*Translation from Latvian original

AS "LPB Bank"

***Financial statements of the Bank
for the year ended 31 December 2017***

CONTENTS

MANAGEMENT REPORT

1. GENERAL INFORMATION

AS "LPB Bank" (until 15 December 2017 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 "LPB Bank" legal address is Brivibas street 54, Riga, LV-1011, Latvia.

The Bank has a head office and two customer service centres. The Bank has no branches or representative offices abroad.

2. ECONOMICAL OVERVIEW

Net profit of AS LPB Bank for 2017 amounted to 7.2 million EUR, which is by 4 million EUR less than in 2016. However, in 2016 significant one-off positive result on the profit of the Bank was made by the VISA Europe share purchase transaction, when VISA Inc. purchased VISA Europe shares. This transaction resulted in significant unexpected profit for all banks previously co-operating with VISA Europe – AS LPB Bank as a result of this transaction generated additional profit of 4.8 million EUR. Excluding this transaction, profit of the Bank for 2017, as compared to prior year, increased by 0.8 million EUR or +13%, continuing the trend of increase in the Bank's profit year on year for the sixth year in a row.

In 2017 Bank's return on assets (ROA) amounted to 3.32% (in 2016 – 5.25%) and return on capital (ROE) was 24.69% (in 2016 – 43.28%).

Increase in profit was largely ensured by successful performance of e-commerce business. E-commerce turnover increase by 10% in 2017, while commission income from payment card operations increased by 5%.

During the year, profit of the Bank generated from servicing client payments decreased mainly due to clients re-orienting to euro payments and thus decreasing payments in other currencies. Decrease in payment commissions was partly compensated through increase in commissions related to client servicing – opening of accounts, maintenance of accounts, etc.

LPB Bank started 2017 with a total loan portfolio of 40 million EUR. During the year loan portfolio was increased by more than 13.8% and comprised 46 million EUR at the end of the year. From perspective of economy sectors, largest part of loan portfolio at the end of 2017 – 18.9%, was related to financing provided to hotels and catering sector, followed by 17.6% related to operations with real estate and 13.8% related to financing provided to wholesale and retail sale.

Total amount of loans issued during the year amounted to 16 million EUR, 90% of which were provided to companies for starting and development of their business. This is explained by shift in priorities related to provision of financing and diversification of risks related to end user of financing.

During 2017, the Bank was engaged in improvement of quality of loan portfolio and improvements to current IT solutions and systems, including improvement of loan management system.

MANAGEMENT REPORT (continued)

Significant project related to evaluation of asset quality was related to implementation of International financial reporting standard 9. It involved evaluation of the Bank's business models, creation of expected credit loss models, as well as calculating provisions required for 2018 alongside with documentation of relevant processes.

Anti-money laundering and terrorism financing prevention continues being hot topic in Latvia also in 2017, resulting in increased legal requirements in this area, as well as specific internal guidelines issued by the Latvian Association of Commercial Banks on the area of anti-money laundering and terrorism financing prevention.

While implementing highest compliance standards (revised Finance and Capital Markets Commission regulations, as well as US regulations in this area), the Bank has made significant investments into area of anti-money laundering and terrorism financing prevention. Significant structural changes are made related to controls function, enhancing and improving monitoring process. The Bank has further strengthened compliance with two CAMS (Certified Anti-Money Laundering Specialist) specialists, as well as increased capacity of responsible departments, increasing the number of employees and ensuring their professional development.

As part of implementation of highest compliance standards, the Bank has implemented technologic solution developed in USA for financial analysis and transactions monitoring Syron and together with independent audit company Deloitte has performed independent review of anti-money laundering and terrorism financing prevention process, including assessment of its efficiency and suggestions for improvements.

The Bank's security portfolio is comprised 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 securities according to the investment strategies approved by the Bank. To avoid high risk exposure, the Bank has set sub-limits for new investments in securities and determined that only investments in securities of Latvia central government are allowed and investments in low-risk instruments with a credit rating of BB- or higher (according to Moody's, or equivalent rating of Fitch or Standard & Poor's).

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, as well as based on simplified methods described in the Financial and Capital Market Commission 29.11.2016. regulatory rules No. 199 "Capital and Liquidity Adequacy Assessment Process Regulations".

Strategic aim for the Bank's risk level is moderate risk level. 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. During 2017, the Bank was compliant with the strategic risk level.

MANAGEMENT REPORT (continued)

The capital adequacy ratio (CAR) of the Bank that describes its exposure to credit risk, operational risk and market risk as at 31 December 2017 was 21.59% (on 31 December 2016 it was 25.73%), while in 2017 and 2016 the liquidity (ratio) was, respectively, 93.93% and 100.28%. The Bank does not have trading portfolio; therefore, the Bank's market risk is mostly related to the foreign exchange risk.

Currently AS LPB Bank employs more than 200 qualified specialists. Alongside with development of fintech sector, LPB is able to provide more opportunities to local businesses and service providers, developing opportunities available in European Union markets.

Priority regions for AS LPB Bank are Latvia, EEA countries, OECD and NATO member states. Priority operations are – issuance and acquiring of payment cards in POS terminals and Internet in co-operation with such renown organisations as MasterCard, Visa, Tieto, First Data, Global Payments, using Visa and MasterCard acquiring licences in Europe, thus ensuring services to Internet traders across Europe, placement of financing received in financial instruments, as well as issuance of loans to legal entities, especially loans aimed at ensuring sufficiency of current assets and trading cash flows.

During 2017, the Bank paid out dividends amounting to 9 million EUR from its retained earnings.

Questions related to possibility and amount of dividend payments are included into internal capital adequacy evaluation process of the Bank and the shareholder of the Bank will decide on approval of further dividend payments after capital planning process will be finished.

At the beginning of 2017, LPB introduced new design of Internet bank – ib.lpb.lv and already in April, new Internet bank authorisation was launched replacing identification tables with modern and more secure two-step authorisation with unique security code. Later on during the second half of the year, new, dynamic and user friendly webpage for e-commerce services provided by LPB was developed: ecom.lpb.lv.

To enhance business opportunities and achieve exchange of experience, employees of LPB in March attended the largest conference for corporate finance professionals in Moscow – INTAX EXPO RUSSIA. In addition, in June, LPB representatives presented the Bank during exhibitions “iForum” and “INTAX FORUM” in Kiev. In October, the Bank participated in local exhibition “Realty & Investment 2017” in Riga, thus building recognition and communication in local market.

On 15 December 2017, the Bank made significant move by adopting new “LPB” brand and changing name to AS LPB Bank.

Creative communication with art platform ArtAlea was continued and in 2017 in the premises of the Bank two art exhibits took place – exhibit of Edmunds Lūcis and Justīne Lūce “ma(i)cro”, as well as exhibit “Metafora + LN336”.

As the Bank highly values social responsibility – in 2017 LPB continued donations to the Children Hospital fund of Children`s Clinical University Hospital. Significant support was provided also to Children Fund and Latvian Car federation, providing in total donations of 209 thousand EUR.

MANAGEMENT REPORT (continued)

In 2018, the Bank will not only prepare to and celebrate its 10 years operations anniversary, together with employees, clients and co-operation partners, but will also continue work related to introduction and communication of new brand.

Acknowledging the Bank's role in anti-money laundering and terrorism financing prevention being a part of Latvian financial sector, as well as knowing reputational risks of Latvian financial sector, LPB in 2018 will continue enhancing compliance of the Bank with regulatory requirements, implementing in its operations international best practices in order to ensure highest efficiency of the Banking control systems related to anti-money laundering and terrorism financing prevention.

Starting the tenth year of operations of LPB we can proudly say that significant road in development or the Bank is made, however, another major path is ahead in 2018 with new challenges and aims.

We are thankful to our shareholders and clients for the trust shown, as well as to all our employees for the participation in the growth of the Bank!

3. THE COUNCIL AND THE BOARD

The Council of the Bank as at 31 December 2017

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 2017

Name, Last name	Position	Date of appointment
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 2017.

On behalf of the Bank`s management:

Biomins Kajems
Chairman of the Council

Boriss Ulmans
Chairman of the Board

Riga, 28 March 2018

STATEMENT OF MANAGEMENT'S RESPONSIBILITY

The management of AS "LPB Bank" (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 14 to 81 for the year ended 31 December 2017, 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, 28 March 2018

Translation from Latvian original*

INDEPENDENT AUDITOR'S REPORT

To the Shareholder of AS LPB Bank

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements set out on pages 14 to 81 give a true and fair view of the financial position of AS LPB Bank (the Bank) as at 31 December 2017, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee.

What we have audited

The financial statements comprise:
- the statement of financial position as at 31 December 2017;
- the statement of comprehensive income for the year ended 31 December 2017;
- the statement of changes in equity for the year ended 31 December 2017;
- the statement of cash flows for the year ended 31 December 2017; and
- the notes to the financial statements, which include 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

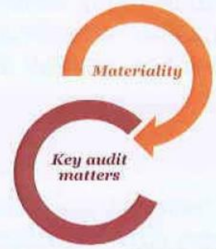
We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) and with the ethical requirements and auditor's independence rules that are relevant to our audit of the financial statements in the Republic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

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Bank and its related entities are in accordance with the applicable law and regulations in Latvia and that we have not provided non-audit services that are prohibited under Article 37.6 of Law on Audit Services of the Republic of Latvia.

The non-audit services that we have provided to the Bank, in the period from 1 January 2017 to 31 December 2017, are disclosed in Note 7 to the financial statements.

Our audit approach

Overview



- Overall materiality: € 377 thousand.

