*Translation from Latvian original

AS LATVIJAS PASTA BANKA

Financial statements of the Bank
for the year ended 31 December 2016

CONTENTS

MANAGEMENT REPORT

1. GENERAL INFORMATION

AS Latvijas Pasta Banka (hereinafter – the Bank) is a joint stock company registered in the Republic of Latvia and operates according to the laws of the Republic of Latvia and the licence issued by the Financial and Capital Markets Commission on 12 September 2008.

AS Latvijas Pasta Banka legal address: Brivibas street 54, Riga, LV-1011, Latvia.

The bank has a head office and two customer service centres.

The Bank's core business activities are:

- issue and acceptance of payment cards via POS terminals and Internet, in cooperation with well-known organizations such as MasterCard, Visa, Tieto, First Data, Global Payment using MasterCard acquiring license for Europe and Visa acquiring license for Europe, thus providing services to On-line merchants across Europe;
- investment of attracted funds in financial instruments;
- issue of credit lines linked to payment cards to private individuals;
- issue of loans to legal entities based on the moderately conservative risk approach, especially financing of current assets and transportation flows.

According to the Commercial Law of the Republic of Latvia, the general shareholders’ meeting has a right and duty to decide on the approval of the annual report.

2. THE COUNCIL AND THE BOARD

The Council of the Bank as at 31 December 2016

Name, Last name	Position	Date of appointment
Biomins Kajems	Chairman of the Council	13/10/2008
Mihails Uļmans	Deputy Chairman of the Council	20/09/2013
Aleksandr Plotkin	Council Member	14/10/2015

The Board of the Bank as at 31 December 2016

Name, Last name	Position	Date of appontment
Boriss Ulmans	Chairman of the Board	05/09/2008
Arnis Kalveršs	Board Member	05/09/2008
Jurijs Svirčenkovs	Board Member	29/04/2014

There have been no changes in the Bank's Council and Board in 2016.

MANAGEMENT REPORT (continued)

3. ECONOMIC REVIEW

Although 2016 was a tense year, thanks to the increasing compliance requirements and banking supervision activities, the Bank's financial results reached historical peak - including the profit in 2016 that reached 11 million euros. As in previous year, the Bank is one of the smallest Banks in Latvia by total assets, however, one of the most efficient banks. The Bank's return on assets (ROA) was 5.25% and the return on equity (ROE) was 43.28%.

Not only financilal results demonstrate the efficiency of the Bank. The Bank has a variety of process automation projects that resulted in improvement of the Bank's operational efficiency and a reduction of the use of resources, such as paper. One of such projects was the implementation of the Bank's electronic record-keeping system, introduced at the beginning of 2016 and to be continued in 2017, for the Bank to be able to complete a transition to an electronic systematization of internal documents.

In 2016, the Bank had started and already partially implemented the Bank's compliance process automation projects, which are expected to provide a full flow of information in an electronic format in this field of operation.

The Bank's financial assets portfolio consists of Latvian and foreign central government debt securities and credit institutions and other financial institutions debt securities. The Bank`s investments in financial assets are made in accordance with the Bank's approved "Available-for-sale financial assets portfolio investment strategies" and " Held-to-maturity financial investments portfolio investment strategy". In order to avoid high-risk transactions, the Bank has set limits for new investments in financial instruments, stating that the investment portfolios of financial instruments should be limited to the Latvian state securities and financial instruments with a credit rating of BBB- or higher and stable outlook (by Moody's scale, or its equivalent by Fitch or Standard & Poor's) as a minimum requirement. In small amounts, available for sale financial instruments portfolio can be supplemented with financial instruments whose credit rating is BB- or higher.

Due to announced in 2015 and implemented in 2016 strategic acquisiton of VISA Europe Limited by VISA Inc., in June 2016 the Bank received a cash payment of 5 174 thousand EUR, which was recognized as an income from the sale of financial instruments available for sale, as well as the Bank recognized income from deferred payment of 447 thousand EUR asa t 31 December 2016. In addition to, 1 878 preference shares were received.

The Bank performs quantitative risk assessment on the basis of the standardised and basic indicator approaches referred to in Regulations No. 575/2013 (26 June 2013) on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No.648/2012, the standardised and basic indicator approach, as well as the Financial and Capital Market Commission 29.11.2016. regulatory rules No. 199 "Capital and Liquidity Adequacy Assessment Process Regulations" described simplified methods.

MANAGEMENT REPORT (continued)

The level of the Bank’s exposure is controlled by using the Early warning system designed by the Bank, which encompasses the limits approved by the Bank and defines the parameters of each risk relevant to the moderate risk exposure defined in the Bank’s operational strategy. The aggregate risk exposure is determined as the weighted average of all components.

The capital adequacy ratio (CAR) of the Bank as at 31 December 2016 was 25.73% (on 31 December 2015 it was 15.97%), while in 2016 and 2015 the liquidity (ratio) was, respectively, 100.28% and 92.40%. The Bank does not have trading portfolio, therefore the Bank's market risk is mostly related to the foreign exchange risk.

In January 2017, the Bank used previous years’ retained earnings to pay dividends in the amount of 4.5 million euro. Payments of dividends as well as the amount of the dividends are included in the Bank's internal capital adequacy assessment process. Upon the completion of capital planning process, the Bank`s shareholders decide on the amount of the dividends and payments.

The Bank`s security, reliability, long-term partnership and at the same time continuous development are the key components for success of our customers and bank's business. This approach and principles has proven itself by the Bank's activities in 2016. The Bank is planning to follow this model in future.

On behalf of the Bank:

Biomins Kajems	Boriss Ulmans
Chairman of the Council	Chairman of the Board

Riga, 17 March 2017

STATEMENT OF MANAGEMENT’S RESPONSIBILITY

The management of AS LATVIJAS PASTA BANKA (hereinafter – the Bank) is responsible for the preparation of the Bank’s financial statements for each financial year.

In preparing the financial statements set out on pages 10 to 77 for the year ended 31 December 2016, the management has applied appropriate accounting principles that are based on prudent and reasonable judgments and estimates. The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the regulations of the Financial and Capital Markets Commission.

The Bank’s management is responsible for maintaining proper accounting records and ensuring compliance with the Regulations of the Financial and Capital Market Commission, law on credit institutions and other legislation. The management is also responsible for taking all reasonable efforts to safeguard the Bank’s assets and the prevention and detection of fraud and other irregularities in the Bank. The management’s decisions and judgments used in the preparation of these financial statements were prudent and reasonable.

On behalf of the Bank`s management:

Biomins Kajems	Boriss Ulmans
Chairman of the Council	Chairman of the Board

Riga, 17 March 2017

Translation from Latvian origina

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of AS Latvijas Pasta Banka

Report on the audit of the Financial Statements

Our Opinion

In our opinion, the accompanying financial statements of AS Latvijas Pasta Banka (the Bank) set out on pages 10 to 77 of the accompanying annual report give a true and fair view of the financial position of Bank as at December 31, 2016, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

What we have audited

The financial statements comprise:

- statement of financial position as at December 31, 2016,
- the statement of comprehensive income for the year then ended,
- the statement of changes in equity for the year then ended,
- the statement of cash flows for the year then ended, and
- the notes to the financial statements which include a summary of significant accounting policies.

Basis for Opinion

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

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

Independence

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements and auditor's independence rules that are relevant to our audit of the financial statements in the Republic of Latvia. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Reporting on Other Information

Management is responsible for the other information. The other information comprises

- the Management Report, as set out on pages 3 to 5 of the accompanying Annual Report,
- the Statement on Management's Responsibility, as set out on page 6 of the accompanying Annual Report,

but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information included in the Annual Report, and we do not express any form of assurance conclusion thereon, except as described in the *Other Reporting Responsibilities in Accordance with the Legislation of the Republic of Latvia* section of our report.

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

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

In preparing the financial statements, management is responsible for assessing the Bank'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 or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these 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 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 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 ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

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

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

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 Report of the Management, our responsibility is to consider whether the Report of the Management is prepared in accordance with the requirements of the Financial and Capital Market Commission Regulation No. 46 "Regulations on the Preparation of Annual Accounts and Consolidated Annual 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 financial statements are prepared is consistent with the financial statements; and
- the Management Report has been prepared, in all material respects, in accordance with the requirements of the Financial and Capital Market Commission Regulation No. 46 "Regulations on the Preparation of Annual Accounts and Consolidated Annual Accounts for Banks, Investment Brokerage Firms and Investment Management Companies".

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

Ilandra Lejiņa
Certified auditor in charge
Certificate No. 168
Member of the Board

Rīga, Latvija
17 March 2017

* This version of our report is a translation from the original, which was prepared in Latvian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

STATEMENT OF COMPREHENSIVE INCOME
(All values are expressed in thousands of euro (000'EUR))

	Notes	2016	2015
Interest income	3	5 648	5 383
Interest expense	3	(1 126)	(857)
Net interest income	3	**4 522**	**4 526**
Provision for loan impairment	8	(502)	(152)
Net interest income after provision for loan impairment		**4 020**	**4 374**
Commission and fee income	4	19 695	11 836
Commission and fee expense	4	(12 611)	(5 327)
Net commission and fee income	4	**7 084**	**6 509**
Income from dividends		7	-
Net trading income	6	8 276	1 072
Other income	5	253	171
Administrative expense	7	(5 590)	(4 474)
Depreciation	15	(333)	(319)
Other expense	5	(1 042)	(2 458)
Profit before tax		**12 675**	**4 875**
Corporate income tax	9	(1 419)	(445)
Net profit for the year		**11 256**	**4 430**
Profit attributable to owners of the Bank		**11 256**	**4 430**
Other comprehensive (expense) / income			
Items that may be reclassified subsequently to profit or loss			
Change in revaluation reserve		(3 648)	4 975
Total other comprehensive (expense) / income		**(3 648)**	**4 975**
Total other comprehensive income attributable to owners of the Bank		**7 608**	**9 405**
Earnings per share (EUR)	23	**0.866**	**0.369**

The accompanying notes on pages 15 to 77 form an integral part of these financial statements.
The Bank's financial statements set out on pages 10 to 77 were approved by the Board and by the Council on 17 March 2017.

Biomins Kajems
Chairman of the Council

Boriss Ulmans
Chairman of the Board

Riga, 17 March 2017

STATEMENT OF FINANCIAL POSITION
(All values are expressed in thousands of euro (000'EUR))

	Notes	31.12.2016	31.12.2015
ASSETS			
Cash and balances with the Bank of Latvia	10	24 884	13 115
Due from credit institutions	11	16 785	52 086
Held for trading financial assets		1	6
Available-for-sale financial assets	13	27 240	49 835
Loans and receivables	12	40 162	45 083
Held-to-maturity financial investments	13	79 413	50 205
Property, plant and equipment	15	6 888	7 070
Intangible assets	15	521	451
Other assets	16	8 596	1 877
Prepaid expense and accrued income		254	287
Total assets		**204 744**	**220 015**
LIABILITIES			
Held for trading financial liabilities		2	2
Liabilities at amortised cost	19	168 389	194 985
Deposits from customers		*168 389*	*194 985*
Current tax liabilities	9	901	233
Deferred tax liabilities	9	354	284
Other liabilities	20	4 205	2 397
Deferred income and accrued expense	21	908	737
Total liabilities		**174 759**	**198 638**
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK			
Paid-in share capital	22	13 000	12 000
Available-for-sale financial assets revaluation reserve		819	4 467
Retained earnings		16 166	4 910
Total equity attributable to equity holders of the Bank		**29 985**	**21 377**
Total equity		**29 985**	**21 377**
Total liabilities and equity		**204 744**	**220 015**

The accompanying notes on pages 15 to 77 form an integral part of these financial statements.
The Bank's financial statements set out on pages 10 to 77 were approved by the Board on and by the Council on 17 March 2017.

Biomins Kajems
Chairman of the Council

Boriss Ulmans
Chairman of the Board

Riga, 17 March 2017

STATEMENT OF CHANGES IN EQUITY
(All values are expressed in thousands of euro (000’EUR))

	Paid-in share capital	Available-for-sale financial assets revaluation reserve	Retained earnings	Total
Balances as at 31 December 2014	**10 465**	**(508)**	**1 980**	**11 937**
Increase in share capital	1 535	-	-	1 535
Other comprehensive income	-	4 975	-	4 975
Net profit for the year	-	-	4 430	4 430
Dividends paid	-	-	(1 500)	(1 500)
Balances as at 31 December 2015	**12 000**	**4 467**	**4 910**	**21 377**
Increase in share capital	1 000	-	-	1 000
Other comprehensive expense	-	(3 648)	-	(3 648)
Net profit for the year	-	-	11 256	11 256
Balance as at 31 December 2016	**13 000**	**819**	**16 166**	**29 285**

The accompanying notes on pages 15 to 77 form an integral part of these financial statements.
The Bank’s financial statements set out on pages 10 to 77 were approved by the Board on and by the Council on 17 March 2017.

Biomins Kajems Chairman of the Council	Boriss Ulmans Chairman of the Board

Riga, 17 March 2017

STATEMENT OF CASH FLOWS
(All values are expressed in thousands of euro (000’EUR))

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	12 675	4 875
Amortisation / depreciation	333	319
Increase in impairment allowance for financial assets	502	152
Interest income	(5 648)	(5 383)
Interest expense	1 126	857
Unrealised foreign exchange loss / (gain)	13	(153)
Increase in cash and cash equivalents from operating activities before changes in assets and liabilities	**9 001**	**667**
Decrease in balances due from credit institutions	3 182	1 310
(Increase) / decrease in loans and receivables	4 437	(12 786)
(Increase) / decrease in other assets	(6 744)	1 383
(Decrease) / increase in deposits from customers	(26 747)	69 058
Increase in other liabilities	1 979	788
Change in cash and cash equivalents from operating activities before income tax	**(14 892)**	**60 420**
Interest received	5 465	5 245
Interest paid	(975)	(765)
Income tax paid	(681)	(48)
Change in cash and cash equivalents from operating activities	**(11 083)**	**64 852**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(221)	(169)
Decrease / (increase) of available-for-sale financial assets	18 928	(32 789)
Increase of held-to-maturity financial instruments	(28 945)	(5 994)
Change in cash and cash equivalents from investing activities	**(10 238)**	**(38 952)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Emissions	1 000	1 535
Dividends paid	-	(1 500)
Decrease of subordinated loan	-	(1 250)
Change in cash and cash equivalents from financing activities	**1 000**	**(1 215)**
Net cash flows for the year	**(20 321)**	**24 685**
Cash and cash equivalents at the beginning of the year	62 003	37 165
Foreign exchange (loss) / gain	(13)	153
Cash and cash equivalents at the end of the year	**41 669**	**62 003**

Cash and cash equivalents are disclosed in note 24.

