–	1 723
incl. from members of the Council and Board	553	553	376	376
incl. from others	2 436	2 436	1 564	1 564
Other liabilities	191	199	185	188
Total deposits and liabilities	**3 350**	**5 819**	**2 370**	**4 096**
Contingent liabilities and commitments	**1 710**	**1 722**	**1 007**	**1 024**
	Interest rate %	**Interest rate %**	**Interest rate %**	**Interest rate %**
Loans to related parties	1.03	1.03	1.15	1.15
Term and demand deposits	0.01	0.01	0.02	0.02

In 2016, remuneration to the members of the Council and the Board was EUR 503 thousand (2015: EUR 739 thousand).

	2016		2015	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Income from related party transactions				
Commission income	40	44	31	34
Interest income	88	88	55	55
Other income	3	3	184	35
Expenses from related party transactions				
Interest expenses	11	11	11	11
Other expenses	53	516	57	855
Rent payments	204	503	320	782

39. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (BANK)

The table below reflects the maturity analysis of financial assets and liabilities based on the term from the reporting date until the maturity dates of the respective assets and liabilities. The remaining period to maturity of assets and liabilities as at 31 December 2016 was as follows:

2016 EUR'000	Up to 1 month including	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	5 years and over, or no maturity	Total, EUR'000
Financial assets							
Cash and demand deposits with central banks	153 865	–	–	–	–	–	**153 865**
Deposits with credit institutions	168 244	12 897	–	–	–	–	**181 141**
Financial assets at fair value through profit or loss	1 506	117	11	1 411	–	–	**3 045**
Financial assets available for sale	68 009	–	–	–	–	989	**68 998**
Loans and receivables	29 288	3 860	7 253	19 328	51 471	3 720	**114 920**
Held-to-maturity financial assets	35 595	7 432	6 340	4 632	28 787	–	**82 786**
Other financial assets	–	–	–	–	–	15 005	**15 005**
Total financial assets	**456 507**	**24 306**	**13 604**	**25 371**	**80 258**	**19 714**	**619 760**
Financial liabilities							
Demand deposits with credit institutions	3 504	–	–	–	–	–	**3 504**
Derivatives	29	107	–	–	–	–	**136**
Financial liabilities carried at amortized cost	547 554	636	2 946	3 431	24 833	5 840	**585 240**
Other financial liabilities	2 218	–	–	–	–	–	**2 218**
Total financial liabilities	**553 305**	**743**	**2 946**	**3 431**	**24 833**	**5 840**	**591 098**
Maturity gap	**(96 798)**	**23 563**	**10 658**	**21 940**	**55 425**	**13 874**	**28 662**
Contingent liabilities and commitments	**55 401**	**34**	**10**	**14**	**–**	**–**	**55 459**

The maturity analysis of the Group is not significantly different from that of the Bank disclosed above.

39. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (BANK) (CONTINUED)

The table below reflects the maturity analysis of financial assets and liabilities based on the term from the reporting date until the maturity dates of the respective assets and liabilities. The remaining period to maturity of assets and liabilities as at 31 December 2015 was as follows:

2015 EUR'000	Up to 1 month including	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	5 years and over, or no maturity	Total EUR'000
Financial assets							
Cash and demand deposits with central banks	146 784	–	–	–	–	–	**146 784**
Deposits with credit institutions	319 415	17 837	5 158	–	–	–	**342 410**
Financial assets at fair value through profit or loss	10 930	72	–	2 809	–	–	**13 811**
Financial assets available for sale	56 848	–	–	–	–	595	**57 443**
Loans and receivables	9 111	2 644	9 311	7 253	42 898	4 402	**75 619**
Held-to-maturity financial assets	–	–	–	18 116	65 245	500	**83 861**
Other financial assets	–	–	–	–	–	5 216	**5 216**
Total financial assets	**543 088**	**20 553**	**14 469**	**28 178**	**108 143**	**10 713**	**725 144**
Financial liabilities							
Demand deposits with credit institutions	2 725	–	–	–	–	–	**2 725**
Derivatives	60	–	–	–	–	–	**60**
Financial liabilities carried at amortized cost	648 013	1 613	1 414	3 360	20 142	15 209	**689 751**
Other financial liabilities	4 046	–	–	–	–	–	**4 046**
Total financial liabilities	**654 844**	**1 613**	**1 414**	**3 360**	**20 142**	**15 209**	**696 582**
Maturity gap	**(111 756)**	**18 940**	**13 055**	**24 818**	**88 001**	**(4 496)**	**28 562**
Contingent liabilities and commitments	**33 738**	**105**	**151**	**344**	**14**	**–**	**34 352**

The maturity analysis of the Group is not significantly different from that of the Bank disclosed above.