- Impairment of loans.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall materiality	Overall materiality applied to the Bank was EUR 377 thousand
How we determined it	5% of profit before tax
Rationale for the materiality benchmark applied	We chose profit before tax as the base benchmark because, in our view, it is the benchmark against which, the users of the financial statements most commonly measure performance of the Bank, and it is a generally accepted benchmark. We chose 5%, which is consistent with quantitative materiality thresholds used for profit-oriented entities in this sector.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above EUR 38 thousand, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

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Key audit matters

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

Key audit matters	*How our audit addressed the key audit matters*
Commission income from transactions with payment cards *Refer to Note 4 "Net fees and commission income" on page 31.* Commission income from transactions with payment cards is the main source of the revenue for the Bank, therefore, we considered existence and occurrence of transaction the main focus area of our audit. Although the commissions are based on individually approved agreements with merchants, the number and frequency of transactions is high and potential errors may occur.	We assessed whether the accounting policies of the Bank in relation to the commission income from transactions with payment cards are in compliance with IFRSs. On a sample basis we verified that data on purchases made using payment cards are correctly transferred from servicing company collecting merchant data to the Bank. We selected a sample of the transactions and verified that the commission was correctly applied based on the agreement with the customer. We also verified supporting documents to confirm the occurrence of the transaction which is subject to commission and that the commission was recorded in the correct service period. We verified the disclosures in the financial statements in respect of commission income from transactions with payment cards and found them appropriate. We found no material misstatements from our testing.
Impairment of loans *Refer to Note 8 "Impairment provisions" on page 34 and Note 12 "Loans" on page 36.* We focused on this area because management makes subjective judgements over both timing of impairment recognition and estimation of the size of any such impairment. Impairment reversal on loans for the year ended 31 December 2017 amounted to EUR 241 thousand. The amount of impairment provision for loan portfolio is based on the individual assessment of loans. Individual impairment is measured based on the present value of estimated future cash flows from the customer or where applicable from realizing collateral discounted at the original	We assessed whether the Bank's accounting policies in relation to the impairment of loans to customers are in compliance with IFRS. We assessed the design and operating effectiveness of the controls over monitoring of the loan portfolio, including impairment calculation for individually assessed loans, by analysing and testing them on a sample basis. The controls included those over the credit file periodic review, credit rating assessment, and monitoring of collateral values. We determined that we could rely on these controls for the purposes of our audit. We selected a sample of individually assessed loans and reviewed customer financial information, collateral data and other available information. We considered management assumptions and judgements regarding forecasts of future cash flows, valuations of underlying collaterals, as well as estimated timing of recovery of loans either through

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effective interest rate.

The most significant judgments made by Management in respect of loan impairment, relate to:

- Monitoring over the timely identification of loss events.
- Estimates of future cash flows from customers, including collaterals.

operating cash flows or from realisation of collateral.

We also performed detailed testing over the completeness and accuracy of data used in calculating the impairment provisions.

We read the disclosures in respect of impairment and credit risk.

Based on the evidence obtained, we found management's assumptions to be reasonable and the disclosures to be appropriate.

How we tailored our audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Bank, the accounting processes and controls, and the industry in which the Bank operates.

Reporting on other information including the Management Report

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

- the *Management Report*, as set out on pages 3 to 6 of the accompanying Annual report, and
- the *Statement of Management's Responsibility*, as set out on page 7 of the accompanying Annual report,

which we obtained prior to the date of this auditor's report, but which does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information, including the Management Report and the Statement of Management's Responsibility.

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

With respect to the Management Report, we also performed the procedures required by Law on Audit Services. Those procedures include consideration of whether the Management Report is prepared in accordance with the requirements of the applicable legislation.

Based on the work undertaken in the course of our audit, in our opinion, in all material respects:

- the information given in the Management Report and the Statement of Management's Responsibility 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 accordance with the requirements of the Financial and Capital Market Commission Regulation No. 46 "Regulation on preparation of the annual report and consolidated annual report of credit institutions, investment brokerage companies and investment management companies".

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In addition, in light of the knowledge and understanding of the Bank and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Management Report and the Statement of Management's Responsibility that we obtained prior to the date of this auditor's report. We have nothing to report in this respect.

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 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 scepticism 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

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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 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.

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

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

Report on other legal and regulatory requirements

Appointment

We were first appointed as auditors of the Bank for the year ended 31 December 2012. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 6 years. Our appointment for the year ended 31 December 2017 was by resolution of general meeting of shareholders dated 15 November 2017.

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

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

Riga, Latvia
28 March 2018

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

	Notes	2017	2016
Interest income	3	5 563	5 648
Interest expense	3	(945)	(1 126)
Net interest income	3	**4 618**	**4 522**
Provision for loan impairment	8	241	(502)
Net interest income after provision for loan impairment		**4 859**	**4 020**
Commission and fee income	4	20 687	19 695
Commission and fee expense	4	(13 509)	(12 611)
Net commission and fee income	4	**7 178**	**7 084**
Income from dividends		16	7
Net income from financial instruments	6	2 566	8 276
Other income	5	572	253
Administrative expense	7	(6 277)	(5 590)
Depreciation	15	(358)	(333)
Other expense	5	(996)	(1 042)
Profit before tax		**7 560**	**12 675**
Corporate income tax	9	(361)	(1 419)
Net profit for the year		**7 199**	**11 256**
Profit attributable to owners of the Bank		**7 199**	**11 256**
Other comprehensive income / (expense)			
Items that may be reclassified subsequently to profit or loss			
Change in available-for-sale financial assets revaluation reserve		119	(3 648)
Total other comprehensive income / (expense)		**119**	**(3 648)**
Total other comprehensive income attributable to owners of the Bank		**7 318**	**7 608**
Earnings per share (EUR)	21	**0.554**	**0.866**

The accompanying notes on pages 19 to 81 form an integral part of these financial statements.
The Bank's financial statements set out on pages 14 to 81 were approved by the Board and by the Council on 28 March 2018.

Biomins Kajems
Chairman of the Council

Boriss Ulmans
Chairman of the Board

Riga, 28 March 2018

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

	Notes	31.12.2017	31.12.2016
ASSETS			
Cash and balances with the Bank of Latvia	10	34 096	24 884
Due from credit institutions	11	24 249	16 785
Financial assets held for trading	14	18	1
Available-for-sale financial assets	13	36 582	27 240
Loans and receivables	12	45 789	40 162
Held-to-maturity financial investments	13	73 319	79 413
Property, plant and equipment	15	6 742	6 888
Intangible assets	15	541	521
Other financial assets	16	12 282	8 596
Overpaid corporate income tax		562	-
Other non-financial assets	16	325	254
Total assets		**234 505**	**204 744**
LIABILITIES			
Financial liabilities held for trading	14	89	2
Liabilities at amortised cost	19	197 838	168 389
Deposits from customers		*197 838*	*168 389*
Current tax liabilities	9	-	901
Deferred tax liabilities	9	-	354
Other financial liabilities	20	7 994	4 205
Other non-financial liabilities	20	281	908
Total liabilities		**206 202**	**174 759**
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK			
Paid-in share capital	21	13 000	13 000
Available-for-sale financial assets revaluation reserve		938	819
Retained earnings		14 365	16 166
Total equity attributable to equity holders of the Bank		**28 303**	**29 985**
Total equity		**28 303**	**29 985**
Total liabilities and equity		**234 505**	**204 744**

The accompanying notes on pages 19 to 81 form an integral part of these financial statements.
The Bank's financial statements set out on pages 14 to 81 were approved by the Board and by the Council on 28 March 2018.

Biomins Kajems
Chairman of the Council

Boriss Ulmans
Chairman of the Board

Riga, 28 March 2018

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

	Paid-in share capital	Available-for-sale financial assets revaluation reserve	Retained earnings	Total
Balance 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*
Total income for the year	-	(3,648)	11 256	7 608
Balance as at 31 December 2016	**13 000**	**819**	**16 166**	**29 985**
Other comprehensive income	-	*119*	-	*119*
Net profit for the year	-	-	*7 199*	*7 199*
Total income for the year	-	119	7 199	7 318
Dividends paid	-	-	(9 000)	(9 000)
Balance as at 31 December 2017	**13 000**	**938**	**14 365**	**28 303**

The accompanying notes on pages 19 to 81 form an integral part of these financial statements.
The Bank's financial statements set out on pages 14 to 81 were approved by the Board and by the Council on 28 March 2018.

Biomins Kajems
Chairman of the Council

Boriss Ulmans
Chairman of the Board

Riga, 28 March 2018

STATEMENT OF CASH FLOWS
(All amounts are expressed in thousands of euro (000'EUR))

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	7 560	12 675
Amortisation / depreciation	358	333
(Decrease) / increase in impairment allowance for financial assets	(241)	502
Interest income	(5 563)	(5 648)
Interest expense	945	1 126
Unrealised foreign exchange loss	475	13
Increase in cash and cash equivalents from operating activities before changes in assets and liabilities	**3 534**	**9 001**
Decrease in balances due from credit institutions	-	3 182
(Increase) / decrease in loans and receivables	(5 313)	4 437
(Increase) in other assets	(3 833)	(6 744)
Increase / (decrease) in deposits from customers	29 800	(26 747)
Increase in other liabilities	3 249	1 979
Change in cash and cash equivalents from operating activities before income tax	**27 437**	**(14 892)**
Interest received	5 571	5 465
Interest paid	(1 296)	(975)
Corporate income tax paid	(2 178)	(681)
Change in cash and cash equivalents from operating activities	**29 534**	**(11 083)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(232)	(221)
(Increase) / decrease of available-for-sale financial assets	(9 157)	18 928
Settlement / (increase) of held-to-maturity financial instruments	6 006	(28 945)
Change in cash and cash equivalents from investing activities	**(3 383)**	**(10 238)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of shares	-	1 000
Dividends paid	(9 000)	-
Change in cash and cash equivalents from financing activities	**(9 000)**	**1 000**
Net cash flows for the year	**17 151**	**(20 321)**
Cash and cash equivalents at the beginning of the year	41 669	62 003
Foreign exchange (loss)	(475)	(13)
Cash and cash equivalents at the end of the year	**58 345**	**41 669**

Cash and cash equivalents are disclosed in note 23.

STATEMENT OF CASH FLOWS (continued)

The accompanying notes on pages 19 to 81 form an integral part of these financial statements.
The Bank's financial statements set out on pages 14 to 81 were approved by the Board and by the Council on 28 March 2018.

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

Riga, 28 March 2018

NOTE 1 BASIS OF PREPARATION OF FINANCIAL STATEMENTS

(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").

Based on Commercial Code of the Republic of Latvia, shareholder meeting has rights and obligations to make decision on approval of financial statements. Shareholder and the Board have rights to amend the financial statements after issue.

