RIETUMU BANKA AS

2017 Annual Report

Contents

Report of Council and Board of Directors

Dear Shareholders, Customers and Business Partners,

Rietumu Bank Group continued its successful development in 2017 and reached a net profit after tax of EUR 33,5 million. The Group's revenues are diversified between interest and commission and despite the low interest rate environment the Group continued to operate very efficiently with a cost to income ratio of 61.1% and operating income per employee of EUR 128 thousand.

Profitability

The Group's after tax profit attributable to the equity holders of the Bank for the year 2017 was EUR 32 million (2016: 80 million). The Group generated an after tax return on equity of 6.89% (2016: 17.32%) and an after tax return on assets of 1.0% (2016: 2.3%).

The Group's operating income was EUR 137 million (2016: EUR 181 million). Net fee and commission income was EUR 34,6 million (2016: EUR 41,1 million). The Group's cost to income ratio was 61% for the year ended 31 December 2017 (2016: 33%). The cumulative result of the above is that the Group reached a pre-tax profit margin of 30% compared to 49% in 2016.

Assets

As at 31 December 2017 the Group's total assets were EUR 3,010 million. This represents a decrease of 13.4% compared to 2016. The Group follows a conservative approach to asset allocation and about 62% of the Group's assets invested in liquidity management portfolios. About 19% of the liquidity management portfolio is invested in short term money market placement with large mainly European banks. The tenure of these placements is up to 7 days. The remaining 81% of the liquidity management portfolios are invested in collateralized instruments with large and stable financial institutions and a short term bond portfolio. The held to maturity portfolio was EUR 278 million as at 31 December 2017 compared to 2016 balance of EUR 320 million. The bond portfolio is primarily invested in corporate investment grade securities.

Lending

Loans and receivables due from customers represent about 28% of total assets. Since 2010 this ratio has not exceeded 45% and the Bank does not plan that this ratio exceeds 45% in the nearest future.

The Bank follows a very conservative lending policy while offering innovative and individually tailored products that suit the requirements of each individual customer the best. This includes not only lending services but other services such as legal assistance, consulting and corporate support. During 2017 the Group continued to focus on trade finance, leasing and consumer finance businesses.

As a result of the uncertain environment in the region the Bank has scaled down its commercial lending in the CIS countries. In addition, the Group focussed on reducing concentration risks of large lending projects. This resulted in the lending portfolio being diversified over a large group of medium sized loans rather than the portfolio being concentrated in a smaller group of larger loans. Following the policy maintained by the Group, Loans and receivables to customers have fallen to EUR 832 million compared to the balance of 2016 of EUR 1,045 million. The commercial loan portfolio represents about 89% of the total Bank's loans of EUR 917 million and the effective average interest rate for 2017 was 5.1%. Latvia, Russia and Belarus represent the largest commercial lending markets with real estate management, financial services and transport representing the largest industries in the commercial loan portfolio. The second largest category of lending is margin lending to customers against liquid securities as collateral and this represents about 5.5% of the total loan portfolio. The effective average interest rate for 2017 for margin loans was 2.8%.

The Group will focus on lending development in mentioned areas. Due to inherent risks in the markets of CIS countries, in 2018 the Group plans to transfer the loan portfolio in Latvia and other regions such as the Baltic States, the EU states (in particular Ireland, the United Kingdom and other).

Group Companies

The major non-banking companies include leasing and consumer finance companies, repossessed real estate and other repossessed collateral maintenance companies and asset management and financial companies. It is the Bank's strategy as much as possible to fully integrate its subsidiaries into the Bank's management and control systems. The activities of Group companies are financed by the Bank via capital investments and loans. In most cases the Bank owns 100% of the shares of its subsidiaries.

The Group fully owns an asset management company called Rietumu Asset Management that provides asset management services to the Bank's customers. The asset management company provides individual portfolios for customers as well as investment into four Latvian registered funds.

The Group's Belorussian leasing business focuses on industrial equipment leasing which contributed to the Group's profit before income tax in the amount of EUR 1,4 million for the year ended 31 December 2017. The Bank partly owns and finances a consumer leasing company named InCredit Group SIA which is registered and operates in Latvia. As of 31 December 2017, the net leasing portfolio of InCredit Group SIA was EUR 43 million and it contributed to the net profit after tax of the Group in the amount of EUR 1,2 million.

RB Investments group, owns most of the significant real estate that the Bank repossessed as well as other assets that the Bank took over on defaulted loans. Most of the repossessed assets are located in Riga and the Riga region. RB Investments Group is renting out a portion of these assets and plans to sell most of its portfolio of assets in the coming years.

Funding, Equity and Expand Capital Base

Current accounts and deposits due to customers in amount of EUR 2,341 million decreased by 14.7% compared to 2016. The fall in deposits occurred due to the economic downturn primarily in Russia as well as a result of the new customer policy adopted by the Bank. Current accounts represented EUR 2,079 million or 88.8% of total current accounts and customer deposits. Current accounts can be withdrawn at any time but they can be considered a relatively stable funding source as outlined in Note 4 d) Liquidity risk. Term deposits amounted to EUR 261 million as at 31 December 2017 including EUR 89 million of subordinated deposits. The average remaining tenor of term deposits is 2.15 years with the average effective interest rate in 2017 of 2%. The average effective interest rate for subordinated deposits in 2017 was 5%.

Group total shareholders' equity reached EUR 479 million as of 31 December 2017 representing and 3.1% decrease from 2016. Group Tier I and total capital adequacy capital adequacy ratios were 19.02% (2016: 16.37%) and 24.08% (2016: 22.36%) respectively.

Regulatory compliance

Beginning on 1 January 2018, IFRS 9 become affective for the Bank and the Group, the new accounting standard for financial instruments. As a result, the way the Bank and the Group classifies and measures financial instruments and the way determines impairment allowances has changed from 1 January 2018 onwards. The management of the Bank and the Group is confident that all changes in new accounting standards will be implemented in line with requirements. For the estimated impact of the first-time application of the new IFRS 9 accounting standard refer to the Financial Statements.

2018 and Beyond

In the beginning of year 2018 Latvian banking sector faced local and international reputational crisis which also affect the Bank and the Group. On 13 February 2018, the U.S. Department of the Treasury's Financial Crimes Enforcement Network ('FinCEN') issued a finding and notice of proposed rulemaking ('NPRM'), pursuant to Section 311 of the USA PATRIOT Act, against one of Latvia's largest banks. Shortly afterwards, a high government official was detained by Latvia's anti-corruption authorities ('KNAB') in a bribery-linked allegation case. Partly in response to these events there have also been some significant actions within the Bank in 2018. The Bank has made immediate changes to its operations. In 2018, the Bank decided to re-translate all customer USD balances to EUR and the Bank decided to terminate its relationship with a significant number of high risk customers. Please refer to Note 48 and 49 of the Annual report where these events are explained in more detail.

The Bank is defendant in a court case (lawsuit) for alleged involvement in tax evasion and aggravated money laundering. On 6 July 2017, Paris Court Section 32 issued first instance decision against the Bank, ordering the Bank to pay EUR 80,000 thousand (criminal case), and, jointly with other more than 20 defendants, EUR 10,113 thousand (civil case). The Bank appealed the decision on 12 July 2017. The date of the appeal court hearing has not yet been set. The Bank will continue to cooperate with all relevant authorities.

We will continue to adapt to the changes in the market and banking sector and we believe that we will be able to strengthen our relations with our customers and our position in the market.

We achieved our results while maintaining a conservative asset allocation which we believe is the basis to continue our stable development. We owe our success to our customers and business partners and the trust that they have placed in us. We are looking forward to continue developing the Bank in 2018 successfully.

Sustainability Report prepared by the management is set out in a separate statement and is available on Bank's website http://www.rietumu.lv/.

Financial results of the Group

	2017	2016	2015	2014
At year end (EUR'000)				
Total assets	3,009,558	3,473,590	3,794,153	3,477,763
Loans and receivables due from customers	832,340	1,044,920	1,101,772	1,041,444
Current accounts and deposits due to customers	2,340,512	2,742,726	3,203,992	3,082,706
Total shareholder's equity	478,755	493,874	456,869	341,903
For the year (EUR'000)				
Net profit before tax	40,678	88,748	81,176	87,021
Net profit after tax	33,494	82,337	70,043	74,130
Operating income	136,611	180,981	158,736	154,553
Ratios				
Earnings per share (EUR) – basic and diluted				
After tax	0.28	0.68	0.65	0.66
Before tax	0.34	0.74	0.75	0.78
Return on equity				
Before tax	8.36%	18.67%	20.33%	27.86%
After tax	6.89%	17.32%	17.54%	23.73%
Return on assets				
Before tax	1.25%	2.44%	2.23%	2.72%
After tax	1.03%	2.27%	1.93%	2.31%
Capital adequacy ratio	24.08%	22.36%	19.20%	18.96%
Profit margin	29.78%	49.04%	51.14%	56.30%
Loan portfolio to total assets ratio	27.66%	30.08%	29.04%	29.95%
Number of employees	1,070	1,078	1,037	968

Financial results of the Bank

	2017	**2016**	**2015**	**2014**
At year end (EUR'000)				
Total assets	2,998,620	3,465,604	3,785,767	3,475,041
Loans and receivables due from customers	916,987	1,116,873	1,151,789	1,087,989
Current accounts and deposits due to customers	2,359,214	2,767,739	3,231,558	3,107,957
Total shareholder's equity	459,614	471,546	432,841	323,380
For the year (EUR'000)				
Net profit before tax	41,008	86,509	81,940	83,786
Net profit after tax	33,034	80,300	72,179	71,500
Operating income	122,444	170,212	151,164	146,336
Ratios				
Earnings per share (EUR) - basic and diluted				
After tax	0.26	0.73	0.65	0.66
Before tax	0.33	0.79	0.75	0.78
Return on equity				
Before tax	8.81%	19.13%	21.67%	28.14%
After tax	7.02%	17.76%	19.09%	24.01%
Return on assets				
Before tax	1.27%	2.39%	2.26%	2.62%
After tax	1.03%	2.21%	1.99%	2.24%
Capital adequacy ratio	24.36%	22.61%	19.43%	18.91%
Profit margin	33.49%	50.82%	54.21%	57.26%
Loan portfolio to total assets ratio	30.58%	32.23%	30.42%	31.31%
Number of employees	765	782	769	758

STATEMENTS OF MANAGEMENT RESPONSIBILITY

The Management of Rietumu Banka AS (the Bank) is responsible for the preparation of the consolidated financial statements of the Bank and its subsidiaries (the Group) as well as for the preparation of the separate financial statements of the Bank.

The separate and consolidated financial statements on pages 19 to 124 are prepared in accordance with source documents and present fairly the financial position of the Bank and the Group as of 31 December 2017 and the results of their operations and cash flows for the year ended 31 December 2017.

The separate and consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union on a going concern basis. Appropriate accounting policies have been applied on a consistent basis. In the preparation of the financial statements the Management has made prudent and reasonable judgements and estimates.

The Management of Rietumu Banka AS is responsible for the maintenance of proper accounting records, the safeguarding of the Bank's and the Group's assets and the prevention and detection of fraud and other irregularities in the Bank and in the Group. The Management is also responsible for operating the Bank in compliance with the Law on Credit Institutions, regulations of the Finance and Capital Markets Commission and other legislation of the Republic of Latvia.

On behalf of the Management of Rietumu Banka AS:

Chairman of the Board
Rolf Paul Fuls

30 April 2018

Member of the Board
Ruslans Stecjuks

During the year and as of the date of the signing of the financial statements:

The Council of Rietumu Banka

1 January 2017 – 31 December 2017

Name	*Position*	*Date of appointment and current term*
Leonids Esterkins	Chairman of the Council	25/09/97 (04/04/18-04/04/21)
Arkadijs Suharenko	Deputy Chairman of the Council	25/09/97 (04/04/18-04/04/21)
Brendan Thomas Murphy	Deputy Chairman of the Council	07/09/05 (04/04/18-04/04/21)
Dermot Fachtna Desmond	Member of the Council	07/09/05 (04/04/18-04/04/21)
Alexander Gafin	Member of the Council	25/03/10 (04/04/18-04/04/21)
Valentins Blugers	Member of the Council	25/03/11 (04/04/18-04/04/21)

The Board of Directors

1 January 2017 – 17 May 2017

Name	*Position*	*Date of appointment*
Alexander Pankov	Chairman of the Board, President	04/07/06 (05/10/16-24/04/18)
Ruslans Stecjuks	Member of the Board, First Vice President	18/10/10 (05/10/16-05/10/19)
Rolf Paul Fuls	Member of the Board, First Vice President	26/11/10 (05/10/16-05/10/19)
Jevgenijs Djugajevs	Member of the Board, Senior Vice President	18/10/10 (05/10/16-13/04/18)
Ilja Suharenko	Member of the Board, Senior Vice President	18/10/10 (05/10/16-05/10/19)
Natalja Perhova	Member of the Board, Senior Vice President	05/10/16-24/04/18
Jelena Buraja	Member of the Board, Senior Vice President	05/10/16-04/10/19
Alexander Voloshin	Member of the Board, Senior Vice President	05/10/16-24/04/18

17 May 2017 – 31 December 2017

Name	*Position*	*Date of appointment and current term*
Alexander Pankov	Chairman of the Board, President	04/07/06 (05/10/16-24/04/18)
Ruslans Stecjuks	Member of the Board, First Vice President	18/10/10 (05/10/16-04/10/19)
Rolf Paul Fuls	Member of the Board, First Vice President	26/11/10 (05/10/16-04/10/19)
	Chairman of the Board	from 24/04/2018
Jevgenijs Djugajevs	Member of the Board, Senior Vice President	18/10/10 (05/10/16-13/04/18)
Ilja Suharenko	Member of the Board, First Vice President	18/10/10 (05/10/16-04/10/19)
Natalja Perhova	Member of the Board, Senior Vice President	05/10/16-24/04/18
Jelena Buraja	Member of the Board, Senior Vice President	05/10/16-04/10/19
Alexander Voloshin	Member of the Board, Senior Vice President	05/10/16-24/04/18
Natalija Ignatjeva	Member of the Board, Senior Vice President	17/05/17-17/05/20

KPMG Baltics SIA
Vesetas iela 7
Riga, LV-1013
Latvia

Telephone +371 67038000
Telefax +371 67038002
kpmg.com/lv

Independent Auditors' Report

To the shareholders of AS Rietumu Banka

Report on the Audit of the Separate and Consolidated Financial Statements

Our Opinion on the Separate and Consolidated Financial Statements

We have audited the accompanying separate financial statements of AS Rietumu Banka ("the Bank") and the consolidated financial statements of the Bank and its subsidiaries (collectively, "the Group"), set out on pages 19 to 124 of the accompanying separate and consolidated Annual Report, which comprise:

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

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

Basis for Opinion

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

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

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

Material Uncertainty Related to Going Concern

We draw attention to Note 48 of the separate and consolidated financial statements, which describes recent developments in the financial sector of the Republic of Latvia. Following these developments, in March 2018, the government of the Republic of Latvia expressed its intent to strengthen the country's legal and regulatory framework for the banking sector. As part of the above, among other things, amendments are being introduced to the country's anti-money laundering and financial sector legislation, aimed at specifically introducing the prohibition to service shell companies (generally entities without real substance as measured by certain criteria set out in law).

In the wake of the facts and circumstances, as discussed in more detail in Note 49, the Bank has committed to transitioning its business model in order to ensure compliance with the regulators' recommendations and expected future legislative framework. The Bank's management is expecting to complete the formulation of the new strategy no later than June 2018 for its further implementation in the second half of 2018 and beyond. Certain immediate and medium term steps have been initiated as of the date of this report, including the cessation of business with shell companies and gradual reduction in the number of non-resident customers. As of the date of this report, the above process has been ongoing.

Any future regulatory penalties and/or sanctions, including those in the anti-money laundering area and/or in respect of the significant litigation (Note 36 to the separate and consolidated financial statements), and the changing regulatory and legislative landscape may all have adverse consequences on the Bank's and/or the Group's operations.

In preparing the accompanying separate and consolidated financial statements, management made a number significant judgements and assumptions related to future events, as also disclosed Note 49, that form the basis for its provisional financial projections for 2018 and subsequent years, and allowed management to conclude on the appropriateness of the application of the going concern basis in the preparation of these separate and consolidated financial statements. Nevertheless, the Bank's and the Group's continuing operations as a going concern depend on the success of the above measures, including their prior approval by the regulators, both locally and internationally.

As stated in Note 49, these events and conditions, along with other matters as set forth in Notes 36 and 49, indicate that a material uncertainty exists that may cast significant doubt on the Bank's and the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

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

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

Legal proceeding against the Bank (consolidated and separate financial statements)	
Key audit matter	***Our response***
The carrying amount of Provisions in the consolidated and separate financial statements as at 31 December 2017: EUR 20 000 thousand. *We refer to the separate and consolidated financial statements: Note 36.* As discussed in Note 36 to the separate and consolidated financial statements, the Bank is the	Our audit procedures included, among others: • Obtaining a thorough understanding of the case, its future route, as well as the Bank's line of defence and the merits thereof, based on: – Relevant inquiries of the Management Board regarding the origination of the

defendant in a court case for the alleged involvement in tax evasion and aggravated money laundering in France. In the first instance judgment the Bank was found guilty of aggravated money laundering by providing assistance to placement, concealment or conversion operations of the proceeds of an offence. The Bank was ordered to pay a criminal fine of EUR 80 000 thousand, and damages, jointly and severally with the other defendants, of EUR 10 000 thousand to the French State. The Bank appealed against the first instance judgement, and as at the date of this report, the date for the appeal court hearing has not yet been scheduled. In the separate and consolidated financial statements, management recognized a provision of EUR 20 000 thousand for the liability that may ultimately result, including fines, damages and legal costs. As discussed in more detail in Note 36, the estimate was based on certain assumptions of legal nature that may be subject to differing interpretations based on the provisions of the relevant laws of the Republic of Latvia. As a consequence, while the amount of the provision recognized in the separate and consolidated financial statements represents management's best estimate of the expenditure to be ultimately required to settle the case, the amounts the Bank is ultimately ordered to pay may be substantially in excess of those provided for. Due to the above factors, as well as other matters discussed in Note 36, significant complexities were involved in evaluating the likelihood of the ultimate outflow of resources from the Bank in the above case, and in assessing the Bank's estimate of the related provision. Accordingly, the matter was considered by us to be one of an increased audit risk, which required our increased attention in the audit of the separate and consolidated financial statements. As such, we considered it to be our key audit matter.	case, its status and the Management Board's assessment of the ultimate outcome; – Inspection of the relevant case documentation and correspondence, including the documentation supporting the court's rationale for its first-instance ruling; – Inspection of the letters of audit response from the Bank's internal legal counsel and its external advisers, and corroborating including therewith, as to their assessment of the probability of the unfavourable ultimate outcome of the case; – Seeking an independent assessment of the case by external criminal and civil law experts engaged by us, both in France and in Latvia; – Assisted by our own legal specialists, and with a view of the effects of the procedures laid out above, developing an independent assessment of the likelihood of the ultimate outflow of resources from the Bank as a consequence of the case, the most likely amount of the Bank's exposure and consequently, the adequacy of the related provision recognized by the Bank as at 31 December 2017; • Assessing the accuracy and completeness of the case-related disclosures in the separate and consolidated financial statements, including, but not limited to, disclosure of the Bank's assumptions in arriving at the amount of the related provision and those discussing the uncertainties associated with the ultimate outcome of the proceedings.