STATEMENT OF CASH FLOWS (continued)

The accompanying notes on pages 15 to 77 form an integral part of these financial statements. The Bank's financial statements set out on pages 10 to 77 were approved by the Board on and by the Council on 17 March 2017.

Biomins Kajems	Boriss Ulmans
Chairman of the Council	Chairman of the Board

Riga, 17 March 2017

NOTE 1 GENERAL INFORMATION

(a) Statement of compliance

The Bank's financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU").

(b) Going concern

The financial statements are prepared on the going concern basis. The Bank's management has analysed the Bank's financial position, availability of financial resources as well as the impact of the financial crisis on the future operations of the Bank. The Bank's operating strategy is aimed at further development of the bank servicing certain customers and developing customised products and service technologies.

The Bank's capital adequacy is monitored by the following:

- Analysing the report prepared in accordance with the Bank's Procedure for Calculating the Minimum Capital Requirements at least on a monthly basis;
- Assessing the capital required to cover all significant risks the Bank is exposed to and the extent of the available capital for a three-year planning period at least once every year and by benchmarking the actual financial performance of the Bank against the target indicators on a monthly basis;
- Analysing the asset quality and estimating the required allowances at least on a quarterly basis.

Pursuant to the Bank's Crisis Management Plan, in the event of a prolonged crisis of capital the Bank will use its capital reserves, attract subordinated deposits, or seek a shareholders' decision to increase the Bank's capital.

Having analysed the key risks related to the present and potential economic situation, the development of the banking industry as well as the Bank's existing and potential human and financial resources, the Bank has selected to pursue the following strategy:

- As a priority, to offer its services to legal entities, forming the customer portfolio based on customised services;
- Along with legal entities, to offer equal customised services also to high-income and ultra-high income private individuals;
- To be present in Latvia, Russia, other CIS countries and European Union;
- To define as the priority business activity the following:
    - issue and acceptance of payment cards via POS terminals and the Internet, in cooperation with renowned organisations, such as MasterCard, Visa, Tieto, First Data, Global Payment,
    - investment of attracted funds in financial instruments,
    - issue of credit lines linked to payment cards to private individuals,
    - issue of loans to legal entities based on the moderately conservative risk approach, especially financing of current assets and transportation flows;
    - The Bank has set a target capital adequacy ratio for 2016 of at least 16 per cent.

(c) Functional and presentation currency

These financial statements are reported in thousands of euro (EUR’000), unless otherwise stated. The functional currency of the Bank is euro (EUR).

(d) Basis of presentation

These financial statements are prepared on a historical cost basis, except for assets and liabilities which are reported at fair value:

- derivative financial instruments;
- available-for-sale financial assets.

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

Income and expense are not offset in the financial statements unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Bank.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) New Standards and Interpretations

Changes in accounting policies

Except for the changes below, the Bank has consistently applied the accounting policies to all periods presented in these financial statements.

The Bank has 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 financial statements:

- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" - Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after 1 January 2016).
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture" – regarding bearer plants (effective for annual periods beginning on or after 1 January 2016).
- Amendments to IAS 27 "Separate Financial Statements" - Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016).
- Amendments to IAS 1 "Presentation of financial statements" regarding disclosure initiative (effective for annual periods beginning on or after 1 January 2016).
- Amendments to IFRS 10 "Consolidated financial statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in associates and joint ventures" – Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016).
- Annual improvements to IFRS's 2014 (effective for annual periods beginning on or after 1 January 2016). The amendments include changes that affect 4 standards:
    - IFRS 5 "Non-current assets held for sale and discontinued operations",
    - IFRS 7 "Financial instruments: Disclosures" with consequential amendments to IFRS 1,
    - IAS 19 "Employee benefits", and
    - IAS 34 "Interim financial reporting".
- Amendments to IAS 19 "Employee benefits plans" regarding defined benefit plans (effective for annual periods beginning on or after 1 February 2015).
- Annual improvements to IFRS's 2012 (effective for annual periods beginning on or after 1 February 2015). These amendments include changes that affect 6 standards:
    - IFRS 2 "Share-based payment",
    - IFRS 3 "Business Combinations",
    - IFRS 8 "Operating segments",

- IAS 16 “Property, plant and equipment”
- and IAS 38 “Intangible assets”,
- IAS 24 “Related party disclosures”.

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017, and have not been applied in preparing these financial statements. Those which may be relevant to the Bank are set out below. The Bank does not plan to adopt these standards early.

IFRS 9 “Financial instruments” (effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity’s business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets’ cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a ‘three stage’ approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.

Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

Management has estimated that IFRS 9 will not have a significant impact in relation to loan impairment and financial instrument classification.

- IFRS 15 “Revenue from Contracts with Customers” (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IFRS 10 “Consolidated financial statements”, IAS 28 “Investments in associates and joint ventures” – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective date to be determined by the IASB, not yet endorsed in the EU);
- IFRS 16 “Leases” (effective for annual periods beginning on or after 1 January 2019, not yet endorsed in the EU);
- Amendments to IAS 12 “Income taxes” - recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017, not yet endorsed in the EU);
- Amendments to IAS 7 “Statement of Cash Flows” – Disclosure initiative (effective for annual periods beginning on or after 1 January 2017, not yet endorsed in the EU);
- Amendments to IFRS 15 “Revenue from Contracts with Customers” (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU);
- Amendments to IFRS 2 “Share-based Payment” (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU);
- Amendments to IFRS 4 “Insurance Contracts” – Applying IFRS 9 “Financial statements” with IFRS 4 “Insurance contracts” (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU);
- Annual improvements to IFRS’s 2016. The amendments include changes that affect 3 standards:
    - IFRS 12 “Disclosure of Interests in Other Entities” (effective for annual periods beginning on or after 1 January 2017, not yet endorsed in the EU),
    - IFRS 1 “First-time Adoption of International Financial Reporting Standards” (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU), and
    - IAS 28 “Investments in Associates and Joint Ventures” (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU).
- IFRIC 22 “Foreign Currency Transactions and Advance Consideration” (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU);
- Amendments to IAS 40 “Investment Property” - Transfers (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU).

(b) Significant accounting judgments and estimates

In the process of applying the Bank's accounting policies, management has exercised judgment and estimates in determining the amounts recognised in the financial statements. The most significant judgments and estimates used are as follows:

Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs.

Impairment losses
The individual impairment allowance is made for loans based on the evaluation of the borrower's financial position, value of collateral, and fulfilment of the loan agreement. The level of the allowance is based on the present value of expected future cash flows considering relevant factors that may affect the borrowers' ability to repay, collateral value, and current economic conditions. Ultimate losses may vary from the current estimates. The value of the collateral held in connection with loans and advances is based on the estimated fast realisable value of the asset and is taken into account when determining expected cash flows and accordingly the allowance.

Available-for-sale financial assets are assessed individually for impairment whenever there is any indication of potential impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. The bank treats 'significant' generally as 20% and 'prolonged' generally as greater than six months.

(c) Foreign currency translation

Transactions and balances
Transactions in foreign currencies are recorded in euro at the functional currency rate of exchange ruling at the date of the transaction set by the European Central Bank. Monetary assets and liabilities denominated in foreign currencies are translated into lats at the official rate of exchange set by the European Central Bank prevailing at the end of the year.

All realised gains and losses are taken to the statement of comprehensive income in the period when incurred. Unrealised gains and losses resulting from the revaluation of assets and liabilities are included in the statement of comprehensive income applying the exchange rates prevailing at the reporting date.

The principal year-end rates of exchange (amount of foreign currency to one EUR) used in the preparation of these financial statements are as follows:

European Central Bank official exchange rate	31 December 2016	31 December 2015
USD	1.05410	1.08870
RUB	64.30000	80.67360
GBP	0.85618	0.73395
PLN	4.41030	4.26390

(d) Financial assets and liabilities

All financial instruments upon initial recognition are classified into one of the following categories:

- Financial assets and liabilities held at fair value through profit or loss;
- Available-for-sale financial assets;
- Held-to-maturity financial investments;
- Loans and receivables;
- Financial liabilities recognised at amortised cost.

Recognition and derecognition of financial assets

Financial assets are recognised in the statement of financial position when, and only when, the Bank becomes a party to the contractual provisions of the instrument. All regular way purchases and sales of financial assets are recognized in the statement of financial position on the settlement date representing the date when the financial asset is delivered. In the period between the dates of transaction and settlement, the Bank accounts for the changes in the fair value of the received or transferred asset based on the same principles as used for any other acquired asset of the respective category. A financial asset is derecognised only when the contractual rights to receive cash flows from the asset have expired, or the Bank has transferred the financial asset and substantially all the risks and rewards of the asset to the counterparty.

All purchases and sales of financial assets, except for loans issued to non-bank customers, are recognised and derecognised on the settlement date. Loans to non-bank customers are recognised in the statement of financial position when cash is transferred to the customer’s current account.

Derivative financial instruments

Derivative financial instruments are classified as financial assets and liabilities held at fair value through profit or loss as held for trading assets and liabilities. The Bank uses derivatives such as forward foreign exchange contracts and currency swaps. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. The fair value of derivatives is disclosed in the statement of financial position as derivative financial instruments. Daily changes in the fair value of derivatives are included in the statement of comprehensive income in net trading income.

Available-for-sale financial assets

The Bank acquires available-for-sale securities to hold them for an undefined period and generate interest income and/or profit from the increase in prices of securities. The available-for-sale portfolio includes fixed income securities.

After initial recognition at fair value, including direct transaction costs, available-for-sale securities are measured at fair value. The revaluation result is charged through the statement of comprehensive income to the shareholders’ equity as the fair value revaluation reserve of available-for-sale financial assets.

For available-for-sale securities acquired at a discount (premium), the respective discount (premium) amount is amortised on a systematic basis, using the effective interest method. Amortised amounts are charged to the statement of comprehensive income as interest income from debt securities.

Any gain or loss resulting from disposal of available-for-sale securities and the fair value revaluation reserve accrued until such disposal are included in the statement of comprehensive income as net realised trading gain / (loss).

Held-to-maturity financial investments

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Bank has the intention and ability to hold to maturity and which do not meet the criteria of loans and receivables. Held-to-maturity financial investments comprise debt securities. Held-to-maturity financial investments are carried at amortised cost using the effective interest rate method, less any allowance for impairment.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans are carried at amortised cost using the effective interest method. The amortised cost of a loan is the amount at the issue of the loan minus principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between the initial amount and the maturity amount, and minus any reduction for impairment or uncollectability.

Finance leases (Bank as a lessor)

For reporting purposes, finance lease receivables are carried as loans and receivables.
Finance lease receivables are recognised as assets at the commencement of the lease term at an amount equal at the inception of the lease to the net investment in the lease. Finance income is recognised over the lease term to produce a constant periodic return on the net investments outstanding in respect of finance leases.

Financial liabilities

Financial instruments carried as deposits from customers and subordinated debt are classified as financial liabilities at amortised cost.

After initial measurement, financial liabilities are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount on issue and fees that are an integral part of the effective interest rate. The amortisation is included in interest expense in the statement of comprehensive income.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in profit or loss.

Impairment of financial assets

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

The Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant and collectively for all past due loans regardless of their net carrying amount. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.
For the purpose of a collective evaluation of impairment, the Bank assumes that contractual cash will be recovered and the impairment loss is evaluated on the basis of historical loss experience adjusted for current observable data.

The carrying amount of the asset is reduced through the use of an allowance account, and the decrease or increase of allowances is taken to the statement of comprehensive income for the reporting year. When there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank loan balance together with the associated allowance are written off.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Fair value of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. To determine the fair value of financial assets and liabilities, the Bank uses quoted market prices, ratings assigned by independent rating agencies, or relevant valuation techniques. Where quoted prices are not readily available, fair values are determined by using alternative pricing models considering that fair value is not the amount that the Bank would receive or pay in a forced transaction, involuntary liquidation or distress sale. These models are based on the discounted cash flow analysis where relevant cash flows from the respective financial assets are measured and discounted at an interest rates applicable to a certain category of assets.

(e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment charges, if any is recognised. No depreciation is calculated for land. For other fixed assets and intangible assets that have a limited life, the cost is reduced by accumulated depreciation calculated on the basis of the asset useful lives, using the straight-line method.
Depreciation is calculated using the straight-line method applying the following rates:

Property, plant and equipment:	
Buildings	2%
Computers and equipment	33 %
Vehicles	20 %
Other property, plant and equipment	10-20 %

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset is calculated as the difference between the net disposal proceeds and the carrying amount of the item at the disposal date and is included in the statement of comprehensive income.

(f) Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance (licences, software that is not an integral part of the related hardware, etc.) held for supply of services or otherwise and are recognised as such when it is probable that the expected economic benefits that are attributable to the asset will flow to the Bank.

Intangible assets are stated at cost less accumulated amortisation and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation is included in the statement of comprehensive income on a straight-line basis over the useful life of the asset. The useful life of each asset is estimated on an individual basis, considering the contractual provisions and/or the period in which the asset’s future economic benefits are expected to be consumed by the Bank.

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.
The amortisation rates by categories of assets are as follows:

Intangible assets:	
Licences	10 %
Software	10 %

(g) Impairment of non-financial assets

The Bank assesses at each reporting date whether there is an indication that non-financial assets (except for the deferred tax asset) may be impaired. If any such indication exists, the Bank makes an estimate of the asset’s recoverable amount. The recoverable amount is the higher of an asset`s fair value less costs of disposal and value in use. An impairment loss is recognised when the carrying amount of an asset exceeds its recoverable amount. Impairment losses are taken to the statement of comprehensive income.

(h) Recognition of income and expense

For all interest bearing financial assets and financial liabilities, interest income or expense is recorded in the statement of comprehensive income by using the effective interest rate (EIR), which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument. The calculation takes into account all contractual terms of the financial instrument (for example, prepayments, maturity and other options), but not future credit losses.

Interest income and expense include the amortisation of any difference between the cost of interest-bearing financial assets or liabilities and their maturity amount calculated applying the effective interest rate method (discount, premium, etc.).

Interest income comprises coupons earned from debt securities of the Bank’s portfolio.

Accumulated interest income and income from impaired financial assets are included in the statement of comprehensive income unless the Bank has objective evidence that payments will not be received in the due term. Once the recorded value of a financial asset has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Commission and fee income from customers is usually recognised on an accrual basis as the service is supplied based on each particular situation, or on a certain performance.

Fees earned for the provision of services over a period of time are accrued over that period and taken to income. These fees include account servicing, asset management, commission from payment card transactions, etc. Loan related fees are taken to income on a systematic basis over the period of the loan. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight line basis. Fees that are due for the provision of certain services are taken to income on completion of the respective service.

Income and expense attributable to the reporting period are taken to the statement of comprehensive income regardless of the receipt or payment date.

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash and amounts due from central banks and other credit institutions, and amount due to other credit institutions on demand and with an original maturity of three months or less. The statement of cash flows reports cash flows during the period classified by operating, investing and financing activities.