(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 a 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, European Economic Area, OECD and NATO member states;

To define as the priority business activity the following:

- issuance and acceptance of payment cards via POS terminals and the Internet, in cooperation with known organisations, such as MasterCard, Visa, Tieto, First Data, Global Payment,
- investment of attracted funds in financial instruments,
- 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 2017 of at least 16 per cent.

On 13 February 2018, the US Treasury Financial Crimes Enforcement Network (FinCEN) published announcement on sanctions against one of the Latvian non-resident banks "ABLV Bank" whose shareholders on 26 February took a decision on self-liquidation of the bank. This created turbulence in the Latvian financial market and also affected the attitude of other banks against Latvian non-resident banks. AS LPB Bank has assessed and is continuously monitoring the situation in international markets, including correspondent relationships with other banks. The management believes it is taking all the necessary measures to support the Bank's business in the present circumstances.

On 23 March 2018 the Bank submitted to the FCMC its revised operating strategy, determining that the Bank will focus on providing FinTech services, stop co-operating with such shell companies that cannot provide evidence about their actual business activities, as well as change focus of the Bank from CIS countries to EEA, OECD and NATO member states. New strategy implies decrease of Bank's assets and profit, however, does not endanger the going concern of the Bank.

(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 2017.

The following guidance with effective as of 1 January 2017 and did not have impact on these financial statements:

- 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).
- Amendments to IAS 7 "Statement of Cash Flows" – disclosure initiative (effective for annual periods beginning on or after 1 January 2017).

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 2018, 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. As the Bank had not used and is not planning to use hedge accounting, these changes in the standard are not relevant to the operations of the Bank.

Management of the Bank has carried out assessment of implementation of IFRS 9 and has recognised respective capital correction as at 1 January 2018. As a result, additional provisions for expected credit losses of financial assets were recognised in the amount of 691 thousand EUR, comprised of 54 thousand EUR increase of provisions for loans and 598 thousand EUR increase in provisions for securities.

After evaluating business model, as well as payments of principal and interest, no major changes were made to classification of financial assets and liabilities, apart from classification of VISA shares, which were reclassified from available-for-sale financial assets to financial assets at fair value with revaluation through profit and loss. As a result, retained earnings were increased by 1.2 million EUR, reclassifying positive difference previously recognised as part of revaluation reserves.

- IFRS 15 "Revenue from Contracts with Customers" (effective for annual periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. Based on the assessment of IFRS 15 implementation performed by the management of the Bank, new standard will have no effect on the financial statements of the Bank in next financial year.
- IFRS 16 "Leases" (effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. Management of the Bank envisages that implementation of new standard might increase the total value of assets and liabilities of the Bank; however, the amount is not calculated yet.
- 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).
- IFRIC 23 "Uncertainty over Income Tax Treatments" (effective for annual periods beginning on or after 1 January 2019, not yet endorsed in the EU).
- Amendments to IFRS 9 "Financial instruments" – Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019, not yet endorsed in the EU).
- Annual improvements to IFRS's 2017 (effective for annual periods beginning on or after 1 January 2019, not yet endorsed in the EU). The amendments include changes that affect 4 standards:
    - IFRS 3 - "Business Combinations",

- IFRS 11 - "Joint Arrangements"
- IAS 12 - "Income taxes"
- IAS 23 - "Borrowing costs".

The Bank has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Bank anticipates that the adoption of all other standards, revisions and interpretations will have no material impact on the financial statements of the Bank in the period of initial application, except for the effects mentioned above.

(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 euro 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 2017	**31 December 2016**
USD	1.19930	1.05410
RUB	69.39200	64.30000
GBP	0.88723	0.85618
PLN	4.17700	4.41030

(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. Change in value of assets between the trading date and settlement date are recognised in the statement of comprehensive income.

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 income from trading with financial instruments.

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) from transactions with financial instruments.

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, subordinated debt and other financial liabilities 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 asset'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 based on historical loss experience adjusted for current observable data.

The carrying amount of the asset is reduced using 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 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 based on 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 based 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 2017 and 2016 is 15%.

Until 31 December 2016, deferred tax was provided for, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The principal temporary differences arose from different fixed asset depreciation rates, accrued costs and provisions which were deductible in the future taxation periods as well as tax losses carried forward.

On July 28, 2017, a new Corporate Income Tax Law was adopted, which stipulates that from January 1, 2018, the corporate income tax is levied on profit that arose after 2017 if it is distributed. The new tax law does not include rules, which result into timing differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Transitional provisions of the law provide that taxpayers will be able to utilise the unused tax losses accumulated by 31 December 2017 during next 5 taxation years for reducing the tax payable on distributed profits by no more than 50% each year, as well as to use provisions created by 31 December 2017 that resulted in the increase of taxable income during the respective tax periods, for reduction of taxable profits, in the amount of their reduction. Such amounts, if any, do not give rise to deferred income tax assets as at 31 December 2017 and thereafter, as in the situation where there is a different tax rate on distributed profit and retained earnings, the deferred tax is calculated according to the tax rate applicable to retained earnings, i.e. 0%. Given the circumstances, there is no longer any reason for the existence of a deferred tax asset or liability at 31 December 2017, and the deferred tax liability and asset recognized by the Bank as at 31 December 2016 was reduced to zero, including a reduction in that liability and asset in the profit and loss account for the year 2017.

From taxation year 2018, corporate income tax will be calculated on the basis of distributed profit (20/80 of the net amount payable to shareholders). Corporate tax on distributed profit will be recognized when the shareholders of the Bank make a decision about profit distribution.

(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 72% (2016: 70%) 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

	2017	2016
Interest income		
Due from credit institutions	674	427
Loans and receivables	2 524	2 612
Incl. impaired loans	*5*	*65*
Securities	2 365	2 609
Incl. held to maturity	*1 761*	*1 767*
Incl. available for sale	*604*	*842*
Total interest income:	**5 563**	**5 648**
Interest expense		
Due to credit institutions	-	(2)
Non-bank deposits	(698)	(814)
Payments to the Deposit Guarantee Fund	(247)	(310)
Total interest expense:	**(945)**	**(1 126)**
Net interest income	**4 618**	**4 522**

NOTE 4 NET COMMISSION AND FEE INCOME

	2017	2016
Commission and fee income		
Payment card transactions	17 635	15 892
Service fee for account maintenance and cash transactions	2 200	2 470
Asset management and brokerage services	610	1 071
Other bank transactions	242	262
Total commission and fee income:	**20 687**	**19 695**
Commission and fee expense		
Payment card transactions	(10 256)	(9 464)
Agents commission	(2 965)	(2 779)
Correspondent banking services	(189)	(264)
Brokerage services	(59)	(67)
Other bank transactions	(40)	(37)
Total commission and fee expense:	**(13 509)**	**(12 611)**
Net commission and fee income	**7 178**	**7 084**

NOTE 5 OTHER INCOME AND EXPENSE

	2017	2016
Other income		
Penalties collected	246	191
Incl. past due loan payments	*237*	*168*
Income from collateral seized for sale	237	-
Income from recovery of assets previously written-off	-	18
Other income	89	44
Total other income	**572**	**253**
Other expense		
Membership fees to various organisations	(106)	(79)
Payment card project implementation and servicing	(800)	(880)
Other expenses	(90)	(83)
Total other expenses	**(996)**	**(1 042)**

NOTE 6 NET INCOME FROM FINANCIAL INSTRUMENTS

	2017	2016
Net gain from transactions with derivative financial instruments	447	576
Incl. net trading gain	*518*	*576*
net revaluation result	*(71)*	-
Net gain from transactions with other currency	1 740	1 573
Incl. net trading gain	*2 215*	*1 586*
net revaluation result	*(475)*	*(13)*
Net gain from available-for-sale financial instruments	379	6 127
Incl. from debt securities sale	*379*	*506*
Incl. from sale of VISA Europe limited shares	-	*5621*
Net trading gain	**2 566**	**8 276**

NOTE 7 ADMINISTRATIVE EXPENSE

	2017	2016
Remuneration expense		
Remuneration to the Council and the Board	235	209
Remuneration to personnel	3 826	3 109
State compulsory social security contributions of personnel	900	730
State compulsory social security contributions of the Council and the Board	55	48
Total remuneration expense:	**5 016**	**4 096**
Lease and maintenance of premises	127	113
Non-deductible input tax	179	159
Telephone, communications and mail	89	93
Software maintenance	135	126
Professional and legal fees	159	99
Stationery and other office expense	33	21
Other personnel expense	113	93
Property tax	56	45
Non-operating expenses*	254	349
Penalties paid	25	322
Other administrative expense	91	74
Total other expense:	**1 261**	**1 494**
Administrative expense	**6 277**	**5 590**

* Non-operating expenses includes donations to public interest entities of 209 thousand EUR (2016: 315 thousand EUR).

As at 31 December 2017, the Bank had 192 employees (2016: 178 employees).

Payment for the audit and other services to various certified audit firms is included in administrative expenses. Total amounts paid to certified audit firms by the type of services are:

	2017	2016
Services received from the company auditing these financial statements:		
Financial year audit and interim audit fee	38	24
Other payments for non-audit services (non-audit assurance engagements required by the law)	2	2
Services received from other auditing companies:		
Other payments for non-audit services	67	-

NOTE 8 IMPAIRMENT PROVISIONS

	Loans	Other assets	Total
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**
Increase	64	59	123
Decrease	(364)	-	(364)
Write-offs	-	(59)	(59)
Balance as at 31 December 2017	**641**	**-**	**641**

NOTE 9 CORPORATE INCOME TAX

Corporate income tax expense comprises the following items:

	2017	2016
Current corporate income tax charge for the reporting year	(715)	(1 349)
Deferred corporate income tax	354	(70)
Total corporate income tax expense	**(361)**	**(1 419)**

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 (2016: 15%):

	2017	2016
Profit before tax	**7 560**	**12 675**
Corporate income tax at the statutory rate of 15%	1 134	1 901
Non-taxable income	(364)	(448)
Non-deductible expenses	123	164
Tax credit for donations	(178)	(268)
Corporate income tax expense for the year	**715**	**1 349**

Overall deferred tax movement is as follows:

	2017	2016
Deferred tax liability at beginning of the year	354	284
Deferred tax (income) / expense for the year	(354)	70
Deferred tax liability at end of the year	**-**	**354**

There was no tax loss carried forward as at 31 December 2016 and 31 December 2017.