<table>
<tr><th colspan="2">Impairment of loans (separate and consolidated financial statements)</th></tr>
<tr><th>Key audit matter</th><th>Our response</th></tr>
<tr><td>
The carrying amount of loans in the separate financial statements as at 31 December 2017: EUR 916 987 thousand; impairment losses recognised in 2017: EUR 10 732 thousand; total impairment loss as at 31 December 2017: EUR 90 310 thousand.
The carrying amount of loans in the consolidated financial statements as at 31 December 2017: EUR 832 340 thousand; impairment losses recognised in 2017: EUR 10 878 thousand; total impairment loss as at 31 December 2017: EUR 76 701 thousand.
We refer to the separate and consolidated financial statements: Note 3 (f) and 3 (l) (accounting policy), Notes 13 and 19 (financial disclosures).
The Bank and other entities within the Group offer a variety of loan products issued to corporate clients and individuals. The Bank and the Group have a significant exposure to borrowers in foreign jurisdictions, including those in the CIS countries.
Individual impairment allowances recognized by the Bank and the Group mostly relate to large, individually monitored exposures. The assessment is therefore based on the knowledge of each individual borrower and often on estimation of the fair value of the related collateral.
The Bank does not recognize collective allowances as all exposures are monitored individually. Collective impairment is however assessed by other entities within the Group, as their exposures are predominantly related to consumer loan and leasing exposures. Related impairment allowances are recognized in respect of both already existing known credit losses as well as losses that have been incurred but are not yet identifiable on an individual exposure level. Collective impairment is estimated mainly based on the historical pattern of losses and changes in loan risk characteristics based on qualitative indicators.
We identified this area as a significant risk during our audit because recognition and measurement of allowances for loan impairment is associated with significant estimation uncertainty as it requires the management to exercise judgment and develop complex and subjective assumptions about both the
</td><td>
Our audit procedures included, among others:

assessing and testing of controls over the approval, recording and monitoring of loans, identification of loss events, determination of loan collateral fair values and the calculation of the impairment allowances.

For individually calculated impairment:

For a sample of loans with higher risk characteristics, such as individually significant exposures to related-party borrowers, watch-listed, uncollateralized or restructured exposures, loans to borrowers in foreign jurisdictions and exposures with delayed repayment, critically assessing, by reference to the underlying loan files, and through inquiries of the responsible loan officers and credit risk management personnel, the existence of any impairment triggers as at 31 December 2017;
Where impairment triggers were identified in respect of the above sample, challenging the Bank's and the Group's cash flow projections, including key assumptions used, such as discount rates, collateral values (assisted, where necessary, by our own valuation specialists). This included, where applicable, assessing collateral sales costs and sales periods used in the forecasts of future cash flows provided as a basis for the assessment of loan impairment.

For collective impairment:

Testing the underlying collective impairment models, including back-testing, assessing the completeness and accuracy of the underlying data, and assessing the key parameters such as probability of default and loss given default;
Where model adjustments were made to reflect recent loss experience and current market conditions, critically assessing the appropriateness of any such adjustments.

</td></tr>
</table>

timing of recognition and the amounts of such impairment.	
Valuation of investment properties (consolidated financial statements)	
Key audit matter	***Our response***
The carrying amount of Investment properties in the consolidated financial statements as at 31 December 2017: EUR 90 178 thousand. *We refer to the financial statements: Note 3 (d) and 3 (i) (accounting policy), Notes 26 (financial disclosures).* Investment property is held either to earn rental income or for capital appreciation or for both. The Group's investment property is represented by repossessed real estate, which it measures at its fair value, with all changes therein recorded in profit or loss. The valuation of the Group's investment properties requires the Management Board to apply significant judgement and produce complex estimates, using the input obtained from the external contracted appraisers, particularly in relation to the key assumptions, being those relating to discount rates, cash flow projections and comparable market transactions. Due to the above factors, we considered this area to be our key audit matter.	Our procedures included, among others: • Based on our updated understanding of the Group's approach to the valuation of investment property, assessing the valuation methodology applied by the Group against the requirements of the relevant financial reporting standards and market practice; • Tracing the fair values determined by the Group's external appraisers to the Group's accounting records and, involving our own valuation specialists, challenging, on a sample basis, the valuation methods and key assumptions applied by the Group's appraisers, including those in respect of discount rates, reversionary cap rates, cash flow projections and comparable market transactions; • Performing a sensitivity analysis in respect of the above key assumptions to evaluate the effects of their potential changes on the investment property fair values. • Considering the adequacy of the Group's disclosures related to the assumptions and significant judgements used at estimating fair values of investment properties.

Reporting on Other Information

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

- the Management Report, as set out on pages 3 to 5 of the accompanying Annual Report ("Annual Report"),
- the Statement of Management Responsibility, as set out on page 8 of the Annual Report, and
- the Composition of the Supervisory Council and the Management Board, as set out on page 9 of the Annual Report.

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

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

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

Other Reporting Responsibilities in Accordance with the Legislation of the Republic of Latvia

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

Based solely on the work required to be undertaken in the course of our audit of the separate and consolidated financial statements, in our opinion:

- the information given in the Management Report for the financial year for which the separate and consolidated financial statements are prepared is consistent with the separate and consolidated financial statements; and
- the Management Report has been prepared in accordance with the requirements of Regulation No. 46.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

We were appointed by the annual shareholders' meeting on 24 March 2017 to audit the separate and consolidated financial statements of AS Rietumu Banka for the year ended 31 December 2017. Our total uninterrupted period of engagement is 15 years, covering the periods ended 31 December 2003 to 31 December 2017.

We confirm that:

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

- as referred to in the paragraph 37.6 of the 'Law on Audit Services' of the Republic of Latvia, we have not provided to the Bank and the Group the prohibited non-audit services (NASs) referred to of EU Regulation (EU) No 537/2014, paragraph 5 point 1. We also remained independent of the audited entity (the Bank) and the Group in conducting the audit.

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

KPMG Baltics SIA
Licence No 55

Ondrej Fikrle
Partner pp KPMG Baltics SIA
Riga, Latvia
30 April 2018

Marina Iljina
Sworn auditor
Licence Nr. 193

SEPARATE AND CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Note	2017 ’000 EUR Group	2017 ’000 EUR Bank	2016 ’000 EUR Group	2016 ’000 EUR Bank
Interest income	6	89,051	78,300	100,451	90,854
Interest expense	6	(20,765)	(19,121)	(22,096)	(21,405)
Net interest income		**68,286**	**59,179**	**78,355**	**69,449**
Fee and commission income	7	72,792	71,762	68,981	68,646
Fee and commission expense	8	(38,163)	(37,823)	(27,886)	(27,817)
Net fee and commission income		**34,629**	**33,939**	**41,095**	**40,829**
Net gain/(loss) on financial instruments at fair value through profit or loss	9	874	(17)	1,867	8
Net foreign exchange gain	10	23,002	23,347	22,736	22,662
Net realised gain on available-for-sale assets	11	449	482	32,387	32,385
Share of income/(losses) of equity accounted investees (net of income tax)		5	-	(14)	-
Other income	12	9,366	5,514	4,555	4,879
Operating income		**136,611**	**122,444**	**180,981**	**170,212**
Impairment losses	13	(12,415)	(13,399)	(32,728)	(37,919)
General and administrative expenses	14	(83,518)	(68,037)	(59,505)	(45,784)
Profit before income tax		**40,678**	**41,008**	**88,748**	**86,509**
Income tax expense	15	(7,184)	(7,974)	(6,411)	(6,209)
Profit for the period		**33,494**	**33,034**	**82,337**	**80,300**
Attributable to:					
Equity holders of the Bank		**31,937**		**80,088**	
Non-controlling interest		**1,557**		**2,249**	

The separate and consolidated statements of profit or loss and other comprehensive income are to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 28 to 124.

Chairman of the Board
Rolf Paul Fuls

Member of the Board
Ruslans Stecjuks

30 April 2018

SEPARATE AND CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017	Note	2017 ’000 EUR Group	2017 ’000 EUR Bank	2016 ’000 EUR Group	2016 ’000 EUR Bank
Profit for the period		**33,494**	**33,034**	**82,337**	**80,300**
Other comprehensive income					
Items that are or may be reclassified to profit or loss					
Foreign currency translation differences for foreign operations		(87)	-	(1,554)	-
Other reserves - net change		(2)	-	-	-
Available-for-sale financial assets – net change in fair value		1,105	(1,736)	(21,104)	(20,300)
Related tax		499	978	(343)	(343)
		1,515	**(758)**	**(23,001)**	**(20,643)**
Other comprehensive income for the period		**1,515**	**(758)**	**(23,001)**	**(20,643)**
Total comprehensive income for the period		**35,009**	**32,276**	**59,336**	**59,657**
Attributable to:					
Equity holders of the Group		**33,452**		**57,087**	
Non-controlling interest		**1,557**		**2,249**	

The separate and consolidated statements of profit or loss and other comprehensive income are to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 28 to 124.

Chairman of the Board
Rolf Paul Fuls

30 April 2018

Member of the Board
Ruslans Stecjuks

SEPARATE AND CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at 31 December 2017	Note	31 Dec 2017 ’000 EUR Group	31 Dec 2017 ’000 EUR Bank	31 Dec 2016 ’000 EUR Group	31 Dec 2016 ’000 EUR Bank
Assets					
Cash and balances due from the Bank of Latvia	16	875,883	875,856	836,961	836,920
Financial instruments at fair value through profit or loss	17	15,557	445	17,052	1,333
Loans and receivables due from banks	18	462,796	462,086	522,424	521,721
Loans and receivables due from customers	19	832,340	916,987	1,044,920	1,116,873
Reverse repo	37	40,825	40,825	93,435	93,435
Available-for-sale assets	20	329,766	342,861	467,584	510,978
Non-current assets held for sale		220	-	124	-
Held-to-maturity investments	21	277,514	276,673	319,574	315,848
Investments in subsidiaries	22	-	34,002	-	28,381
Equity accounted investees	23	12	-	7	-
Investment property	26	90,178	10,470	91,299	10,687
Property and equipment	24	42,960	7,904	45,488	7,943
Intangible assets	25	3,042	2,632	4,602	2,822
Current tax asset		298	-	6,064	5,699
Deferred tax asset	32	37	-	259	-
Other assets	27	38,130	27,879	23,797	12,964
Total Assets		**3,009,558**	**2,998,620**	**3,473,590**	**3,465,604**

The separate and consolidated statements of financial position are to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 28 to 124.

SEPARATE AND CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at 31 December 2017	Note	31 Dec 2017 ’000 EUR Group	31 Dec 2017 ’000 EUR Bank	31 Dec 2016 ’000 EUR Group	31 Dec 2016 ’000 EUR Bank
Liabilities and Shareholders’ Equity					
Financial instruments at fair value through profit or loss	17	30	30	442	442
Due to Bank of Latvia	20,21	120,000	120,000	120,000	120,000
Deposits and balances due to banks	28	27,187	27,028	34,096	33,957
Current accounts and deposits due to customers	29	2,340,512	2,359,214	2,742,726	2,767,739
Issued debt securities	30	-	-	57,809	57,985
Provisions	36	20,000	20,000	-	-
Current tax liability		498	316	222	-
Deferred tax liability	32	426	-	3,110	933
Other liabilities and accruals	31	22,150	12,418	21,311	13,002
Total Liabilities		**2,530,803**	**2,539,006**	**2,979,716**	**2,994,058**
Share capital	33	168,916	168,916	168,916	168,916
Share premium	33	52,543	52,543	52,543	52,543
Revaluation reserve	33	1,381	-	1,340	-
Fair value reserve	33	3,409	3,976	1,805	4,734
Currency translation reserve		(3,158)	-	(3,071)	-
Other reserves	33	104	23	106	23
Retained earnings		245,294	234,156	257,517	245,330
Total Equity Attributable to Equity Holders of the Bank		**468,489**	**459,614**	**479,156**	**471,546**
Non-controlling Interest		**10,266**	**-**	**14,718**	**-**
Total Shareholders’ Equity		**478,755**	**459,614**	**493,874**	**471,546**
Total Liabilities and Shareholders’ Equity		**3,009,558**	**2,998,620**	**3,473,590**	**3,465,604**

The separate and consolidated statements of financial position are to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 28 to 124.

Chairman of the Board
Rolf Paul Fuls

30 April 2018

Member of the Board
Ruslans Stecjuks

SEPARATE AND CONSOLIDATED STATEMENTS OF CASH FLOWS For the year ended 31 December 2017	**Note**	**2017 ’000 EUR Group**	**2017 ’000 EUR Bank**	**2016 ’000 EUR Group**	**2016 ’000 EUR Bank**
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before income tax		40,678	41,008	88,748	86,509
Amortisation and depreciation	24,25	3,778	2,008	3,947	1,850
(Gain)/loss from sale of investment property		(13)	-	42	-
Negative goodwill write-off		-	-	98	-
Revaluation of investment property		803	(507)	6,124	(217)
Share of (income)/loss of equity accounted investees		(5)	-	14	-
Increase of provisions		20,000	20,000	-	-
(Gain)/loss on disposal of property and equipment		(328)	-	(35)	(13)
(Gain)/loss on sale of subsidiaries		1,343	760	(6)	-
Impairment losses	13	12,415	13,399	32,728	37,919
Increase in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations		**78,671**	**76,668**	**131,660**	**126,048**
(Increase)/decrease in financial instruments at fair value through profit or loss		1,495	888	(613)	(167)
(Increase)/decrease in loans and receivables due from banks – term deposits		18,797	18,802	2,230	2,187
(Increase)/decrease in loans and receivables from customers		201,702	189,154	25,330	2,087
(Increase)/decrease in receivable under reverse repurchase agreements		52,610	52,610	(4,869)	(4,869)
(Increase)/decrease in available-for-sale assets		138,923	169,150	(4,624)	(5,092)
(Increase)/decrease in other assets		(16,081)	(15,647)	(3,496)	7,621
Increase/(decrease) in derivative liabilities		(412)	(412)	423	423
Increase/(decrease) in term deposits due to banks		(257)	(277)	(10,372)	846
Increase/(decrease) in current accounts and deposits due to customers		(402,214)	(408,525)	(461,347)	(463,819)
Increase in amounts payable under repurchase agreements		-	-	120,000	120,000
(Increase)/decrease in non-current assets held for sale		(96)	-	(74)	-
Increase/(decrease) in other liabilities and accruals		1,003	(584)	(2,989)	(1,660)
Increase/(decrease) in cash and cash equivalents from operating activities before corporate income tax		**74,141**	**81,827**	**(208,741)**	**(216,395)**
Corporate income tax paid		(2,895)	(3,497)	(9,220)	(8,292)
Net cash and cash equivalents from operating activities		**71,246**	**78,330**	**(217,961)**	**(224,687)**
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property and equipment and intangible assets	24,25	(2,558)	(1,802)	(3,748)	(2,523)
Proceeds from sale of property, plant and equipment and other assets		456	23	-	-
Increase in equity investments in other entities and acquisition of subsidiaries		-	(9,808)	(21)	(82)
(Increase)/decrease in investment property	26	1,051	724	(3,807)	(201)
Proceeds from sale of subsidiary		521	306	-	-
(Increase)/decrease in held-to-maturity financial assets		42,060	39,175	(99,064)	(97,947)
(Acquisition)/sale of non-controlling interest		(4,833)	-	(546)	-
Cash and cash equivalents used in / from investing activities		**36,697**	**28,618**	**(107,186)**	**(100,753)**

The separate and consolidated statements of cash flows are to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 28 to 124.

SEPARATE AND CONSOLIDATED STATEMENTS OF CASH FLOWS
For the year ended 31 December 2017

	Note	2017 '000 EUR Group	2017 '000 EUR Bank	2016 '000 EUR Group	2016 '000 EUR Bank
CASH FLOWS FROM FINANCING ACTIVITIES					
Decrease in other reserves		(2)	-	-	-
Issued debt securities	30	(57,809)	(57,985)	2,025	1,200
Dividends paid	33	(45,384)	(44,208)	(21,785)	(20,952)
Cash and cash equivalents used in/from financing activities		**(103,195)**	**(102,193)**	**(19,760)**	**(19,752)**
Net cash flow for the period		**4,748**	**4,755**	**(344,907)**	**(345,192)**
Cash and cash equivalents at the beginning of the year		**1,306,828**	**1,306,084**	**1,651,735**	**1,651,276**
Cash and cash equivalents at the end of the year	34	**1,311,576**	**1,310,839**	**1,306,828**	**1,306,084**

The separate and consolidated statements of cash flows are to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 28 to 124.

Chairman of the Board
Rolf Paul Fuls

30 April 2018

Member of the Board
Ruslans Stecjuks

GROUP CONSOLIDATED STATEMENTS OF CHANGES IN THE SHAREHOLDERS' EQUITY

For the year ended 31 December 2017

	Attributable to Equity Holders of the Bank									
	Share capital ’000 EUR	Share premium ’000 EUR	Revaluation reserve ’000 EUR	Fair value reserve ’000 EUR	Foreign currency translation reserve ’000 EUR	Other reserves ’000 EUR	Retained earnings ’000 EUR	Total ’000 EUR	Non-controlling interest ’000 EUR	Total Equity ’000 EUR
Balance at 1 January 2016	**168,916**	**52,543**	**1,364**	**23,252**	**(1,517)**	**106**	**198,357**	**443,021**	**13,848**	**456,869**
Transactions with shareholders recorded directly in equity										
Dividends paid (Note 33)	-	-	-	-	-	-	(20,952)	(20,952)	-	**(20,952)**
Transactions with non-controlling interest										
Dividends paid to non-controlling interest shareholders	-	-	-	-	-	-	-	-	(833)	**(833)**
Transactions with third parties related to units of funds controlled by Group	-	-	-	-	-	-	-	-	(546)	**(546)**
Comprehensive income										
Profit for the current year	-	-	-	-	-	-	80,088	80,088	2,249	**82,337**
Other comprehensive income (Note 33)	-	-	-	(21,447)	(1,554)	-	-	(23,001)	-	**(23,001)**
Other										
Depreciation of revalued property	-	-	(24)	-	-	-	24	-	-	-
Balance at 31 December 2016	**168,916**	**52,543**	**1,340**	**1,805**	**(3,071)**	**106**	**257,517**	**479,156**	**14,718**	**493,874**

The Group consolidated statements of changes in the shareholders' equity are to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 28 to 124.

GROUP CONSOLIDATED STATEMENTS OF CHANGES IN THE SHAREHOLDERS' EQUITY

For the year ended 31 December 2017

	Attributable to Equity Holders of the Bank									
	Share capital '000 EUR	Share premium '000 EUR	Revaluation reserve '000 EUR	Fair value reserve '000 EUR	Foreign currency translation reserve '000 EUR	Other reserves '000 EUR	Retained earnings '000 EUR	Total '000 EUR	Non-controlling interest '000 EUR	Total Equity '000 EUR
Balance at 1 January 2017	**168,916**	**52,543**	**1,340**	**1,805**	**(3,071)**	**106**	**257,517**	**479,156**	**14,718**	**493,874**
Transactions with shareholders recorded directly in equity										
Dividends paid (Note 33)	-	-	-	-	-	-	(44,208)	(44,208)	-	**(44,208)**
Transactions with non-controlling interest										
Acquisition of non-controlling interest without change in control	-	-	-	-	-	-	21	21	-	**21**
Dividends paid to non-controlling interest shareholders	-	-	-	-	-	-	-	-	(1,176)	**(1,176)**
Transactions with third parties related to units of funds controlled by Group	-	-	-	-	-	-	-	-	(4,833)	**(4,833)**
Comprehensive income										
Profit for the current year	-	-	-	-	-	-	31,937	31,937	1,557	**33,494**
Other comprehensive income	-	-	-	1,604	(87)	(2)	-	1,515	-	**1,515**
Other										
Depreciation of revalued property	-	-	(27)	-	-	-	27	-	-	-
Revaluation of property and equipment	-	-	(91)	-	-	-	-	(91)	-	**(91)**
Transfer from Deferred tax liability	-	-	159	-	-	-	-	159	-	**159**
Balance at 31 December 2017	**168,916**	**52,543**	**1,381**	**3,409**	**(3,158)**	**104**	**245,294**	**468,489**	**10,266**	**478,755**

The Group consolidated statements of changes in the shareholders' equity are to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 28 to 124.