Cash flows from operating activities are reported using the indirect method. Cash flows from investing and financing activities are presented on the basis of comprehensive income and cash payments for the year.

(j) Taxation

Corporate income tax is calculated according to the requirements of Latvian tax laws. The income tax rate applied in 2015 and 2016 is 15%.

Deferred corporate income tax arising from temporary differences in the timing of the recognition of items in the tax returns and these financial statements is calculated using the liability method. The deferred corporate income tax is determined based on the tax rates that are expected to apply when the temporary differences reverse based on tax rates enacted or substantively enacted by the reporting date. The principal temporary differences arise from differing rates of accounting and tax depreciation on the Bank's fixed assets, as well as accruals for unused annual leave.

The carrying amount of the deferred corporate income tax asset, if any, is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

(k) Off-balance sheet financial commitments and contingent liabilities

In the ordinary course of business, the Bank is involved with off-balance sheet financial commitments and contingent liabilities comprising commitments to extend loans and receivables to customers, commitments for unutilised credit lines or credit card limits, and financial guarantees.

Commitments to extend loans and receivables and commitments for unutilised credit lines or credit card limits represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiration dates or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

Provisions are recognised when the bank has a present obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement.

(l) Trust activities

Funds managed by the Bank on behalf of individuals, corporate customers, trusts and other institutions are not regarded as assets of the Bank and, therefore, are not separately included in the statement of financial position. Funds under trust management are presented in these financial statements only for disclosure purposes. The Bank does not assume any control, risks and rights with regard to the assets and liabilities under trust management.

(m) Dividends

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

(n) Employee benefits

The Bank pays State compulsory social security contributions for state pension insurance and to the state funded pension scheme in accordance with Latvian legislation. State funded pension scheme is a defined contribution plan under which the Bank pays fixed contributions determined by the law and it will have no legal or constructive obligations to pay further contributions if the state pension insurance system or state funded pension scheme are not able to settle their liabilities to employees. According to the rulings of the Cabinet of Ministers of the Republic of Latvia 69.99% (2015: 71.55%) of the social security contributions are used to finance state funded pension scheme.

Short-term employee benefits, including salaries and state compulsory social security contributions, bonuses and paid vacation benefits, are included in Administrative expenses on an accrual basis.

NOTE 3 NET INTEREST INCOME

	2016	2015
Interest income		
Due from credit institutions	427	448
Loans and receivables	2 612	2 466
Incl. impaired loans	*65*	*17*
Securities	2 609	2 469
Incl. held to maturity	*1 767*	*1 596*
Incl. available for sale	*842*	*873*
Total interest income:	**5 648**	**5 383**
Interest expense		
Due to credit institutions	(2)	(1)
Non-bank deposits	(814)	(648)
Payments to the Deposit Guarantee Fund	(310)	(208)
Total interest expense:	**(1 126)**	**(857)**
Net interest income	**4 522**	**4 526**

NOTE 4 NET COMMISSION AND FEE INCOME

	2016	2015
Commission and fee income		
Payment card transactions	15 892	8 417
Service fee for account maintenance and cash transactions	2 470	2 601
Asset management and brokerage services	1 071	589
Other bank transactions	262	229
Total commission and fee income:	**19 695**	**11 836**
Commission and fee expense		
Payment card transactions	(9 464)	(5 089)
Agents commission	(2 779)	-
Correspondent banking services	(264)	(139)
Brokerage services	(67)	(73)
Other bank transactions	(37)	(26)
Total commission and fee expense:	**(12 611)**	**(5 327)**
Net commission and fee income	**7 084**	**6 509**

NOTE 5 OTHER INCOME AND EXPENSE

	2016	2015
Other income		
Penalties collected	191	122
Incl. past due loan payments	*168*	*98*
Other income	44	49
Income from recovery of terminated assets	18	-
Total other income	**253**	**171**
Other expense		
Membership fees to various organisations	(79)	(61)
Payment card project implementation and servicing	(880)	(691)
Factoring service related expense	(23)	(23)
Client attraction related expense	-	(1 609)
Other expenses	(60)	(74)
Total other expenses	**(1 042)**	**(2 458)**

Costs associated with customer attraction in 2016 (2 779 thous. EUR) are presented under Commission and Fee expense as with the heading Agents Commission (Note 4).

NOTE 6 NET TRADING INCOME

	2016	2015
Net gain / (loss) from transactions with derivative financial instruments	576	(310)
Incl. net trading gain / (loss)	*576*	*(314)*
Net gain from transactions with other currency	1 573	1 273
Incl. net trading gain	*1 586*	*1 121*
net revaluation result	*(13)*	*152*
Net gain from available-for-sale financial instruments	6 127	109
Net trading gain	**8 276**	**1 072**

Due to announced in 2015 and implemented in 2016 strategic acquisiton of VISA Europe Limited by VISA Inc., in June 2016 Bank received a cash payment of 5 174 thousands EUR, which was recognized as an income from the sale of financial instruments available for sales, as well as on 31 December 2016 the Bank recognized income from deferred payment of 447 thousands EUR. In addition to which, 1 878 preference shares were received. Assesment of preffered shares received is disclosed in Annex 28.

NOTE 7 ADMINISTRATIVE EXPENSE

	2016	2015
Remuneration expense		
Remuneration to the Council and the Board	209	159
Remuneration to personnel	3 109	2 797
State compulsory social security contributions	778	693
Total remuneration expense:	**4 096**	**3 649**
Lease and maintenance of premises	113	110
Non-deductible input tax	159	131
Telephone, communications and mail	93	62
Software maintenance	126	106
Professional and legal fees	99	55
Stationery and other office expense	21	30
Other personnel expense	93	69
Property tax	45	44
Non-operating expenses*	349	126
Penalties paid	322	-
Other administrative expense	74	92
Total other expense:	**1 494**	**825**
Administrative expense	**5 590**	**4 474**

*In 2016 administrative expenses includes donations to public interest entities of 315 thousand EUR (2015: 86 thousand EUR).

As at 31 December 2016, the Bank had 178 employees (2015: 170 employees).

Payment for the audit and other services to certified audit firm for financial year 2016 is included in administrative expenses. Total amount paid to cerified autit firm is:

	2016	2015
Financial year audit and interim audit fee	24	24
Other services provided by certified audit firm and similar payments	2	2

NOTE 8 PROVISION FOR LOAN IMPAIRMENT

	Loans	Other assets	Total
Balance as at 31 December 2014	**449**	**-**	**449**
Increase	54	99	153
Decrease	(1)	-	(1)
Write-offs	-	(99)	(99)
Balance as at 31 December 2015	**502**	**-**	**502**
Increase	458	45	503
Decrease	(1)	-	(1)
Write-offs	(18)	(45)	(63)
Balance as at 31 December 2016	**941**	**-**	**941**

NOTE 9 CORPORATE INCOME TAX

Corporate income tax expense comprises the following items:

	2016	2015
Current corporate income tax charge for the reporting year	(1 349)	(391)
Deferred corporate income tax	(70)	(54)
Total corporate income tax expense	**(1 419)**	**(445)**

Below is presented the comparison of actual income tax charge and the theoretical tax calculated applying the 15% statutory rate prescribed by Latvian tax laws (2015: 15%):

	2016	2015
Profit before tax	**12 675**	**4 875**
Corporate income tax at the statutory rate of 15%	1 901	731
Non-taxable income	(448)	(361)
Non-deductible expenses	164	94
Tax credit for donations	(268)	(73)
Corporate income tax expense for the year	**1 349**	**391**

Overall deferred tax movement is as follows:

	2016	2015
Deferred tax liability at beginning of the year	284	230
Deferred tax expense for the year	70	54
Deferred tax liability at end of the year	**354**	**284**

The movements in deferred corporate income tax can be specified as follows:

	31.12.2016	31.12.2015
Deferred corporate income tax liability:		
Accumulated excess of tax depreciation over accounting depreciation	354	309
Other differences	-	1
Deferred corporate income tax asset:		
Vacation pay reserve	-	(26)
Deferred corporate income tax liability	**354**	**284**

There was no tax loss carried forward as at 31 December 2015 and 31 December 2016.

NOTE 10 CASH AND BALANCES WITH THE BANK OF LATVIA

	31.12.2016	31.12.2015
Cash	1 815	2 652
Balances with the Bank of Latvia	23 069	10 463
Total	**24 884**	**13 115**

Balances with the Bank of Latvia include cash on the correspondent account and a short-term deposit with the Bank of Latvia. According to the instructions of the Bank of Latvia, the Bank's average monthly balance on its correspondent account may not be less than the compulsory reserve calculated for the balance of liabilities included in the reserve basis on the last day of the month. As at 31 December 2016, the Bank's compulsory reserve requirement was 1 573 thousand EUR (2015: EUR 1 582 thousand).

NOTE 11 DUE FROM CREDIT INSTITUTIONS

	31.12.2016	31.12.2015
Amounts due on demand	**16 785**	**44 350**
Credit institutions registered in Latvia	3 870	12 385
Credit institutions registered in the EU	4 438	20 106
Credit institutions of other countries	8 477	11 859
Term deposits	**-**	**7 736**
Credit institutions registered in Latvia	-	5 133
Credit institutions of other countries	-	2 603
Total	**16 785**	**52 086**

The Bank's average interest rates applicable for the balances due from credit institutions in 2016 are as follows: USD 0.75%, EUR -0.4%, RUB 9.1%. (2015: USD 0.3%, EUR 0.75%, RUB 10.8%).

NOTE 12 LOANS

(a) By customer profile

	31.12.2016	31.12.2015
Private non-financial companies	28 439	33 723
Financial institutions	2 362	2 378
Households	10 302	9 484
Total loans	**41 103**	**45 585**
Allowance for credit losses	(941)	(502)
Net loans	**40 162**	**45 083**

(b) By geographical profile

	31.12.2016	31.12.2015
Residents of Latvia	38 522	41 198
Residents of EU Member States	456	2 085
Residents of other countries	2 125	2 302
Total loans	**41 103**	**45 585**
Allowance for credit losses	(941)	(502)
Net loans	**40 162**	**45 083**

(c) By type

	31.12.2016	31.12.2015
Commercial loans	9 429	15 032
Industrial loans	4 542	4 601
Finance leases	812	882
Credit card loans	81	78
Mortgage loans	17 157	16 942
Factoring	1 251	1 583
Other loans	7 612	6 150
Cash in financial institutions	219	317
Total loans	**41 103**	**45 585**
Allowance for credit losses	(941)	(502)
Net loans	**40 162**	**45 083**

(d) Loans and advances to customers by quality

	31.12.2016	31.12.2015
Neither past due nor impaired	35 170	38 034
Past due but not impaired	3 436	6 384
Impaired	2 497	1 167
Total gross loans and advances to customers	**41 103**	**45 585**
Allowances for doubtful debts	(941)	(502)
Total net loans and advances to customers	**40 162**	**45 083**

000’EUR

31.12.2016

	Loans	Finance leases	Factoring	Credit card loans	Total
Loans and advances to customers neither past due nor impaired	**33 658**	**619**	**825**	**68**	**35 170**
Private non-financial companies	21 840	585	825	7	23 256
Financial institutions	2 259	-	-	4	2 263
Private individuals	9 559	34	-	57	9 650
Loans and advances to customers past due but not impaired	**3 243**	**193**	**-**	**-**	**3 436**
Past due up to 30 days	999	151	-	-	1 150
Past due 30-60 days	71	9	-	-	80
Past due 60-90 days	-	-	-	-	-
Past due over 90 days	2 173	33	-	-	2 206
Total loans and advances to customers individually impaired	**2 058**	**-**	**426**	**13**	**2 497**
Total gross loans and advances to customers	**38 959**	**812**	**1 251**	**81**	**41 103**
Allowances for doubtful debts	(502)	-	(426)	(13)	(941)
Total net loans and advances to customers	**38 457**	**812**	**825**	**68**	**40 162**

31.12.2015

	Loans	Finance leases	Factoring	Credit card loans	Total
Loans and advances to customers neither past due nor impaired	**35 996**	**823**	**1 152**	**63**	**38 034**
Private non-financial companies	24 614	738	1 152	11	26 515
Financial institutions	2 376	-	-	2	2 378
Private individuals	9 006	85	-	50	9 141
Loans and advances to customers past due but not impaired	**6 325**	**59**	**-**	**-**	**6 384**
Past due up to 30 days	5 264	-	-	-	5 264
Past due 30-60 days	56	-	-	-	56
Past due 60-90 days	-	59	-	-	59
Past due over 90 days	1 005	-	-	-	1 005
Total loans and advances to customers individually impaired	**721**	**-**	**431**	**15**	**1 167**
Total gross loans and advances to customers	**43 042**	**882**	**1 583**	**78**	**45 585**
Allowances for doubtful debts	(57)	-	(431)	(14)	(502)
Total net loans and advances to customers	**42 985**	**882**	**1 152**	**64**	**45 083**

(e) Significant credit risk concentration

As at 31 December 2016, the Bank had no any borrower, whose aggregate liabilities exceeded 10% of the Bank`s equity (31 December 2015: 8 borrowers or groups of related borrowers).

The Bank's credit risk concentration to one customer or a group of related customers may not exceed 25% of the Bank's equity. If a customer is a credit institution or an investment brokerage firm, or a group of related customers including one or several credit institutions or investment brokerage firms, established in the country comparable to the European Union country (Implementation decision No 2014/908 of European Union and the European Commission of 12 December 2014 / EU on equivalence third countries' and territories' supervisory and regulatory requirements to apply the approach to risk tantamount according to the European Parliament and Council Regulation (EU) Nr.575 / 2013), total exposure to the customer shall not exceed 95 per cent of the Bank's equity. On 31 December 2016 and 31 December 2015, the Bank was in compliance with these requirements.