40. FINANCIAL RISK MANAGEMENT

Liquidity risk (Bank)

Residual contractual maturities of financial liabilities of the Bank are presented below. The Group's residual contractual maturities of financial liabilities have not been presented as the difference to the Bank's analysis is insignificant.

EUR'000 31 December 2016	Carrying amount	Gross nominal inflow / (outflow)	Less than 1 month	1-3 months	3 months to 1 year	1-5 years and more
Non-derivative liabilities						
Demand deposits with credit institutions	3 504	(3 504)	(3 504)	–	–	–
Financial liabilities carried at amortized cost	585 240	(591 583)	(547 684)	(894)	(7 503)	(35 502)
Total non-derivative liabilities	**588 744**	**(595 087)**	**(551 188)**	**(894)**	**(7 503)**	**(35 502)**
Derivative liabilities						
Trading: outflow	15 095	(15 095)	(3 604)	(11 491)	–	–
Trading: inflow	(14 959)	14 959	3 575	11 384	–	–
Total derivative liabilities	**136**	**(136)**	**(29)**	**(107)**	**–**	**–**
Contingent liabilities and commitments	55 459	(55 459)	(55 401)	(34)	(24)	–
Total liabilities	**644 339**	**(650 682)**	**(606 618)**	**(1 035)**	**(7 527)**	**(35 502)**

EUR'000 31 December 2015	Carrying amount	Gross nominal inflow / (outflow)	Less than 1 month	1-3 months	3 months to 1 year	1-5 years and more
Non-derivative liabilities						
Demand deposits with credit institutions	2 725	(2 725)	(2 725)	–	–	–
Financial liabilities carried at amortized cost	689 751	(696 690)	(648 139)	(1 860)	(5 859)	(40 832)
Total non-derivative liabilities	**692 476**	**(699 415)**	**(650 864)**	**(1 860)**	**(5 859)**	**(40 832)**
Derivative liabilities						
Trading: outflow	5 065	(5 065)	(5 065)	–	–	–
Trading: inflow	(5 005)	5 005	(5 005)	–	–	–
Total derivative liabilities	**60**	**(60)**	**(60)**	**–**	**–**	**–**
Contingent liabilities and commitments	34 352	(34 352)	(33 738)	(105)	(495)	(14)
Total liabilities	**726 888**	**(733 827)**	**(684 662)**	**(1 965)**	**(6 354)**	**(40 846)**

41. CURRENCY ANALYSIS OF ASSETS AND LIABILITIES (BANK)

The Latvian banking legislation requires that open positions in each foreign currency may not exceed 10% of the Bank's equity and that the total foreign currency open position may not exceed 20% of the equity.

The EUR equivalent of assets and liabilities as at 31 December 2016 by the currencies in which they are denominated is as follows:

2016	EUR	USD	Other currencies	Total
EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Financial assets				
Cash and demand deposits with central banks	153 697	107	61	**153 865**
Loans and receivables from banks	41 782	120 630	18 729	**181 141**
Financial assets at fair value through profit or loss	301	2 654	90	**3 045**
Financial assets available for sale	21 373	47 625	–	**68 998**
Loans and receivables	38 329	75 133	1 458	**114 920**
Held-to-maturity financial assets	51 141	31 645	–	**82 786**
Other financial assets	12 382	2 561	62	**15 005**
Total financial assets	**319 005**	**280 355**	**20 400**	**619 760**
Financial liabilities				
Demand deposits with credit institutions	123	3 381	–	**3 504**
Derivatives	134	–	2	**136**
Financial liabilities carried at amortized cost	247 872	316 487	20 881	**585 240**
Other financial liabilities	997	1 000	221	**2 218**
Total financial liabilities	**249 126**	**320 868**	**21 104**	**591 098**
Assets (liabilities) arising from currency exchange				
Spot and forward transaction receivables	7 164	49 173	1 503	**57 840**
Spot and forward transaction liabilities	(48 705)	(8 354)	(571)	**(57 630)**
Net long/short currency position	**28 338**	**306**	**228**	**28 872**

The currency analysis of the Group is not significantly different from that of the Bank disclosed above.

41. CURRENCY ANALYSIS OF ASSETS AND LIABILITIES (BANK) (CONTINUED)

The Latvian banking legislation requires that the total foreign currency open position may not exceed 20% of the equity.