Chairman of the Board
Rolf Paul Fuls

Member of the Board
Ruslans Stecjuks

30 April 2018

BANK'S SEPARATE STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended 31 December 2017

	Share capital '000 EUR	Share premium '000 EUR	Revaluation reserve '000 EUR	Fair value reserve '000 EUR	Other reserves '000 EUR	Retained earnings '000 EUR	Total equity '000 EUR
Balance at 1 January 2016	**168,916**	**52,543**	**-**	**25,377**	**23**	**185,982**	**432,841**
Transactions with shareholders recorded directly in equity							
Dividends paid	-	-	-	-	-	(20,952)	**(20,952)**
Total comprehensive income							
Profit for the period	-	-	-	-	-	80,300	**80,300**
Other comprehensive income	**-**	**-**	**-**	(20,643)	-	-	**(20,643)**
Balance at 31 December 2016	**168,916**	**52,543**	**-**	**4,734**	**23**	**245,330**	**471,546**
Transactions with shareholders recorded directly in equity							
Dividends paid	-	-	-	-	-	(44,208)	**(44,208)**
Comprehensive income							
Profit for the period	-	-	-	-	-	33,034	**33,034**
Other comprehensive income (Note 33)	**-**	**-**	**-**	(758)	-	-	**(758)**
Balance at 31 December 2017	**168,916**	**52,543**	**-**	**3,976**	**23**	**234,156**	**459,614**

The Bank's separate statements of changes in shareholders' equity are to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 28 to 124.

Chairman of the Board
Rolf Paul Fuls

30 April 2018

Member of the Board
Ruslans Stecjuks

1 Background

Principal activities

These financial statements include the separate financial statements of JSC "Rietumu Banka" (the "Bank") and the consolidated financial statements of the Bank and its subsidiaries (together referred to as the "Group").

JSC "Rietumu Banka" was established in the Republic of Latvia as a Joint Stock Company and was granted it's general banking license in 1992. The principal activities of the Bank are deposit taking and customer accounts maintenance, lending, issuing guarantees, cash and settlement operations and operations with securities and foreign exchange. The activities of the Bank are regulated by the Bank of Latvia and the Financial and Capital Market Commission ("FCMC") of the Republic of Latvia. The registered address of the Bank's head office is Vesetas street 7, Riga, Latvia. The average number of people employed by the Group during the year was 1,070 (2016: 1,078) and by the Bank 765 (2016: 782).

Principal subsidiaries of the Group (total assets in excess of EUR 5,000 thousand)

Name	Country of incorporation	Principal activities	Ownership %	
			31 Dec 2017	**31 Dec 2016**
RB Investments SIA	Vesetas Str.7, Riga, Latvia	Investments	100%	100%
Rietumu Leasing Ltd	Odoevskogo Str.117, 6th floor, office 9, Minsk Belarus	Leasing company	100%	100%
Vesetas 7 SIA	Vesetas Str.7, Riga, Latvia	Real estate operating	100%	100%
Overseas Estates SIA	Vesetas Str.7, Riga, Latvia	Terminal	100%	100%
InCREDIT GROUP SIA	Krisjana Barona Str.130, Riga, Latvia	Customer lending	51%	51%
KI Nekustamie ipasumi SIA	Vesetas Str.7, Riga, Latvia	Real estate operating	100%	100%
KI Zeme SIA	Vesetas Str.7, Riga, Latvia	Real estate operating	100%	100%
RAM Fund-Fixed Income High Yield USD	Vesetas Str.7, Riga, Latvia	Investments	59.50%	67.36%
RAM Fund-Fixed Income Investment Grade USD	Vesetas Str.7, Riga, Latvia	Investments	51.18%	34.37%
Ekoagro SIA	Vesetas Str.7, Riga, Latvia	Real estate operating	100%	100%
KI Invest OOO	Nauchnij Str.19, Moscow, Russia	Real estate operating	100%	100%
Rietumu Bankas Labdaribas Fonds	Vesetas Str.7, Riga, Latvia	Charity	100%	100%
KI Fund SIA	Vesetas Str.7, Riga, Latvia	Real estate operating	100%	-
U-10 SIA	Garozes Str. 25-1, Riga, Latvia	Real estate operating	67%	67%

2 Basis of preparation

(a) Statements of compliance

The accompanying separate and consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("EU IFRS"), and regulations of the Financial and Capital Market Commission of the Republic of Latvia (the 'FCMC') in force as at the reporting date.

The Board of Directors approved these separate and consolidated financial statements for issue on 30 April 2018.

(b) Basis of measurement

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

- financial instruments at fair value through profit or loss are stated at fair value;
- available-for-sale assets are stated at fair value;
- non-current assets held for sale which are stated at lower their carrying amount and fair value less cost to sell;
- owner occupied buildings which are stated at revalued amounts being the fair value at the date of valuation less subsequent accumulated depreciation and any accumulated impairment losses;
- investment property and collateral assumed on non-performing loans is stated at fair value.

(c) Functional and Presentation Currency

These financial statements are presented in thousands of euro (EUR 000's).

The functional currencies of the Bank and principal subsidiaries of the Bank are EUR, except for the principal subsidiaries listed below:

Rietumu Asset Management funds	USD (US dollar)
Rietumu Leasing Ltd	BYN (Belarus rouble)
KI Invest OOO	RUB (Russian rouble)

3 Significant accounting policies

The following significant accounting policies have been applied in the preparation of these separate and consolidated financial statements. The accounting policies have been consistently applied to all periods presented in these financial statements, except for the change in accounting policies described in Note 3(t).

(a) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of the Bank and its subsidiary companies at the spot exchange rates on the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into the functional currency at the spot exchange rate at the date that the fair value was determined. Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated into the functional currency at the spot exchange rate at the date of transaction. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the translation of available-for-sale equity instruments, which are recognised in equity through other comprehensive income.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into the presentation currency of the Group at exchange rates set by the European Central Bank at the reporting date. The income and expenses of foreign operations are translated into the presentation currency of the Group at average exchange rate for the reporting period. Foreign currency differences are recognised in other comprehensive income and accumulated in a currency translation reserve, except that the translation difference is allocated to non-controlling interest. Upon disposal of subsidiary, the balance of currency translation reserve is reclassified to profit and loss.

(iii) Foreign exchange rates

	31 Dec 2017	**Average 2017**	**31 Dec 2016**	**Average 2016**
USD	1.1993	1.1297	1.0541	1.1067
BYN	2.3553	2.1842	2.0450	2.1440
RUB	69.3920	65.9190	64.3000	74.1910

3 Significant accounting policies, continued

(b) Basis of consolidation

(i) Subsidiaries

Subsidiaries are those enterprises controlled by the Group. The Group controls an entity when it is exposed to, or has right to, variable returns from its involvement with the entity and has ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

(ii) Equity accounted investees

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50% of the voting power of associated entity. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the Group's share of losses exceeds the Group's interest in the associate, that interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

(iii) Transactions eliminated on consolidation

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

(iv) Non – controlling interest

The Group measures any non-controlling interest at its proportionate interest in the identifiable net assets of the acquiree.

(v) Investment in subsidiaries and associates in Bank's separate financial statements

Investments in subsidiaries and associates are measured in the Bank's separate financial statements at cost less impairment allowance, if any.

(vi) Asset management

The Bank and the Group hold assets which are purchased on behalf of investors (securities and other assets managed). The assets held on behalf of investors are accounted in off balance sheet and are not included in the separate and consolidated financial statements.

(c) Goodwill

Goodwill represents the excess of the cost of a business combination over the Bank's or the Group's interest in the fair value of the net identifiable assets and contingent liabilities of the acquiree at the date of acquisition.

The Bank and the Group measure goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally at fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. Goodwill is included in intangible assets.

3 Significant accounting policies, continued

Goodwill is allocated to cash-generating units and is stated at cost less impairment losses, if any. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that goodwill might be impaired and is measured at cost less any accumulated impairment losses. Cash generating units for goodwill impairment testing are: payment card business and investment properties management on subsidiary level. Gains and losses on the disposal of a business include the carrying amount of goodwill relating to the assets sold.

Negative goodwill (bargain purchase gain) arising on a business combination is recognised immediately in profit or loss.

(d) Fair value measurement principles

A number of the Bank's and Group's accounting policies and disclosures require the determination of fair value for both financial and non-financial assets and liabilities. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Bank or the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When measuring the fair value of an asset or a liability, the Bank and the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Bank and the Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Fair values have been determined for measurement and/or disclosure purposes based on the following methods. In addition, when applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Financial assets and liabilities

When available, the Bank and the Group measure the fair value of a financial instrument using quoted prices in an active market for that financial instrument. A market is regarded as active if transactions with the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

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

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Bank and the Group have positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk.

3 Significant accounting policies, continued

(ii) Investment property and owner occupied buildings

The fair value of property is based on internal valuations performed by the Bank and the Group that are, on a regular basis (once per year or when market conditions significantly change), corroborated with external, independent valuations prepared by valuation companies, having appropriate professional qualifications and recent experience in the location and category of property being valued. The fair values are based on market values, being the estimated amount for which property could be sold on the date of the valuation between willing buyer and a willing seller in an arm's length transaction after proper marketing where the parties had each acted knowledgeably and willingly. In the year when property is obtained, purchase price could be accepted as fair value.

In the absence of current prices in an active market, the valuations are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property. A yield that reflects the specific risks inherent in the net cash flows then is applied to the net annual cash flows to arrive at the property valuation.

Valuations reflect, when appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation, the allocation of maintenance and insurance responsibilities between the Group and the lessee, and remaining economic life of the property. When rent reviews or lease renewals are pending with anticipated reversionary increases, it is assumed that all notices, and when appropriate counter-notices, have been served validly and within the appropriate time.

(iii) Intangible assets

The fair value of licenses acquired in a business combination is based on the discounted estimated cash flows from the business activity subject to the license. The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earning method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the rated flows.

(e) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank and the Group in the management of their short-term commitments, less balances due to credit institutions with a maturity of less than 3 months.

(f) Financial instruments

(i) Classification

Financial instruments are classified into the following categories:

Financial instruments at fair value through profit or loss are financial assets or liabilities that are derivatives or are acquired or incurred principally for the purpose of selling or repurchasing in the near term, or that are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking or that are designated to this category at initial recognition. The Bank and the Group designate financial assets and liabilities at fair value through profit or loss in the following circumstances:

- The assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise;
- The asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

3 Significant accounting policies, continued

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank and the Group have the positive intention and ability to hold to maturity.

Available-for-sale assets are those financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

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

Loans and receivables include regular loans, credit card balances and finance lease.

Liabilities at amortized cost include deposits and balances due to banks, current accounts and deposits from customers and issued debt securities.

(ii) Initial recognition

The Bank and the Group initially recognise loans and receivables, deposits and debt securities issued on the date at which they are originated. All other financial assets and liabilities are recognised in the statements of financial position on the trade date when the Bank and the Group become a party to the contractual provisions of the instrument.

(iii) Measurement

A financial asset or liability is initially measured at its fair value and, except for a financial asset or liability at fair value through profit or loss, includes transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions with the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in the profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Subsequent to initial recognition, financial assets other than loans and receivables, held to maturity investments, equity investments carried at cost and financial liabilities at amortised cost, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal.

All held to maturity investments, loans and receivables and financial liabilities at amortised cost and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost. Amortised cost is calculated using the effective interest method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

3 Significant accounting policies, continued

(iv) Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognised as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in profit or loss;
- a gain or loss on an available-for-sale financial asset is recognised in fair value reserve through other comprehensive income (except for impairment losses and foreign exchange gains or losses on monetary assets) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss. Interest in relation to an available-for-sale financial asset is recognised as earned in profit or loss calculated using the effective interest method.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in profit or loss when the financial asset or liability is derecognised including the instances where the terms change substantially or impaired, and through the unwinding of interest using the effective interest rate method.

(v) Derecognition

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or when the Bank and the Group transfer substantially all of the risks and rewards of ownership of the financial asset or when the Bank and the Group neither transfer, nor retain substantially all risks and rewards of ownership but does not retain control of the financial asset. Any interest in transferred financial assets that qualifies for derecognition that is created or retained by the Bank and the Group is recognised as a separate asset or liability. A financial liability is derecognised when it is extinguished.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

(vi) Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase (“repo”) agreements are accounted for as secured financing transactions, with the securities retained in the statements of financial position and the counterparty liability included in amounts payable under “repo” transactions.

The difference between the sale and repurchase price represents the interest expense and is recognised in profit or loss over the term of the “repo” agreement using the effective interest method.

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

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

3 Significant accounting policies, continued

(vii) Derivative financial instruments

Derivative financial instruments include swaps, forwards, futures, and options in interest rate, foreign exchange, precious metals and stock markets, and any combinations of these instruments. The Bank and the Group classify all derivative financial instruments as financial instruments at fair value through profit and loss.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Derivatives may be embedded in another contractual arrangement (a "host contract"). The Bank and the Group account for an embedded derivative separately from the host contract when the host contract is not itself carried at fair value through profit or loss, the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract, and the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

(viii) Offsetting

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

(g) Leases

The lease of property and equipment is classified as a finance lease if it transfers substantially all risks and rewards of ownership to the lessee. Title does not have to be transferred. All other leases are classified as operating leases.

The bank and the Group as lessor

Assets leased out under operating lease are carried in the statements of financial position analogously to property, plant and equipment or investment property. Income is recognised on a straight-line basis over each lease term. Other payments associated with the lease are recognised in profit or loss as a component other income.

When assets are held subject to finance lease, the present value of the minimum lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable before impairment allowance is recognised as unearned finance income.

The Bank and the Group as lessee

Operating lease payments are recognised in profit or loss on a straight-line basis over the lease term.

Assets acquired under finance leases include equipment. Asset acquired by way of finance lease is initially measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease plus initial direct costs of the lessee. Subsequent to initial recognition, these are measured at cost less accumulated depreciation and impairment losses.

(h) Property and equipment

(i) Owned assets

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

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

3 Significant accounting policies, continued

(ii) Revaluation

Land and buildings of the Bank and the Group are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the land and buildings being revalued. A revaluation increase on an item of land and building is recognised in equity through other comprehensive income except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss.

A reduction in the value on an item of land or buildings is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised in other comprehensive income, in which case it is recognised in other comprehensive income.

(iii) Depreciation

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

Buildings	50 years
Equipment	2.5 to 4 years
Furniture	8 years
Vehicles	2.5 to 5 years

(i) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business or services or for administrative purposes. Investment property is measured at fair value with any change therein recognised in profit or loss in other operating income.

(j) Repossessed collateral

If the borrower fails to fulfil the contractual obligations, the Bank may decide that the loan agreement will be terminated and that the right to collateral pledged as security, will be exercised. According to Latvian law, the Bank and the Group cannot assume formal title of the asset pledge, but can initiate the sale, proceeds of which will be used to repay or partly repay the outstanding loan receivable. As the Bank and the Group are assuming the de facto title to the asset, and retain no contractual obligation to the original borrower, the Bank and the Group classify the asset as other assets. As well, when the Group and Bank acquires (i.e. gains a full title to) an asset in this way, the asset's classification follows the nature of its intended use by the Group and the Bank. When the Group or the Bank is uncertain of its intentions with respect to land and buildings that it has repossessed, those properties are classified as other assets. The repossessed collaterals are initially recognised at take-over value which set to be a notional cost. Subsequently, management determines a recoverable amount which usually is fair value less cost to sell as at period end using market data.

(k) Intangible assets

Intangible assets, which are acquired by the Bank and the Group, are stated at cost less accumulated amortisation and impairment losses. Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Amortisation is charged to the statements of profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are 5 to 7 years.

3 Significant accounting policies, continued

(l) Impairment

(i) Financial assets

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

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

Significant loans and receivables due from customers, except for lease contracts, and held-to-maturity investment securities are assessed individually for impairment indication and specific impairment allowance is established if necessary.

All loans and receivables for which no objective evidence of impairment is identified on an individual basis are grouped into sub-portfolios with similar credit risk characteristics according to the Bank's and the Group's internal loan portfolio rating procedure and a collective impairment allowance is assessed using statistical modelling of historical trends of the probability of default and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses and recoveries are recognised monthly based on regular loan reviews and are recognised in profit or loss.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables or held to maturity financial investments. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss. If the impaired financial asset is derecognised (due to repossessing of collateral (see Note 3j) or restructuring (see Note 19), the related impairment allowance is written off.

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

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

3 Significant accounting policies, continued

(ii) Non-financial assets

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

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

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

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

(m) Provisions

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

(n) Credit related commitments

In the normal course of business, the Bank and the Group enter into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees.

Financial guarantees are contracts that require the Bank and the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

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

(o) Taxation

(i) Current tax

Current tax for the reporting year is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date (15% as at 31 December 2017), and any adjustment to tax payable in respect of previous years.

3 Significant accounting policies, continued

As of 1 January 2018, the new Law on Enterprise Income Tax of the Republic of Latvia comes into effect, setting out a conceptually new regime for paying taxes. As of the date, the tax rate will be 20% instead of the current 15%, the taxation period will be one month instead of a year and the taxable base will include:

- distributed profit (dividends calculated, payments equivalent to dividends, conditional dividends) and
- conditionally distributed profit (non-operating expenses, doubtful debts, increased interest payments, loans to related parties, decrease of income or exceeded expenses which are incurred by entering transactions at prices other than those on the market that should be calculated using the methodology determined by the Cabinet of Ministers, benefits bestowed by the non-resident upon its staff or board (council members) regardless of whether the receiving party is a resident or a non-resident, if they relate to the operation of a permanent establishment in Latvia, liquidation quota).

The use of tax losses carried forward from previous periods is limited: it will be possible to use these losses to decrease the amount of tax calculated on dividends in the reporting period by not more than 50%. It will be possible to carry forward unused tax losses and use them in the previously described manner only until 2022.

(ii) Deferred tax for Group companies located in Latvia

In accordance with the Annual Reports and Consolidated Annual Reports Law of the Republic of Latvia, companies are permitted to recognise deferred tax supported by justified reasons. In such cases, deferred tax should be recognised, assessed and disclosed in the financial statements in line with the International Financial Reporting Standards (IFRS) as adopted by the EU. Under IAS 12 *Income taxes*, deferred tax assets and liabilities should be recognised by applying a rate expected to be applied to retained earnings. According to the new Law on Enterprise Income Tax of the Republic of Latvia adopted on 28 July 2017, and effective as of 1 January 2018, the 20% rate is only applied to distributed profits, while the 0% rate is expected to be applied to retained earnings. Therefore, deferred tax assets and liabilities are recognisable as nil. This principle was applied in the Company's financial statements for the year ended 31 December 2017.

Deferred tax assets and liabilities were reversed and changes were charged to profit or loss in the reporting period, except when deferred tax was recognised in relation to revaluation reserves. In that case, the reversal of deferred tax was charged to revaluation reserves.

(iii) Deferred tax for other Group companies

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reportng purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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

(p) Income and expense recognition

(i) Interest income and expense

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability. When calculating the effective interest rate,

3 Significant accounting policies, continued

the Bank and the Group estimate future cash flows considering all contractual terms of the financial instruments, but not future credit losses.

Fees and commission income and expenses that are integral part to the effective interest rate on financial assets and liabilities are included in the measurement of the effective interest rate.

(ii) Fee and commission income and expense

Fee and commission income, including mainly account servicing fees, investment management fees and credit card servicing fees, are recognised as the related services are provided. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fee and commission expenses relate mainly to transaction and service fees, which are expressed as the services are receives.

(iii) Net gain/loss on financial instrument at fair value through profit or loss

Net gain/loss on financial instrument at fair value through profit or loss comprises gains less losses related to trading assets and liabilities and derivatives held for risk management purposes, and includes realised and unrealised fair value changes and foreign exchange differences.

(q) Dividends

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

(r) Employee benefits

Short term employee benefits, including salaries and social security contributions, bonuses and vacation benefits are included in general administrative expenses. The Bank and The Group pay fixed security contributions to the State Social Fund on behalf of its employees during the employment period in accordance with local legal requirements.

(s) Non-current assets held for sale

Non-current assets that are expected to be recovered primarily through sale or distribution rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets are remeasured in accordance with Group’s and Bank’s accounting policies. Thereafter the assets are measured at the lower of their carrying amount and fair value less cost to sell. Impairment losses on initial classification as non-current assets held for sale and subsequent gains and losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Once classified as held for sale, assets are no longer depreciated.

3 Significant accounting policies, continued

(t) Changes in accounting policies

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

The Group and the Bank have adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2017.

- Amendments to IAS 7

The amendments require new disclosures that help users to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes (such as the effect of foreign exchange gains or losses, changes arising for obtaining or losing control of subsidiaries, changes in fair value). For the disclosure please refer to Note 30.