NOTE 13 FINANCIAL ASSETS

a) Financial assets by portfolios

	31.12.2016	31.12.2015
Available-for-sale financial assets		
Debt securities issued by Latvian government	1 904	1 893
Debt sequirities issued by other central goverment	2 224	10 066
Debt securities issued by EU credit institutions	6 632	9 517
Debt securities issued by credit institutions of other countries	9 692	4 868
Debt securities issued by EU financial institutions	2 371	4 575
Debt securities issued by other countries financial institutions	-	8 262
Debt securities issued by Latvia non-financial companies	1 052	1 001
Debt securities issued by EU non-financial companies	1 035	1 393
Debt securities issued by other countries non-financial companies	1 356	3 407
VISA shares	974	4 853
Total available-for-sale financial assets	**27 240**	**49 835**
Held-to-maturity financial investments		
Debt securities issued by the Latvian government	17 069	17 768
Debt securities issued by EU central governments	6 417	4 287
Debt securities issued by EU credit institutions	12 199	5 821
Debt securities issued by credit institutions of other countries	23 543	14 812
Debt securities issued by EU financial companies	2 051	-
Debt securities issued by Latvian non-financial companies	1 762	1 762
Debt securities issued by EU non-financial companies	12 518	2 011
Debt securities issued by other countries non-financial companies	3 854	3 744
Total held-to-maturity financial investments	**79 413**	**50 205**

b) Available-for-sale financial assets by geographical profile

	31.12.2016			31.12.2015		
	Carrying amount	**% of equity**	**Re-valuation reserve**	**Carrying amount**	**% of equity**	**Re-valuation reserve**
Central governments	**4 128**	**x**	**(37)**	**11 959**	**x**	**32**
Latvia	1 904	*6.89*	2	1 893	*13.39*	58
USA	-	-	-	10 066	*71.20*	(26)
Other countries	2 224	*8.04*	(39)	-	-	-
Credit institutions	**16 324**	**x**	**(104)**	**14 385**	**x**	**(73)**
Sweden	-	-	-	4 579	*32.39*	(18)
USA	-	-	-	1 857	*13.13*	6
Russia	-	-	-	1 744	*12.33*	(46)
Netherland	2 063	*7.46*	6	2 116	*14.97*	(2)
Canada	2 779	*10.05*	(83)	-	-	-
Other countries	11 482	*41.53*	(27)	4 089	*28.92*	(13)
Other financial institution	**2 371**	**x**	**(4)**	**12 837**	**x**	**(43)**
UK	2 371	*8.58*	(4)	4 575	*32.36*	(20)
USA	-	-	-	8 262	*58.44*	(23)
Private non-financial institutions	**3 443**	***12.45***	**(10)**	**5 801**	***41.03***	**(302)**
Other financial institutions stocks	**974**	**X**	**974**	**4 853**	**x**	**4 853**
UK	-	-	-	4 853	*34.33*	4 853
Other countries	974	*3.52*	974	-	-	-
Total available-for-sale financial assets	**27 240**	**x**	**819**	**49 835**	**x**	**4 467**

c) Held-to-maturity financial investments by geographical profile

	31.12.2016			31.12.2015		
	Carrying amount	**% of equity**	**Fair value**	**Carrying amount**	**% of equity**	**Fair value**
Central governments	**23 486**	**x**	**25 560**	**22 055**	**x**	**24 457**
Latvia	17 069	*61.74*	19 030	17 768	*125.67*	20 193
Lithuania	4 256	*15.39*	4 447	4 287	*30.32*	4 264
Other countries	2 161	*7.82*	2 083	-	-	-
Credit institutions	**35 742**	**X**	**35 729**	**20 633**	**x**	**20 369**
Brazil	2 079	*7.52*	2 087	2 109	*14.92*	1 897
Sweden	1 914	*6.92*	1 919	1 856	*13.13*	1 854
UAE	3 845	*13.91*	3 867	3 731	*26.39*	3 738
Canada	1 915	*6.93*	1 916	1 857	*13.14*	1 851
Netherland	1 916	*6.93*	1 921	1 861	*13.16*	1 859
China	2 029	*7.34*	2 062	1 992	*14.09*	2 040
UK	6 252	*22.61*	6 321	2 104	*14.88*	2 032
USA	11 277	*40.79*	11 205	2 802	*19.82*	2 779
Other countries	4 515	*16.33*	4 431	2 321	*16.42*	2 319
Other financial institutions investments	**2 051**	***7.42***	**2 046**	**-**	**-**	**-**
Private non-financial institutions	**18 134**	**X**	**18 432**	**7 517**	**x**	**7 594**
Latvia	1 762	*6.37*	1 806	1 762	*12.46*	1 834
China	1 910	*6.91*	1 929	1 849	*13.08*	1 856
India	1 944	*7.03*	1 962	1 895	*13.40*	1 896
Estonia	5 144	*18.61*	5 341	2 011	*14.22*	2 008
Other countries	7 374	*26.67*	7 394	-	-	-
Held-to-maturity financial investments, net	**79 413**	**x**	**81 767**	**50 205**	**x**	**52 420**

d) Financial investment qualitative rating

	31.12.2016	31.12.2015
Available-for-sale financial assets risk classes	**27 240**	**49 835**
AAA līdz A-	16 176	39 487
BBB+ līdz BBB-	9 000	7 886
BB+ līdz BB-	2 064	2 462
Held-to-maturity financial investments risk classes	**79 413**	**50 205**
AAA līdz A-	49 868	35 671
BBB+ līdz BBB-	27 466	12 425
BB+ līdz BB-	2 079	2 109

The Bank uses the following hierarchy of three levels of input data for determining and disclosing the fair value of financial assets and liabilities:

Level 1: Quoted prices in active markets;

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable.

Level 3: Other techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As at 31 December 2016, the fair value of the Bank’s financial assets met the requirements of Level 1 and Level 2, with the exception of available for sale financial assets that are comprised of VISA Europe Limited shares.

The Bank’s portfolio of financial assets comprises of debt securities issued by Latvian and other countries’ central governments and debt securities issued by credit and other financial institutions. Investments are made in financial assets according to the Investment Strategy of the Available-for-Sale Portfolio and the Investment Strategy of the Held-to-Maturity Portfolio approved by the Bank. To avoid high risk exposure, the Bank has set sub-limits for new investments in financial instruments and determined that only investments in financial instruments of Latvia central government are allowed and whereby only investments in low-risk instruments, i.e., having at least a credit rating of BBB- and a stable outlook (according to Moody’s, or Fitch or Standard & Poor’s), are allowed.

It is possible,within the limit, to supplement Available-for-Sale assets with financial instruments whose credit rating is not lower than BB- (by Moody's scale, or its equivalent by Fitch or Standard & Poor's).

To identify, in a timely manner, any changes that could produce an adverse effect on the ability and/ or willingness of a particular country’s government and/ or residents to meet their financial liabilities towards the Bank, the Bank keeps pace with the latest news and information about events occurring in the respective countries. For monitoring purposes, credit ratings assigned by tree international rating agencies Moody’s Investors Service, Standard & Poor’s, Fitch Ratings those are recalculated as follows: if there is only one risk rating associated for the deal by nominated rating agencies – this rating has applied, but if there are two risk ratings by nominated agencies applicable and both of them different risk degree applies, the rating with higher risk degree applied, but if there are more than two risk ratings by nominated rating agencies, than selects two risk ratings with the lowest risk and if the different risk rating applies than highest of those two risk rating applied. The sources of information are mass media, international organisations engaged in economic analyses and data aggregation as well as rating agencies.

Whenever any events that are likely to produce a material impact on the solvency of any country’s government and/ or residents are reported, the Risk Control Department:

- Informs the Asset and liability committee accordingly,
- Performs closer monitoring of the country and, if necessary, makes suggestions to the Resource Department that no additional investments should be made or country exposure limits for transactions with residents of the respective country should be reduced.

If the Bank’s exposure to residents of the respective country cannot be reduced within the nearest three months, the Bank considers and initiates risk mitigation measures, such as allowances and financial collateral.

NOTE 14 DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

The fair value of the Bank's currency swaps is as follows:

	31.12.2016		31.12.2015	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Notional amount	5 553	5 554	545	549
Fair value	**1**	**2**	**6**	**2**

The notional amount is the amount of a derivative's underlying asset and is calculated according to the FCMC (Financial and Capital Market Comission) capital adequacy requirements. The notional amount indicates the volume of transactions outstanding as at the year end.

As at 31 December 2016 the Bank had derivative foreign currency exchange transactions, the revaluation methods and, as a result, the revaluation results of which may affect the Bank's financial performance. The Bank determines the value of these transactions based on the prices of the underlying investments at the reporting date, i.e. the currency exchange rates are determined on the basis of the official exchange rates set by the European Central Bank and the interest rates are based on the LIBOR rates.

The Bank's management believes that the revaluation methods applied are correct and conservative enough to prevent potential significant changes in the Bank's financial indicators.

NOTE 15 PROPERTY, PLANT AND EQUIPMENT (PPE) AND INTANGIBLE ASSETS (IA)

	Intangible assets	Advance (IA)	Land and buildings	Computers and equipment	Vehicles	Other PPE	Total assets
Acquisition value							
As at 31 December 2015	**931**	**-**	**7 214**	**262**	**48**	**152**	**8 607**
Additions	26	138	-	53	-	4	221
Disposals	-	-	-	(7)	-	-	(7)
As at 31 December 2016	**957**	**138**	**7 214**	**308**	**48**	**156**	**8 821**
Accumulated amortisation / depreciation							
As at 31 December 2015	**480**	**-**	**361**	**157**	**17**	**71**	**1 086**
Depreciation	94	-	140	66	10	23	333
Disposals	-	-	-	(7)	-	-	(7)
As at 31 December 2016	**574**	**-**	**501**	**216**	**27**	**94**	**1 412**
Net carrying amount							
As at 31 December 2015	**451**	**-**	**6 853**	**105**	**31**	**81**	**7 521**
As at 31 December 2016	**383**	**138**	**6 713**	**92**	**21**	**62**	**7 409**

The amortisation/depreciation charge for the year totalling EUR 333 thousand (2015: EUR 313 thousand). There were no expenses at net book value for disposals taken to the Bank's statement of comprehensive income as depreciation / amortisation (2015: EUR 6 thousand).

NOTE 16 OTHER ASSETS

	31.12.2016	31.12.2015
Card operations	2 545	960
Security deposit for transactions	5 429	713
Deferred payment for VISA Europe shares sale	447	-
Input tax	23	78
Inventory (digipass and card blanks)	35	45
Other receivables	117	81
Total	**8 596**	**1 877**

NOTE 17 FUNDS UNDER TRUST MANAGEMENT

	31.12.2016	31.12.2015
Assets	**110 427**	**181 220**
Loans to private companies	41 628	41 674
Loans to financial intermediaries and auxiliary firms	15 160	16 572
Clients financial instruments cash accounts	640	25 504
Clients' financial instruments under management	52 999	97 470
Liabilities	**110 427**	**181 220**
Credit institutions	51 977	116 513
Private companies	56 621	58 380
Households	1 828	6 327

The Bank issues loans or makes investments in financial instruments classified as funds under trust management based on specific requests of asset owners. According to the trust management agreements concluded with customers, the asset owners assume all the risks inherent in these assets, the Bank has no control over these assets and does not received any rewards from these assets. The Bank acts only as an intermediary receiving the management fee.

As at 31 December 2016, the accumulated outstanding commission fee for the asset management was EUR 70 thousand (2015: EUR 79 thousand).

NOTE 18 DUE TO CREDIT INSTITUTIONS

As at the end of 2016 and 2015 the Bank had no liabilities to credit institutions.
The Bank's average interest rates on liabilities to credit institutions in2016. are USD 0.77%, (2015: USD 0.33%).

NOTE 19 DEPOSITS FROM CUSTOMERS

(a) By customer profile:

	31.12.2016	31.12.2015
Demand deposits	**131 415**	**159 234**
Financial institutions	12 308	22 545
Private companies	87 306	103 161
Households and non-profit organisations servicing them	31 801	33 528
Term deposits	**36 974**	**35 751**
Financial institutions	-	1 538
Private companies	5 436	6 986
Households and non-profit organisations servicing them	31 538	27 227
Total	**168 389**	**194 985**

(b) By geographical profile

	31.12.2016	31.12.2015
Demand deposits	**131 415**	**159 234**
Residents of Latvia	41 222	31 286
Residents of EU Member States	52 810	70 627
Residents of other countries	37 383	57 321
Term deposits	**36 974**	**35 751**
Residents of Latvia	30 737	27 111
Residents of EU Member States	307	1 678
Residents of other countries	5 930	6 962
Total	**168 389**	**194 985**

The Bank’s average interest rates in 2016 are as follows: 1.502% (USD), 1.513% (EUR), 3.0% (RUB) (2015: 1.371% (USD), 1.479% (EUR), 5.51% (RUB)).

NOTE 20 OTHER LIABILITIES

	31.12.2016	31.12.2015
Payment card settlements	3 984	2 071
Liabilities under clarification	137	232
Taxes	37	90
Other liabilities	47	4
Total	**4 205**	**2 397**

NOTE 21 NEXT PERIOD INCOME AND ACCRUED EXPENSE

	31.12.2016	**31.12.2015**
Payment card servicing	133	130
Vacation pay reserve	184	174
Payments to the Deposit Guarantee Fund and the FCMC	55	47
Servicing of correspondent and financial instrument accounts	20	12
Accrued payments to agents	405	296
Other accrued expense	96	61
Accrued income from loans	15	17
Total	**908**	**737**

NOTE 22 PAID-IN SHARE CAPITAL

As at 31 December 2016, the Bank's registered and paid-in share capital was EUR 13 million (2015: EUR 12 million). In 2016 the Bank increased share capital by 1 million EUR.

The Bank's share capital consists of only ordinary voting shares. The par value of each share is EUR 1 as at 31 December 2016, all shares were fully paid and the Bank did not hold its own shares.

As at 31 December 2016 and 2015, the Bank's sole shareholder was SIA Mono, registration No 40003004625, legal address Rīga, Katlakalna iela 1, which is also the ultimate parent of the Bank. SIA Mono is owned by several private individuals, control over the company has Mihails Uļmans (owns 58% of company shares).

NOTE 23 EARNINGS PER SHARE

Earnings per share are calculated by dividing net profit by the number of shares issued

	2016	2015
Net profit	11 256	4 430
Number of ordinary shares at reporting date (‘000)	13 000	12 000
Earnings per share (EUR)	**0.866**	**0.369**

NOTE 24 CASH AND CASH EQUIVALENTS

	31.12.2016	31.12.2015
Cash and demand deposits with the Bank of Latvia	24 884	13 115
Balances due from other credit institutions with original maturities of less than three months	16 785	48 888
Total	**41 669**	**62 003**

NOTE 25 MEMORANDUM ITEMS

	31.12.2016	31.12.2015
Contingent liabilities	**1 249**	**1 294**
Guarantees	1 249	1 294
Financial commitments	**3 010**	**2 151**
Unutilised credit lines	2 592	1 759
Credit card commitments	418	392
Total memorandum items, gross	**4 259**	**3 445**

In the ordinary course of business, the Bank issues loans and guarantees. The main purpose of these financial instruments is to ensure that adequate funds are available to customers.

Guarantees that comprise irrevocable commitments are assigned the same risk as loans because those commit the Bank to paying in the event of a customer’s default. Liabilities arising from credit lines represent the undrawn balances of credit lines. As regards credit risk, the Bank is potentially exposed to loss arising also from loan commitments.

NOTE 26 RELATED PARTY DISCLOSURES

Related parties are defined as shareholders that have the ability to control or exercise significant influence over the Bank’s management policy, Council and Board members, close members of their families, and entities in which these persons have a controlling interest and a qualifying holding.
In the ordinary course of business, the Bank enters into transactions with related parties. All loans are issued to and financial transactions are made with related parties on an arm’s length

basis. As at 31 December 2016, there were no any loans issued to related parties that would have been past due or impaired.