NOTE 10 CASH AND BALANCES WITH THE BANK OF LATVIA

	31.12.2017.	31.12.2016.
Cash	2 815	1 815
Balances with the Bank of Latvia	31 281	23 069
Total	**34 096**	**24 884**

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 2017, the Bank's compulsory reserve requirement was 1 649 thousand EUR (31 December 2017: EUR 1 573 thousand).

NOTE 11 DUE FROM CREDIT INSTITUTIONS

	31.12.2017.	31.12.2016.
Amounts due on demand	**15 979**	**16 785**
Credit institutions registered in Latvia	2 770	3 870
Credit institutions registered in the EU	3 062	4 438
Credit institutions of other countries	10 147	8 477
Term deposits	**8 270**	**-**
Credit institutions registered in Latvia	5 767	-
Credit institutions of other countries	2 503	-
Total	**24 249**	**16 785**

The Bank's average interest rates applicable for the balances due from credit institutions in 2017 are as follows: USD 1.14%, EUR 1.54%, RUB 7.09%. (2016: USD 0.75%, EUR -0.4%, RUB 9.1%).

NOTE 12 LOANS

(a) By customer profile

	31.12.2017.	31.12.2016.
Private non-financial companies	34 794	28 439
Financial institutions	2 900	2 362
Households	8 736	10 302
Total loans	**46 430**	**41 103**
Allowance for credit losses	(641)	(941)
Net loans	**45 789**	**40 162**

(b) By geographical profile

	31.12.2017.	31.12.2016.
Residents of Latvia	40 815	38 522
Residents of EU Member States	777	456
Residents of other countries	4 838	2 125
Total loans	**46 430**	**41 103**
Allowance for credit losses	(641)	(941)
Net loans	**45 789**	**40 162**

(c) By type

	31.12.2017.	31.12.2016.
Commercial loans	8 628	9 429
Industrial loans	6 785	4 542
Finance leases	576	812
Credit card loans	69	81
Mortgage loans	20 288	17 157
Factoring	896	1 251
Other loans	8 676	7 612
Cash in financial institutions reserved for operations	512	219
Total loans	**46 430**	**41 103**
Allowance for credit losses	(641)	(941)
Net loans	**45 789**	**40 162**

(d) Loans and advances to customers by quality

	31.12.2017.	31.12.2016.
Neither past due nor impaired	41 182	35 170
Past due but not impaired	3 737	3 436
Impaired	1 511	2 497
Total gross loans and advances to customers	**46 430**	**41 103**
Allowances for doubtful debts	(641)	(941)
Total net loans and advances to customers	**45 789**	**40 162**

31.12.2017.

	Loans	Finance leases	Factoring	Credit card loans	Total
Loans and advances to customers neither past due nor impaired	**40 134**	**534**	**470**	**44**	**41 182**
Private non-financial companies	29 032	529	470	12	30 043
Financial institutions	2 900	-	-	-	2 900
Private individuals	8 202	5	-	32	8 239
Loans and advances to customers past due but not impaired	**3 724**	**-**	**-**	**13**	**3 737**
Past due up to 30 days	1 420	-	-	13	1 433
Past due 30-60 days	685	-	-	-	685
Past due 60-90 days	546	-	-	-	546
Past due over 90 days	1 073	-	-	-	1 073
Total loans and advances to customers individually impaired	**1 031**	**42**	**426**	**12**	**1 511**
Total gross loans and advances to customers	**44 889**	**576**	**896**	**69**	**46 430**
Allowances for doubtful debts	(161)	(42)	(426)	(12)	(641)
Total net loans and advances to customers	**44 728**	**534**	**470**	**57**	**45 789**

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**

(e) Significant credit risk concentration

As at 31 December 2017 the Bank had 4 borrowers or groups of borrowers, whose aggregate liabilities exceeded 10% of the Bank's equity (as at 31 December 2016, the Bank had no borrowers, whose aggregate liabilities exceeded 10% of the Bank`s equity).

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 2017 and 31 December 2016, the Bank was in compliance with these requirements.

NOTE 13 INVESTMENTS INTO SECURITIES

a) Securities by portfolios

	31.12.2017.	31.12.2016.
Available-for-sale financial assets		
Debt securities issued by Latvian government	1 970	1 904
Debt securities issued by other central government	7 425	2 224
Debt securities issued by EU credit institutions	7 422	6 632
Debt securities issued by credit institutions of other countries	6 470	9 692
Debt securities issued by EU financial institutions	-	2 371
Debt securities issued by other countries financial institutions	4 819	-
Debt securities issued by Latvia non-financial companies	1 053	1 052
Debt securities issued by EU non-financial companies	4 070	1 035
Debt securities issued by other countries non-financial companies	2 104	1 356
VISA shares	1 249	974
Total available-for-sale financial assets	**36 582**	**27 240**
Held-to-maturity financial investments		
Debt securities issued by the Latvian government	13 456	17 069
Debt securities issued by EU central governments	6 369	6 417
Debt securities issued by EU credit institutions	11 691	12 199
Debt securities issued by credit institutions of other countries	21 851	23 543
Debt securities issued by EU financial companies	2 036	2 051
Debt securities issued by Latvian non-financial companies	-	1 762
Debt securities issued by EU non-financial companies	12 439	12 518
Debt securities issued by other countries non-financial companies	5 477	3 854
Total held-to-maturity financial investments	**73 319**	**79 413**

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

	31.12.2017.			31.12.2016.		
	Carrying amount	**% of equity**	**Reva-luation reserve**	**Carrying amount**	**% of equity**	**Reva-luation reserve**
Central governments	**9 395**	**x**	**22**	**4 128**	**x**	**(37)**
USA	4 973	*18.65*	(26)	-	-	-
Other countries	4 422	*16.58*	48	4 128	*14.93*	(37)
Credit institutions	**13 892**	**x**	**(206)**	**16 324**	**x**	**(104)**
Netherlands	2 927	*10.98*	(6)	2 063	*7.46*	6
Canada	2 466	*9.25*	(51)	2 779	*10.05*	(83)
Other countries	8 499	*31.87*	(149)	11 482	*41.53*	(27)
Other financial institutions	**4 819**	**x**	**(15)**	**2 371**	**x**	**(4)**
USA	4 819	*18.07*	(15)	-	-	-
Other countries	-	-	-	2 371	*8.58*	(4)
Private non-financial institutions	**7 227**	***27.10***	**(112)**	**3 443**	***12.45***	**(10)**
Securities of other financial institutions	**1 249**	***4.68***	**1 249**	**974**	***3.52***	**974**
Total available-for-sale financial assets	**36 582**	**x**	**938**	**27 240**	**x**	**819**

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

	31.12.2017.			31.12.2016.		
	Carrying amount	**% of equity**	**Fair value**	**Carrying amount**	**% of equity**	**Fair value**
Central governments	**19 825**	**x**	**21 436**	**23 486**	**x**	**25 560**
Latvia	13 456	*50.46*	14 924	17 069	*61.74*	19 030
Lithuania	4 225	*15.84*	4 386	4 256	*15.39*	4 447
Other countries	2 144	*8.04*	2 126	2 161	*7.82*	2 083
Credit institutions	**33 542**	**x**	**33 966**	**35 742**	**x**	**35 729**
UAE	3 373	*12.65*	3 396	3 845	*13.91*	3 867
UK	6 225	*23.34*	6 547	6 252	*22.61*	6 321
USA	10 883	*40.81*	10 940	11 277	*40.79*	11 205
Other countries	13 061	*48.97*	13 083	14 368	*51.97*	14 336
Securities of other financial institutions	**2 036**	***7.64***	**2 052**	**2 051**	***7.42***	**2 046**
Private non-financial institutions	**17 916**	**x**	**18 357**	**18 134**	**x**	**18 432**
Estonia	5 128	*13.22*	5 412	5 144	*18.61*	5 341
Other countries	12 788	*53.96*	12 945	12 990	*46.98*	13 091
Held-to-maturity financial investments, net	**73 319**	**x**	**75 811**	**79 413**	**x**	**81 767**

d) Financial investment qualitative rating

	31.12.2017.	31.12.2016.
Available-for-sale financial assets by risk classes	**36 582**	**27 240**
AAA to A-	30 740	16 176
BBB+ to BBB-	5 842	9 000
BB+ to BB-	-	2 064
Held-to-maturity financial investments by risk classes	**73 319**	**79 413**
AAA to A-	46 689	49 868
BBB+ to BBB-	22 574	27 466
BB+ to BB-	4 056	2 079

Investments are made in securities 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 securities and determined that only investments in securities 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 equivalent rating of *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 are used. Average rating used by the Bank is calculated as follows: if risk rating is available only from one risk rating agency – this rating is applied; if two risk rating agencies have published risk ratings and risk ratings are different, the rating with higher degree of risk is applied; if all three risk rating agencies have published different risk ratings, the Bank first selects two risk ratings with the lowest degree of risk and then from those choses the one with highest degree of risk. Additional sources of information used in analysis are mass media, economic analysis reports by international organisations and data from 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 identified, 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 requests for financial collateral.