The following guidance with effective date of 1 January 2017 did not have any impact on these consolidated and separate financial statements:

- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses

The amendments clarify how and when to account for deferred tax assets in certain situations and clarify how future taxable income should be determined for the purposes of assessing the recognition of deferred tax assets. The amendments are not applicable to the Group and Bank in the light of regulatory changes disclosed in these financial statements.

(u) New standards and interpretations

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 consolidated financial statements. Those which may be relevant to the Group and the Bank are set out below. The Group and the Bank does not plan to adopt these standards early.

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

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 Financial Instruments. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. IFRS 9 *Financial Instruments* sets out requirements for recognising and measuring financial assets and financial liabilities This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement.*

Classification and measurement

From classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories will be replaced by:

- Amortized cost (AMC),
- Fair value through other comprehensive income (FVOCI),
- Fair value through profit or loss (FVTPL).

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

3 Significant accounting policies, continued

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortized cost or fair value through OCI instruments as FVTPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instrument that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statements.

The accounting for financial liabilities will largely be the same as the requirements of IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated as FVTPL. Such movements will be presented in OCI with no subsequent reclassification to the income statements, unless an accounting mismatch in profit or loss would arise.

Business model assessment

The Bank and the Group made an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management.

In general, the business model assessment of the Group can be summarized as follows:

- Loans and receivables have a "held to collect" business model. The financial assets consist of loans and balances with financial institutions. The management and reporting of performance are based on collecting the contractual cash flows.
- The Bank and the Group has portfolios of bonds within the "held to collect" business model, the "held to collect and sell" business models and "other" business models.
- Financial assets that are held for trading and those that are managed and whose performance is evaluated on a fair value basis will be measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank and the Group considered the contractual terms of the instrument. This included assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank and the Group will consider:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets - e g. non-recourse asset arrangements; and
- features that modify consideration for the time value of money - e.g. periodic reset of interest rates.

Impact assessment

The Bank and the Group has concluded that:

- The majority of Financial assets and liabilities held for trading and financial assets and liabilities designated at FVTPL will also be measured at FVTPL under IFRS 9.
- The majority of the debt securities classified as available for sale under IAS 39 will be measured at FVOCI. Securities with fair value of EUR 5 million at 31 December 2017, however, will be classified as FVPL, because of their contractual cash flow characteristics and the business model within which they are held.

3 Significant accounting policies, continued

- At 31 December 2017, the Bank had equity investments classified as available-for-sale with a fair value of EUR 20 million, the Group – EUR 7 million. Under IFRS 9, the Bank and the Group has designated these investments as measured at FVTPL. Consequently, all fair value gains and losses will be reported in profit and loss statements.
- The majority of debt securities classified as held to maturity will be measured at AMC under IFRS 9. Securities with fair value of EUR 0.8 million at 31 December 2017, however, will be classified as FVTPL by the Group, because of their contractual cash flow characteristics and the business model within which they are held.as measured at FVTPL.
- The Bank's and the Group's assessment of major assets, which currently are accounted at amortised cost, is to be finalised for amortised cost classification under the IFRS 9. Based on preliminary SPPI assessment, the impact of the change in classification and measurement requirements are not expected to affect the Bank's and the Group's loans significantly upon implementation of the new standard. Certain detailed procedures on SPPI assessment are still ongoing. Estimated range for reclassification to FVTPL due to fail of SPPI requirements is EUR 26.5 - 27 million.

Impairment of financial assets

IFRS 9 will also fundamentally change the loan loss impairment methodology. The standard will replace IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. The Bank and the Group will be required to record an allowance for expected loss for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Bank has established a policy to perform an assessment at the end of each reporting period of the whether credit risk has increased significantly since initial recognition by considering the change in the risk of default occurring over the remaining life of the financial instrument.
Starting with 1 January 2018, the Bank and the Group will group its loans into Stage 1, Stage 2 and Stage 3, based on the applied impairment methodology, as described below:

- <u>Stage 1</u> – Performing loans: when loans are fist recognized, the Bank and the Group recognizes an allowance based on twelve months expected credit losses.
- <u>Stage 2</u> – Loans with significant increase in credit risk: when a loan shows a significant increase in credit risk since initial recognition, the Bank and the Group records an allowance for the lifetime expected credit loss.
- <u>Stage 3</u> – Impaired loans: Financial assets will be recognized in Stage 3 when there is objective evidence that the loan is impaired. The Bank and the Group recognizes the lifetime expected credit losses for these loans and in addition, the Bank accrues interest income on the amortized cost of the loan net of allowances.

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

3 Significant accounting policies, continued

Measurement of ECLs

The major change from IAS 39 is the calculation of expected credit losses (either as 12 months expected credit losses or lifetime expected credit losses depending on whether facilities are at stage 1, 2 or 3) and the inclusion of forward-looking elements.

The key inputs into the measurement of ECLs for the Bank will be the term structures of the following variables:

- Probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

These parameters will be derived from historical data and internally approved statistical models. They will be adjusted to reflect forward-looking information.

PD estimates are estimates at a certain date, which will be calculated based on statistical rating models and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models will be based on internally compiled data comprising both quantitative and qualitative factors . LGD is the magnitude of the likely loss if there is a default. The Bank will estimate LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models will consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. Under IFRS 9 when determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Bank and the Group will consider reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information. Estimation of subsidiaries of the Group will be based mainly on days delayed statistics.

Credit risk grades

The Bank will allocate each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The Bank will use these grades in identifying significant increases in credit risk under IFRS 9. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default. These factors may vary depending on the nature of the exposure and the type of borrower.

Each exposure will be allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures will be subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

Generating the term structure of PD

Credit risk grades will be a primary input into the determination of the term structure of PD for exposures. The Group will employ statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures.

This analysis will include the identification and calibration of relationships between changes in default rates and changes in key macroeconomic factors. For most exposures, key macro- economic indicators are likely to include GDP growth and unemployment.

The definition of default used in the measurement of expected credit losses and the assessment to determine movements between stages will be consistent with the definition of default used for internal credit risk management purposes and is aligned with CRR. Hence, exposures which are considered to be in default for regulatory purposes will always be considered stage 3 under IFRS 9.

The Bank and the Group have estimated that, on the adoption of IFRS 9 at 1 January 2018 the impact of the increase in loss allowances (before tax) will be approximately EUR 8 - 10 million.

3 Significant accounting policies, continued

Transition

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

The Group and the Bank plan to take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognised in retained earnings and reserves as at 1 January 2018.
The above assessment is preliminary because not all transition work has been finalized. The actual impact of adopting IFRS 9 on 1 January 2018 may change because:

- IFRS 9 will require the Group to revise its accounting processes and internal controls and these changes are not yet complete;
- the new systems and associated controls in place have not been operational for a more extended period;
- the Group has not finalized the testing and assessment of controls over its new IT systems and changes to its governance framework;
- the Group is refining and finalizing its models for ECL calculations and assessment of SPPI for loans and receivables; and
- the new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the Group finalises its first financial statements that include the date of initial application.

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

The new Standard provides a framework that replaces existing revenue recognition guidance in IFRS. Entities will adopt a five-step model to determine when to recognise revenue, and at what amount. The new model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised 1) over time, in a manner that depicts the entity's performance; or 2) at a point in time, when control of the goods or services is transferred to the customer. IFRS 15 also establishes the principles that an entity shall apply to provide qualitative and quantitative disclosures which provide useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

The management does not expect that the new Standard, when initially applied, to have a material impact on the Group and Bank's financial statements. The timing and measurement of the Group and Bank's revenues are not expected to change significantly under IFRS 15 because of the nature of Group and Bank's operations and the types of revenues it earns.

3 Significant accounting policies, continued

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

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

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

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

The Group and the Bank have started an initial assessment of the potential impact on its consolidated and separate financial statements. So far, the most significant impact identified is that the Group and the Bank will recognise new assets and liabilities for its operating leases of office premises. In addition, the nature of expenses related to those leases will now change because IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for ROU assets and interest expense on lease liabilities. The Group and the Bank have not yet decided whether it will use the optional exemptions. The Group and the Bank are also in the process of assessing the impact on its CET1 ratio, particularly in respect of ROU assets in leases where the Group and the Bank are as lessees.

Transition

The Group and the Bank currently plan to apply IFRS 16 initially on 1 January 2019. As a lessee, the Group and the Bank can either apply the standard using a:

- retrospective approach; or
- modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases. The Group and the Bank have not yet determined which transition approach to apply. As a lessor, the Group is not required to make any adjustments for leases except where it is an intermediate lessor in a sub-lease.
The Group and the Bank have not yet quantified the impact on its reported assets and liabilities of the adoption of IFRS 16. The quantitative effect will depend on, inter alia, the transition method chosen, the extent to which the Group and the Bank use the practical expedients and recognition exemptions, and any additional leases that the Group and the Bank enter into. The Group and the Bank expect to disclose its transition approach and quantitative information before adoption

4 Risk management

The Bank and the Group have exposure to the following risks:

- market risk
- credit risk
- liquidity risks
- risk of Money Laundering and Terrorism Financing, and Violation of Sanctions
- operational risk

This note presents information about the Bank's and the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk.

(a) Risk management policies and procedures

The Bank's and the Group's risk management policies aim to identify, analyse and manage the risks faced by the Bank and the Group, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Council of the Bank has overall responsibility for the oversight of the risk management framework for the Bank and the Group, overseeing the management of key risks and reviewing its risk management policies as well as approving material exposures.

The Board of Directors of the Bank is responsible for establishing its risk management procedures, monitoring and implementation of risk mitigation measures and making sure that the Bank and the Group operate within the established risk parameters.

Chief risk officer of the Bank is responsible for the overall risk management, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the Council of the Bank.

Credit, market and liquidity risks both at portfolio and transactional levels are managed and controlled through a system of Credit Committees and an Asset and Liability Committee.

Both external and internal risk factors are identified and managed throughout the Bank's and the Group's organisational structure. Apart from the standard credit and market risk analysis, the Risk Management Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

(b) Market risk

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

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising the return on risk.

Overall authority for market risk is vested in the Asset and Liability Committee (ALCO), chaired by the Chairman of the Board of Directors. Market risk limits are approved by ALCO based on recommendations of the Risk Management Department's Financial Risk Management Group.

The Bank and the Group manage their market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions and stop-loss limits, which are monitored on a regular basis by the Risk Management Department.

4 Risk management, continued

In addition, the Bank and the Group use a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Bank and the Group's overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by the Bank and the Group include: risk factor stress testing, where stress movements are applied to each risk category and ad hoc stress testing, which includes applying possible stress events to specific positions.

The management of interest rate risk by monitoring interest rate gap is supplemented by monitoring the sensitivity of the Bank's and the Group's net interest margin to various standard and non-standard interest rate scenarios.

(i) Interest rate risk

Interest rate risk is the risk that movements in interest rates will affect the Bank's and the Group's income or the value of its portfolios of financial instruments.

The Bank and the Group are exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements arise. For further analysis of interest repricing refer to Note 42 Interest rate risk analysis.

An analysis of sensitivity of the net income for the year to changes of market interest rate impacting the interest income on variable interest rate financial instrument and the fair value of fixed interest rate financial instruments measured at fair value based on a scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves, all other variables remaining constant, is as follows:

Group	**2017**		**2016**	
'000 EUR	**Profit for the period**	**Other comprehensive income**	**Profit for the period**	**Other comprehensive income**
100bp parallel increase	4,323	(3,698)	5,541	(4,236)
100bp parallel decrease	(4,323)	3,698	(5,541)	4,236

Bank	**2017**		**2016**	
'000 EUR	**Profit for the period**	**Other comprehensive income**	**Profit for the period**	**Other comprehensive income**
100bp parallel increase	5,150	(3,698)	6,382	(4,236)
100bp parallel decrease	(5,150)	3,698	(6,382)	4,236

4 Risk management, continued

(ii) Currency risk

The Bank and the Group have assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. For further information on the Bank's and the Group's exposure to currency risk at year-end refer to Note 41 Currency analysis.

An analysis of sensitivity of the Bank's and the Group's net income and other comprehensive income for the year to changes in the foreign currency exchange rates based on positions existing as at 31 December 2017 and 2016 and a scenario of a 5% change in USD to EUR exchange rates, while the other variable remain constant, is as follows:

Group	**2017**		**2016**	
'000 EUR	**Profit for the period**	**Other comprehensive income**	**Profit for the period**	**Other comprehensive income**
5% appreciation of USD against EUR	229	301	(501)	254
5% depreciation of USD against EUR	(229)	(301)	501	(254)

Bank	**2017**		**2016**	
'000 EUR	**Profit for the period**	**Other comprehensive income**	**Profit for the period**	**Other comprehensive income**
5% appreciation of USD against EUR	319	972	(89)	999
5% depreciation of USD against EUR	(319)	(972)	89	(999)

4 Risk management, continued

(iii) Price risk

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

An analysis of sensitivity of the Bank's and the Group's net income for the year and equity to changes in securities prices based on positions existing as at 31 December 2017 and 2016. Changes in other comprehensive income relate to changes in available for sale securities prices. Scenario of a 5% change in all securities prices, while the other variables remain constant, is as follows:

Group	**2017**		**2016**	
'000 EUR	**Profit for the period**	**Other comprehensive income**	**Profit for the period**	**Other comprehensive income**
5% increase in securities prices	747	16,488	759	23,379
5% decrease in securities prices	(747)	(16,448)	(759)	(23,379)

Bank	**2017**		**2016**	
'000 EUR	**Profit for the period**	**Other comprehensive income**	**Profit for the period**	**Other comprehensive income**
5% increase in securities prices	8	17,143	10	25,549
5% decrease in securities prices	(8)	(17,143)	(10)	(25,549)

(c) Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Bank and the Group. The Bank and the Group have developed policies and procedures for the management of credit exposures, including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors the Group's credit risk. The Group's credit policy is reviewed and approved by the Council of the Bank.

The Bank's and the Group's credit policies establish:

- Procedures for review and approval of loan/credit applications;
- Methodology for the credit assessment of borrowers (corporate, SME and retail);
- Methodology for the credit assessment of counterparties, issuers and insurance companies;
- Methodology for the evaluation of collateral;
- Credit documentation requirements;
- Procedures for the ongoing monitoring of loans and other credit exposures.

Corporate loan/credit applications are originated by the relevant client managers and are then passed on to the Lending Department, which is responsible for the Group's corporate loan portfolio. Reports produced by the department's credit analysts are based on a structured analysis focusing on the customer's business and financial performance. The Risk Management Department's Loan Analysis Division then independently reviews the loan/credit application and the report and a second opinion is given accompanied by a check that credit policy requirements have been met. The Credit Committee reviews the loan application on the basis of submissions by the Lending Department and the Risk Management Department.

4 Risk management, continued

(c) Credit risk, continued

The Bank and the Group continuously monitor the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank or the Group. Either independent appraisal companies or the Bank's and the Group's specialists regularly assess the current market value of collateral, and in the event of negative movements in market prices the borrower is usually requested to put up additional security.

Apart from individual customer analysis, the credit portfolio as a whole is assessed by the Risk Management Department with regard to credit concentration and market risks. The Bank and the Group monitors concentrations of credit risk by industry/sector and by geographic location. For the analysis of concentration of credit risk in respect of Loans and receivables from customers refer to Note 19 "Loans and receivables due from customers".

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

Maximum credit risk exposure

		Gross maximum credit exposure			
	Notes	**Group**	**Bank**	**Group**	**Bank**
31 December		**2017**	**2017**	**2016**	**2016**
EUR'000					
Cash and balances with the Bank of Latvia	16	875,883	875,856	836,961	836,920
Loans and receivables due from banks	18	462,796	462,086	522,424	521,721
Loans and receivables due from customers, gross	19	909,041	1,007,297	1,139,251	1,224,412
Reverse repo	37	40,825	40,825	93,435	93,435
Financial instruments at fair value through profit or loss	17	14,988	157	16,081	682
Available-for-sale financial assets	20	329,766	342,861	461,994	461,994
Held-to-maturity investments	21	277,514	276,673	319,574	315,848
Total financial assets		**2,910,813**	**3,005,755**	**3,389,720**	**3,455,012**
Guarantees and letters of credit	35	7,280	7,280	7,521	7,521
Credit card commitments	35	4,752	4,753	6,210	6,216
Undrawn overdraft facilities	35	12,397	12,492	14,035	14,035
Loan and credit line commitments	35	1,510	9,512	4,063	8,407
Total guarantees and commitments		**25,939**	**34,037**	**31,829**	**36,179**
Total maximum credit risk exposure		**2,936,752**	**3,039,792**	**3,421,549**	**3,491,191**

4 Risk management, continued

(d) Liquidity risk

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

The Bank and the Group maintain liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due. The Bank's and the Group's liquidity policies are reviewed and approved by the Council of the Bank.

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

The liquidity management policies of the Bank and the Group require:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources;
- managing the concentration and profile of debts;
- maintaining debt financing plans;
- maintaining a portfolio of highly marketable assets that can easily be traded as protection against any interruption to cash flow;
- maintaining liquidity and funding contingency plans;
- monitoring balance sheet liquidity ratios against regulatory requirements.

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

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

The process of the Bank's liquidity management includes assessment and analysis of banking financing sources. A significant source of funding is customer demand deposits, most of which are current accounts. These funds are considered to be open-ended, i.e. they have no contractual maturity and are available to customers without any restrictions on withdrawals. Experience of the Bank and conducted statistical analysis, applied on historical data of changes on current account and card account balances, make it possible to estimate the effective maturity of such funds remaining in the accounts of the Bank. Current accounts and the conceptually similar deposit types due to "on demand" are classified in line with the Bank's experience regarding the life cycle of these deposits with the Bank, although customers may receive deposits from the Bank at any time and without any penalties applied. The following table provides a breakdown of demand deposits based on the time of their presence in the account, which does not exceed 5 years.

4 Risk management, continued

Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. Both the interest and principal cash flows should be included in the analysis as this best represents the liquidity risk being faced by the Group and the Bank.