The Bank’s financial statements include the following balances of assets, liabilities and memorandum items associated with the Bank’s transactions with related parties:

	31.12.2016			31.12.2015		
	Carrying amount	**Memorandum items**	**Total**	**Carrying amount**	**Memorandum items**	**Total**
Assets	**1 255**	**608**	**1 863**	**1 042**	**81**	**1 123**
Loans and receivables, net	**1 255**	**608**	**1 863**	**1 036**	**81**	**1 117**
Parent company	-	-	-	-	-	-
Council and Board	134	227	361	99	75	174
Related companies and persons	1 121	381	1 502	937	6	943
Derivatives	**-**	**-**	**-**	**6**	**-**	**6**
Related companies and persons	-	-	-	6	-	6
Assets under management	**-**	**30 049**	**30 049**	**-**	**24 378**	**24 378**
Related companies and persons	-	30 049	30 049	-	24 378	24 378
Liabilities	**30 172**	**-**	**30 172**	**16 000**	**-**	**16 000**
Deposits	**30 172**	**-**	**30 172**	**16 000**	**-**	**16 000**
Parent company	247	-	247	680	-	680
Council and Board	10 130	-	10 130	5 910	-	5 910
Related companies and persons	19 795	-	19 795	9 410	-	9 410
Liabilities under management	**-**	**57 623**	**57 623**	**-**	**58 021**	**58 021**
Council and Board	-	717	717	-	902	902
Related companies and persons	-	56 906	56 906	-	57 119	57 119

The table below presents income and expense on the balances due from / to related parties:

	2016	**2015**
Interest income	68	91
Interest expense	(85)	(80)
Net interest expense	**(17)**	**11**
Commission and fee income	**229**	**287**

NOTE 27 RISK MANAGEMENT

The Bank organises risk management according to the requirements of the Law of the Republic of Latvia on Credit Institutions, European Parliament and Council and FCMC regulations as well as following the Bank’s strategy and other documents governing the Bank’s operations. The Bank’s risk management policy details the Bank’s risk management objectives, goals and principles as well as related instruments. The Bank’s risk management policy is based on the principle of continuing profitability or acceptable loss and is aimed at achieving an appropriate balance between risks assumed by the Bank and returns.

The policy prescribes that various risk mitigation instruments should be used, their selection depending on the risk type.

The Bank’s risk management objective is as follows:

- To establish and maintain such a system of risk identification and management which would allow minimisation of the negative effect the risks may produce on the Bank’s operations and performance;
- To identify and determine the level of risk tolerance which would facilitate achievement of the Bank’s strategic goals;
- To define the levels of responsibility of the Bank’s risk management system and their respective functions;
- To define the risk management structure and methods;
- To ensure the Bank’s statutory compliance.

As a result of the regular capital adequacy assessment, the Bank has established that risks inherent in its current and planned business are as follows: credit risk, concentration risk, country risk, liquidity risk, operational risk, compliance risk, strategic and business risk, residual risk, market risk (position risk and foreign currency risk), interest rate risk, reputational risk and money laundering and terrorist financing risk. Market risk assessment framework was also evaluated in the settlement risk; the risk faced by certain conditions should be calculated minimum capital adequacy.

RISK MANAGEMENT STRUCTURE

The Council of the Bank is responsible for establishing and effective functioning of the risk management system and approving the relevant risk management policies and strategies.

The Board of the Bank has the responsibility for implementing risk management strategies and policies approved by the Council.

Bank`s Chief Risk Officer:

- Leads a comprehensive risk control function, which also includes the compliance monitoring and prevention of money laundering and terrorist financing;
- Ensure monitoring and improvement of the Bank's risk management system;
- Ensure the Bank's business strategy and service which are essential to the Bank, development of new services or changes to the services offered by the Bank, Bank's structure, the overall risk profile, as well as the restrictions and limits compliance with Bank's risk strategy for regular evaluation of the non-compliance reporting of the Bank Council and the Board and other officers in accordance with the internal policies;

- Provide a comprehensive and clear information on the Bank's overall risk profile, all relevant risks and risks compliance with the risk management strategy of regular communication to the Council and the Board and other officers according to the internal policies;
- Advise and provide support to the Council and the Board of the Bank to design operational strategy and support banking risks related decision-making.

Bank's Business Continuity Assurance Committee regularly identifies and examines risks of business continuity.

Bank`s Credit Committee reviews lending issues and makes decisions on any matter relating to the activities of the Bank's lending process.

Asset and Liability Committee:

- Monitor, plan and manage the Bank's liquidity;
- Monitor, plan and manage the Bank's interest rate risk;
- Monitor, plan and manage the Bank's exposure to market risks;
- Monitor, plan and manage the structure of the Bank's balance sheet and off-balance;
- Monitor and manage the Bank's growth;
- Monitor and manage debt collection and cessation processes;
- Approves opening and closing of the Bank's correspondent accounts;
- Determine the limits on investments in financial instruments of the Bank portfolio;
- Determine the country risk limits;
- Determine the Bank's tariffs.

The Risk Control Department identifies significant risks the Bank is exposed to and formulates the relevant risk management policies and procedures, ensures monitoring of compliance with the risk management policies and procedures, including the limits and restrictions set, as well as reports information about the risks inherent in the Bank`s business to the Bank`s Risk director, Business Continuity Assurance Committee, the Asset and Liability Committee and the Board on a regular basis, thereby allowing permanent assessment of risk affecting the Bank`s ability to achieve its goals and, if necessary, making decisions on the relevant corrective actions.

The Resource Department is responsible for managing the Bank's assets and liabilities and the overall financial structure as well as ensuring the daily management of liquidity risk, managing of interest rate risk, currency and market risk as well as the Bank's financial statement structure and growth, and analysing of financial and lending resources and the related planning in line with the Bank's strategic goals.

The key goal of the Compliance Control Department is identification, measurement, and management of compliance risk.

The Internal Audit Department carries out the regular review and assessment of the Bank's compliance with its risk management strategies, policies and procedures and communicates the review results as well as the efficiency of the Bank's risk management system to the Council.

The heads of the Bank's structural units and other employees of the Bank are aware of their duties and responsibility related to the routine risk management and, within the boundaries of their competence, report the compliance with the limits and restrictions set to the Risk Control Department as well as participate in the risk identification, effect assessment, and materiality determination process.

RISK MEASUREMENT AND REPORTING SYSTEMS

The Bank performs quantitative risk assessment on the basis of the standardised and basic indicator approaches referred to in Regulations No. 575/2013 (26 june 2013) on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No.648/2012, the Standardised and Basic Indicator Approach, as well as the Financial and Capital Market Commission 29.11.2016. Regulatory rules No.199 "Capital Adequacy Assessment Process Regulations" described simplified methods. The Bank also performs stress testing.

The level of the Bank’s exposure is chiefly controlled by using the early warning system designed by the Bank, which encompasses the limits approved by the Bank and defines the parameters of each risk relevant for the moderate risk exposure defined in the Bank’s operational strategy. The aggregate risk exposure is determined as the weighted average of all components. The Risk Control Department summarises, analyses and presents to the Bank`s Risk director, the Asset and Liability Committee and the Board its opinion accompanied with explanatory information on each specific risk and the aggregate risk exposure on a weekly basis. On monthly basis, the Risk Control Department prepares a comparative report with the results of the previous month and the Board submits it to the Council. In case of exceeding any internal limits, Risk Control Department shall immediately notify the Asset and Liability Committee and propose to investigate non-compliance in the next Assets and Liabilities Committee meeting. In the event of exceeding of any external limits, Risk Control Department shall immediately notify the Asset and Liability Committee and initiate emergency Asset and Liability Committee meeting to investigate the incompliance. In the event when the individual or aggregate risk exposure approach or exceeds the significant risk level, the Risk Control Department shall immediately report it to the Board. In the event that the individual or aggregate risk exposure is approaching a high level of risk, Risk Control Department is obliged to propose meeting of Business continuity committee.

RISK MITIGATION

For the purposes of risk mitigation, the Bank uses the following methods:

- Risk acceptance. The Bank admits that it is exposed to such risks but does not take any actions to minimise their effect because those are insignificant and the elimination costs would exceed the respective benefits;
- Risk avoidance. The Bank conducts an analysis before engaging in any new transactions and chooses to avoid excessively risky transactions or actions;
- Changing risk probability. The Bank applies this method together with the relevant risk strategies, Bank’s procedures, and the early warning system in respect of the following risks: credit risk, operational risk, market price risk, interest rate risk, currency risk,

liquidity risk, IT risk;
- Changing potential risk consequences. The Bank uses credit enhancements and currency risk hedging instruments as well as establishes a business continuity system;
- Risk sharing. The Bank uses insurance and syndicated transactions; in selecting this method of risk mitigation, the Bank is aware that it does not change the overall exposure to transaction and operational risks, affecting only the portion attributable to the Bank.

CONCENTRATION RISK

Concentration risk arises from large exposures to individual customers or groups of related customers or exposures to customers whose creditworthiness is determined by one common risk factor (industry, geographical location, currency, credit enhancement (homogenous collateral or one collateral provider)).

The concentration risk management policy covers the Bank's credit portfolio and other assets, memorandum items, as well as the deposits attracted by the Bank and balances due to credit institutions.

The core elements of concentration risk management include risk assessment, setting limits for individual counterparties as well as industry, geographical and market concentrations and monitoring exposures in relation to such limits.
For the purposes of additional concentration risk assessment, stress tests are performed on a regular basis.

CREDIT RISK

Credit risk is the risk that the Bank will incur a loss because its borrowers (debtors) or counterparties fail or refuse to settle their contractual obligations to the Bank. Credit risk is inherent in the Bank's transactions which give rise to the Bank's claims against another person and which are reported by the Bank in the statement of financial position or as memorandum items. Credit risk arises as soon as the Bank's funds are issued, invested or transferred to other parties for use based on the contractual provisions.

The objective of managing credit risk is to determine the maximum acceptable exposure to credit risk and ensure the compliance with the set limits in the normal course of business.
At present the Bank is involved in the following transactions giving rise to credit risk:
- Cash placements with other banks;
- Loans and credit lines to banks;
- Loans and credit lines to customers;
- Guarantees issued to third parties and other contingent liabilities for the benefit of customers if they may demand settlement of obligations;
- Securities transactions;
- Dealing.

The credit risk management system is composed of the following elements: approval of methods used to measure credit risk related to counterparties, borrowers and issuers, setting restrictions for loan types, fixing limits for investments in the securities included in the Bank's portfolio and lending by amount and maturity, regular assessment of assets and memorandum items as well as regular stress testing.

Decision-making on the loans - the issuance, any amendments to the loan, the banks are making decision (authority) levels (from below):

- Individual;
- Credit committee;
- The Board;
- Bank`s Council (if the decision requires a higher level than the Authority of the Board).

Bankas Lēmējinstitūciju līmeņu maksimālos limitus apstiprina Bankas Padome.

The Bank believes that its exposure to credit risk arises mainly from loans, balances due from credit institutions and the held-to-maturity portfolio. The maximum exposure of the Bank's assets and memorandum items is shown in the credit risk concentration analysis.

MAXIMUM EXPOSURE TO CREDIT RISK

The following table presents the Bank's maximum credit risk exposure without taking into account collateral.

	31.12.2016	**31.12.2015**
Assets	**172 451**	**199 379**
Due from credit institutions	16 785	52 086
Held for trading financial assets	1	6
Held-to-maturity financial investments	79 413	50 205
Available-for-sale financial assets	27 240	49 835
Loans and receivables	40 162	45 083
Other assets	8 596	1 877
Prepaid expense and accrued income	254	287
Memorandum items	**4 259**	**3 445**
Contingent liabilities	1 249	1 294
Financial commitments	3 010	2 151
Maximum exposure	**176 710**	**202 824**

Mortgages from private individuals and commercial mortgages, commercial pledges, term deposits and guarantees were accepted as collateral at the end of the financial year.

MAXIMUM RISK CONCENTRATION

The Bank places limits on the amount of risk for individual counterparties (groups of related counterparties) as well as for industry, geographical, exposure and market concentrations. The exposure to any single counterparty is further restricted by sub-limits. The credit risk concentration is analysed by estimating the large exposure ratio to equity. According to the Law on Credit Institutions, the Bank treats as large the credit exposure exceeding 10% of equity. Any credit exposure to a single customer or a group of related customers may not exceed 25% of the Bank's equity. If a customer is a credit institution or an investment brokerage firm, or a group of related customers including one or several credit institutions or investment brokerage firm

Registerede in European union similar country country (The European Union and the European Commission of 12 December 2014 implementing Decision No. 2014/908 / EU of certain third countries and territories supervisory and regulatory requirements equivalence to exposures specific approach of the European Parliament and Council Regulation (EU) Nr.575 / 2013 of the country), the total exposure to such customer shall not exceed 95% of the Bank's equity. During the financial reporting period, the Bank was in compliance with these requirements.

GEOGRAPHICAL ANALYSIS

The following table provides an analysis of the Bank’s assets and memorandum items by geographical profile without taking into account collateral and other credit enhancements. The grouping is done based on information about the residence of the respective counterparties.

31.12.2016

	Latvia	Eurozone countries	Other countries	Total
Exposure to credit risk of balance sheet assets	**66 145**	**24 611**	**81 695**	**172 451**
Due from credit institutions	3 870	1 705	11 210	**16 785**
Held for trading financial assets	-	-	1	**1**
Loans and receivables	37 581	194	2 386	**40 162**
Held-to-maturity financial investments	18 832	18 749	41 832	**79 413**
Available-for-sale financial assets	2 956	3 963	20 321	**27 240**
Other assets	2 720	-	5 876	**8 596**
Prepaid expense and accrued income	186	-	68	**254**
Memorandum items	**4 205**	**14**	**40**	**4 259**
Total	**70 350**	**24 625**	**81 735**	**176 710**

31.12.2015.

	Latvija	Eiro zonas valstis	Pārējās valstis	Kopā
Exposure to credit risk of balance sheet assets	**82 011**	**31 441**	**85 927**	**199 379**
Due from credit institutions	17 518	16 672	17 896	**52 086**
Held for trading financial assets	-	-	6	**6**
Loans and receivables	40 696	1 814	2 573	**45 083**
Held-to-maturity financial investments	19 529	8 159	22 517	**50 205**
Available-for-sale financial assets	2 894	4 796	42 145	**49 835**
Other assets	1 164	-	713	**1 877**
Prepaid expense and accrued income	210	-	77	**287**
Memorandum items	**3 401**	**-**	**44**	**3 445**
Total	**85 412**	**31 441**	**85 971**	**202 824**

INDUSTRY ANALYSIS

The following table provides an analysis of the Bank's assets and memorandum items by industry without taking into account collateral and other credit enhancements. The grouping is done based on information about the business of the respective counterparties.