The EUR equivalent of assets and liabilities as at 31 December 2016 by the currencies in which they are denominated is as follows:

2015	EUR	USD	Other currencies	Total
EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Financial assets				
Cash and demand deposits with central banks	146 695	63	26	**146 784**
Loans and receivables from banks	77 076	249 906	15 428	**342 410**
Financial assets at fair value through profit or loss	2 702	11 046	63	**13 811**
Financial assets available for sale	6 027	51 416	–	**57 443**
Loans and receivables	33 430	41 484	705	**75 619**
Held-to-maturity financial assets	43 948	39 913	–	**83 861**
Other financial assets	2 250	1 846	1 120	**5 216**
Total financial assets	**312 128**	**395 674**	**17 342**	**725 144**
Financial liabilities				
Demand deposits with credit institutions	620	2 105	–	**2 725**
Derivatives	1	–	59	**60**
Financial liabilities carried at amortized cost	230 817	436 536	22 398	**689 751**
Other financial liabilities	359	3 554	133	**4 046**
Total financial liabilities	**231 797**	**442 195**	**22 590**	**696 582**
Assets (liabilities) arising from currency exchange				
Spot and forward transaction receivables	1 304	53 528	4 701	**59 533**
Spot and forward transaction liabilities	(53 283)	(6 071)	–	**(59 354)**
Net long/short currency position	**28 352**	**936**	**(547)**	**28 741**

The currency analysis of the Group is not significantly different from that of the Bank disclosed above.

42. REPRICING MATURITY ANALYSIS (BANK)

Interest rate risk relates to the changes in the value of the financial instrument as a result of changes in the market rates. As at 31 December 2016, interest rate re-pricing categories were:

2016 EUR'000	Up to 1 month including	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	Over 5 years	Non interest bearing	Total EUR'000
FINANCIAL ASSETS								
Cash and demand deposits with central banks	153 504	–	–	–	–	–	361	**153 865**
Loans and receivables from banks	49 333	12 897	–	–	–	–	118 911	**181 141**
Financial assets at fair value through profit or loss	1	89	–	–	2 851	49	55	**3 045**
Financial assets available for sale	14 286	23 749	14 194	–	15 324	–	1 445	**68 998**
Loans and receivables	64 399	2 761	5 578	15 281	25 552	1 134	215	**114 920**
Held-to-maturity financial assets	5 012	22 778	6 206	18 009	29 220	–	1 561	**82 786**
Other assets	–	–	–	–	–	–	15 005	**15 005**
Total financial assets	**286 535**	**62 274**	**25 978**	**33 290**	**72 947**	**1 183**	**137 553**	**619 760**
FINANCIAL LIABILITIES								
Demand deposits with credit institutions	–	–	–	–	–	–	(3 504)	**(3 504)**
Derivatives	(29)	(107)	–	–	–	–	–	**(136)**
Financial liabilities carried at amortized cost	(5 187)	(588)	(1 534)	(3 317)	(24 779)	(5 835)	(544 000)	**(585 240)**
Other liabilities	–	–	–	–	–	–	(2 218)	**(2 218)**
Total liabilities	**(5 216)**	**(695)**	**(1 534)**	**(3 317)**	**(24 779)**	**(5 835)**	**(549 722)**	**(591 098)**
Interest rate risk net position	**281 319**	**61 579**	**24 444**	**29 973**	**48 168**	**(4 652)**	**(412 169)**	**28 662**
Interest rate risk gross (cumulative) position	**281 319**	**342 898**	**367 342**	**397 315**	**445 483**	**440 831**	**28 662**	**57 324**

The reprising maturity analysis of the Group is not significantly different from that of the Bank disclosed above.

42. REPRICING MATURITY ANALYSIS (BANK) (CONTINUED)

Interest rate risk relates to the changes in the value of the financial instrument as a result of changes in the market rates. As at 31 December 2015, interest rate re-pricing categories were:

2015 EUR'000	Up to 1 month including	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	Over 5 years	Non interest bearing	Total EUR'000
FINANCIAL ASSETS								
Cash and demand deposits with central banks	146 098	–	–	–	–	–	686	**146 784**
Loans and receivables from banks	154 382	17 837	5 148	–	–	–	165 043	**342 410**
Financial assets at fair value through profit or loss	3 198	3 607	–	1 142	5 672	46	146	**13 811**
Financial assets available for sale	–	–	46 777	4 581	5 289	–	796	**57 443**
Loans and receivables	32 654	1 045	7 732	4 087	28 409	1 600	92	**75 619**
Held-to-maturity financial assets	–	–	–	17 991	63 912	500	1 458	**83 861**
Other assets	–	–	–	–	–	–	5 216	**5 216**
Total financial assets	**336 332**	**22 489**	**59 657**	**27 801**	**103 282**	**2 146**	**173 437**	**725 144**
FINANCIAL LIABILITIES								
Demand deposits with credit institutions	–	–	–	–	–	–	(2 725)	**(2 725)**
Derivatives	(60)	–	–	–	–	–	–	**(60)**
Financial liabilities carried at amortized cost	(2 634)	(1 533)	(1 237)	(3 096)	(20 094)	(13 802)	(647 355)	**(689 751)**
Other liabilities	–	–	–	–	–	–	(4 046)	**(4 046)**
Total liabilities	**(2 694)**	**(1 533)**	**(1 237)**	**(3 096)**	**(20 094)**	**(13 802)**	**(654 126)**	**(696 582)**
Interest rate risk net position	**333 638**	**20 956**	**58 420**	**24 705**	**83 188**	**(11 656)**	**(480 689)**	**28 562**
Interest rate risk gross (cumulative) position	**333 638**	**354 594**	**413 014**	**437 719**	**520 907**	**509 251**	**28 562**	**57 124**

The reprising maturity analysis of the Group is not significantly different from that of the Bank disclosed above.

43. MAXIMUM CREDIT RISK

The Bank's maximum exposure to credit risk is set out below. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

Maximum credit exposure

As at December 31 EUR'000	Note	Gross maximum credit risk	
		Bank	Bank
		2016	2015
Cash and balances with central banks	15	153 865	146 784
Loans and receivables from banks	16	181 141	342 410
Financial assets at fair value through profit or loss	17, 32	3 045	13 811
Available-for-sale financial assets	18	68 009	56 848
Loans and receivables	19	114 920	75 619
Held to maturity financial assets	20	82 786	83 861
Other financial assets	25	15 005	5 216
Total financial assets		**618 771**	**724 549**
Letters of credit	35	–	397
Unused loan facilities	35	53 273	31 767
Unused credit card facilities	35	2 088	1 944
Guarantees	35	98	244
Total guarantees and commitments		**55 459**	**34 352**
Maximum credit risk in total		**674 230**	**758 901**

The maximum credit risk exposure analysis of the Group is not significantly different from that of the Bank disclosed above.

44. CAPITAL ADEQUACY CALCULATION (BANK)

	2016 EUR'000	2015 EUR'000
Tier 1		
Share capital	**39 493**	**39 493**
Statutory reserves	24	24
Retained earnings for the previous periods	**14 124**	**10 442**
Profit for the reporting period	7 811	7 432
Other reserves	(2 400)	(2 474)
Intangible assets	(1 214)	(884)
Other deductions	(104)	(228)
Reduction of Tier 1 capital (Pillar 2 adjustments)	**(430)**	**(551)**
Total Tier 1	**57 304**	**53 254**
Subordinated debt	**20 631**	**19 227**
Reduction of Tier 2 capital (Pillar 2 adjustments)	(430)	(551)
Tier 2 capital	**20 201**	**18 676**
Shareholders' equity	**77 505**	**71 930**
Risk-weighted value		
Banking portfolio	**307 050**	**267 177**
Trading portfolio	5 317	11 316
Operating risk	**55 975**	**53 711**
Total risk weighted assets	**368 342**	**332 204**
Total capital as a percentage of risk weighted assets (total capital ratio)	**21.04%**	**21.7%**
Total tier 1 capital expressed as a percentage of risk-weighted assets ("tier 1 capital ratio")	**15.56%**	**16%**

As at 31 December 2016, the Bank's capital adequacy ratio was 21.04% (2015: 21.7%) which is above the minimum required ratio of 13.75% set in the Basel Capital Accord and the regulations of the Financial and Capital Market Commission of Latvia.

45. FAIR VALUE OF FINANCIAL INSTRUMENTS

(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

31 December 2016	Published price quotations (1)	Valuation techniques based on market observable inputs (2)	Valuation techniques based on unobservable inputs (3)	Total
Financial assets				
Financial assets at fair value through profit or loss:				
Fixed income securities	2 654	–	301	**2 955**
Derivatives	–	90	–	**90**
Available-for-sale assets				
Fixed income securities	68 009	–	–	**68 009**
Non fixed income securities and shares	–	459	530	**989**
	70 663	**549**	**831**	**72 043**
Financial liabilities				
Derivatives	–	136	–	**136**
	–	**136**	**–**	**136**

31 December 2015	Published price quotations (1)	Valuation techniques based on market observable inputs (2)	Valuation techniques based on unobservable inputs (3)	Total
Financial assets				
Financial assets at fair value through profit or loss:				
Fixed income securities	13 045	523	–	**13 568**
Derivatives	–	243	–	**243**
Available-for-sale assets				
Fixed income securities	56 848	–	–	**56 848**
Non fixed income securities and shares	–	65	530	**595**
	69 893	**831**	**530**	**71 254**
Financial liabilities				
Derivatives	–	60	–	**60**
	–	**60**	**–**	**60**

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. The main asset classes included in this category are financial assets for which the fair value is obtained via pricing vendors or binding broker quotes and assets for which the fair value is determined by reference to indices.

45. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Included in category 2 “Valuation methods based on market observable data” 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.

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.

Changes in financial instruments of the Group/Bank classified as Level 3 in Fair Value Hierarchy:

31.12.2016

Financial assets at fair value	31.12.2015	Acquired	Disposed	31.12.2016
Financial assets at fair value through profit or loss:				
Fixed income securities	–	301	–	**301**
Available-for-sale assets				
Non fixed income securities and shares	530	–	–	**530**
Total financial assets at fair value	**530**	**301**	**–**	**831**

31.12.2015

Financial assets at fair value	31.12.2014	Acquired	Disposed	31.12.2015
Financial assets at fair value through profit or loss:				
Fixed income securities	4 997	–	(4 997)	**–**
Available-for-sale assets				
Non fixed income securities and shares	–	530	–	**530**
Total financial assets at fair value	**4 997**	**530**	**(4 997)**	**530**

Group and Bank

There was neither gain and neither loss recognised in the statement of comprehensive income for the reporting year 2016 as follows:

Type	Valuation method	Significant unobservable inputs	Difference between significant unobservable inputs and fair value measurement
Assets at fair value through profit or loss (non-quoted forward exchange contracts and interest rate swaps)	Comparison approach: 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
Assets at fair value through profit or loss (equity securities)	Valuation is based on financial indicators, including discounted cash flows.	Net assets	The estimated fair value would increase (decrease) if: Increase/(decrease) in net assets
Available-for-sale assets	Broker quotes (prices)	Non-liquid security quotes Adjusted market multiple (2016: 4-6)	The estimated fair value would increase (decrease) if: Quoted bid price increase

45. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

a. *Financial instruments not measured at fair value*

The table below analyses the fair values of financial instruments other than measured at fair value by the level in the fair value hierarchy into which each fair value measurement is categorised.

31 December 2016	Level 1:	Level 2:	Level 3:	Total fair value	Total carrying amount
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Financial assets					
Cash and due from central banks	–	–	153 865	153 865	153 865
Loans and advances due from financial institutions	–	–	181 141	181 114	181 141
Loans to customers	–	–	114 209	113 937	114 209
Held to maturity financial instruments	80 001	–	2 785	83 553	82 786
Other financial assets	–	–	15 005	15 005	15 005
Financial liabilities					
Deposits and balances due to financial institutions	–	–	3 504	3 504	3 504
Deposits	–	–	585 240	585 281	585 240
Other financial liabilities	–	–	2 218	2 218	2 218

31 December 2015	Level 1:	Level 2:	Level 3:	Total fair value	Total carrying amount
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Financial assets					
Cash and due from central banks	–	–	146 784	146 784	146 784
Loans and advances due from financial institutions	–	–	342 410	342 335	342 410
Loans to customers	–	–	75 619	75 794	75 619
Held to maturity financial instruments	79 325	523	4 013	83 653	83 861
Other financial assets	–	–	5 216	5 216	5 216
Financial liabilities					
Deposits and balances due to financial institutions	–	–	2 725	2 725	2 725
Deposits	–	–	689 751	689 807	689 751
Other financial liabilities	–	–	4 046	4 046	4 046

The analysis of financial instruments of the Group other than measured at fair value is not significantly different from that of the Bank.

To determine the fair value, the Bank uses quoted prices in an active market for that instrument, or determines the fair value using a valuation technique. The Bank assesses impairment losses for each held-to-maturity financial instrument individually. Objective evidence that financial assets (including equity securities) are impaired can include restructuring on terms that the Bank would not otherwise consider, indications that an issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data. As at 31 December 2016 and to the date of signing these financial statements the Bank did not identify any observable data, therefore no additional impairment allowances were recognised.

45. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The table describes the valuation method used to arrive at the Level 2 and 3 fair value, and the significant unobservable inputs:

Type	Valuation method
Loans and advances due from financial institutions	Discounted cash flows
Loans to customers	Discounted cash flows
Due to financial institutions	Discounted cash flows
Deposits	Discounted cash flows

46. SUBSEQUENT EVENTS

Other than disclosed in these financial statements, no significant subsequent events have occurred in the period from the reporting date to the date of these financial statements that would require adjustments to be made to these financial statements and disclosures added to the notes thereto.