The Group

Analysis of financial liabilities' undiscounted cash flows based on effective maturity as at 31 December 2017:

EUR'000	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities							
Due to Bank of Latvia	-	-	-	120,000	-	**120,000**	**120,000**
Deposits and balances due to banks	26,618	-	-	569	-	**27,187**	**27,187**
Current accounts and deposits due to customers	626,937	130,346	245,750	1,338,156	22,495	**2,363,684**	**2,340,512**
Other financial liabilities	1,514	-	-	-	-	**1,514**	**1,514**
Derivative liabilities							
- Inflow	(125)	(1,605)	(549)	-	-	**(2,279)**	**-**
- Outflow	126	1,624	559	-	-	**2,309**	**30**
Total	**655,070**	**130,365**	**245,760**	**1,458,725**	**22,495**	**2,512,415**	**2,489,243**
Guarantees (maximum exposure)	**473**	**2,332**	**2,651**	**354**	**-**	**5,810**	**7,280**
Credit related commitments	**18,659**	**-**	**-**	**-**	**-**	**18,659**	**18,659**

Analysis of financial liabilities' undiscounted cash flows based on effective maturity as at 31 December 2016:

EUR'000	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities							
Due to Bank of Latvia	-	-	-	120,000	-	**120,000**	**120,000**
Deposits and balances due to banks	33,250	295	-	551	-	**34,096**	**34,096**
Current accounts and deposits due to customers	449,765	158,523	361,007	1,781,471	23,872	**2,774,638**	**2,742,726**
Issued debt securities	-	-	-	62,914	-	**62,914**	**57,809**
Other financial liabilities	937	-	-	-	-	**937**	**937**
Derivative liabilities							
- Inflow	(3,148)	(2,483)	(750)	-	-	**(6,381)**	**-**
- Outflow	3,320	2,500	1,003	-	-	**6,823**	**442**
Total	**484,124**	**158,835**	**361,260**	**1,964,936**	**23,872**	**2,993,027**	**2,956,010**
Guarantees (maximum exposure)	**533**	**2,951**	**1,676**	**348**	**-**	**5,508**	**7,521**
Credit related commitments	**24,308**	**-**	**-**	**-**	**-**	**24,308**	**24,308**

4 Risk management, continued

The Bank

Analysis of financial liabilities' undiscounted cash flows based on effective maturity as at 31 December 2017:

EUR'000	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities							
Due to Bank of Latvia	-	-	-	120,000	-	**120,000**	**120,000**
Deposits and balances due to banks	26,459	-	-	569	-	**27,028**	**27,028**
Current accounts and deposits due to customers	648,322	128,137	245,746	1,337,604	22,495	**2,382,304**	**2,359,214**
Issued debt securities							
Other financial liabilities	397	-	-	-	-	**397**	**397**
Derivative liabilities							
- Inflow	(125)	(1,605)	(549)	-	-	**(2,279)**	**-**
- Outflow	126	1,624	559	-	-	**2,309**	**30**
Total	**675,179**	**128,156**	**245,756**	**1,458,173**	**22,495**	**2,529,759**	**2,506,669**
Guarantees (maximum exposure)	**473**	**2,332**	**2,651**	**354**	**-**	**5,810**	**7,280**
Credit related commitments	**26,757**	**-**	**-**	**-**	**-**	**26,757**	**26,757**

Analysis of financial liabilities' undiscounted cash flows based on effective maturity as at 31 December 2016:

EUR'000	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities							
Due to Bank of Latvia	-	-	-	120,000	-	**120,000**	**120,000**
Deposits and balances due to banks	33,111	295	-	551	-	**33,957**	**33,957**
Current accounts and deposits due to customers	476,058	158,523	360,105	1,780,948	23,859	**2,799,493**	**2,767,739**
Issued debt securities	-	-	-	63,090	-	**63,090**	**57,985**
Other financial liabilities	882	-	-	-	-	**882**	**882**
Derivative liabilities							
- Inflow	(3,148)	(2,483)	(750)	-	-	**(6,381)**	**-**
- Outflow	3,320	2,500	1,003	-	-	**6,823**	**442**
Total	**510,223**	**158,835**	**360,358**	**1,964,589**	**23,859**	**3,017,864**	**2,981,005**
Guarantees (maximum exposure)	**533**	**2,951**	**1,676**	**348**	**-**	**5,508**	**7,521**
Credit related commitments	**28,658**	**-**	**-**	**-**	**-**	**28,658**	**28,658**

4 Risk management, continued

The Group

The table below analyses the Bank's and the Group's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date.

Analysis of financial liabilities' contractual undiscounted cash flows as at 31 December 2017:

EUR'000	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities							
Due to Bank of Latvia	-	-	-	120,000	-	**120,000**	**120,000**
Deposits and balances due to banks	26,618	-	-	569	-	**27,187**	**27,187**
Current accounts and deposits due to customers	2,093,144	22,301	74,300	151,444	22,495	**2,363,684**	**2,340,512**
Issued debt securities	-	-	-	-	-	**-**	**-**
Other financial liabilities	1,514	-	-	-	-	**1,514**	**1,514**
Derivative liabilities							
- Inflow	(125)	(1,605)	(549)	-	-	**(2,279)**	**-**
- Outflow	126	1,624	559	-	-	**2,309**	**30**
Total	**2,121,277**	**22,320**	**74,310**	**272,013**	**22,495**	**2,512,415**	**2,489,243**
Guarantees (maximum exposure)	**473**	**2,332**	**2,651**	**354**	**-**	**5,810**	**7,280**
Credit related commitments	**18,659**	**-**	**-**	**-**	**-**	**18,659**	**18,659**

Analysis of financial liabilities' contractual undiscounted cash flows as at 31 December 2016:

EUR'000	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities							
Due to Bank of Latvia	-	-	-	120,000	-	**120,000**	**120,000**
Deposits and balances due to banks	33,250	295	-	551	-	**34,096**	**34,096**
Current accounts and deposits due to customers	2,402,983	29,409	135,535	182,838	23,872	**2,774,637**	**2,742,726**
Issued debt securities	-	-	-	62,914	-	**62,914**	**57,809**
Other financial liabilities	937	-	-	-	-	**937**	**937**
Derivative liabilities							
- Inflow	(3,148)	(2,483)	(750)	-	-	**(6,381)**	**-**
- Outflow	3,320	2,500	1,003	-	-	**6,823**	**442**
Total	**2,437,342**	**29,721**	**135,788**	**366,303**	**23,872**	**2,993,026**	**2,956,010**
Guarantees (maximum exposure)	**533**	**2,951**	**1,676**	**348**	**-**	**5,508**	**7,521**
Credit related commitments	**24,308**	**-**	**-**	**-**	**-**	**24,308**	**24,308**

4 Risk management, continued

The Bank

Analysis of financial liabilities' contractual undiscounted cash flows as at 31 December 2017:

EUR'000	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities							
Due to Bank of Latvia	-	-	-	120,000	-	**120,000**	**120,000**
Deposits and balances due to banks	26,459	-	-	569	-	**27,028**	**27,028**
Current accounts and deposits due to customers	2,114,529	20,092	74,296	150,892	22,495	**2,382,304**	**2,359,214**
Issued debt securities							
Other financial liabilities	397	-	-	-	-	**397**	**397**
Derivative liabilities							
- Inflow	(125)	(1,605)	(549)	-	-	**(2,279)**	**-**
- Outflow	126	1,624	559	-	-	**2,309**	**30**
Total	**2,141,386**	**20,111**	**74,306**	**271,461**	**22,495**	**2,529,759**	**2,506,669**
Guarantees (maximum exposure)	**473**	**2,332**	**2,651**	**354**	**-**	**5,810**	**7,280**
Credit related commitments	**26,757**	**-**	**-**	**-**	**-**	**26,757**	**26,757**

Analysis of financial liabilities' contractual undiscounted cash flows as at 31 December 2016:

EUR'000	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities							
Due to Bank of Latvia	-	-	-	120,000	-	**120,000**	**120,000**
Deposits and balances due to banks	33,111	295	-	551	-	**33,957**	**33,957**
Current accounts and deposits due to customers	2,429,276	29,409	134,633	182,315	23,859	**2,799,492**	**2,767,739**
Issued debt securities	-	-	-	63,090	-	**63,090**	**57,985**
Other financial liabilities	882	-	-	-	-	**882**	**882**
Derivative liabilities							
- Inflow	(3,148)	(2,483)	(750)	-	-	**(6,381)**	**-**
- Outflow	3,320	2,500	1,003	-	-	**6,823**	**442**
Total	**2,463,441**	**29,721**	**134,886**	**365,956**	**23,859**	**3,017,863**	**2,981,005**
Guarantees (maximum exposure)	**533**	**2,951**	**1,676**	**348**	**-**	**5,508**	**7,521**
Credit related commitments	**28,658**	**-**	**-**	**-**	**-**	**28,658**	**28,658**

4 Risk management, continued

(e) Risk of Money Laundering and Terrorism Financing, and Violation of Sanctions

The risk of money laundering and terrorism financing is the impact and likelihood that the credit institution may be used in the laundering of proceeds derived from criminal activity or in terrorism financing in relation to the financial services it provides, its customer base, the geographic operational profile of its customers, and the supply channels of products and services.
The objective of the Bank's operating policy is to provide business activities in conformity with the legislation and international requirements regulating actions and conduct, securing itself against the risk to get involved in possible money laundering and terrorist financing transactions and those that violate restrictions of the applicable national and international sanctions, to minimise the possibility to cooperate with the clients whose activities fail to comply with the legislation and the Bank's policy, to protect the Bank from possible losses, to prevent damage to the Bank's reputation and not to permit the loss of confidence in the Bank.

To achieve these objectives the Bank in its activity fulfils the following tasks:

- observes, fulfils and introduces in its activity requirements of laws of the Republic of Latvia and international legislation, recommendations and guidelines by supervision authorities;
- develops and implements internal regulatory documents – procedures, regulations, orders – according to requirements of the legislation and supervision authorities;
- according to requirements of the legislation cooperates with state institutions and correspondent banks;
- ensures sufficient financial, material and human resources to implement of the Bank's policy;
- organises and trains the staff in the sphere of anti-money laundering and anti-terrorism financing, observance of sanctions regimes, compliance with the legislation and implementation of the Bank's policy;
- implements in its daily activity principles under this policy;
- controls the execution of this policy.

To mitigate ML/TF risk, the bank has formulated an internal ML/TF risk management and prevention system encompassing activities and measures aimed at ensuring compliance
with the requirements of the Anti-Money Laundering and Counter-Terrorism Financing Law, Cabinet Regulations, FCMC Regulations and other applicable regulations.
There is designated AML/CTF Board Member, who controls the execution of the AML policy in the Bank, in the conduct of the control manages the measures to be taken to implement the policy.
To ensure making significant, long-term decisions on the measures to be taken to ensures that the business activity of the Bank complies with the legislation regulating AML/CTF and the observance of the applicable sanctions regimes, as well as prevent damage to be incurred in case of the loss of confidence in the Bank, The Compliance Committee has been set up. The Compliance Committee is a collegial body aimed to ensure that the business activity of the Bank meets the legislation regulating AML/CTF and the observance of the national and international sanctions and protect the Bank from losses, which may occur due to malicious illegal activities and compromising the good reputation of the Bank.

To ensure making effective decisions on the measures to be taken to secure the Bank against the risk to get involved in possible ML/TF transactions and breaches of the applicable national and international sanctions regimes, the Bank has set up the Client Policy Compliance Committee. This Client Policy Compliance Committee is a collegial body established in the Bank aimed to insure the assessment of transactions of the Bank's clients and that the cooperation between the Bank and the client meets the legislation regulating AML/CTF and the observance of the national and international sanctions.

The Bank has formed a structural unit for AML/CTF and the applicable national and international sanctions monitoring – the Internal Control Department. The main purpose of this structural unit is daily

4 Risk management, continued

work with AML/CTF, preventing the breach of the applicable national and international sanctions regimes, the clients' identification and due diligence, monitoring of the clients' transactions, detecting of unusual and suspicious transactions and reporting relevant data to the Control Service and the State Revenue Service.

The Head of the Internal Control Department is the designated AML/CTF officer appointed in the Bank according to requirements of the Law on the Prevention of Money Laundering and Terrorism Financing of the Republic of Latvia. The Head of the Internal Control Department ensures the execution of requirements of the policy in the Bank by making day-to-day decisions on the measures implementing this policy and is in charge for the information exchange with supervision authorities.

The following international and national sanctions are binding on the Bank – those of the United Nations (UN), the European Union (EU), the Republic of Latvia and the Office of Foreign Assets Control (OFAC) of the US Department of the Treasury.
Rietumu Bank Sanctions Policy sets out the key principles and requirements that govern the Bank's approach to sanctions of the UN, the EU, the Republic of Latvia and the OFAC.
The Bank prohibits business activity, including prohibitions on commencing or continuing relationship with a client or providing products or services or facilitating transactions that the Bank believes may violate the applicable sanctions legislation or the Sanctions Policy.
There is an allocated Sanctions Officer, who improves, develops and oversees the internal regulations according to legislative requirements of the EU and the Republic of Latvia and ensures the best practice and efficiency in sanctions monitoring by ensuring integrity and compliance with the internal requirements.

The Bank's main AML/sanctions policy principles are as follows:
The Bank according to its activity type by assessing and understanding ML/TF risk and the risk of breaching applicable national and international sanction restrictions associated with its activity and clients develops AML/CTF internal control system, which includes drafting respective policies and procedures.
The Bank allocates and contributes sufficient financial, material and intellectual resources to ensure due activity, to monitor its clients' activity and to implement the Banks' policy.
The Bank ensures that the employees in charge of identification, registration, servicing, monitoring and due diligence of the Bank's clients know and acknowledge risks associated with ML/TF and breach of sanctions regimes, AML/CTF legislation and organises regular personnel training to improve their skills to meet requirements of the internal control system, raise their qualification and quality of work.
The Bank at least once in 18 calendar months ensures that an independent examination of the ML/TF and sanction breach risk management internal control system, including the used information technology solutions used, is carried out and where required takes measures to improve the efficiency of the internal control system.
The Bank, in compliance with the requirements of the legislation and legal empowerment of the participant of civil law relations of the private law, ensures the activity of the internal control system that allows to know its clients' business activities according to the specific character of the clients' business, and monitors and conduct due diligence of transactions by documenting such activities to secure itself against the risk to get involved in possible ML/TF transactions and breaches of the national and international sanction restrictions.

The Bank cooperates or starts to cooperate with such a foreign bank, which has AML/CFT legislation in effect in its country, and this foreign bank observes this legislation. The Bank does not cooperate with foreign shell banks, banks located in jurisdictions with low "Know Your Client" standards or recognised as banks not cooperating in combating ML/TF.

The Bank, when forming mutually beneficial long-term business relations with the client, performs its activity in the way, which ensures that it is safe against the risk of being involved in possible ML/TF transactions and breaches of the national and international sanctions regimes.

4 Risk management, continued

AML/CTF activities are implemented by all the employees of the Bank's structural units involved in the client engagement, identification, service and due diligence.

During 2015 and 2016 FCMC performed a review of the Bank's compliance with the Law on money laundering and terrorism financing prevention.

In 2015 FCMC imposed a fine of EUR 35 thousand for incompliance detected during the review of operations of internal control system. FCMC pointed to insufficient customers research and transactions tracking. In 2017 an administrative case was initiated by FCMC and on 17 July 2017 the Bank and FCMC signed an administrative agreement according to which a settlement was reached, and the case was closed. As a part of administrative agreement, the Bank was fined and Board members responsible for AML were warned. The fine was imposed for lack of compliance with several points of AML law and several points of Commission Regulation No 234. The amount of imposed fine was determined taking into account severity of the violation of applicable legislation and the Credit Institution Law gives FCMC the right to impose a fine of up to 10% of total net revenue of the Bank for the previous financial year. Taking into account extent and nature of the violations identified and the fact that the Bank was in process of improving internal controls, the maximum amount of fine was reduced by 89% and amounted to EUR 1,567 thousand. According to the stipulated conditions of the administrative agreement, the Bank should invest in its' internal control system and make enhancements by the end of 2018. Based on identified gaps and deficiencies, necessary Action plans aimed on improvements of AML controls were worked out and approved by the Regulator. The main initiatives are:

1. Bank's clients base revision in order to lower significantly high-risk client's number (those ones, which are too risky within the ML/TF perspective) by the end of 08.2018;
2. "all-inclusive" Internal control system's independent audit;
3. various procedural changes and processes enhancements;
4. AML IT developments and new work-outs.

The Bank is constantly improving its internal control system to comply with requirements of the law and will continue work on the responsibilities under the administrative agreement under supervision of the FCMC.

In order to improve Bank's compliance with AML several external reviews and audits were performed by independent parties.

In 2016 the Bank engaged Navigant Consulting Inc. to provide certain AML and Counter-Terrorist Financing advisory services. Specifically, the Bank engaged Navigant Consulting Inc. to review and assess the Bank's AML and Sanctions compliance program to identify gaps, if any that exist between such program and US AML laws and regulations. Within the performed audit Bank's AML & Sanctions program was evaluated to be at a Low to Moderate level of compliance. Respectively, the Bank's AML & Sanctions Systems comply with some, but not all of the US (BSA/AML/OFAC) requirements and expectations. The Bank was given particular recommendations (required elements and optional suggestions) in order to design, implement and adhere to the US requirements and guidance.

Recommendations for improvements were taken into account and the Action Plan was developed and submitted to the FCMC in 01.2017. Approx. 30% of Navigant findings were accomplished even before the Action Plan was worked out. By now, the Bank has managed to implement successfully approx. 85-90% of the received recommendations, and the work with the rest ones is in progress. The Action plan is expected to be fully implemented by the end of the 2018.

In November 2017 the Bank engaged an external auditor to assist the Bank in assessing AML Compliance program with the requirements of applicable local and international AML/CFT regulations and practices, review the Bank's compliance with international and national sanction programs, review of the Bank's IT systems' compliance. The audit is carried out, and the Bank expects to receive an audit report till the end of April 2018.

Also Internal Audit of the Bank is performing internal audits of AML risks management system in the Bank and the Group on regular basis.

4 Risk management, continued

In November 2017 the Bank engaged an external firm to assist the Bank in assessing AML Compliance program with the requirements of applicable local and international AML/CFT regulations and practices, review the Bank's compliance with international and national sanction programs, review of the Bank's IT systems' compliance. As at the date of these financial statements, the assessment is ongoing.

(f) Operational risk

Operational risk refers to the risk of losses resulting from inadequate or failed internal processes or procedures, human error, system failure or external events. The definition includes legal risk and information risk.

In order to prevent increase of operational risk, the Bank and Group provides monitoring of operational risks, i. e. – daily monitoring on how the Bank's and Group's employees follow the internal regulations, permanent monitoring of the employees' performance quality, as well as regular monitoring of business processes and technological liaison.

To ensure conditions for effective disclosure of significant operational risk, as well as general evaluation of operational risk, the Risk Management Department maintains an analytical Bank's and Group's operational risk management database "RB Operational risk", which provides complete information regarding operational risk events, their types and scope in terms of activities directions, particular bank operations and other deals, conditions of their emergence and disclosure; and regarding losses, which have occurred.The Board of Directors of the Bank in cooperation with the Risk Management Department informs the Council of the Bank on the key directions of concentration of operational risk, causes for its emergence and measures taken to decrease any possible operational losses.

(g) Capital Management

The Bank's and the Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders returns is also recognised and the Bank and the Group recognise the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantage and security afforded by a solid capitalization. The Financial and Capital Market Commission sets and monitors capital requirements for the Bank and for the Group.

The Bank and the Group define as capital those items defined by statutory regulation as capital. Under the current capital requirements set by Financial and Capital Market Commission, banks must maintain a ratio of capital to risk weighted assets ("capital ratio") above the prescribed minimum level. As at 31 December 2017, the individual minimum level for the Bank is 12.1% (2016: 11.6%). The Bank was in compliance with the statutory capital ratio during the years ended 31 December 2017 and 31 December 2016. As at 31 December 2017 required for the Bank TSCR (total capital requirement) ratio is 12.1%, OCR (overall capital requirement) ratio is 16.11% (2016: TSCR ratio 11.6%, OCR ratio 15.04%).

4 Risk management, continued

The following table shows the composition of the Bank's and the Group's capital position calculated in accordance with the requirements of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (CRR):

	2017 '000 EUR Group	2017 '000 EUR Bank	2016 '000 EUR Group	2016 '000 EUR Bank
Tier 1 capital				
Share capital	142,287	142,287	142,287	142,287
Share premium	6,843	6,843	6,843	6,843
Other reserves	88	23	116	23
Accumulated other comprehensive income	2,406	3,976	309	4,734
Other transitional adjustment to CET1 Capital	(958)	(1,356)	(1,247)	(3,030)
Non-controlling interest	-	-	-	-
Value adjustments due to the requirements for prudent valuation	(345)	(343)	(485)	(513)
Retained earnings from prior years	207,931	201,122	172,789	165,030
Current year profit	32,141	33,034	79,303	80,300
Intangible assets	(2,633)	(2,632)	(2,823)	(2,822)
Additional deductions of CET1 Capital due to Article 3 (CRR)	(27,081)	(24,687)	(13,616)	(11,261)
Dividends declared or proposed	(12,729)	(12,729)	(29,006)	(29,006)
Total tier 1 capital	**347,950**	**345,538**	**354,470**	**352,585**
Tier 2 capital				
Paid up capital instruments (preference shares)	26,629	26,629	26,629	26,629
Share premium (preference shares)	45,700	45,700	45,700	45,700
Long term deposits qualifying as regulatory capital	47,501	47,501	70,951	70,951
Additional deductions of T2 Capital due to Article 3 CRR	(27,081)	(24,687)	(13,616)	(11,260)
Total tier 2 capital	**92,749**	**95,143**	**129,664**	**132,020**
Total capital	**440,699**	**440,681**	**484,134**	**484,605**
Total risk exposure amount	**1,829,855**	**1,808,764**	**2,165,381**	**2,143,538**
Total capital ratio	**24.08%**	**24,36%**	**22.36%**	**22.61%**

Calculations are performed based on prudential consolidation group according to the Basel Accord of (EU) Regulation No 575/2013 p.19.