	31.12.2016	**31.12.2015**
Exposure to credit risk of balance sheet assets	**172 451**	**199 379**
Central governments	27 614	34 014
Credit institutions	68 903	87 117
International development banks	2 371	12 837
Private individuals	10 291	9 472
Agriculture	202	214
Operations with real estate	8 416	8 718
Trade	7 922	10 877
Professional services	361	181
Mining and quarrying	4 875	5 404
Manufacturing	4 769	8 330
Accommodation and ceatering services	3 282	1 899
Construction	779	955
Information and communication services	489	463
Transport	349	948
Health and social care	2 115	817
Electricity	13 560	5 034
Financial activities	9 858	9 589
Other	6 295	2 510
Memorandum items	**4 259**	**3 445**
Total	**176 710**	**202 824**

CREDIT QUALITY OF FINANCIAL ASSETS

Credit quality of financial assets is managed by the Bank by employing debtors' (borrowers') financial analysis techniques, analysis of the counterparty's reputation and historical cooperation with the counterparty as well as by monitoring international ratings granted to counterparties.

Standard and watchlist grades are assigned to exposures having an investment grade credit rating granted by international rating agencies, namely A- and higher (by Standard and Poor's) and BBB+ to BBB- (by Standard and Poor's). The sub-standard grade corresponds to a sub-investment grade credit rating, i.e. BB+ to B- (by Standard and Poor's).

The table below provides an analysis of the Bank's asset exposure by internal credit quality categories without taking into account collateral and other credit enhancements. The Bank's financial assets are classified as "standard", "watchlist", "substandard", "past due", and "impaired", and the table discloses gross amounts, e.g., excluding impairment loss.

31.12.2016

	Neither past due nor impaired				Past due	Impaired	Total
	Standard	Watch-list	Sub-standard	Doubtful			
Assets	**114 325**	**38 929**	**13 687**	**2 002**	**2 437**	**2 300**	**173 679**
Due from credit institutions	6 607	1 705	8 473	-	-	-	**16 785**
Held for trading financial assets	1	-	-	-	-	-	**1**
Loans and receivables	38 252	758	1 071	2 002	2 437	2 300	**41 390**
Held-to-maturity financial investments	49 868	27 466	2 079	-	-	-	**79 413**
Available-for-sale financial assets	16 176	9 000	2 064	-	-	-	**27 240**
Other assets	8 596	-	-	-	-	-	**8 596**
Prepaid expense and accrued income	254	-	-	-	-	-	**254**
Memorandum items	**4 177**	**76**	**3**	**-**	**-**	**3**	**4 259**
Total	**118 501**	**39 005**	**13 690**	**2 002**	**2 437**	**2 303**	**177 938**

31.12.2015

	Neither past due nor impaired				Past due	Impaired	Total
	Standard	Watch-list	Sub-standard	Doubtful			
Assets	**121 754**	**51 736**	**20 637**	**-**	**4 898**	**1 165**	**200 190**
Due from credit institutions	7 632	29 740	14 714	-	-	-	**52 086**
Held for trading financial assets	-	6	-	-	-	-	**6**
Loans and receivables	36 800	1 679	1 352	-	4 898	1 165	**45 894**
Held-to-maturity financial investments	35 671	12 425	2 109	-	-	-	**50 205**
Available-for-sale financial assets	39 487	7 886	2 462	-	-	-	**49 835**
Other assets	1 877	-	-	-	-	-	**1 877**
Prepaid expense and accrued income	287	-	-	-	-	-	**287**
Memorandum items	**3 436**	**9**	-	-	-	-	**3 445**
Total	**125 190**	**51 745**	**20 637**	**-**	**4 898**	**1 165**	**203 635**

COLLATERAL OF FINANCIAL ASSETS SUBJECT TO CREDIT RISK

The type and amount of collateral depends on an assessment of the credit risk of a customer or a group of related customers. The collateral types and valuation parameters are defined in the Credit Policy and the Credit Control Procedure. The main collateral types include mortgage, commercial pledge, deposits and securities. The Bank also accepts guarantees as additional (secondary) collateral.

INDICATORS OF LOSS EVENTS

The Banks treats as loss events resulting from exposures the following:
- Delayed settlement of the counterparty’s obligations (for instance, past due principal or interest payments) for more than 15 days;
- Material financial difficulties of the counterparty;
- Non-compliance with the contractual provisions;
- Loan restructuring;
- Use of borrowed funds for the purposes other than provided in the agreement;
- Default on the project implementation conditions;
- Default on obligations by a person related to the counterparty, which affects the counterparty's ability to meet its liabilities to the Bank;
- Impairment of the collateral when the settlement of liabilities is directly dependent on the collateral value.

LIQUIDITY RISK

Liquidity risk represents the Bank’s exposure to significant loss in the event that the Bank does not have a sufficient amount of liquid assets to meet legally justified claims or overcome unplanned changes in the Bank’s assets and/or market conditions on a timely basis.

A liquidity crisis may be caused by unexpected events, such as prolonged outflow of cash from the accounts opened with the Bank without a corresponding cash inflow. This process may be a consequence of the loss of trust, or a national crisis like a currency crisis. The Bank is basically exposed to liquidity risk when its cash flows are not balanced in terms of their maturity (maturity bands) due to the Bank’s activities involving borrowings, loans, capital and other items of assets and liabilities.

Liquidity problems may be caused also by the lack of liquidity of the financial market.

The objective of liquidity management is to achieve that the Bank’s assets are placed in a manner enabling the Bank to meet legally justified claims of its creditors at any time.

The liquidity risk management methods (core elements) are as follows:
- Compliance with the statutory liquidity ratio;
- Setting limits for deposits from customers;
- Monitoring of adherence to the limits fixed in the liquidity strategy;
- Employing the early warning system;
- Conducting liquidity stress tests and analysis of results obtained;

- Drawing a liquidity contingency plan.

To maintain its liquidity position, the Bank:
- Assesses and plans the maturity structure of its assets and liabilities on a regular basis;
- Maintains sufficient liquid assets to ensure that financial liabilities can be met;
- Ensures that the liquidity ratio (namely, the ratio of liquid assets to current liabilities) is at least 60%;
- Maintains the negative ratio of liquid assets to current liabilities of no more than 100% of the Bank's equity;
- Maintains the total of liquid assets and potential funding sources of 110% of the forecasted net cash flows for a seven-day period;
- Performs regular stress testing and assesses whether the liquidity reserve is adequate and sufficient.
-

The liquidity ratios for the years 2016 and 2015 are as follows:

	2016 %	2015 %
Year-end	**100.28**	**92.40**
Average	97.01	86.56
Maximum	100.29	92.40
Minimum	92.91	80.71

ANALYSIS OF ASSETS AND LIABILITIES BY LIQUIDITY STRUCTURE

The table below allocates the Bank's assets, liabilities and off-balance liabilities liquidity groupings as at 31 December 2016 based on the time remaining from the balance sheet date to the contractual maturity dates. Pledged held-to-maturity financial investments are disclosed as *Other*.

31.12.2016

	Less than 1 month inclusive	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Other	Total
Assets							
Cash and balances with the Bank of Latvia	24 884	-	-	-	-	-	**24 884**
Due from credit institutions	16 784	-	-	-	-	1	**16 785**
Held for trading financial assets	1	-	-	-	-	-	**1**
Held-to-maturity financial investments	72 767	811	136	1 921	3 778	-	**79 413**
Available-for-sale financial assets	26 266	-	-	-	974	-	**27 240**
Loans and receivables	572	1 440	2 297	5 738	26 530	3 585	**40 162**
Property, plant and equipment	-	-	-	-	6 888	-	**6 888**
Intangible assets	-	-	-	-	521	-	**521**
Other assets	-	-	-	-	3 167	5 429	**8 596**
Prepaid expense and accrued income	54	2	1	3	194	-	**254**
Total assets	**141 328**	**2 253**	**2 434**	**7 662**	**42 052**	**9 015**	**204 744**
Liabilities							
Held for trading financial assets	2	-	-	-	-	-	**2**
Liabilities at amortised cost	131 244	3 485	9 892	12 285	11 483	-	**168 389**
Deposits from customers	*131 244*	*3 485*	*9 892*	*12 285*	*11 483*	-	***168 389***
Current tax liabilities	901	-	-	-	-	-	**901**
Deferred tax liabilities	354	-	-	-	-	-	**354**
Other liabilities	2 877	420	889	-	19	-	**4 205**
Deferred income and accrued expense	901	-	-	7	-	-	**908**
Total liabilities	**136 279**	**3 905**	**10 781**	**12 292**	**11 502**	**-**	**174 759**
Memorandum items	**4 024**	**-**	**-**	**-**	**-**	**-**	**4 024**
Net liquidity position	**1 025**	**(1 652)**	**(8 347)**	**(4 630)**	**30 550**	**9 015**	**25 961**

31.12.2015

	Less than 1 month inclusive	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Other	Total
Assets							
Cash and balances with the Bank of Latvia	13 115	-	-	-	-	-	**13 115**
Due from credit institutions	48 903	-	-	-	-	3 183	**52 086**
Held for trading financial assets	6	-	-	-	-	-	**6**
Held-to-maturity financial investments	46 661	637	98	102	2 707	-	**50 205**
Available-for-sale financial assets	44 982	-	-	4 853	-	-	**49 835**
Loans and receivables	4 411	1 240	2 192	13 061	23 050	1 129	**45 083**
Property, plant and equipment	-	-	-	-	7 070	-	**7 070**
Intangible assets	-	-	-	-	451	-	**451**
Other assets	-	-	-	-	1 164	713	**1 877**
Prepaid expense and accrued income	60	1	2	14	210	-	**287**
Total assets	**158 138**	**1 878**	**2 292**	**18 030**	**34 652**	**5 025**	**220 015**
Liabilities							
Held for trading financial assets	2	-	-	-	-	-	**2**
Liabilities at amortised cost	159 973	4 967	5 666	12 161	12 218	-	**194 985**
Deposits from customers	*159 973*	*4 967*	*5 666*	*12 161*	*12 218*	-	***194 985***
Current tax liabilities	233	-	-	-	-	-	**233**
Deferred tax liabilities	284	-	-	-	-	-	**284**
Other liabilities	1 508	304	583	-	2	-	**2 397**
Deferred income and accrued expense	729	-	1	7	-	-	**737**
Total liabilities	**162 729**	**5 271**	**6 250**	**12 168**	**12 220**	**-**	**198 638**
Memorandum items	**3 224**	**-**	**-**	**-**	**-**	**-**	**3 224**
Net liquidity position	**(7 815)**	**(3 393)**	**(3 958)**	**5 862**	**22 432**	**5 025**	**18 153**

The table below analyses the Bank’s financial liabilities (excluding demand deposits) undiscounted cash flows into relevant maturity bands based on the remaining period, as at the reporting date, to the contractual maturity date:

	Less than 1 month inclusive	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	**Total**
31.12.2016						
Deposits from customers	3 981	2 886	8 757	10 896	10 988	**37 508**
Total:	**3 981**	**2 886**	**8 757**	**10 896**	**10 988**	**37 508**
31.12.2015						
Deposits from customers	4 378	3 649	4 128	12 320	11 785	**36 260**
Total:	**4 378**	**3 649**	**4 128**	**12 320**	**11 785**	**36 260**

The following table presents the Bank's derivative cash flows as:

31.12.2016

	Less than 1 month inclusive	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	**Total**
Financial instruments settled on a gross basis						
<u>Foreign currency swaps</u>						
Outgoing cash flow	5 554	-	-	-	-	**5 554**
Incoming cash flow	5 553	-	-	-	-	**5 553**

31.12.2015

	Less than 1 month inclusive	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	**Total**
Financial instruments settled on a gross basis						
<u>Foreign currency swaps</u>						
Outgoing cash flow	549	-	-	-	-	**549**
Incoming cash flow	545	-	-	-	-	**545**

ENCUMBERED AND UNENCUMBERED ASSETS

Information on Bank’s encumbered and unencumbered assets included in tables A and B is based on 31 December 2016 and 31 December 2015 financial year end data.

A. Assets

	Encumbered assets carrying amount	Encumbered assets fair value	Unencumbered assets carrying amount	Unencumbered assets fair value
31.12.2016				
Assets Total	**5 430**	X	**199 314**	X
including equity	-	-	974	974
including debt	-	-	105 679	108 033
including other	5 430	X	92 661	X
31.12.2015				
Assets Total	**3 896**	X	**216 119**	X
including equity instruments	-	-	4 853	4 853
including debt securities	-	-	95 187	97 402
including other assets	3 896	X	116 079	X

B. Encumbered assets and collateral received, which serves as the security for the Bank's financial liabilities

		Encumbered assets, collateral received and own debt securities issued , except own repurchased bonds, or asset-backed securities
31.12.2016		
The carrying amount of financial liabilities	-	5 430
31.12.2015		
The carrying amount of financial liabilities	-	3 896

The Bank mainly uses two main sources of encumberance, that is, funds in correspondent accounts that serve as collateral for operations with payment cards and financial instruments of the Bank's portfolio of financial instruments in order to ensure a sufficient amount of liquid assets in individual cases.

Level of business with payment cards and ecommerce customer growth has resulted in increasing amount of collateral.

The Bank has assessed that the "Encumbered asset book value" in line "Other assets" in table A is insignificant in proportion to other assets, as at 31 December 2016, it was 5% (31 December 2015 – 4%) of the total items included in other assets.

MARKET RISK

Market risk is the risk that the Bank will incur a loss as a result of the mark-to-market revaluation of assets, liabilities and memorandum items caused by changes in market values of financial instruments, commodities and commodity derivatives due to changes in foreign exchange rates, interest rates and other factors. Market risks include currency risk, position risk, commodity risk, settlement risk, and counterparty risk.

The Bank does not form a trading portfolio and its exposure to market risks is limited to currency risk and interest rate risk in the banking book.

Considering that the Bank has the available-for-sale portfolio increased to 13% of the total assets (31 December 2015 - 21%), the Bank believes that its exposure to position risk, or market price risk, is significant.

CURRENCY RISK

Currency risk represents the Bank’s exposure in the event that changes in foreign exchange rates have an adverse effect on the Bank’s income/ expense (and, consequently, also equity) and economic value. Currency risk is the risk of loss due to the opposite fluctuations of foreign exchange rates. The transactions include items reported as both assets and memorandum items.

The risk of incurring loss arises from the revaluation of foreign currency positions into the national currency. When the Bank has an open foreign currency position, the revaluation process results in a profit or loss, which is the difference arising from the revaluation into the national currency of assets, liabilities and capital denominated in foreign currencies.

The objective of managing currency risk is to reduce the adverse effect of changes in foreign exchange rates by minimising the open currency position.