NOTE 14 DERIVATIVE FINANCIAL INSTRUMENTS

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

	31.12.2017.		31.12.2016.	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Notional amount	30 601	30 672	5 553	5 554
Fair value	**18**	**89**	**1**	**2**

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

As at 31 December 2017, 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 for IA	Total IA	Land and buildings	Computers and equipment	Vehicles	Other PPE	Total PPE
Acquisition value								
31.12.2015.	**931**	**-**	**931**	**7 214**	**262**	**48**	**152**	**7 676**
Additions	26	138	**164**	-	53	-	4	**57**
Disposals	-	-	**-**	-	(7)	-	-	**(7)**
31.12.2016.	**957**	**138**	**1 095**	**7 214**	**308**	**48**	**156**	**7 726**
Additions	270	-	**270**	-	77	15	8	**100**
Disposals	-	(138)	**(138)**	-	(16)	(12)	-	**(28)**
31.12.2017.	**1 227**	**-**	**1 227**	**7 214**	**369**	**51**	**164**	**7 798**
Accumulated amortisation/ depreciation								
31.12.2015.	**480**	**-**	**480**	**361**	**157**	**17**	**71**	**606**
Accumulated amortisation/ depreciation for the year	94	-	**94**	140	66	10	23	**239**
Disposal depreciation	-	-	**-**	-	(7)	-	-	**(7)**
31.12.2016.	**574**	**-**	**574**	**501**	**216**	**27**	**94**	**838**
Accumulated amortisation/ depreciation for the year	112	-	**112**	140	66	17	23	**246**
Disposal depreciation	-	-	**-**	-	(16)	(12)	-	**(28)**
31.12.2017.	**686**	**-**	**686**	**641**	**266**	**32**	**117**	**1 056**
Net carrying amount								
31.12.2015.	**451**	**-**	**451**	**6 853**	**105**	**31**	**81**	**7 070**
31.12.2016.	**383**	**138**	**521**	**6 713**	**92**	**21**	**62**	**6 888**
31.12.2017.	**541**	**-**	**541**	**6 573**	**103**	**19**	**47**	**6 742**

The amortisation/ depreciation charge for the year totalling EUR 351 thousand (2016: EUR 333 thousand). Net book value for disposals taken to the Bank's statement of comprehensive income as depreciation/ amortisation amount to EUR 7 thousand (2016: N/A).

NOTE 16 OTHER ASSETS

	31.12.2017.	31.12.2016.
Other financial assets	**12 282**	**8 492**
Card operations	6 878	2 546
Security deposit for transactions	4 913	5 429
Deferred payment for VISA Europe shares sale	447	447
Accrued commission income	44	70
Other non-financial assets	**325**	**358**
VAT input tax	3	23
Inventory (digipass and card blanks)	22	35
Future period expenses	147	184
Other receivables	153	116

NOTE 17 FUNDS UNDER TRUST MANAGEMENT

	31.12.2017.	31.12.2016.
Assets	**55 893**	**110 427**
Loans to private companies	49 856	41 628
Loans to financial intermediaries and auxiliary firms	5 599	15 160
Clients' financial instruments cash accounts	244	640
Clients' financial instruments under management	194	52 999
Liabilities	**55 893**	**110 427**
Credit institutions	17 231	51 977
Private companies	38 468	56 621
Households	194	1 828

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 2017, the accumulated outstanding commission fee for the asset management was EUR 16 thousand (2016: EUR 70 thousand).

NOTE 18 DUE TO CREDIT INSTITUTIONS

As at the end of 2017 and 2016, the Bank had no liabilities to credit institutions.
The Bank's average interest rates on liabilities to credit institutions in 2017 were EUR 1.65%, (2016: USD 0.77%).

NOTE 19 DEPOSITS FROM CUSTOMERS

(a) By customer profile:

	31.12.2017.	31.12.2016.
Demand deposits	**160 525**	**131 415**
Financial institutions	21 110	12 308
Private companies	111 170	87 306
Households and non-profit organisations servicing them	28 245	31 801
Term deposits	**37 313**	**36 974**
Financial institutions (2nd pillar pension funds)	1 353	-
Private companies	4 441	5 436
Households and non-profit organisations servicing them	31 519	31 538
Total	**197 838**	**168 389**

(b) By geographical profile

	31.12.2017.	31.12.2016.
Demand deposits	**160 525**	**131 415**
Residents of Latvia	41 201	41 222
Residents of EU Member States	84 942	52 810
Residents of other countries	34 382	37 383
Term deposits	**37 313**	**36 974**
Residents of Latvia	30 261	30 737
Residents of EU Member States	141	307
Residents of other countries	6 911	5 930
Total	**197 838**	**168 389**

The Bank's average interest rates in 2017 are as follows: 1.472% (USD), 1.436% (EUR) (2016: 1.502% (USD), 1.513% (EUR), 3.0% (RUB)).

NOTE 20 OTHER LIABILITIES

	31.12.2017.	31.12.2016.
Other financial liabilities	**7 994**	**4 874**
Payment for transactions with payment cards	6 780	3 984
Liabilities under clarification	22	181
Accrued expenses related to financial transaction servicing	204	153
Third-party funds held as collateral	554	-
Accrued expenses related to servicing of payment cards	57	74
Accrued expenses for payments to the Deposit Guarantee Fund and the FCMC	75	55
Accrued payments to agents	171	405
Other financial liabilities and accrued expenses	131	22
Other non-financial liabilities	**281**	**239**
Taxes payable	22	37
Vacation pay reserve	245	184
Deferred income	12	15
Other non-financial liabilities	2	3

NOTE 21 PAID-IN SHARE CAPITAL

As at 31 December 2017, the Bank's registered and paid-in share capital was EUR 13 million (2016: EUR 13 million). In 2017 there were no changes in share capital.

The Bank's share capital consists of only ordinary voting shares. The par value of each share is EUR 1 as at 31 December 2017, all shares were fully paid and the Bank did not hold any of its own shares.

As at 31 December 2017 and 2016, the Bank's sole shareholder was SIA Mono, registration No 40003004625, legal address Riga, Katlakalna iela 1, which is also the ultimate parent of the Bank. The sole shareholder has three ultimate beneficiaries, who individually do not control the Bank.

NOTE 22 EARNINGS PER SHARE

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

	2017	**2016**
Net profit	7 199	11 256
Number of ordinary shares at reporting date ('000)	13 000	13 000
Earnings per share (EUR)	**0.554**	**0.866**

NOTE 23 CASH AND CASH EQUIVALENTS

	31.12.2017.	**31.12.2016.**
Cash and demand deposits with the Bank of Latvia	34 096	24 884
Balances due from other credit institutions with original maturities of less than three months	24 249	16 785
Total	**58 345**	**41 669**

NOTE 24 OFF-BALANCE SHEET ITEMS

	31.12.2017.	**31.12.2016.**
Contingent liabilities	**1 502**	**1 249**
Guarantees	1 502	1 249
Financial commitments	**2 769**	**3 010**
Unutilised credit lines	2 329	2 592
Credit card commitments	440	418
Total off-balance sheet items, gross	**4 271**	**4 259**

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 25 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 2017, there were no 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:

	31.12.2017.			31.12.2016.		
	Carrying amount	**Off-balance sheet items**	**Total**	**Carrying amount**	**Off-balance sheet items**	**Total**
Assets	**1 082**	**205**	**1 287**	**1 255**	**608**	**1 863**
Loans and receivables, net	**1 082**	**205**	**1 287**	**1 255**	**608**	**1 863**
Parent company	-	-	-	-	-	-
Council and Board	117	110	227	134	227	361
Related companies and individuals	965	95	1 060	1 121	381	1 502
Assets under management	**-**	**13 203**	**13 203**	**-**	**30 049**	**30 049**
Related companies and individuals	-	13 203	13 203	-	30 049	30 049
Liabilities	**24 516**	**-**	**24 516**	**30 172**	**-**	**30 172**
Deposits	**24 516**	**-**	**24 516**	**30 172**	**-**	**30 172**
Parent company	2 571	-	2 571	247	-	247
Council and Board	10 184	-	10 184	10 130	-	10 130
Related companies and individuals	11 761	-	11 761	19 795	-	19 795
Liabilities under management	**-**	**49 985**	**49 985**	**-**	**57 623**	**57 623**
Council and Board	-	55	55	-	717	717
Related companies and individuals	-	49 930	49 930	-	56 906	56 906

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

	2017	**2016**
Interest income	78	68
Interest expense	(91)	(85)
Net interest expense	**(13)**	**(17)**
Commission and fee income	**269**	**229**

NOTE 26 BREAKDOWN OF FINANCIAL INSTRUMENTS BY VALUATION CATEGORIES

The following table shows the Bank's financial assets broken down by valuation category:

31.12.2017.

	Loans and receivables	Held-to-maturity assets	Assets at fair value through profit and loss	Available-for-sale assets	Total
Assets					
Cash and balances with the Bank of Latvia	34 096	-	-	-	34 096
Loans from credit institutions	24 249	-	-	-	24 249
Available-for-sale financial assets	-	-	18	-	18
Financial assets held for trading	-	-	-	36 582	36 582
Loans and receivables	45 789	-	-	-	45 789
Held-to-maturity financial assets	-	73 319	-	-	73 319
Other financial assets	12 844	-	-	-	12 844
Total financial assets	**116 978**	**73 319**	**18**	**36 582**	**226 897**
Non-financial assets					7 608
Total assets	**116 978**	**73 319**	**18**	**36 582**	**234 505**

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	Loans and receivables	Held-to-maturity assets	Assets at fair value through profit and loss	Available-for-sale assets	Total
Assets					
Cash and balances with the Bank of Latvia	24 884	-	-	-	24 884
Loans from credit institutions	16 785	-	-	-	16 785
Available-for-sale financial assets	-	-	1	-	1
Financial assets held for trading	-	-	-	27 240	27 240
Loans and receivables	40 162	-	-	-	40 162
Held-to-maturity financial assets	-	79 413	-	-	79 413
Other financial assets	8 492	-	-	-	8 492
Total financial assets	**90 323**	**79 413**	**1**	**27 240**	**196 977**
Non-financial assets					7 767
Total assets	**90 323**	**79 413**	**1**	**27 240**	**204 744**

As at 31 December 2017 and 31 December 2016, all financial liabilities of the Bank, except for derivative financial instruments, were accounted for at amortised cost. Derivative financial instruments are included into valuation category – financial liabilities at fair value through profit and loss.

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. As part of market risk assessment settlement risk was also evaluated as a risk for which under certain conditions capital requirements should be calculated.

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;
- Ensures monitoring and improvement of the Bank's risk management system;
- Ensures regular evaluation of compliance of the Bank's business strategy and Bank's

essential services, 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 with the Bank's risk strategy. In case of non-compliance reporting to the Council and the Board and other officers in accordance with internal policies is ensured;
- Provides a comprehensive and clear information on the Bank's overall risk profile, all relevant risks and risks compliance with the risk management strategy through regular communication to the Council and the Board and other officers according to the internal policies;
- Advises and provides support to the Council and the Board of the Bank in designing operational strategy and in making other decision related to the risks faced by the Bank.