The regulatory requirement represents total risk exposure adjusted for capital requirement related to operating risks. The total risk exposure is measured by means of a hierarchy of risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for unrecognised credit commitments, with some adjustments to reflect the more contingent nature of the potential losses.

5 Use of estimates and judgements

The preparation of financial statements in conformity with IFRS as adopted by the EU requires management to make judgments, estimates and assumption that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

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

Key sources of estimation uncertainty and judgement:

(i) Allowances for credit losses on loans and receivables

The specific counterparty component of the total allowances for impairment applies to loans and receivables evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about each counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Valuation Committee. The cash flows may be realised from repayment of the loan, from sale of collateral, from operating the collateral etc., depending on the specific situation and terms of the loan agreement. The estimated net realisable value of collateral is based on a combination of internal fair value assessment conducted by internal valuation specialists and independent external valuation reports and is reviewed on a regular basis. The estimated future cash flows are discounted using the financial asset's original effective interest rate.

Collectively assessed impairment allowance covers credit losses inherent in a portfolio of loans with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired loans, but individual impaired items cannot yet be identified. In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentration and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowance depends on the estimates of future cash flows for specific counterparty allowance and the model assumptions and parameters used in determining collective allowance.

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in the accounting policies. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

(ii) Determining fair value of financial instruments

All financial instruments that are carried at fair value were valued based on their market value. Fair value of financial instruments carried at amortised cost is stated at present value of future estimated cash flows discounted by a market interest rate. For short term financial assets and liabilities the fair value approximate amortised cost.

5 Use of estimates and judgments, continued

(iii) Impairment of held-to-maturity investments

The determination of impairment indication is based on comparison of the financial instrument's carrying amount and fair value. In the event of a significant decline and subsequent significant fluctuations in financial and capital markets or the existence of an illiquid capital market, the market price may not always represent fair value, i.e. is not the best indication of impairment of a financial asset. The Bank and the Group use valuation models based on quoted market prices of similar products.

For the purposes of impairment loss measurement, the Bank's and the Group's management make estimates of any expected changes in future cash flows from a specific financial instrument based on analysis of financial position of the issuer of the financial instrument.

(iv) Determining fair value of investment property and owner occupied property

Investment property is stated at its fair value with all changes in fair value recorded in profit or loss. Property used in own business operation (Vesetas street 7, Riga) is revaluated to fair value on regular periodic basis with changes in revaluation recognised through other comprehensive income in a revaluation reserve and subsequent amortisation is recognised in the profit and loss statements. When measuring the fair value of the property, management relies on external valuations based either on income valuation method or comparative valuation method and assesses the reliability of such valuation in light of the current market situation. Income method is based on discounted estimated future cash flows from the property. Comparative method is based on recent market transactions with comparable property.

(v) Impairment of assets shown under other assets

Assets are valued at lower of cost and net realisable value. When assessing net realisable value of assets, management prepares several valuation models (e.g. replacement cost, discounted future cash flows) and compares them to observable market data (e.g. similar transactions taking place on the market, offer made by potential buyers).

(vi) Impairment of investments in subsidiaries

Investments in subsidiaries are valued at cost less accumulated impairment losses in the Bank's separate financial statements. On a regular basis, the Bank compares the cost of investment with the carrying amount of net assets of a subsidiary to see whether any impairment indication exists. In addition, the management assessed future cash flows to be generated by the subsidiaries and as a result of this assessments concluded that there is no objective evidence of impairment of the investment. If impairment indication exists, the recoverable amount of the investment is calculated based on discounted estimated future cash flows of the subsidiary. Future cash flows are based on budgets and projections prepared by the subsidiary and assessed for reasonableness.

(vii) Useful lives of equipment

Estimated useful lives of equipment are based on practical experience over using similar equipment in the past. Each year damaged items and technically out-of-date items are identified and their useful life or carrying amount is adjusted individually.

5 Use of estimates and judgments, continued

(viii) Consolidation of investment funds

The Group is holding units of investment funds for which it acts as asset management company, i.e. has power over investment decisions within the investment strategy published in the fund prospectus. At each reporting date the Group evaluates the linkage between power and exposure to variable returns and decides whether the respective fund shall be consolidated or not. See Note 43.

(ix) Acquisition of new subsidiaries

Upon each acquisition of a subsidiary, the Group evaluates whether it obtained control over business as defined by IFRS adopted by EU, in which case acquisition accounting is applied. If control is gained only over individual assets and liabilities, the consideration paid is allocated to the acquired assets and liabilities.

(x) Estimating provisions

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. Management of the Bank and the Group estimates the amount that the Bank and the Group would rationally pay to settle the obligation. Estimates of outcome and financial effect are determined by the judgement of the management, supplemented by experience of similar transactions and, if necessary, reports from independent experts.

6 Net interest income

	2017 '000 EUR Group	2017 '000 EUR Bank	2016 '000 EUR Group	2016 '000 EUR Bank
Interest income				
Loans and receivables due from customers	66,919	56,217	78,840	69,305
Loans and receivables due from financial institutions	5,450	5,447	3,533	3,520
Available for sale assets	6,490	6,490	8,867	8,867
Held-to-maturity investments	9,281	9,235	8,453	8,412
Amounts receivable under reverse repurchase agreements	911	911	750	750
Financial instruments at fair value through profit or loss	-	-	8	-
	89,051	**78,300**	**100,451**	**90,854**
Interest expense				
Current accounts and deposits due to customers	10,702	10,564	12,623	12,609
Deposits and balances due to financial institutions	3,812	3,297	2,725	2,638
Other interest expense	6,251	5,260	6,748	6,158
	20,765	**19,121**	**22,096**	**21,405**

Included within interest income from loans and receivables due from customers for the year ended 31 December 2017 is interest income of EUR 3,408 thousand (2016: EUR 7,274 thousand) relating to impaired loans issued by the Bank and EUR 3,246 thousand (2016: EUR 7,325 thousand) accordingly by the Group.

Effective interest rate on account balances in certain currencies is negative. As the interest resulting from a negative effective interest rate on financial assets reflects an outflow of economic benefits, it is presented as interest expense.

7 Fee and commission income

	2017 '000 EUR Group	2017 '000 EUR Bank	2016 '000 EUR Group	2016 '000 EUR Bank
E-commerce	26,875	26,875	20,752	20,752
Money transfers	14,826	14,826	18,814	18,814
Commission income from payment cards	8,063	8,063	10,206	10,206
Commission from account servicing	10,859	10,870	7,980	7,980
Revenue from customer asset management and brokerage commissions	6,774	5,554	5,388	4,883
Commission from documentary operations	694	694	730	730
Cash withdrawals	158	158	215	215
Remote system fee	119	119	142	142
Other	4,424	4,603	4,754	4,924
	72,792	**71,762**	**68,981**	**68,646**

Increase in fee and commission income from e-commerce due to increase in number of Bank's e-commerce services users and in number of transactions performed by the clients.

8 Fee and commission expense

	2017 '000 EUR Group	2017 '000 EUR Bank	2016 000 EUR Group	2016 '000 EUR Bank
E-commerce	24,679	24,679	12,382	12,382
Payment card expenses	7,659	7,659	9,573	9,573
Agent commissions	1,635	1,301	2,107	1,839
On correspondent accounts	2,529	2,529	2,332	2,332
Brokerage fees	1,203	1,071	1,111	1,043
Other	458	584	381	648
	38,163	**37,823**	**27,886**	**27,817**

9 Net gain/(loss) on financial instruments at fair value through profit or loss

	2017 '000 EUR Group	2017 '000 EUR Bank	2016 '000 EUR Group	2016 '000 EUR Bank
Equity instruments	(44)	(44)	24	24
Debt instruments	891	-	1,834	-
Other	27	27	9	(16)
	874	**(17)**	**1,867**	**8**

10 Net foreign exchange gain

	2017 '000 EUR Group	2017 '000 EUR Bank	2016 '000 EUR Group	2016 '000 EUR Bank
Gain/(loss) from revaluation of financial assets and liabilities	(189)	155	217	144
Gain on spot transactions and derivatives	23,191	23,192	22,519	22,518
	23,002	**23,347**	**22,736**	**22,662**

11 Net realised gain on available-for-sale assets

	2017 '000 EUR Group	2017 '000 EUR Bank	2016 '000 EUR Group	2016 '000 EUR Bank
Equity instruments	(59)	(27)	30,961	30,959
Debt instruments	509	509	1,426	1,426
Other	(1)	-	-	-
	449	**482**	**32,387**	**32,385**

During 2016, Visa Inc. completed the purchase of Visa Europe from all European participating banks. As a result of the transaction the Bank realized a profit of EUR 24,76 million from the cash settlement and EUR 2 million from deferred payment in 2016.

12 Other income/(expense)

	2017 '000 EUR Group	2017 '000 EUR Bank	2016 '000 EUR Group	2016 '000 EUR Bank
Rental income from operating leases	4,850	824	4,079	653
Fair value change of Investment property	(803)	507	(6,124)	217
Penalties received	853	627	725	553
(Written off)/Recovery of assets written off	310	252	(144)	4
Gain/(Loss) from sale of property and equipment	328	-	35	-
Gain /(Loss) from sale of Investment property	13	-	(42)	(8)
Dividends received	535	2,978	402	2,263
Gain/(Loss) from sale of subsidiaries (note 45)	(1,343)	(760)	6	-
Negative goodwill write-off	-	-	98	-
Income from steel processing	2,755	-	2,711	-
Income from production of electricity and heating	1,473	-	1,694	-
Other	395	1,086	1,115	1,197
	9,366	**5,514**	**4,555**	**4,879**

Income from steel production, electricity and heating is generated by subsidiaries of the Group whose principal activity is manufacturing.

13 Impairment losses

	2017 '000 EUR Group	2017 '000 EUR Bank	2016 '000 EUR Group	2016 '000 EUR Bank
Impairment losses				
Loans and receivables due from customers	(18,985)	(18,637)	(44,198)	(44,260)
Intangible assets	(436)	-	(699)	-
Property and equipment	(216)	-	-	-
Available-for-sale financial assets	-	-	-	(3,603)
Investments in subsidiaries	-	(3,122)	-	(1,640)
Other non-financial assets	(952)	(588)	(62)	(63)
	(20,589)	**(22,347)**	**(44,959)**	**(49,566)**
Reversals of impairment losses				
Loans and receivables due from customers	8,107	7,905	12,017	11,431
Available-for-sale financial assets	-	1,033	-	-
Other non-financial assets	67	10	214	216
	8,174	**8,948**	**12,231**	**11,647**
Net impairment losses	**(12,415)**	**(13,399)**	**(32,728)**	**(37,919)**

14 General and administrative expenses

	2017 '000 EUR Group	2017 '000 EUR Bank	2016 '000 EUR Group	2016 '000 EUR Bank
Employee compensation	22,343	17,038	21,515	16,861
Salaries to Board of Directors and Council	4,621	4,006	2,346	1,817
Payroll related taxes on employee remuneration	6,290	4,930	5,407	4,364
Depreciation and amortisation	3,778	2,008	3,947	1,850
Repairs and maintenance	3,379	880	3,981	869
Taxes other than on corporate income and payroll	3,129	1,915	2,966	1,827
Provisions for possible obligations (note 36)	20,000	20,000	-	-
IT related costs	1,798	1,791	1,874	1,874
Rent	1,992	3,502	1,665	3,526
Representative offices	1,413	1,166	1,937	1,374
Advertising and marketing	1,358	764	1,791	1,115
Communications and information services	1,331	1,142	1,368	1,218
Travel expenses	1,694	1,276	1,524	1,248
Professional services	361	301	1,675	1,604
Provision for bonus and payroll related taxes	2,007	2,060	1,966	1,966
Representation	883	681	776	254
Charity and sponsorship	1,543	986	1,234	1,761
Credit card service	242	242	369	369
Insurance	296	230	315	254
Employee health insurance	306	282	297	272
Audit services	382	142	209	143
Subscription of information	178	178	164	159
Office supplies (Stationery)	116	58	81	67
Security	137	122	93	122
Other	6,486	4,882	2,398	1,263
Reversal of provisions for the management bonus	(2,545)	(2,545)	(393)	(393)
	83,518	**68,037**	**59,505**	**45,784**

The amount of reversed provision for bonuses represents the part of potential bonuses which, in addition to bonuses annually paid out by the Bank and the Group, might be paid discretionary by the Bank, subject to certain conditions.

Audit and other fees paid to the independent auditor company, which has audited these consolidated and separate financial statements, are presented within administrative expenses. Other audits and consultations included audit related services to fulfil regulatory requirements on custodian responsibilities and deposit guarantee fund contribution reporting, translation of annual report for the year 2017, other advisory services related to Forensic services and AML IT compliance services.

15 Income tax expense

(a) Income tax expense recognised in the profit and loss

	2017 ’000 EUR Group	2017 ’000 EUR Bank	2016 ’000 EUR Group	2016 ’000 EUR Bank
Current tax expense				
Current tax expense	8,938	7,929	6,901	5,810
Deferred tax	(1,754)	45	(490)	399
Total income tax expense in the profit and loss	**7,184**	**7,974**	**6,411**	**6,209**

The tax rate applicable in countries in which group entities operate:	**2017**	**2016**
Latvia	15.00%	15.00%
Belarus	18.00%	18.00%
Cyprus	12.50%	12.50%
Russia	20.00%	20.00%

(b) Reconciliation of effective tax rate:

The Group	**2017 ’000 EUR**	**2016 ’000 EUR**
Profit before tax	40,678	88,748
Income tax at the applicable tax rate	6,102	13,312
Non-deductible expenses	5,229	1,049
Tax exempt income	(3,746)	(7,237)
Tax paid abroad	1,493	757
Tax relief on donations	(831)	(1,470)
Write off of deferred tax	(1,249)	-
Over provided in prior years	186	-
	7,184	**6,411**

The Bank	**2017 ’000 EUR**	**2016 ’000 EUR**
Profit before tax	41,008	86,509
Income tax at the applicable tax rate	6,151	12,976
Non-deductible expenses	4,908	1,223
Tax exempt income	(3,746)	(7,277)
Write off of deferred tax	45	-
Tax relief on donations	(831)	(1,470)
Tax paid abroad	1,359	757
Over provided in prior years	88	-
	7,974	**6,209**

16 Cash and balances due from the Bank of Latvia

Cash and balances due from the Central Bank of Latvia comprised of the following items:

	31 Dec 2017 ’000 EUR Group	31 Dec 2017 ’000 EUR Bank	31 Dec 2016 ’000 EUR Group	31 Dec 2016 ’000 EUR Bank
Cash	3,487	3,460	2,850	2,809
Balances due from the Bank of Latvia	872,396	872,396	834,111	834,111
	875,883	**875,856**	**836,961**	**836,920**

Deposits due from the Bank of Latvia represent the balance outstanding on the correspondent account due from the Bank of Latvia in EUR. This includes compulsory reserves.

In accordance with the Bank of Latvia’s regulations, the Bank is required to maintain a compulsory reserve set based on the average monthly balance of its liabilities.

The compulsory reserve is compared to the Bank’s average monthly correspondent account balance in EUR. The Bank’s average correspondent balance should exceed the compulsory reserve requirement. The Bank was in compliance with the aforementioned compulsory reserve requirement during the reporting year.

17 Financial instruments at fair value through profit or loss

	31 December 2017 ’000 EUR Group	31 December 2017 ’000 EUR Bank	31 December 2016 ’000 EUR Group	31 December 2016 ’000 EUR Bank
Bonds				
- with rating from AAA to A	3,746	-	2,081	-
- with rating from BBB+ to BBB-	10,891	-	12,687	-
- non-investment grade	152	-	194	-
- not rated	42	-	437	-
Equity investments	438	157	529	209
Derivative financial instruments	288	288	1,124	1,124
Financial assets at fair value through profit or loss	**15,557**	**445**	**17,052**	**1,333**
Derivative financial instruments	(30)	(30)	(442)	(442)
Financial liabilities at fair value through profit or loss	**(30)**	**(30)**	**(442)**	**(442)**

The Bank and the Group classify derivative financial instruments and trading portfolio under this category.

17 Financial instruments at fair value through profit or loss, continued

Derivative financial assets and liabilities

The Group	31 Dec 2017 ’000 EUR		31 Dec 2016 ’000 EUR	
	Carrying amount	**Notional amount**	**Carrying amount**	**Notional amount**
Assets				
Fair value of options	279	n/a	276	n/a
Currency swap contracts	9	527	848	6,745
Total derivative financial assets	**288**		**1,124**	
Liabilities				
Currency swap contracts	30	2,309	442	6,823
Total derivative liabilities	**30**		**442**	

The Bank	31 Dec 2017 ’000 EUR		31 Dec 2016 ’000 EUR	
	Carrying amount	**Notional amount**	**Carrying amount**	**Notional amount**
Assets				
Fair value of options	279	n/a	276	n/a
Currency swap contracts	9	527	848	6,745
Total derivative financial assets	**288**		**1,124**	
Liabilities				
Currency swap contracts	30	2,309	442	6,823
Total derivative liabilities	**30**		**442**	

18 Loans and receivables due from banks

	31 Dec 2017 ’000 EUR Group	31 Dec 2017 ’000 EUR Bank	31 Dec 2016 ’000 EUR Group	31 Dec 2016 ’000 EUR Bank
Demand accounts				
Latvian commercial banks	1,671	1,360	2,554	2,302
OECD banks	351,058	351,058	460,932	460,923
Other non-OECD banks	109,423	109,024	39,492	39,050
Total Demand accounts	**462,152**	**461,442**	**502,978**	**502,275**
Deposit accounts				
OECD banks	593	593	5,195	5,195
Other non-OECD banks	51	51	14,251	14,251
Total loans and deposits	**644**	**644**	**19,446**	**19,446**
	462,796	**462,086**	**522,424**	**521,721**

Concentration of placements with banks

Decrease in loans and deposits as at 31 December 2017 comparing to 31 December 2016 mainly due to decrease in loans due from banks.

18 Loans and receivables due from banks, continued

As at 31 December 2017 the Bank and the Group had 5 balances (2016: 4), which exceeded 10% of total loans and receivables from banks.