Considering the current level of the Bank’s business, the Bank is not striving to maintain the open foreign currency position to earn profits from speculative transactions.

To assess the compliance of the existing limits with the Bank’s actual positions and situation on the currency market, stress tests are performed regularly.

The Bank’s total open foreign currency position as at 31 December 2016 was 1.45% (31 December 2015 – 4.84%) of the total of level 1 and level 2 capital.

31.12.2016

	EUR	USD	Other currencies	Total
Assets				
Cash and balances with the Bank of Latvia	24 657	196	31	**24 884**
Due to financial institutions	6 455	3 906	6 424	**16 785**
Held for trading financial assets	1	-	-	**1**
Held-to-maturity financial investments	53 408	26 005	-	**79 413**
Available-for-sale financial assets	10 020	12 934	4 286	**27 240**
Loans and receivables	39 798	363	1	**40 162**
Property, plant and equipment	6 888	-	-	**6 888**
Intangible assets	521	-	-	**521**
Other assets	2 041	5 508	1 047	**8 596**
Prepaid expense and accrued income	200	54	-	**254**
Total assets	**143 989**	**48 966**	**11 789**	**204 744**
Liabilities and equity				
Held for trading financial assets	2	-	-	**2**
Liabilities at amortised cost	111 475	45 894	11 020	**168 389**
Deposits from customers	*111 475*	*45 894*	*11 020*	***168 389***
Current tax liabilities	901	-	-	**901**
Deferred tax liabilities	354	-	-	**354**
Other liabilities	1 354	2 358	493	**4 205**
Deferred income and accrued expense	819	81	8	**908**
Total liabilities	**114 905**	**48 333**	**11 521**	**174 759**
Equity	29 464	554	(33)	**29 985**
Total liabilities and equity	**144 369**	**48 887**	**11 488**	**204 744**
Net long / (short) position	**(380)**	**79**	**301**	**-**
Net off balance sheet currency swap agreement long/ (short) position (Forward)	**450**	**(447)**	**-**	**3**
Net open long/ (short) currency position	**70**	**(368)**	**301**	**3**
Percentage of equity as at 31.12.2016		**(1.33)**	**1.09**	

31.12.2015

	EUR	USD	Other currencies	Total
Assets				
Cash and balances with the Bank of Latvia	12 124	932	59	**13 115**
Due to financial institutions	19 379	13 408	19 299	**52 086**
Held for trading financial assets	6	-	-	**6**
Held-to-maturity financial investments	24 961	25 244	-	**50 205**
Available-for-sale financial assets	12 863	33 569	3 403	**49 835**
Loans and receivables	44 558	518	7	**45 083**
Property, plant and equipment	7 070	-	-	**7 070**
Intangible assets	451	-	-	**451**
Other assets	1 139	630	108	**1 877**
Prepaid expense and accrued income	272	15	-	**287**
Total assets	**122 823**	**74 316**	**22 876**	**220 015**
Liabilities and equity				
Held for trading financial assets	2	-	-	**2**
Liabilities at amortised cost	98 769	73 479	22 737	**194 985**
Deposits from customers	*98 769*	*73 479*	*22 737*	***194 985***
Current tax liabilities	233	-	-	**233**
Deferred tax liabilities	284	-	-	**284**
Other liabilities	632	1712	53	**2 397**
Deferred income and accrued expense	650	86	1	**737**
Total liabilities	**100 570**	**75 277**	**22 791**	**198 638**
Equity	21 725	(357)	9	**21 377**
Total liabilities and equity	**122 295**	**74 920**	**22 800**	**220 015**
Net long / (short) position	**528**	**(604)**	**76**	**-**
Net off balance sheet currency swap agreement long/ (short) position (Forward)	**(276)**	**276**	**10**	**10**
Net open long/ (short) currency position	**252**	**(328)**	**86**	**10**
Percentage of equity as at 31.12.2015		**(2.32)**	**0.61**	

POSITION RISK

Position risk is a possibility of sustaining a loss due to revaluation of a position in a debt or equity security when the price of the respective security changes. Position risk may be either specific or general risk.

Specific risk is a possibility of sustaining a loss if the price of a debt or equity security changes because of the factors related to the securities issuer or – in case of derivative financial instruments – to the person issuing the security that is the underlying asset of the derivative.

General risk is a possibility of sustaining a loss if the price of a security changes because of the factors related to the fluctuations in interest rates (for debt securities) or extensive changes in the capital market (for equity securities) that are not related to a particular securities issuer.

Position risk associated with the Bank's available-for-sale portfolio is managed by setting a stop loss limit for each individual financial instrument, which triggers the sale of the instrument if the potential loss on its disposal reaches 25% of the acquisition value.

By determining the stop loss limits, the Bank restricts the excessive loss that may be incurred on impairment of financial instruments.

SETTLEMENT RISK

Settlement risk is the risk to which the Bank is exposed to outstanding transactions in foreign currencies, securities or commodities, with the exception of repurchase transactions, securities or commodities lending or borrowing. Settlement risk comprise of settlement / delivery risk and free deliveries risk.

The Bank settlement / delivery risk and free deliveries of risk capital requirement calculates only for the period if the risk is registered in the Bank's information system Intranet – section Risks meeting the definition of the risk characteristics of the relevant event or events. In year 2016 and 2015 the following events are not recorded.

INTEREST RATE RISK

Interest rate risk represents the Bank's exposure in the event that changes in interest rates have an adverse effect on the Bank's income/ expense (and, consequently, also equity) and economic value. Sources of interest rate risk are as follows:

- Reprising risk, which is a risk of incurring a loss due to changes in interest rates and timing differences in the remaining or repricing maturities of assets, liabilities and memorandum items;
- Yield curve risk, which is a probability of a loss due to unexpected changes in the slope and shape of the yield curve;
- Basis risk, which is a probability of a loss from changes in interest rates of financial instruments having similar repricing schedules but different base rates;
- Optionality risk, which is a risk of incurring a loss if a financial instrument directly (options) or indirectly (loans with a prepayment facility, demand deposits, etc.) provides for a possibility of choice for the Bank's customers.

The objective of managing interest rate risk is to minimise the effect of interest rate risk on the Bank's assets and liabilities and income.

To assess interest rate risk, the Bank analyses and plans the repricing maturity structure on a regular basis, calculates the reduction in the Bank's economic value due to adverse changes in interest rates and defines the capital requirement for interest rate risk.

The assessment of the Bank's exposure to interest rate risk is based on the following key principles:

- The effect produced by changes in interest rates on the Bank’s financial performance and economic value is analysed as follows:
  - Assessment of interest rate risk from the income perspective – analysis of the effect of changes in interest rates on net interest income and other income and expense items related to interest rates in the short term;
  - Assessment of interest rate risk from the economic value perspective – analysis of the effect of changes in interest rates on the Bank’s economic value in the long term. The term *economic value* denotes the present value of net future cash flows, which is determined by discounting future cash flows by the current market interest rate.
- The Bank establishes the current interest rate risk level as well as identifies situations when the Bank’s exposure to interest rate risk is or may be excessively large.
- All significant interest rate risks associated with assets, liabilities and memorandum items - repricing risk, yield curve risk, basis risk, optionality risk – are assessed. Interest rate risk is assessed and managed by conducting the repricing gap analysis and the duration analysis and using simulation models.

Simulation models demonstrate potential changes in the Bank’s economic value. With interest rates changing by +/- 200 basis points for all currencies, the reduction in economic value may not exceed 8% of the Bank’s equity.

The table below shows the reduction in economic value of the Bank, i.e. the result of applying the simulation model (the scenario defined by the Financial and Capital Market Commission):

Currency	Weighted interest rate risk position	
	31.12.2016	**31.12.2015**
EUR	96	67
USD	(4)	(61)
Other currencies	-	-
Weighted interest rate risk in the banking book (total)	**92**	**6**
Equity	27 646	14 138
Absolute weighted interest rate risk in the banking book position to equity, %	**0.33**	**0.04**

The below tables present the calculation of the weighted interest rate risk currency positions:

31.12.2016

	Weight-ing factor %	EUR Net interest rate risk position	EUR Weighted interest rate risk position	USD Net interest rate risk position	USD Weighted interest rate risk position	Other currencies Net interest rate risk position	Other currencies Weighted interest rate risk position
With the remaining turities of:							
Less than 1 month	0.08	(37 387)	(30)	(15 523)	(12)	(374)	-
1-3 months	0.32	24 799	79	9 896	32	(25)	-
3-6 months	0.72	17 220	124	4 868	35	(57)	-
6-12 months	1.43	16 012	229	(996)	(14)	-	-
1 – 2 years	2.77	(4 048)	(112)	(1 112)	(31)	-	-
2 - 3 years	4.49	(4 150)	(186)	(260)	(12)	-	-
3 - 4 years	6.14	(62)	(4)	-	-	-	-
4 - 5 years	7.71	(47)	(4)	(26)	(2)	-	-
Total weighted interest rate risk position (+,-)			**96**		**(4)**		**-**

31.12.2015

	Weighting factor %	EUR Net interest rate risk position	EUR Weighted interest rate risk position	USD Net interest rate risk position	USD Weighted interest rate risk position	Other currencies Net interest rate risk position	Other currencies Weighted interest rate risk position
With the remaining turities of:							
Less than 1 month	0.08	(29 584)	(24)	(15 173)	(12)	(118)	-
1-3 months	0.32	22 422	72	8 836	28	(6)	-
3-6 months	0.72	10 135	73	9 954	72	(9)	-
6-12 months	1.43	10 990	157	990	14	-	-
1 – 2 years	2.77	(4 288)	(119)	(5 008)	(139)	-	-
2 - 3 years	4.49	(1 520)	(68)	(520)	(23)	-	-
3 - 4 years	6.14	(481)	(30)	(16)	(1)	-	-
4 - 5 years	7.71	73	6	(4)	-	-	-
Total weighted interest rate risk position (+,-)			**67**		**(61)**		**-**

The Bank’s exposure to interest rate risk is characterised by the maturity of interest sensitive assets, liabilities and memorandum items based on the shorter of the remaining maturities of interest sensitive financial instruments and interest rate repricing periods.

The Bank also determines the effect of interest rate risk on the Bank’s profit or loss and equity based on the parallel increase in interest rates by 1 per cent (or 100 basis points) and assuming that interest rates change in the mid-year. The effect on equity is calculated considering potential changes in the Bank’s available-for-sale portfolio.

The tables below present the repricing maturity analysis of assets, liabilities and memorandum items based on interest rate changes and the effect of interest rate risk on the Bank’s profit or loss and equity:

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31.12.2016

	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Non-interest bearing	Total
Assets							
Cash and balances with the Bank of Latvia	23 069	-	-	-	-	1 815	**24 884**
Due from credit institutions	16 775	-	-	-	-	10	**16 785**
For trading held financial assets	1	-	-	-	-	-	**1**
Loans	3 748	12 033	16 551	1 215	1 903	4 712	**40 162**
Available-for-sale financial assets	26 978	-	-	-	-	262	**27 240**
Held-to-maturity financial investments	8 562	26 899	16 738	26 097	-	1 117	**79 413**
Intangible assets and property, plant and equipment	-	-	-	-	-	7 409	**7 409**
Prepaid expense and accrued income	-	-	-	-	-	254	**254**
Other assets	-	-	-	-	-	8 596	**8 596**
Total assets	**79 133**	**38 932**	**33 289**	**27 312**	**1 903**	**24 175**	**204 744**
Long off-balance items that are sensitive to interest rate	**5 032**	**-**	**-**	**-**	**-**	**-**	**5 032**
For trading held financial assets	2	-	-	-	-	-	**2**
Liabilities at amortised cost	130 571	3 449	9 853	12 180	11 344	992	**168 389**
Deposits from customers	*130 571*	*3 449*	*9 853*	*12 180*	*11 344*	*992*	***168 389***
Current tax liabilities	-	-	-	-	-	901	**901**
Deferred tax liabilities	-	-	-	-	-	354	**354**
Other liabilities	13	-	-	-	-	4 192	**4 205**
Deferred income and accrued expense	161	-	-	7	-	740	**908**
Equity	-	-	-	-	-	29 985	**29 985**
Total liabilities and equity	**130 747**	**3 449**	**9 853**	**12 187**	**11 344**	**37 164**	**204 744**
Short off-balance sheet items that are sensitive to changes in interest rates	6 700	813	1 404	110	265	-	**9 292**
Net interest rate risk position (gap)	**(53 282)**	**34 670**	**22 032**	**15 015**	**(9 706)**	**-**	**8 729**
Effect on profit or loss	**(511)**	**289**	**138**	**38**	**-**	**-**	**(46)**
Effect on equity	**-**	**(1)**	**(6)**	**(16)**	**(1 103)**	**-**	**(1 126)**

31.12.2015

	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Non-interest bearing	Total
Assets							
Cash and balances with the Bank of Latvia	10 463	-	-	-	-	2 652	**13 115**
Due from credit institutions	48 889	-	-	3 183	-	14	**52 086**
For trading held financial assets	6	-	-	-	-	-	**6**
Loans	9 918	16 956	13 250	3 302	168	1 489	**45 083**
Available-for-sale financial assets	44 701	-	-	4 853	-	281	**49 835**
Held-to-maturity financial investments	3 224	19 572	13 583	12 972	-	854	**50 205**
Intangible assets and property, plant and equipment	-	-	-	-	-	7 521	**7 521**
Prepaid expense and accrued income	-	-	-	-	-	287	**287**
Other assets	-	-	-	-	-	1 877	**1 877**
Total assets	**117 201**	**36 528**	**26 833**	**24 310**	**168**	**14 975**	**220 015**
Long off-balance items that are sensitive to interest rate	**551**	**-**	**-**	**-**	**-**	**-**	**551**
For trading held financial assets	2	-	-	-	-	-	**2**
Liabilities at amortised cost	160 249	4 865	5 629	12 107	11 931	204	**194 985**
Deposits from customers	*160 249*	*4 865*	*5 629*	*12 107*	*11 931*	*204*	***194 985***
Current tax liabilities	-	-	-	-	-	233	**233**
Deferred tax liabilities	-	-	-	-	-	284	**284**
Other liabilities	15	-	-	-	-	2 382	**2 397**
Deferred income and accrued expense	125	-	1	7	-	604	**737**
Equity	-	-	-	-	-	21 377	**21 377**
Total liabilities and equity	**160 391**	**4 865**	**5 630**	**12 114**	**11 931**	**25 084**	**220 015**
Short off-balance sheet items that are sensitive to changes in interest rates	2 237	411	1 123	217	-	-	**3 988**
Net interest rate risk position (gap)	**(44 876)**	**31 252**	**20 080**	**11 979**	**(11 763)**	**-**	**6 672**
Effect on profit or loss	**(430)**	**260**	**125**	**30**	**-**	**-**	**(15)**
Effect on equity	**-**	**-**	**(5)**	**(92)**	**(1 007)**	**-**	**(1 104)**

Before engaging in any transactions with financial instruments (except for derivatives), the Resource Department analyses the potential effect of the exposure on the interest rate repricing maturity and economic value of the Bank.
In preparing the transaction, the Credit Division determines interest rates according to the Bank’s Interest Rate Setting Guidelines. The loan interest rate should cover all expenses associated with the loan and compensate the risk assumed by the Bank, namely:

- Interest on borrowed funds or consideration for other exposures;
- Loan servicing expenses;
- Compensation of potential loss (risk premium);
- Guaranteed profit.