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 matters relating to the credit risk bearing activities of the Bank.

Asset and Liability Committee:
- Monitors, plans and manages the Bank's liquidity;
- Monitors, plans and manages the Bank's interest rate risk;
- Monitors, plans and manages the Bank's exposure to market risks;
- Monitors, plans and manages the structure of the Bank's balance sheet and off-balance sheet commitments;
- Monitors and manages the Bank's growth;
- Monitors and manages debt collection and cessation processes;
- Approves opening and closing of the Bank's correspondent accounts;
- Determines limits for investments in Bank's portfolios of financial instruments;
- Determines country risk limits;
- Determines 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 regular reviews and assessment of the Bank's compliance with its risk management strategies, policies and procedures and communicates the review results together with assessment of the Bank's risk management system efficiency to the Council.

Heads of the Bank's structural units and other employees of the Bank are aware of their duties and responsibilities related to routine risk management and, within the boundaries of their competences, 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 mainly 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 any external limits, Risk Control Department shall immediately notify the Asset and Liability Committee and initiate extra-ordinary Asset and Liability Committee meeting to investigate the incompliance. In the event when individual or aggregate risk exposure approaches or exceeds predetermined 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 required to initiate 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, off-balance sheet 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 off-balance sheet 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.

The Bank is involved in 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 off-balance sheet items as well as regular stress testing.

Following authority levels are set in respect of decision-making on the loans, namely – issuance and amendments made (from lowest):

- Individual;
- Credit committee;
- Bank's Board;
- Bank's Council (for approval of decisions, if it requires a higher-level authorisation than of the Board).

Maximum limits for each decision-making authority level within the Bank are approved by the Bank's Council.

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 off-balance sheet 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 or other credit enhancements.

	31.12.2017.	**31.12.2016.**
Assets exposed to credit risk	**192 239**	**172 093**
Due from credit institutions	24 249	16 785
Financial assets held for trading	18	1
Held-to-maturity financial investments	73 319	79 413
Available-for-sale financial assets	36 582	27 240
Loans and receivables	45 789	40 162
Other financial assets	12 282	8 492
Off-balance sheet items exposed to credit risk	**4 271**	**4 259**
Contingent liabilities	1 502	1 249
Financial commitments	2 769	3 010
Maximum credit risk exposure	**196 510**	**176 352**

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 CREDIT 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 Registered 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 off-balance sheet 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.

31.12.2017.

	Latvia	Eurozone countries	Other countries	Total
Exposure to credit risk of balance sheet assets	**72 098**	**53 927**	**66 214**	**192 239**
Due from credit institutions	8 537	7 595	8 117	**24 249**
Financial assets held for trading	-	18	-	**18**
Loans and receivables	40 174	777	4 838	**45 789**
Held-to-maturity financial investments	13 456	32 535	27 328	**73 319**
Available-for-sale financial assets	3 023	11 491	22 068	**36 582**
Other financial assets	6 908	1 511	3 863	**12 282**
Exposure to credit risk of off-balance sheet items	**4 092**	**62**	**117**	**4 271**
Total	**76 190**	**53 989**	**66 331**	**196 510**

31.12.2016.

	Latvia	Eurozone countries	Other countries	Total
Exposure to credit risk of balance sheet assets	**65 787**	**26 125**	**80 181**	**172 093**
Due from credit institutions	3 870	1 705	11 210	**16 785**
Financial assets held for trading	-	-	1	**1**
Loans and receivables	37 582	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 financial assets	2 547	1 514	4 431	**8 492**
Exposure to credit risk of off-balance sheet items	**4 205**	**14**	**40**	**4 259**
Total	**69 992**	**26 139**	**80 221**	**176 352**

INDUSTRY ANALYSIS

The following table provides an analysis of the Bank's assets and off-balance sheet 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.

	31.12.2017.	31.12.2016.
Exposure to credit risk of balance sheet assets	**192 239**	**172 093**
Central governments	29 221	27 614
Credit institutions	71 683	68 903
International development banks	4 819	2 371
Private individuals	8 730	10 291
Agriculture	249	202
Operations with real estate	10 987	8 416
Trade	7 816	7 922
Professional services	280	361
Mining and quarrying	6 491	4 875
Manufacturing	7 874	4 769
Accommodation and catering services	3 231	3 282
Construction	1 466	779
Information and communication services	2 488	489
Transport	360	349
Health and social care	1 807	2 115
Electricity	10 657	13 560
Financial services	10 065	9 858
Administrative and support service activities	6 979	3 235
Other	7 036	5 937
Exposure to credit risk of off-balance sheet items	**4 271**	**4 259**
Total	**196 510**	**176 352**

CREDIT QUALITY OF FINANCIAL ASSETS

Credit quality of financial assets is performed by the Bank via 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 watch list 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 and doubful 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, i.e, excluding impairment loss.

31.12.2017.

	Neither past due nor impaired						
	Standard	Watch-list	Sub-standard	Doubtful	Past due	Impaired	Total
Exposure to credit risk of balance sheet assets	**126 379**	**51 808**	**10 706**	**648**	**1 828**	**1 511**	**192 880**
Due from credit institutions	5	18 501	5 743	-	-	-	**24 249**
Financial assets held for trading	-	18	-	-	-	-	**18**
Loans and receivables	40 820	1 558	65	648	1 828	1 511	**46 430**
Held-to-maturity financial investments	45 847	22 574	4 898	-	-	-	**73 319**
Available-for-sale financial assets	27 425	9 157	-	-	-	-	**36 582**
Other financial assets	12 282	-	-	-	-	-	**12 282**
Exposure to credit risk of off-balance sheet items	**4 181**	**90**	**-**	**-**	**-**	**-**	**4 271**
Total	**130 560**	**51 898**	**10 706**	**648**	**1 828**	**1 511**	**197 151**

31.12.2016.

	Neither past due nor impaired						
	Standard	Watch-list	Sub-standard	Doubtful	Past due	Impaired	Total
Exposure to credit risk of balance sheet assets	**113 711**	**38 924**	**13 677**	**1 990**	**2 432**	**2 300**	**173 034**
Due from credit institutions	6 607	1 705	8 473	-	-	-	**16 785**
Financial assets held for trading	1	-	-	-	-	-	**1**
Loans and receivables	32 567	753	1 061	1 990	2 432	2 300	**41 103**
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 financial assets	8 492	-	-	-	-	-	**8 492**
Exposure to credit risk of off-balance sheet items	**4 177**	**76**	**3**	**-**	**-**	**3**	**4 259**
Total	**117 888**	**39 000**	**13 680**	**1 990**	**2 432**	**2 303**	**177 293**

COLLATERAL HELD IN RESPECT 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.

The following table shows the fair value of collateral by the type of loan.

	31.12.2017.		31.12.2016.	
	Collateral value	**Loan value**	**Collateral value**	**Loan value**
Loan type				
Loan for working capital	30 092	8 629	40 485	9 636
Industrial loan	20 178	6 785	14 617	4 534
Financial lease	2 357	576	4 302	812
Loan for purchasing consumer goods	539	190	1 209	371
Mortgage loan	50 733	20 287	50 759	17 154
Factoring	1 592	896	3 006	1 251
Other loans	21 203	9 067	18 617	7 345
Total	**126 694**	**46 430**	**132 995**	**41 103**

INDICATORS OF LOSS EVENTS

The Banks considers that following events are loss events:

- 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 liability is directly dependant 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 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 placement of Bank's assets 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 2017 and 2016 were as follows:

	2017	2016
	%	%
Year-end	**93.93**	**100.28**
Average	95.81	97.01
Maximum	99.52	100.29
Minimum	91.21	92.91

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 2017 based on the time remaining from the balance sheet date to the contractual maturity dates (i.e. based on contractual discounted cash flows). Pledged held-to-maturity financial investments are disclosed as *Other*.

31.12.2017.

	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	34 096	-	-	-	-	-	**34 096**
Due from credit institutions	24 249	-	-	-	-	-	**24 249**
Financial assets held for trading	18	-	-	-	-	-	**18**
Held-to-maturity financial investments	67 411	743	129	438	4 598	-	**73 319**
Available-for-sale financial assets	35 333	-	-	-	1 249	-	**36 582**
Loans and receivables	3 305	768	4 837	4 106	32 012	761	**45 789**
Property, plant and equipment	-	-	-	-	6 742	-	**6 742**
Intangible assets	-	-	-	-	541	-	**541**
Other financial assets	29	2	1	3	7 334	4 913	**12 282**
Overpaid corporate income tax	-	-	-	-	562	-	**562**
Other non-financial assets	-	-	-	-	325	-	**325**
Total assets	**164 441**	**1 513**	**4 967**	**4 547**	**53 363**	**5 674**	**234 505**
Liabilities							
Financial liabilities held for trading	89	-	-	-	-	-	**89**
Liabilities at amortised cost	161 188	5 039	10 283	10 074	11 254	-	**197 838**
Deposits from customers	*161 188*	*5 039*	*10 283*	*10 074*	*11 254*	-	***197 838***
Current tax liabilities	-	-	-	-	-	-	**-**
Deferred tax liabilities	-	-	-	-	-	-	**-**
Other financial liabilities	5 991	629	820	-	554	-	**7 994**
Other non-financial liabilities	281	-	-	-	-	-	**281**
Total liabilities	**167 549**	**5 668**	**11 103**	**10 074**	**11 808**	**-**	**206 202**
Off-balance sheet items	**3 508**	**-**	**-**	**-**	**-**	**-**	**3 508**
Net liquidity position	**(6 616)**	**(4 155)**	**(6 136)**	**(5 527)**	**41 555**	**5 674**	**24 795**

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**
Financial assets held for trading	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 financial assets	55	2	1	3	3 002	5 429	**8 492**
Overpaid corporate income tax	-	-	-	-	-	-	**-**
Other non-financial assets	-	-	-	-	358	-	**358**
Total assets	**141 329**	**2 253**	**2 434**	**7 662**	**42 051**	**9 015**	**204 744**
Liabilities							
Financial liabilities held for trading	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 financial liabilities	3 546	420	889	-	19	-	**4 874**
Other non-financial liabilities	232	-	-	7	-	-	**239**
Total liabilities	**136 279**	**3 905**	**10 781**	**12 292**	**11 502**	**-**	**174 759**
Off-balance sheet items	**4 024**	**-**	**-**	**-**	**-**	**-**	**4 024**
Net liquidity position	**1 026**	**(1 652)**	**(8 347)**	**(4 630)**	**30 549**	**9 015**	**25 961**

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 (i.e. based on contractual undiscounted cash flows):

	Less than 1 month inclusive	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	**Total**
31.12.2017.						
Deposits from customers	3 350	4 053	8 503	10 570	10 822	**37 298**
Total:	**3 350**	**4 053**	**8 503**	**10 570**	**10 822**	**37 298**
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**

The following table presents term structure of future cash flows of Bank's derivatives:

31.12.2017.