The largest balances due from credit institutions as of 31 December 2017 in the Bank and the Group were as follows:

	31 Dec 2017 '000 EUR	%
DZ BANK AG	83,382	18.04
KBC Bank N.V.	71,937	15.57
Raiffeisenbank SCHWEIZ GENOSSENSCHAFT (Zurich)	58,367	12.63
Sberbank of Russia	53,468	11.57
Erste Group Bank AG	50,029	10.83
Total	**317,183**	**68.64**

The largest balances due from credit institutions as of 31 December 2016 in the Bank and the Group were as follows:

	31 Dec 2016 '000 EUR	%
KBC Bank N.V.	79,998	15.33
NORD/LB (London)	66,407	12.73
UniCredito Italiano SpA	66,407	12.73
Raiffeisenbank SCHWEIZ GENOSSENSCHAFT (Zurich)	66,407	12.73
Total	**279,219**	**53.52**

19 Loans and receivables due from customers

	31 Dec 2017 ’000 EUR Group	31 Dec 2017 ’000 EUR Bank	31 Dec 2016 ’000 EUR Group	31 Dec 2016 ’000 EUR Bank
Companies				
Finance leases	29,526	-	20,567	-
Loans	688,952	868,338	912,413	1,054,381
Individuals				
Finance leases	51,605	-	36,240	-
Loans	138,958	138,959	170,031	170,031
Specific impairment allowance	(75,228)	(90,310)	(92,562)	(107,539)
Collective impairment allowance	(1,473)	-	(1,769)	-
Net Loans and receivables from customers	**832,340**	**916,987**	**1,044,920**	**1,116,873**

19 Loans and receivables due from customers, continued

(a) Finance leases

Loans and receivables from customers include the following finance lease receivables for leases:

	31 Dec 2017 '000 EUR Group	31 Dec 2016 '000 EUR Group
Gross investment in finance leases, receivable		
Less than one year	32,176	23,758
Between one and five years	57,239	38,201
Total gross investment in finance leases	89,415	61,959
Unearned finance income	(8,284)	(5,152)
Net investment in finance lease before allowance	81,131	56,807
Impairment allowance	(1,497)	(1,799)
Net investment in finance lease	**79,634**	**55,008**

	31 Dec 2017 '000 EUR Group	31 Dec 2016 '000 EUR Group
The net investment in finance leases comprises:		
Less than one year	27,013	20,048
Between one and five years	52,621	34,960
Net investment in finance lease	**79,634**	**55,008**

19 Loans and receivables due from customers, continued

(b) Credit quality of loan portfolio

(i) Ageing structure of loan portfolio

The Group			**Of which past due by the following terms**				
As at 31 Dec 2017	**Total EUR'000**	**Of which not past due on the reporting date**	**Less than 30 days**	**31-90 days**	**91-180 days**	**More than 180 days**	**Net carrying amount of overdue loans**
Net carrying amount	**832,340**	649,871	25,067	28,610	21,694	107,098	182,469
Uncollateralised exposure of net carrying amount	**150,700**	135,784	6,418	2,539	305	5,654	14,916
Out of which impaired	**151,782**	34,668	7,781	27,062	1,522	80,749	117,114
As at 31 Dec 2016							
Net carrying amount	**1,044,920**	824,440	44,522	21,240	64,047	90,671	**220,480**
Uncollateralised exposure of net carrying amount	**165,712**	149,671	1,659	948	656	12,778	**16,041**
Out of which impaired	**199,066**	88,606	1,319	1,182	36,151	71,808	**110,460**

The Bank			**Of which past due by the following terms**				
As at 31 Dec 2017	**Total EUR'000**	**Of which not past due on the reporting date**	**Less than 30 days**	**31-90 days**	**91-180 days**	**More than 180 days**	**Net carrying amount of overdue loans**
Net carrying amount	**916,987**	736,337	23,747	28,221	21,583	107,099	**180,650**
Uncollateralised exposure of net carrying amount	**119,560**	106,982	5,160	1,566	199	5,653	**12,578**
Out of which impaired	**164,008**	47,069	7,719	26,953	1,518	80,749	**116,939**
As at 31 Dec 2016							
Net carrying amount	**1,116,873**	896,190	45,093	20,989	63,965	90,636	**220,683**
Uncollateralised exposure of net carrying amount	**144,482**	129,466	932	721	585	12,778	**15,016**
Out of which impaired	**210,982**	98,946	2,966	1,157	36,140	71,773	**112,036**

19 Loans and receivables due from customers, continued

(ii) Analysis of loan portfolio by type of collateral

The following table provides the analysis of the loan portfolio, net of impairment, by main types of collateral as at 31 December 2017:

The Group

EUR'000	31 Dec 2017	% of loan portfolio	31 Dec 2016	% of loan portfolio
Commercial buildings	265,819	31.94	383,461	36.70
Commercial assets pledge	235,498	28.29	317,942	30.43
Traded securities	49,755	5.98	91,311	8.74
Mortgage on residential properties	84,187	10.11	68,438	6.55
Land mortgage	54,935	6.60	58,169	5.57
Without collateral	85,597	10.28	80,568	7.71
Other mortgage	23,454	2.82	601	0.06
Guarantee	31,524	3.79	27,405	2.62
Deposit	885	0.11	16,139	1.54
Non-traded securities	686	0.08	886	0.08
Total	**832,340**	**100.00**	**1,044,920**	**100.00**

The Bank

EUR'000	31 Dec 2017	% of loan portfolio	31 Dec 2016	% of loan portfolio
Commercial buildings	362,512	39.53	424,899	38.04
Commercial assets pledge	272,231	29.69	351,846	31.50
Traded securities	49,755	5.43	91,311	8.18
Mortgage on residential properties	84,764	9.24	68,709	6.15
Land mortgage	59,893	6.53	63,019	5.64
Without collateral	47,460	5.18	51,569	4.62
Guarantee	31,524	3.44	27,405	2.45
Deposit	884	0.10	16,138	1.44
Non-traded securities	686	0.07	886	0.08
Other	7,278	0.79	21,091	1.90
Total	**916,987**	**100.00**	**1,116,873**	**100.00**

The amounts shown in the table's above represent the carrying amount of the loans, and not the fair value of the collateral.

19 Loans and receivables due from customers, continued

(iii) Impaired loans

	31 Dec 2017 '000 EUR Group	31 Dec 2017 '000 EUR Bank	31 Dec 2016 '000 EUR Group	31 Dec 2016 '000 EUR Bank
Impaired loans gross	227,010	254,318	291,628	318,521
Specific impairment allowance	(75,228)	(90,310)	(92,562)	(107,539)
Net loans and receivables from customers	**151,782**	**164,008**	**199,066**	**210,982**

When reviewing loans the Bank and the Group set the following categories for individual loans to assess their credit risk:

The Group

	31 Dec 2017 '000 EUR Gross	Specific impairment allowance	Collective impairment allowance	31 Dec 2016 '000 EUR Gross	Specific impairment allowance	Collective impairment allowance
Standard	716,874	(1,417)	(608)	883,234	(1,189)	(935)
Watch	79,628	(14,089)	(33)	122,274	(22,439)	(29)
Substandard	79,157	(31,441)	(120)	87,457	(30,945)	(97)
Doubtful	12,158	(7,610)	(159)	33,911	(26,214)	(107)
Lost	21,224	(20,671)	(553)	12,375	(11,775)	(601)
Total	**909,041**	**(75,228)**	**(1,473)**	**1,139,251**	**(92,562)**	**(1,769)**

The Bank

	31 Dec 2017 '000 EUR Gross	Specific impairment allowance	31 Dec 2016 '000 EUR Gross	Specific impairment allowance
Standard	791,203	(1,601)	946,458	(1,545)
Watch	82,601	(14,478)	125,061	(22,747)
Substandard	82,743	(32,687)	89,288	(31,999)
Doubtful	31,319	(22,113)	53,069	(40,712)
Lost	19,431	(19,431)	10,536	(10,536)
Total	**1,007,297**	**(90,310)**	**1,224,412**	**(107,539)**

19 Loans and receivables due from customers, continued

(iv) Movements in the impairment allowance

Movements in the loan impairment allowance for the year ended 31 December 2017 and 2016 are as follows:

EUR'000	2017 '000 EUR Group	2017 '000 EUR Bank	2016 '000 EUR Group	2016 '000 EUR Bank
Allowance for impairment				
Balance at 1 January	94,331	107,539	95,758	91,648
Charge for the year:				
Specific impairment allowance	18,640	18,637	43,692	44,260
Collective impairment allowance	345	-	506	-
Transfer from Other assets impairment	-	-	(659)	(659)
Reversal of impairment allowance loss				
Specific impairment allowance	(7,974)	(7,905)	(12,017)	(11,431)
Collective impairment allowance	(133)	-	-	-
Effect of foreign currency translation	(7,313)	(7,281)	1,987	2,020
Write offs	(21,195)	(20,680)	(34,936)	(18,299)
Balance at 31 December	**76,701**	**90,310**	**94,331**	**107,539**

(v) Restructured loans

As at 31 December 2017, the Group held restructured loans of EUR 112,338 thousand (2016: EUR 237,973 thousand) and the Bank held restructured loans of EUR 124,749 thousand (2016: EUR 251,642 thousand). Main forms of restructuring were the reduction of the interest rate, postponing of interest payments or principal payments. Recalculation of net present value was performed for restructured loans. Result did not show significant changes in value, thus restructuring considered as not significant. Accordingly the Bank and the Group consider the loans not to be impaired.

(c) Industry analysis of the loan portfolio

	31 Dec 2017 '000 EUR Group	31 Dec 2017 '000 EUR Bank	31 Dec 2016 '000 EUR Group	31 Dec 2016 '000 EUR Bank
Financial services	184,033	257,772	238,098	289,096
Real estate management	213,062	295,732	232,552	299,795
Individuals	134,107	134,108	160,424	160,424
Transport and communication	63,566	66,356	150,998	153,788
Wholesale and retailing	75,109	75,109	71,717	71,717
Investments in finance lease	79,634	-	55,008	-
Construction	11,644	11,644	39,611	39,611
Manufacturing	10,366	10,931	22,819	23,498
Food industry	3,006	3,006	6,351	6,351
Tourism	2,117	3,767	3,026	4,674
Other	55,696	58,562	64,316	67,919
	832,340	**916,987**	**1,044,920**	**1,116,873**

19 Loans and receivables due from customers, continued

(d) Geographical analysis of the loan portfolio

	31 Dec 2017 ’000 EUR Group	31 Dec 2017 ’000 EUR Bank	31 Dec 2016 ’000 EUR Group	31 Dec 2016 ’000 EUR Bank
Latvia	179,843	257,665	201,044	269,632
Other OECD countries	226,829	226,800	195,347	195,311
Non-OECD countries	425,668	432,522	648,529	651,930
	832,340	**916,987**	**1,044,920**	**1,116,873**

(e) Significant credit exposures

According to regulatory requirements, the Bank and the Group are not allowed to have a credit exposure to one client or group of related clients more than 25% of its equity. As at 31 December 2017 and 2016 the Bank and the Group were in compliance with this requirement.

20 Available-for-sale assets

	2017 ’000 EUR Group	2017 ’000 EUR Bank	2016 ’000 EUR Group	2016 ’000 EUR Bank
Bonds				
- with rating from AAA to A	143,391	143,391	246,171	246,171
- with rating from BBB+ to BBB-	125,358	125,358	148,176	148,176
- non-investment grade	54,332	54,332	67,647	67,647
Rietumu Asset Management Funds				
RB Opportunity Fund I	-	-	-	28,667
Cash Reserve Fund	-	4,238	-	4,790
Fixed Income High Yield Fund	-	4,485	-	4,879
Fixed Income Investment Grade Fund	-	4,371	-	4,832
Global Equity Fund	-	396	-	415
VISA Inc shares	5,951	5,951	4,651	4,651
Other equity instruments	734	339	939	750
Available for sale assets	**329,766**	**342,861**	**467,584**	**510,978**
Acquisition cost	328,006	338,886	466,929	514,794
Revaluation	3,408	3,975	2,303	5,711
Impairment allowance	(1,648)	-	(1,648)	(9,527)
Available-for-sale	**329,766**	**342,861**	**467,584**	**510,978**
Of which pledged under sale and repurchase agreements with Bank of Latvia (total liability to Bank of Latvia EUR 120,000 thousand)	128,069	128,069	133,548	133,548

20 Available-for-sale assets, continued

Analysis of movements in the impairment allowance

	31 Dec 2017 '000 EUR Group	31 Dec 2017 '000 EUR Bank	31 Dec 2016 '000 EUR Group	31 Dec 2016 '000 EUR Bank
Balance at 1 January	1,648	9,527	1,648	5,924
Charge for the year	-	-	-	3,603
Reversal of impairment allowance loss (reorganisation of CIF RB Opportunity Fund I)	-	(1,033)	-	-
Write offs	-	(8,494)	-	-
Balance at 31 December	**1,648**	**-**	**1,648**	**9,527**

21 Held-to-maturity investments

	31 Dec 2017 '000 EUR Group	31 Dec 2017 '000 EUR Bank	31 Dec 2016 '000 EUR Group	31 Dec 2016 '000 EUR Bank
Debt and other fixed-income instruments				
- Government and municipal bonds				
Latvia	3,516	3,516	1,904	1,904
Russia	11,948	11,948	13,589	13,589
Other	1,674	1,674	-	-
Total government and municipal bonds	**17,138**	**17,138**	**15,493**	**15,493**
- Corporate bonds				
Russia	36,411	36,411	48,071	48,071
USA	92,628	91,955	108,276	105,243
Other European Union countries	37,994	37,826	39,663	38,970
Other non-European Union countries	93,343	93,343	108,071	108,071
Total corporate bonds	**260,376**	**259,535**	**304,081**	**300,355**
	277,514	**276,673**	**319,574**	**315,848**
Of which pledged under sale and repurchase agreements with Bank of Latvia (total liability to Bank of Latvia EUR 120,000 thousand)	2,530	2,530	977	977

22 Investments in subsidiaries

Investment in subsidiaries at 31 December 2017 (‘000 EUR):

Company	Address	Share Capital	Equity	Bank’s share of total share capital, %	Gross carrying amount
RB Investments SIA	Vesetas str.7, Riga, Latvia	14,229	10,227	100%	14,228
RB Securities Ltd	Stasinou str.1, Mitsi Building 1, 2nd floor, Flat/office 5, Plateia Eleftherias, P.C.1060, Nicosia, Cyprus	11,211	2,999	99.99%	10,956
Overseas Estates SIA	Vesetas str.7, Riga, Latvia	9,480	422	100%	7,346
Rietumu Asset Management IPS	Vesetas str.7, Riga, Latvia	500	1,081	100%	500
Rietumu Leasing Ltd	Odoevskogo str.117, 6th floor, office 9, Minsk, Belarus	275	3,228	99.5%	2,362
KI Invest Ltd	Naucnij pr.19, 8th Floor, Office 12, Moscow, Russia	116	(16)	100%	122
InCREDIT GROUP SIA	Krisjana Barona str.130, Riga, Latvia	500	5,043	51%	255
RB Drosiba SIA	Vesetas str.7, Riga, Latvia	71	136	100%	71
RB Baki Ltd	Atartuk prospekt 2-9, Baku, AZ1110, Azerbaijan	-	-	90%	4
Langervaldes 2 SIA	Vesetas str.7, Riga, Latvia	462	574	100%	463
SBD SIA	Vesetas str.7, Riga, Latvia	460	64	100%	1
Vesetas 7 SIA	Vesetas str.7, Riga, Latvia	142	6,371	100%	3,263
Rietumu Bankas Labdaribas Fonds	Vesetas str.7, Riga, Latvia	-	-	100%	-
Euro Textile Group SIA	Ganibu dambis str. 30, Riga, Latvia	887	(819)	100%	1,000
Rietumu Jazz SIA	Vesetas str.7, Riga, Latvia	3	3	100%	3
Aristida Briana 9 SIA	Aristida Briana str. 9, Riga, Latvia	558	(246)	100%	112
Lilijas 28 SIA	Vesetas str. 7, Riga, Latvia	182	678	100%	620
Vangazu Nekustamie ipasumi SIA	Gaujas str. 24/34, Vangazi, Incukalna region, Latvia	4,398	3,377	100%	3,357
KI FUND SIA	Vesetas str. 7, Riga, Latvia	5,719	5,106	100%	5,719
Impairment allowance					(16,380)
Total Bank’s investment in subsidiaries, net					**34,002**

22 Investments in subsidiaries, continued

Investment in subsidiaries at 31 December 2016 ('000 EUR):

Company	Address	Share Capital	Equity	Bank's share of total share capital, %	Gross carrying amount
RB Investments SIA	Vesetas str.7, Riga, Latvia	14,228	10,773	100%	14,228
RB Securities Ltd	Stasinou str.1, Mitsi Building 1, 2nd floor, Flat/office 5, Plateia Eleftherias, P.C.1060, Nicosia, Cyprus	12,491	5,777	99.99%	10,956
Overseas Estates SIA	Vesetas str.7, Riga, Latvia	9,480	254	100%	7,346
Rietumu Asset Management IPS	Vesetas str.7, Riga, Latvia	500	706	100%	500
Rietumu Leasing Ltd	Odoevskogo str.117, 6th floor, office 9, Minsk, Belarus	275	3,463	99.5%	2,362
KI Invest Ltd	Naucnij pr.19, 8th Floor, Office 12, Moscow, Russia	117	153	100%	121
InCREDIT GROUP SIA	Krisjana Barona str.130, Riga, Latvia	500	4,722	51%	255
RB Drosiba SIA	Vesetas str.7, Riga, Latvia	71	132	100%	71
RB Namu Serviss SIA	Vesetas str.7, Riga, Latvia	3	14	100%	3
RB Baki Ltd	Atartuk prospekt 2-9, Baku, AZ1110, Azerbaijan	-	-	90%	4
Langervaldes 2 SIA	Vesetas str.7, Riga, Latvia	462	600	100%	463
SBD SIA	Vesetas str.7, Riga, Latvia	460	68	66.89%	1
Vesetas 7 SIA	Vesetas str.7, Riga, Latvia	142	5,676	100%	3,263
Rietumu Bankas Labdaribas Fonds	Vesetas str.7, Riga, Latvia	-	-	100%	-
Euro Textile Group SIA	Ganibu dambis str. 30, Riga, Latvia	887	(631)	100%	1,000
Rietumu Jazz SIA	Vesetas str.7, Riga, Latvia	3	5	100%	3
Rietumu IT Services SIA	Vesetas str.7, Riga, Latvia	1,060	1,177	100%	1,060
Rietumu Transport and Logistic SIA	Vesetas str.7, Riga, Latvia	3	3	100%	3
Impairment allowance					(13,258)
Total Bank's investment in subsidiaries, net					**28,381**

22 Investments in subsidiaries, continued

Movements in the impairment allowance

Movements in the investment in subsidiaries impairment allowance for the year ended 31 December 2017 and 2016 are as follows:

	2017 '000 EUR Bank	2016 '000 EUR Bank
Allowance for impairment		
Balance at 1 January	13,258	11,618
Charge for the year	3,122	1,640
Balance at 31 December	**16,380**	**13,258**

On 19th of June 2017 the Bank sold subsidiary "Rietumu IT Services" SIA, on 17th of March – "Rietumu Transport and Logistic" SIA and on 22nd of August 2017 - "RB Namu Serviss" SIA. During optimization process of operations, indirect subsidiaries of the Bank - Aristida Briana 9 SIA, Lilijas 28 SIA, Vangazu Nekustamie ipasumi SIA and KI FUND SIA became direct subsidiaries (note 47).

23 Equity accounted investees

The Group owns a share in the following associates, both associated companies provide information services and their assets consist mainly from property and equipment for their operations. The total assets and revenues are not material to the Group.

Name	Country of incorpora-tion	Principal activities	Ownership %	Amount of investment	Ownership %	Amount of investment
			31 December 2017	'000 EUR	31 December 2016	'000 EUR
AED Rail Service SIA	Latvia	Railway information services	43.00%	12	43.00%	7
Dzelzcelu Tranzits SIA	Latvia	Railway information services	49.12%	-	49.12%	-
Total				**12**		**7**

24 Property and equipment

The Group

Cost/Revalued amount '000 EUR	Land and buildings	Construction in progress	Vehicles	Office equipment and machinery	Advances	Total
At 1 January 2017	**38,864**	**2,236**	**2,917**	**23,224**	**114**	**67,355**
Additions	79	268	152	1,092	126	**1,717**
Disposals	(261)	-	(231)	(2,264)	(73)	**(2,829)**
Transfers	-	6	15	17	(38)	**-**
Sale of subsidiary	-	-	(8)	(375)	-	**(383)**
Reclassification to investment property	(477)	-	-	-	-	**(477)**
Revaluation	(91)	-	-	-	-	**(91)**
FX translation effect	(73)	-	(2)	(10)	-	**(85)**
At 31 December 2017	**38,041**	**2,510**	**2,843**	**21,684**	**129**	**65,207**
Depreciation						
At 1 January 2017	**5,248**	**-**	**1,564**	**15,055**	**-**	**21,867**
Depreciation charge	782	-	433	1,421	-	**2,636**
Disposals	-	-	(210)	(2,163)	-	**(2,373)**
Sale of subsidiary	-	-	(6)	(85)	-	**(91)**
Impairment loss	-	-	-	216	-	**216**
FX translation effect	(1)	-	(1)	(6)	-	**(8)**
At 31 December 2017	**6,029**	**-**	**1,780**	**14,438**	**-**	**22,247**
Net carrying amount						
At 31 December 2017	**32,012**	**2,510**	**1,063**	**7,246**	**129**	**42,960**
At 31 December 2016	**33,616**	**2,236**	**1,349**	**8,173**	**114**	**45,488**

24 Property and equipment, continued

The Group, continued

Cost/Revalued amount ’000 EUR	**Land and buildings**	**Construction in progress**	**Vehicles**	**Office equipment and machinery**	**Advances**	**Total**
At 1 January 2016	**38,480**	**1,999**	**3,224**	**22,769**	**64**	**66,536**
Additions	545	237	573	838	139	**2,332**
Disposals	-	-	(264)	(966)	(26)	**(1,256)**
Transfer from other assets (advances)	-	-	16	47	(63)	-
Sale of subsidiary	-	-	-	(6)	-	**(6)**
Transfer (investment in share capital)	-	-	-	(167)	-	**(167)**
Revaluation	-	-	-	44	-	**44**
Acquisition of subsidiary	-	-	-	41	-	**41**
FX translation effect	(161)	-	(2)	(6)	-	**(169)**
At 31 December 2016	**38,864**	**2,236**	**3,547**	**22,594**	**114**	**67,355**
Depreciation						
At 1 January 2016	**4,478**	**-**	**1,396**	**14,170**	**-**	**20,044**
Depreciation charge	781	-	424	1,865	-	**3,070**
Disposals	-	-	(256)	(972)	-	**(1,228)**
Sale of subsidiary	-	-	-	(4)	-	**(4)**
FX translation effect	(11)	-	-	(4)	-	**(15)**
At 31 December 2016	**5,248**	**-**	**1,564**	**15,055**	**-**	**21,867**
Net carrying amount						
At 31 December 2016	**33,616**	**2,236**	**1,983**	**7,539**	**114**	**45,488**
At 31 December 2015	**34,002**	**1,999**	**1,194**	**9,233**	**64**	**46,492**

24 Property and equipment, continued

Revalued assets

As at 31 December 2017 and 2016, properties consisting of office buildings and land were revalued based on report by external independent and qualified property appraisers with recent experience in the location and category of the property being valued. The independent appraisers provide the fair value of the property portfolio every year. No change in value in 2016 due to revaluation.