The loan interest rate (compensation) for a particular exposure depends on the risk associated with each individual loan.

In order to assess the impact of adverse changes in interest rates on the Bank's profitability and economic value during the strained market situation, the Bank conducts regular interest rate risk stress testing.

OPERATIONAL RISK

Operational risk is the risk of a loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk is defined as the risk of a reduction in the Bank’s income or incurring of additional costs (and, consequently, a reduction in equity) due to erroneous transactions with customers/counterparties, information processing, adoption of ineffective decisions, insufficient human resources or insufficient planning for the influence of external events. Namely, operational risk comprises information technology risks and legal risks.

The objective of managing operational risk is to identify the sources of risk, determine risk management methods in order to minimise the potential loss that could be caused by an operational risk event.

Routine identification of operational risk is the responsibility of all employees of the Bank, and the core elements of the operational risk management framework are as follows:

- Identification of operational risk;
- Internal operational risk assessment;
- Monitoring of operational risk;
- Control and mitigation of operational risk;
- Operational risk stress testing.

The Board is informed immediately if the event losses exceed EUR 150.00 or events of one type occur more than five times per week.

If the total amount of operational risk losses per year, as recorded in the operational risk event and loss database, exceeds 8% of the Bank's equity, the Risk Control Department analyses whether it would be necessary to maintain an additional capital to cover unexpected operational risk losses.

NOTE 28 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm’s length transaction. The fair value of liquid financial assets has been determined using bid prices, while offer prices have been used to determine the fair value of financial liabilities.

For illiquid financial assets and liabilities, including loans, there are, by definition, no active markets. Accordingly, fair value has been estimated using appropriate valuation techniques. The methods used to determine the fair value of assets and liabilities not carried at fair value are as follows:

Cash and balances with central banks

The fair value of cash and balances with central banks is their carrying amount as these balances may be withdrawn without notice.

Balances due from credit institutions

The fair value of balances on demand with credit institutions is their carrying amount as these balances may be withdrawn without notice. The fair value of overnight placements is their carrying amount. The fair value of other amounts due from banks is calculated by discounting expected cash flows using current market rates. In many cases, the carrying value is a close representation of fair value due to the short-term maturity profile.

Loans

The fair value of loans is calculated by discounting expected future cash flows. The discount rates consist of money market rates as at the end of year and credit spread margins, which are adjusted for current market conditions.

Held-to-maturity securities

Held-to-maturity securities are valued using unadjusted quoted prices in active markets, where available. In other instances, either quotes of market participants are used or the value of securities is determined using valuation models employing observable or non-observable market inputs.

Available-for-sale financial assets

Available for sale financial assets are revalued on a daily basis via Bloomberg quotations, so that the fair value does not differ from book value. Exeption is available for sale financial assets are comprised of VISA Europe Limited shares. According to VISA Inc. information, as a result of sale of VISA Europe Limited, ratio of Visa inc. preference shares to Visa Inc. ordinary shares 1:13,952. Given the fact that the preferred shares are not traded in free trade, and the change to ordinary shares will take place over a long period, the Bank determins the value of preferred shares using common shares Bloomberg quotations, applying a 50% reduction in the value.

Deposits from customers

It is assumed that the fair value of customer deposits repayable on demand and short-term deposits is their carrying amount. The fair value of other deposits is calculated by discounting expected cash flows using average market interest rates or rates offered at year-end. The fair value as at 31 December 2015 and 2016 is calculated by discounting expected cash flows and using average interest rates.

Derivative financial instruments

Derivative financial instruments are revalued on a daily basis according to the interbank rates and, therefore, the fair value of these instruments equals their carrying amount.

The table below shows a comparison, by class, of the carrying amounts and fair values of the Bank's financial instruments reported in the financial statements.

	31.12.2016			**31.12.2015**		
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
Financial assets						
Financial assets at amortised cost						
Cash and balances with the Bank of Latvia	24 884	24 884	-	13 115	13 115	-
Due from credit institutions	16 785	16 785	-	52 086	52 086	-
Held-to-maturity financial investments	79 413	81 767	(2 354)	50 205	52 420	(2 215)
Loans and receivables	40 162	39 880	282	45 083	44 871	212
Financial assets at fair value						
Available-for-sale financial assets	27 240	27 240	-	49 835	49 835	-
Financial liabilities						
Financial liabilities at amortised cost						
Deposits from customers	168 389	168 376	13	194 985	194 976	9
Total difference			**(2 059)**	**x**	**x**	**(1 994)**

31.12.2016

	Carrying amount	Fair value Level 1 input	Level 2 input	Level 3 input	Total
Financial assets					
Financial assets at amortised cost					
Due from credit institutions	16 785	-	16 785	-	16 785
Held-to-maturity financial investments	79 413	-	81 767	-	81 767
Loans and receivables	40 162	-	39 880	-	39 880
Financial assets at fair value					
Available-for-sale financial assets	27 240	26 266	-	974	27 240
Financial liabilities					
Financial liabilities at amortised cost					
Deposits from customers	168 389	-	168 376	-	168 376

31.12.2015

	Carrying amount	Fair value Level 1 input	Level 2 input	Trešā līmeņa avots	Level 1 input
Financial assets					
Financial assets at amortised cost					
Due from credit institutions	52 086	-	52 086	-	52 086
Held-to-maturity financial investments	50 205	-	52 420	-	52 420
Loans and receivables	45 083	-	44 871	-	44 871
Financial assets at fair value					
Available-for-sale financial assets	49 835	44 982	-	4 853	49 835
Financial liabilities					
Financial liabilities at amortised cost					
Deposits from customers	194 985	-	194 976	-	194 976

Considering the short-term nature of cash and cash equivalents, fair value for receivables and payables equals their carrying amount.

The methods employed in classifying the assets by the levels of the fair value hierarchy as at 31 December 2016 are consistent with those of the prior year.

NOTE 29 CAPITAL MANAGEMENT

The primary objective of the Bank's capital management is to ensure that the Bank complies with externally imposed capital requirements (i.e. European Parliament and Council, Financial and Capital Market Commission's regulations and IFRS) and that the Bank maintains healthy capital ratios and equity, both in terms of elements and composition, to an extent sufficient for covering significant risks inherent in the Bank's current and planned operations.

Capital adequacy refers to the sufficiency of the Bank's capital resources to cover credit risk, operational risk and market risks. The Bank applies the standardised approach and the basic indicator approach to calculate the capital requirement for credit risk and operational risk respectively.

In assessing its overall capital adequacy, the Bank calculates the capital adequacy for the following risks:

- Credit risk. The Bank has estimated that in 2016 the capital required to cover credit risk should be at least in line with the results of stress tests performed under the basic scenario.
- Operational risk. In determining the required capital level, the Bank considers the capital requirement calculated according to European Parliament and of the Council Regulation (EU) No.575/2013 (26 June 2013) on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No.648/2012, described fundamentals approach to calculate their capital requirements, as well as the results of the internal operational risk assessment and stress testing.
- Market risks:
  - Foreign exchange risk coverage, the Bank assumed that the USD position is open to the maximum extent in accordance with internal limits (5% of the equity) to the period of the planned equity. The foreign exchange position was multiplied by the appropriate foreign exchange rate against the euro over the past five years the average annual volatility, namely 9.93%;).
  - The Bank analyses how the market risk exposure is affected by market liquidity of financial instruments on a regular basis, once every month. All instruments of the Bank's available-for-sale portfolio were traded on liquid markets without applying any significant discounts and, therefore, the Bank believes that its available-for-sale portfolio does not affect the capital required to cover market risk. The Bank takes into consideration the fact that over the next two years the Bank intends neither to significantly expand its available-for-sale portfolio nor to revise the portfolio maturity and quality, it is assumed that new investments (due or sold) will be made in financial instruments with similar maturities and prudent assumptions are made regarding the quality of these investments; Bank was modelling necessary capital requirements;
  - Capital required for settlement risk purposes in accordance with the European Parliament and of the Council Regulation (EU) No 575/2013 (26 June 2013) on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No.648/2012, as at 31.12.2016 was 0 euro, the Bank assesses that there is no need to maintain separate capital to cover this risk.
- Interest rate risk in the banking book. The Bank assumes that for interest rate risk in the banking book the Bank will have to maintain capital at least in line with the results of stress

tests performed under the pessimistic scenario.

- Concentration risk. The Bank applies the simplified approach according to Regulations No. 199 on the Internal Capital Adequacy Assessment Process issued by the Financial and Capital Market Commission on 29 November 2016 to determine the relevant adequate capital.

The analysis of concentration risk for the loan portfolio includes:
- Name concentration risk analysis,
- Sector concentration risk analysis,
- Collateral concentration risk analysis,
- Currency mismatch risk analysis.

The total capital needed to cover concentration risk is determined by aggregating the results of all individual calculations. In analysing name concentration risk, the Bank assesses the exposure concentration for the entire loan portfolio and the held-to-maturity portfolio.
- Money laundering and terrorist financing risk. The Bank applies the simplified approach according to Regulations No. 199 on the Internal Capital Adequacy Assessment Process issued by the Financial and Capital Market Commission on 29 November 2016 to determine the relevant adequate capital.
- Other risks. As other risks which would require an additional capital analysis, the Bank determines country risk, residual risk, compliance risk, reputational risk and strategic and business risks based on the material risk assessment. Pursuant to Regulations No. 199 on the Internal Capital Adequacy Assessment Process issued by the Financial and Capital Market Commission on 29 November 2016, the Bank applies the simplified approach to define the adequate capital, namely the capital to cover other risks is determined as 10% of the total minimum capital requirements.

The total capital adequacy is calculated as a total of the capital buffer and the adequate capital to cover all risks involved in the capital adequacy assessment process. The capital buffer is determined on the basis of the general stress testing results.
The regulations of the European Parliament and Council require that Latvian banks maintain a capital adequacy ratio based on financial statements prepared under IFRS as adopted by the EU of 8% of risk weighted assets. In 2016 the Bank determined that its target capital adequacy ratio is 16 %. As at 31 December 2016, the Bank's capital adequacy ratio calculated in accordance with the above requirements was 25.73% (2015: 15.97%).

The Bank's eligible capital also exceeds the adequate capital to cover all significant risks defined during the capital adequacy assessment process.

The Bank applies the European Parliament and Council Regulation (EU) No. 575/2013 (26 June 2013) on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012, set out definition of equity and equity calculation methodology, which in accordance with the Bank's instruments is included in the Bank's equity capital and equity requirements calculation procedure. Namely, the equity capital represents the basic elements, which includes paid-up capital, capital reserves, retained earnings, including current year profit, which does not provide for payment of dividends, net financial assets available for

sale negative revaluation reserve and intangible assets, and the second-level element, namely subordinated capital. If shareholders have not explicitly ruled on the previous year distribution of the profit during the reporting year, then previous year audited retained earnings or loss, or the current operating profit for the year is included in the first level of the capital as the first level of additional capital.
Capital adequacy assessment is governed by a Bank's internal document named the Capital Adequacy Assessment Policy.

The capital adequacy calculation of the Bank can be disclosed as follows:

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		31.12.2016	31.12.2015
1.	**Equity** *(1.1.+1.2.)*	**27 646**	**14 138**
1.1.	1. level capital *(1.1.1.+1.1.2.)*	27 646	14 138
1.1.1.	*First level base capital*	27 646	14 138
1.1.2.	*First level additional capital*	-	-
1.2.	2. level capital	-	-
2.	**Total risk exposure value** *(2.1.+2.2.+2.3.+2.4.+2.5.+2.6.+2.7.)*	**107 458**	**88 541**
2.1.	Risk- weighted exposure amount for credit risk , counterparty credit risk, dilution risk and unpaid delivery risk *(2.1.1.+2.1.2.+2.1.3.+2.1.4.+2.1.5.)*	91 217	77 068
2.1.1.	*Central goverments and central banks*	1 050	1 395
2.1.2.	*Authorities*	20 347	12 849
2.1.3.	*Companies*	52 271	49 420
2.1.4.	*Secured by real iestate morgage*	3 495	3 545
2.1.5.	*Other assets*	14 054	9 859
2.2.	Total exposure value of settlement / delivery	-	-
2.3.	Total exposure value for position risk, foreign exchange risk and commodity risk	402	684
2.4.	Total exposure value for operational risk	15 839	10 789
2.5.	Total exposure value of credit value adjustments	-	-
2.6.	Total exposure value associated with large exposures in the trading portfolio	-	-
2.7.	Other risk values	-	-
3.	**Ratio of capital and capital levels**		
3.1.	1.level base capital ratio *(1.1.1./2.*100)*	25.73 %	15.97 %
3.2.	1.level base capital surplus (+)/ deficit (-) *(1.1.1.-2.*4.5%)*	22 810	10 154
3.3.	1. level ratio *(1.1./2.*100)*	25.73 %	15.97 %
3.4.	1. level surplus (+)/deficit (-) *(1.1.-2.*6%)*	21 199	8 826
3.5.	**Total capital ratio** *(1./2.*100)*	**25.73 %**	**15.97 %**
3.6.	Total capital surplus (+)/ deficit (-) *(1.-2.*8%)*	19 049	7 055
4.	**Total requirement of capital reserve** *(4.1.+4.2.+4.3.+4.4.+4.5.)*	2.5 %	**2.5 %**
4.1.	Capital conservation reserve (%)	**2.5**	2.5
4.2.	Specific countercyclical capital reserve for institution (%)	**-**	-
4.3.	Systematic risk capital reserve (%)	**-**	-
4.4.	Systematic important institution capital reserve (%)	**-**	-
4.5.	Other systematic important institution capital reserve (%)	**-**	-
5.	**Capital ratios taking into account corrections made**		
5.1.	Correction value of accruals or assets, performing special policy for recalculation of equity	-	-
5.2.	First level base capital ratio, taking into account correction made in line 5.1	25.73%	15.97%
5.3.	First level capital ratio, taking into account correction made in line 5.1	25.73%	15.97%
5.4.	**Total capital ratio, taking into account correction made in line 5.1**	**25.73 %**	**15.97 %**

NOTE 30 EVENTS AFTER REPORTING DATE

In January 2017 the Bank have used previous years retained earnings to pay EUR 4.5 million dividends.

During the period between the last day of the reporting period and the date of signing the financial statements there have been no events that would require adjustment to the financial statements.

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