	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						
Foreign currency swaps						
Outgoing cash flow	25 543	5 305	-	-	-	**30 848**
Incoming cash flow	25 359	5 313	-	-	-	**30 672**

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						
Foreign currency swaps						
Outgoing cash flow	5 554	-	-	-	-	**5 554**
Incoming cash flow	5 553	-	-	-	-	**5 553**

ENCUMBERED AND UNENCUMBERED ASSETS

Information on Bank's encumbered and unencumbered assets included in tables A and B is based on 31 December 2017 and 31 December 2016 financial year-end data.

A. Assets

	Encumbered assets at carrying amount	Encumbered assets at fair value	Unencumbered assets at carrying amount	Unencumbered assets at fair value
31.12.2017.				
Total assets	**4 913**	X	**229 592**	X
including equity instruments	-	-	1 249	1 249
including debt securities	-	-	108 652	111 144
including other assets	4 913	X	119 691	X
31.12.2016.				
Total assets	**5 430**	X	**199 314**	X
including equity instruments	-	-	974	974
including debt securities	-	-	105 679	108 033
including other assets	5 430	X	92 661	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
31.12.2017.	
The carrying amount of financial liabilities	4 913
31.12.2016.	
The carrying amount of financial liabilities	5 430

The Bank mainly uses two main sources of encumbrance, 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.

Amount of encumbered assets refers to security deposits with the Bank's partners VISA and MasterCard and is related to operations with payment cards and e-commerce clients.

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 2017, it was 4% (31 December 2016 – 5%) of the total items included in other assets.

AML/TFI RISK MANAGEMENT

The Bank's AML/TFI risk management strategic objectives are to maintain a good reputation of the Bank and stable relationships with customers, counterparties and the general public, cooperate with and provide services to reliable customers and counterparties whose activities are clear to the Bank, ensure an appropriate balance between the risks acceptable for the Bank and the level of profits in order to minimize the risk of potential adverse effect on the Bank's financial position and operations.

On 25 July 2016 FCMC has charged the Bank with a penalty of 305 thousand EUR related to breaches of AML/TFI area, which were identified during targeted review of certain procedures. Administrative agreement was signed with the Bank on correction of identified breaches and timing of its implementation. During the period from 30 January to 17 March 2017 FCMC has carried out full review of AM/TFI area. First results of this review were received by the Bank in February 2018 and the Bank has responded to those by the end of February 2018. Currently the Bank is waiting for response from the FCMC. Despite the fact that final results of the review are not received, implying uncertaintly related to the further development of the process, the management of the Bank is certain that the results of the process will not impact the ability of the Bank to fulfill its liabilities against its clients and partners. The Bank is continuously improving and enhancing internal controls systems and applies all necessary care to avoid any doubtful or unusual client transactions through the Bank.

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 off-balance sheet 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 16% of the total assets (31 December 2016 - 13%), 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 off-balance sheet items.

The risk of incurring foreign exchange 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 2017 was 4.18% (31 December 2016 – 1.45%) of the total level 1 and level 2 capital.

31.12.2017.

	EUR	**USD**	**Other currencies**	**Total**
Assets				
Cash and balances with the Bank of Latvia	33 891	173	32	**34 096**
Due to financial institutions	1 800	7 774	14 675	**24 249**
Financial assets held for trading	18	-	-	**18**
Held-to-maturity financial investments	53 913	19 406	-	**73 319**
Available-for-sale financial assets	8 021	20 814	7 747	**36 582**
Loans and receivables	45 279	291	219	**45 789**
Property, plant and equipment	6 742	-	-	**6 742**
Intangible assets	541	-	-	**541**
Other financial assets	2 042	5 663	4 577	**12 282**
Overpaid corporate income tax	562	-	-	**562**
Other non-financial assets	325	-	-	**325**
Total assets	**153 134**	**54 121**	**27 250**	**234 505**
Liabilities and equity				
Financial liabilities held for trading	89	-	-	**89**
Liabilities at amortised cost	132 231	54 046	11 561	**197 838**
Deposits from customers	*132 231*	*54 046*	*11 561*	***197 838***
Current tax liabilities	-	-	-	**-**
Deferred tax liabilities	-	-	-	**-**
Other financial liabilities	5 441	2 269	284	**7 994**
Other non-financial liabilities	281	-	-	**281**
Total liabilities	**138 042**	**56 315**	**11 845**	**206 202**
Equity	27 488	836	(21)	**28 303**
Total liabilities and equity	**165 530**	**57 151**	**11 824**	**234 505**
Net long / (short) position	**(12 396)**	**(3 030)**	**15 426**	**-**
Net off-balance sheet currency swap agreement long/ (short) position	**11 270**	**2 989**	**(14 330)**	**(71)**
Net open long/ (short) currency position	**(1 126)**	**(41)**	**1 096**	**(71)**
Percentage of equity as at 31.12.2017.		**(0.15)**	**4.11**	

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**
Financial assets held for trading	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 financial assets	1 926	5 519	1 047	**8 492**
Overpaid corporate income tax	-	-	-	**-**
Other non-financial assets	314	44	-	**358**
Total assets	**143 988**	**48 967**	**11 789**	**204 744**
Liabilities and equity				
Financial liabilities held for trading	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 financial liabilities	1 935	2 439	500	**4 874**
Other non-financial liabilities	239	-	-	**239**
Total liabilities	**114 906**	**48 333**	**11 520**	**174 759**
Equity	29 464	554	(33)	**29 985**
Total liabilities and equity	**144 370**	**48 887**	**11 487**	**204 744**
Net long / (short) position	**(382)**	**80**	**302**	**-**
Net off-balance sheet currency swap agreement long/ (short) position	**450**	**(447)**	**-**	**3**
Net open long/ (short) currency position	**68**	**(367)**	**302**	**3**
Percentage of equity as at 31.12.2016.		**(1.33)**	**1.09**	

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 calculates risk capital requirements for settlement / delivery risk and free deliveries only for those periods when the event or events meeting the risk definition are registered in the Bank's information system Intranet under section Risks. During 2017 and 2016 such events were not identified.

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, and 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	
	31.12.2017.	**31.12.2016.**
EUR	106	96
USD	7	(4)
Other currencies	(7)	-
Weighted interest rate risk in the banking book (total)	**106**	**92**
Equity	26 669	27 646
Absolute weighted interest rate risk in the banking book position to equity, %	**0.40**	**0.33**

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

31.12.2017.

	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 maturities of:							
Less than 1 month	0.08	(46 702)	(37)	(13 634)	(11)	(339)	-
1-3 months	0.32	25 203	81	8 312	27	(2 109)	(7)
3-6 months	0.72	20 610	148	4 376	32	(52)	-
6-12 months	1.43	21 703	310	(1 105)	(16)	-	-
1 – 2 years	2.77	(7 027)	(195)	(469)	(13)	-	-
2 - 3 years	4.49	(2 135)	(96)	(141)	(6)	-	-
3 - 4 years	6.14	(1 551)	(95)	(15)	(1)	-	-
4 - 5 years	7.71	(134)	(10)	(59)	(5)	-	-
Total weighted interest rate risk position (+,-)			**106**		**7**		**(7)**

31.12.2016.

	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 maturities 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)**		**-**

The Bank's exposure to interest rate risk is characterised by the maturity of interest sensitive assets, liabilities and off-balance sheet 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 off-balance sheet items based on interest rate changes and the effect of interest rate risk on the Bank's profit or loss and equity:

31.12.2017.

	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	31 281	-	-	-	-	2 815	**34 096**
Due from credit institutions	24 221	-	-	-	-	28	**24 249**
Financial assets held for trading	18	-	-	-	-	-	**18**
Loans	5 883	14 625	19 867	2 376	139	2 899	**45 789**
Available-for-sale financial assets	36 254	-	-	-	-	328	**36 582**
Held-to-maturity financial investments	5 007	22 157	16 624	28 502	-	1 029	**73 319**
Intangible assets and property, plant and equipment	-	-	-	-	-	7 283	**7 283**
Overpaid corporate income tax	-	-	-	-	-	562	**562**
Other financial assets	-	-	-	-	-	12 282	**12 282**
Other non-financial assets	-	-	-	-	-	325	**325**
Total assets	**102 664**	**36 782**	**36 491**	**30 878**	**139**	**27 551**	**234 505**
Long off-balance items that are sensitive to interest rate	**23 705**	**5 296**	**-**	**-**	**-**	**-**	**29 001**
Financial liabilities held for trading	89	-	-	-	-	-	**89**
Liabilities at amortised cost	160 652	4 977	10 249	10 013	11 116	831	**197 838**
Deposits from customers	*160 652*	*4 977*	*10 249*	*10 013*	*11 116*	*831*	***197 838***
Current tax liabilities	-	-	-	-	-	-	**-**
Deferred tax liabilities	-	-	-	-	-	-	**-**
Other financial liabilities	215	-	-	-	554	7 225	**7 994**
Other non-financial liabilities	13	-	-	-	-	268	**281**
Equity	-	-	-	-	-	28 303	**28 303**
Total liabilities and equity	**160 969**	**4 977**	**10 249**	**10 013**	**11 670**	**36 627**	**234 505**
Short off-balance sheet items that are sensitive to changes in interest rates	**26 076**	**5 694**	**1 309**	**267**	**-**	**-**	**33 346**
Net interest rate risk position (gap)	**(60 676)**	**31 407**	**24 933**	**20 598**	**(11 531)**	**-**	**4 731**
Effect on profit or loss	**(581)**	**262**	**156**	**51**	**-**	**-**	**(112)**
Effect on equity	**-**	**(2)**	**-**	**(92)**	**(956)**	**-**	**(1 050)**

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**
Financial assets held for trading	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**
Overpaid corporate income tax	-	-	-	-	-	-	**-**
Other financial assets	-	-	-	-	-	8 492	**8 492**
Other non-financial assets	-	-	-	-	-	358	**358**
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**
Financial liabilities held for trading	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 financial liabilities	164	-	-	-	-	4 710	**4 874**
Other non-financial liabilities	11	-	-	7	-	221	**239**
Equity	-	-	-	-	-	29 985	**29 985**
Total liabilities and equity	**130 748**	**3 449**	**9 853**	**12 187**	**11 344**	**37 163**	**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)	**(53 283)**	**34 670**	**22 032**	**15 015**	**(9 706)**	**-**	**8 728**
Effect on profit or loss	**(511)**	**289**	**138**	**38**	**-**	**-**	**(46)**
Effect on equity	**-**	**(1)**	**(6)**	**(16)**	**(1 103)**	**-**	**(1 126)**

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 losses from operational risk event 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 applying Bloomberg quotations, so that the fair value does not differ from book value. Exception is VISA Europe Limited shares included into available for sale financial assets. 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 is 1:13,952. Given the fact that the preference shares are not traded in free trade, and the exchange of preference shares to ordinary shares will take place over a long period of the time, the Bank determines the value of preference shares using Bloomberg price for ordinary share, applying a 50% discount.

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 2016 and 2017 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.

	31.12.2017.			31.12.2016.		
	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	34 096	34 096	-	24 884	24 884	-
Due from credit institutions	24 249	24 249	-	16 785	16 785	-
Held-to-maturity financial investments	73 319	75 811	(2 492)	79 413	81 767	(2 354)
Loans and receivables	45 789	45 374	415	40 162	39 880	282
Other financial assets	12 844	12 844	-	8 492	8 492	-
Financial assets at fair value						
Available-for-sale financial assets	36 582	36 582	-	27 240	27 240	-
Financial assets held for trading	18	18	-	1	1	-
Financial liabilities						
Financial liabilities at amortised cost						
Deposits from customers	197 838	195 932	1 906	168 389	168 376	13
Other financial liabilities	7 994	7 994	-	4 874	4 874	-
Liabilities at fair value						
Financial liabilities held for trading	89	89	-	2	2	-
Total difference			**(171)**			**(2 059)**

31.12.2017.

	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	24 249	-	-	24 249	24 249
Held-to-maturity financial investments	73 319	-	75 811	-	75 811
Loans and receivables	45 789	-	-	45 374	45 374
Other financial assets	12 844	-	-	12 844	12 844
Financial assets at fair value					
Available-for-sale financial assets	36 582	35 333	-	1 249	36 582
Financial assets held for trading	18	18	-	-	18
Financial liabilities					
Financial liabilities at amortised cost					
Deposits from customers	197 838	-	-	195 932	195 932
Other financial liabilities	7 994	-	-	7 994	7 994
Liabilities at fair value		-			
Financial liabilities held for trading	89	89	-	-	89

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
Other financial assets	8 492	-	-	8 492	8 492
Financial assets at fair value					
Available-for-sale financial assets	27 240	26 266	-	974	27 240
Financial assets held for trading	1	1	-	-	1
Financial liabilities					
Financial liabilities at amortised cost					
Deposits from customers	168 389	-	-	168 376	168 376
Other financial liabilities	4 874	-	-	4 874	4 874
Liabilities at fair value					
Financial liabilities held for trading	2	2	-	-	2

The following table shows the movements in available-for-sale financial assets valued using level 3 input data:

	Available-for-sale financial assets
Balance as at 31.11.2015.	**-**
Additions	875
Net revaluation result	99
Balance as at 31.12.2016.	**974**
Net revaluation result	275
Balance as at 31.12.2017.	**1 249**

Considering the short-term nature of cash and cash equivalents, as well as other financial assets and liabilities, their fair value approximately equals their carrying amount.

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.

The methods employed in classifying the assets by the levels of the fair value hierarchy as at 31 December 2017 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 2017 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:
  - In order to assess total capital required for foreign currency risk coverage in 2017, comparison between capital requirement calculated used standardised approach and capital requirement under base case scenario with fluctuations of currency position by 12 percent against euro was made and currency position was calculated as a result of currency fluctuations;
  - The Bank on a monthly basis analyses how the market risk exposure is affected by liquidity of the market for financial instruments. All instruments included into the Bank's available-for-sale portfolio were traded on liquid markets without applying any significant discounts. Taking into consideration plans of the Bank to increase significantly the available-for-sale portfolio, without major changes to the term structure and quality of portfolio and assuming that new investments (replacing those that were sold or expired) will be made into financial instruments with similar maturity and making prudent assumptions about the quality of these investments, the Bank has modelled the amount of 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 31.12.2017 was 0 EUR, and 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 basic 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:

- Individual 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 separate concentration risks, the Bank assesses the exposure concentration for the entire loan portfolio, securities portfolio and deposits with other financial institutions.

- For anti-money laundering and terrorism financing prevention (AML) risk – as part of capital adequacy process, the Bank evaluates AML risk and evaluated capital requirement for coverage of this risk using two methods, namely, the simplified approach described in the Regulations No. 199 on the Internal Capital Adequacy Assessment Process issued by the Financial and Capital Market Commission on 29 November 2016 and the internal calculation method. Capital requirement for AML risk is set as largest of two;
- For reputation risk – with the aid of reputation risk assessment model, it is determined to keep capital requirement as 0.75% of the Bank's equity;
- For business model risk – based on the results of business model risk assessment model, it was determined that required capital level is 0.75% of the Bank's equity;
- For other risks – other risks requiring additional capital requirement analysis based on the Bank's assessment of significant risks are country risk, residual risk, compliance risk, excessive leverage risk and systemic risk. 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 capital requirements and total capital requirement to cover other risks is determined as 5% of the total minimum capital requirements

Total capital requirement for the Bank is determined by summarising all individual capital requirements for risks that are determined during capital adequacy evaluation process. Additional capital requirements are determined for potential risks ensuring that capital of the Bank is sufficient in case of adverse economic developments; to ensure that capital of the Bank is sufficient throughout the economic cycle, i.e. during economic upturn the Bank creates capital reserve for coverage of losses that may arise during period of economic downturn. Amount of additional capital reserve is determined based on stress testing results performed by the Bank.

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 2017 the Bank determined that its target capital adequacy ratio is 16%. As at 31 December 2017, the Bank's capital adequacy ratio calculated in accordance with the above requirements was 21.59% (31.12.2016: 25.73%)

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 definitions set out in 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 related to equity and equity calculation methodology, which is included in the Bank's equity capital and equity requirements calculation procedure according to the instruments held by the Bank. Namely, the equity capital in the calculation is comprised of the first-level elements, which include paid-in capital, capital reserves, retained earnings, including current year profit, not subject to dividend payment, net of negative revaluation reserve of available-for-sale financial assets and intangible assets, and the second-level element, namely subordinated 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:

		31.12.2017.	31.12.2016
1.	**Equity** *(1.1.+1.2.)*	***26 669***	**27 646**
1.1.	1. level capital *(1.1.1.+1.1.2.)*	*26 669*	27 646
1.1.1.	*First level base capital*	*26 669*	27 646
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.)*	**123 529**	**107 458**
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.)*	99 524	91 217
2.1.1.	*Central goverments and central banks*	735	1 050
2.1.2.	*Authorities*	20 231	20 347
2.1.3.	*Companies*	36 347	52 271
2.1.4.	*Secured by real estate mortgage*	23 006	3 495
2.1.5.	*Other assets*	19 205	14 054
2.2.	Total exposure value of settlement / delivery	-	-
2.3.	Total exposure value for position risk, foreign exchange risk and commodity risk	1 191	402
2.4.	Total exposure value for operational risk	22 814	15 839
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)*	21.59 %	25.73 %
3.2.	1.level base capital surplus (+)/ deficit (-) *(1.1.1.-2.*4.5%)*	21 110	22 810
3.3.	1. level ratio *(1.1./2.*100)*	21.59 %	25.73 %
3.4.	1. level surplus (+)/deficit (-) *(1.1.-2.*6%)*	19 257	21 199
3.5.	**Total capital ratio** *(1./2.*100)*	**21.59 %**	**25.73 %**
3.6.	Total capital surplus (+)/ deficit (-) *(1.-2.*8%)*	16 787	19 049
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 (%)[1]	**-**	**-**

[1] Specific countrcyclical capital reserve of the institution is 0.04%, calculated in accordance with Finance and Capital Markets Commission regulations No 133.

4.3.	Systemic risk capital reserve (%)[2]	-	-
4.4.	Systemically important institution's capital reserve (%)	-	-
4.5.	Other systemically important institution's capital reserve (%)	-	-
5.	**Capital ratios taking into account corrections made**		
5.1.	Correction related to provisions or value of assets, arising from application of special policy for capital adequacy calculation purposes	-	-
5.2.	First level base capital ratio, taking into account correction made in line 5.1	21.59%	25.73%
5.3.	First level capital ratio, taking into account correction made in line 5.1	21.59%	25.73%
5.4.	**Total capital ratio, taking into account correction made in line 5.1**	**21.59 %**	**25.73 %**

NOTE 30 EVENTS AFTER REPORTING DATE

In January 2018, the Bank has used previous years retained earnings to pay EUR 2 million dividends.

Events related to changes in operating environment and strategy of the Bank are described in Note 1 b).

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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[2] Systemic risk capital reserve is calculated for residents of Estonia in accordance with decision of the Finance and Capital Markets Commission No 162.