The fair value measurement for property (land and buildings) has been categorised as a Level 3 in the fair value hierarchy.

The following table shows the valuation techniques used in measuring the fair value of the significant items of property, as well as the significant unobservable inputs used. The remaining items of properties belonging to the subsidiaries of the Group are considered to be not significant for the Bank and the Group.

Type	**Valuation technique**	**Significant unobservable inputs**	**Inter-relation between significant unobservable inputs and fair value measurement**
Office premises in administrative building in the net carrying amount of EUR 507 thousand (2016: EUR 678 thousand) located in Minsk, Belarus	Market comparison technique: The fair value was based on results of comparable sales of similar buildings	Price per m^2 – EUR 792 (2016: EUR 1,059)	The fair value would increase (decreased) if the price per m^2 was higher (lower).
Office building (17,071 m2) and land in the amount of EUR 30,940 thousand (2016: EUR 31,842 thousand) located in Riga, Latvia	Discounted cash flows technique: The model is based on discounted cash flows from rental income.	Rental income per m^2 of EUR 14-16 (2016: EUR 14-16) Discount rate of 7% (2016: 7%)	The estimated fair value would increase (decrease) if: - Rental income per m^2 was higher (lower) - The discount rate was lower (higher) - Annual capital expense are lower (higher) - The occupancy rate was higher (lower)

24 Property and equipment, continued

The Bank

’000 EUR	Construction in progress	Vehicles	Office equipment	Advances	Total
Cost/Revalued amount					
1 January 2017	**2,211**	**2,803**	**13,218**	**27**	**18,259**
Additions	260	131	541	126	**1,058**
Disposals	(1)	(213)	(977)	**-**	**(1,191)**
Transfers	14	-	10	(24)	**-**
At 31 December 2017	**2,484**	**2,721**	**12,792**	**129**	**18,126**
Depreciation and impairment losses					
At 1 January 2017	-	1,500	8,816	**-**	**10,316**
Depreciation charge	-	417	657	**-**	**1,074**
Disposals	-	(204)	(964)	**-**	**(1,168)**
At 31 December 2017	**-**	**1,713**	**8,509**	**-**	**10,222**
Net carrying amount					
At 31 December 2017	**2,484**	**1,008**	**4,283**	**129**	**7,904**
At 31 December 2016	**2,211**	**1,303**	**4,402**	**27**	**7,943**

’000 EUR	Construction in progress	Vehicles	Office equipment	Advances	Total
1 January 2016	**1,973**	**2,542**	**14,162**	**64**	**18,741**
Additions	238	474	370	26	**1,108**
Disposals	-	(229)	(927)	**-**	**(1,156)**
Transfers from advances	-	16	47	(63)	**-**
Transfers (investment in share capital)	-	-	(478)	-	**(478)**
Revaluation	-	-	44	-	**44**
At 31 December 2016	**2,211**	**2,803**	**13,218**	**27**	**18,259**
Depreciation and impairment losses					
At 1 January 2016	**-**	**1,358**	**9,233**	**-**	**10,591**
Depreciation charge	-	371	809	**-**	**1,180**
Disposals	-	(229)	(915)	**-**	**(1,144)**
Transfers (investment in share capital)	-	-	(311)	**-**	**(311)**
At 31 December 2016	**-**	**1,500**	**8,816**	**-**	**10,316**
Net carrying amount					
At 31 December 2016	**2,211**	**1,303**	**4,402**	**27**	**7,943**
At 31 December 2015	**1,973**	**1,184**	**4,929**	**64**	**8,150**

25 Intangible assets

The Group

’000 EUR	**Goodwill**	**Software**	**Other**	**Advances**	**Total**
Cost amount					
At 1 January 2017	**1,069**	**13,277**	**1,971**	**925**	**17,242**
Additions	-	454	42	345	**841**
Disposals	-	(3)	(4)	-	**(7)**
Write off	-	-	(436)	-	**(436)**
Sale of subsidiary	-	(902)	-	(97)	**(999)**
Transfer (investment in subsidiary share capital)	-	12	-	-	**12**
Reclassification from other assets	-	141	-	(141)	**-**
At 31 December 2017	**1,069**	**12,979**	**1,573**	**1,032**	**16,653**
Amortisation and impairment losses					
At 1 January 2017	**-**	**11,649**	**991**	**-**	**12,640**
Amortisation charge	-	1,019	123	-	**1,142**
Disposals	-	(3)	(4)	-	**(7)**
Impairment write off	-	-	436	-	**436**
Sale of subsidiary	-	(164)	-	-	**(164)**
Impairment loss	-	-	(436)	-	**(436)**
At 31 December 2017	**-**	**12,501**	**1,110**	**-**	**13,611**
Net carrying amount					
At 31 December 2017	**1,069**	**478**	**463**	**1,032**	**3,042**
At 31 December 2016	**1,069**	**1,628**	**980**	**925**	**4,602**

’000 EUR	**Goodwill**	**Software**	**Other**	**Advances**	**Total**
Cost amount					
At 1 January 2016	**1,069**	**12,229**	**1,984**	**504**	**15,786**
Additions	699	925	3	488	**2,115**
Disposals	-	(2)	(16)	-	**(18)**
Goodwill write off	(699)	-	-	-	**(699)**
Reclassification from other assets	-	67	-	(67)	**-**
FX translation effect	-	58	-	-	**58**
At 31 December 2016	**1,069**	**13,277**	**1,971**	**925**	**17,242**
Amortisation and impairment losses					
At 1 January 2016	**-**	**10,909**	**872**	**-**	**11,781**
Amortisation charge	-	742	135	-	**877**
Disposals	-	(2)	(16)	-	**(18)**
Impairment of goodwill write off	(699)	-	-	-	**(699)**
Impairment loss	699	-	-	-	**699**
At 31 December 2016	**-**	**11,649**	**991**	**-**	**12,640**
Net carrying amount					
At 31 December 2016	**1,069**	**1,628**	**980**	**925**	**4,602**
At 31 December 2015	**1,069**	**1,320**	**1,112**	**504**	**4,005**

Goodwill of EUR 1,069 thousand (2016: EUR 1,069 thousand) originated on the acquisition of a payment card business unit in 2001.

25 Intangible assets, continued

The Bank

’000 EUR	Goodwill	Software	Other	Advances	Total
Cost amount					
At 1 January 2017	**1,069**	**12,599**	**43**	**215**	**13,926**
Additions	-	454	42	248	**744**
Disposals	-	(2)	(4)	**-**	**(6)**
Transfers from advances	-	141	-	(141)	**-**
At 31 December 2017	**1,069**	**13,192**	**81**	**322**	**14,664**
Amortisation and impairment losses					
At 1 January 2017	**-**	**11,079**	**25**	**-**	**11,104**
Amortisation charge	-	929	5	**-**	**934**
Disposals	-	(2)	(4)	**-**	**(6)**
At 31 December 2017	**-**	**12,006**	**26**	**-**	**12,032**
Net carrying amount					
At 31 December 2017	**1,069**	**1,186**	**55**	**322**	**2,632**
At 31 December 2016	**1,069**	**1,520**	**18**	**215**	**2,822**

’000 EUR	Goodwill	Software	Other	Advances	Total
Cost amount					
At 1 January 2016	**1,069**	**12,216**	**42**	**504**	**13,831**
Additions	-	924	3	488	**1,415**
Disposals	-	(1)	(2)	**-**	**(3)**
Transfers from advances	-	67	-	(67)	**-**
Transfers (investment in share capital)	-	(665)	-	(710)	**(1,375)**
Revaluation	-	58	-	-	**58**
At 31 December 2016	**1,069**	**12,599**	**43**	**215**	**13,926**
Amortisation and impairment losses					
At 1 January 2016	**-**	**10,898**	**23**	**-**	**10,921**
Amortisation charge	-	668	2	**-**	**670**
Disposals	-	(2)	-	**-**	**(2)**
Transfers (investment in share capital)	-	(485)	-	**-**	**(485)**
At 31 December 2016	**-**	**11,079**	**25**	**-**	**11,104**
Net carrying amount					
At 31 December 2016	**1,069**	**1,520**	**18**	**215**	**2,822**
At 31 December 2015	**1,069**	**1,318**	**19**	**504**	**2,910**

Goodwill of EUR 1,069 thousand (2016: EUR 1,069 thousand) originated on the acquisition of a payment card business unit in 2001.

26 Investment property

Investment property comprises residential properties and commercial properties, such as land or parts of buildings, and premises owned by the Group companies, which the Group does not occupy and which are leased to third parties.

	31 Dec 2017 ’000 EUR Group	31 Dec 2017 ’000 EUR Bank	31 Dec 2016 ’000 EUR Group	31 Dec 2016 ’000 EUR Bank
Balance at 1 January	91,299	10,687	82,968	8,447
Purchase of subsidiary	-	-	10,259	-
Transferred from property and equipment	477	-	-	-
Transferred from other assets	602	-	1,822	1,822
Transferred to Non-current assets held for sale	(157)	-	-	-
Additions	6,111	33	3,807	273
Disposals	(7,162)	(757)	(1,189)	(72)
Revaluations	(803)	507	(6,124)	217
Currency revaluation	(189)	-	(197)	-
Written off	-	-	(47)	-
Balance at 31 December	**90,178**	**10,470**	**91,299**	**10,687**

Rental income and operating expense for the year ended 31 December 2017, the Group:

	Carrying amount ’000 EUR	Rental income ‘000 EUR	Operating expenses ‘000 EUR
Investment property rented out	64,483	4,210	2,814
Investment property held for value appreciation	25,695	-	386
Total	**90,178**	**4,210**	**3,200**

Rental income and operating expense for the year ended 31 December 2016, the Group:

	Carrying amount ’000 EUR	Rental income ‘000 EUR	Operating expenses ‘000 EUR
Investment property rented out	67,176	3,257	1,867
Investment property held for value appreciation	24,123	-	313
Total	**91,299**	**3,257**	**2,180**

Rental income and operating expenses are presented under Other income (Other expenses) in the statements of profit or loss.

All investment properties represent Level 3 fair value hierarchy.

26 Investment property, continued

The following table shows the valuation technique used in measuring fair value of investment property of the Group and significant unobservable inputs used as at 31 December 2017:

Type	Valuation technique	Significant unobservable inputs	Carrying amount ‘000 EUR
Residential property - Riga - Jurmala - Other areas in Latvia - Moscow, Russia	Market comparison technique: The fair value was based on results of comparable sales of similar properties	Average price per m^2 * EUR 800 – 1,900 EUR 1,176 – 1,994 EUR 400 – 1,500 EUR 3,068 – 4,100	 14,556 4,376 7,301 2,084
Land - Riga - Jurmala - Other areas in Latvia	Market comparison technique: The fair value was based on results of comparable sales of similar land plots	Average price per m^2 * EUR 40 – 90 EUR 37 – 57 EUR 0.1 – 50	 12,807 1,978 12,145
Commercial property - Riga - Other areas in Latvia - Belarus - Moscow, Russia	Market comparison technique: The fair value was based on results of comparable sales of similar properties	Average price per m^2 * EUR 250 – 1,400 EUR 67 – 230 EUR 278 - 987 EUR 2,612	 12,370 1,954 1,552 2,941
- Riga region	Discounted cash flows technique: The model is based on discounted cash flows from rental income	Rental income per m^2 EUR 6 Annual discount rate of 10%	2,749
Commercial property - Hotels (Jurmala)	Discounted cash flows technique: The model is based on discounted cash flows from rental income	Annual discount rate of 7% EUR 50 – 225 income per hotel room The occupancy rate increasing over time from 36% to 52%	2,760
- Terminal (Ventspils)	Discounted cash flows technique: The model is based on discounted cash flows from transhipment, storage and blending of molasses	Income from molasses transhipment 11 – 13 EUR / t. Transhipment volumes 100 – 150 thousand tons per year. Annual discount rate of EBITDA 11.9%. Capitalization rate 10.39%.	4,100
- Shop (Riga)	Discounted cash flows technique: The model is based on discounted cash flows from rental income	Annual discount rate of 8.5% Occupancy rate 95% Rental income EUR 5.14 per m^2	3,311
- Commercial premises (Riga)	Discounted cash flows technique: The model is based on discounted cash flows from sales income after property reconstruction	Annual discount rate 5-15% Sales price* for m2 EUR 3,041 Sales price* for a car parking lot EUR 10,000	1,271
- Residential, office and shop premises (Riga)	Market comparison technique: The fair value was based on results of comparable sales of similar properties	Average price per m^2 * EUR 682	1,923
Total			**90,178**

* sales prices are market prices for similar properties adjusted for certain criteria such as land plot footage adjustment, location area adjustment, property condition, offer price adjustment, resulting in the significant unobservable inputs.

26 Investment property, continued

The following table shows the valuation technique used in measuring fair value of investment property of the Group and significant unobservable inputs used as at 31 December 2016:

Type	**Valuation technique**	**Significant unobservable inputs**	**Carrying amount ‘000 EUR**
Residential property	Market comparison technique: The fair value was based on results of comparable sales of similar properties	Average price per m^2*	
- Riga		EUR 1,120 – 1,247	9,422
- Jurmala		EUR 2,795 – 3,288	6,916
- Other areas in Latvia		EUR 1,008 – 1,152	6,811
Land	Market comparison technique: The fair value was based on results of comparable sales of similar land plots	Average price per m^2*	
- Riga		EUR 37 – 53	12,246
- Jurmala		EUR 62 – 72	2,989
- Other areas in Latvia		EUR 7 – 10	12,729
Commercial property	Market comparison technique: The fair value was based on results of comparable sales of similar properties	Average price per m^2*	
- Riga		EUR 1,502 – 1,980	16,566
- Other areas in Latvia		EUR 177 – 329	1,773
- Belarus		EUR 350 - 742	1,478
- Riga region	Discounted cash flows technique: The model is based on discounted cash flows from rental income	Rental income per m^2 EUR 5.74 Annual discount rate of 7%	2,497
Commercial property - Hotels (Jurmala)	Discounted cash flows technique: The model is based on discounted cash flows from rental income	Annual discount rate of 7% EUR 50 – 225 income per hotel room The occupancy rate increasing over time from 40% to 55%	3,863
- Industrial production premises for rent (Riga region)	Market comparison technique: The fair value was based on results of comparable sales of similar properties	Average price per m^2 EUR 230 – 347	3,258
- Terminal (Ventspils)	Discounted cash flows technique: The model is based on discounted cash flows from transhipment, storage and blending of molasses	Income from molasses transhipment 11 – 13 EUR / t. Transhipment volumes 100 – 150 thousand tons per year. Annual discount rate of EBITDA 14%. Capitalization rate 14%.	3,910
- Shop (Riga)	Discounted cash flows technique: The model is based on discounted cash flows from rental income	Annual discount rate of 8.5% Occupancy rate 95% Rental income EUR 5,16 per m^2	3,303
- Commercial premises (Riga)	Discounted cash flows technique: The model is based on discounted cash flows from sales income after property reconstruction	Annual discount rate 5-15% Sales price* for m2 EUR 3,300 Sales price* for a car parking lot EUR 10,000	1,618
- Residential, office and shop premises (Riga)	Market comparison technique: The fair value was based on results of comparable sales of similar properties	Average price per m^2* EUR 681	1,920
Total			**91,299**

* sales prices are market prices for similar properties adjusted for certain criteria such as land plot footage adjustment, location area adjustment, property condition, offer price adjustment, resulting in the significant unobservable inputs.

27 Other assets

	31 Dec 2017 ’000 EUR Group	31 Dec 2017 ’000 EUR Bank	31 Dec 2016 ’000 EUR Group	31 Dec 2016 ’000 EUR Bank
Other financial assets				
Cash in transit	23,598	22,394	9,813	7,061
Other	748	-	24	-
Other non-financial assets				
Collateral assumed on non-performing loans	4,643	4,255	4,939	4,494
Prepayments	837	386	1,574	411
Recoverable VAT	4,287	-	1,568	44
Tax prepayments	19	-	68	-
Gold	318	318	-	-
Other debtors	2,884	998	4,957	1,201
Other	4,708	3,049	4,128	2,695
Impairment allowance	(3,912)	(3,521)	(3,274)	(2,942)
	38,130	**27,879**	**23,797**	**12,964**

Impairment allowance as at 31 December 2017 and 2016 is recognized mainly for receivables - other debtors. Assets classified as collateral assumed on non-performing loans in the amount of EUR 4,643 thousand by the Group (2016: EUR 4,939 thousand) and EUR 4,255 thousand by the Bank (2016: EUR 4,494 thousand), represent repossessed loan collateral. Collateral assumed on non-performing loans are initially recognised at take-over value which set to be a notional cost. Subsequently, management has determined a recoverable amount which was fair value less cost to sell as at 31 December 2017 using market data. After the acquisition of the collateral and unless all legal titles are transferred to the Group and the Bank, the Group and the Bank do not define classification of the collateral, whether it should be investment property, property, plant and equipment or non-current asset held for sale, therefore the collateral is part of other assets.

Analysis of movements in the value of collateral assumed on non-performing loans

	2017 ’000 EUR Group	2017 ’000 EUR Bank	2016 ’000 EUR Group	2016 ’000 EUR Bank
Balance at 1 January	4,939	4,494	6,812	6,812
Addition	510	-	445	-
Sale of collateral completed	(239)	(239)	-	-
Reclassified to investment property	(567)	-	(1,822)	(1,822)
Reclassified to Guarantee receivable	-	-	(496)	(496)
Balance at 31 December	**4,643**	**4,255**	**4,939**	**4,494**

Collateral assumed on non-performing loans by type of property

	31 Dec 2017 ’000 EUR Group	31 Dec 2017 ’000 EUR Bank	31 Dec 2016 ’000 EUR Group	31 Dec 2016 ’000 EUR Bank
Residential property	3,617	3,617	3,856	3,856
Land	565	565	565	565
Commercial property	73	73	73	73
Operating lease	388	-	-	-
Vehicles and equipment	-	-	445	-
	4,643	**4,255**	**4,939**	**4,494**

27 Other assets, continued

Analysis of movements in the impairment allowance

	2017 '000 EUR Group	2017 '000 EUR Bank	2016 '000 EUR Group	2016 '000 EUR Bank
Balance at 1 January	3,274	2,942	4,142	3,805
Charge for the year	952	588	62	63
Recovery	(67)	(10)	(214)	(216)
Acquisition of subsidiaries	-	-	1	-
Sale of subsidiary	(3)	-	-	-
Transfers to loans and advances	-	-	(659)	(659)
Written off	(249)	-	(8)	(3)
Currency revaluation	5	1	(50)	(48)
Balance at 31 December	**3,912**	**3,521**	**3,274**	**2,942**

28 Deposits and balances due to banks

	31 Dec 2017 '000 EUR Group	31 Dec 2017 '000 EUR Bank	31 Dec 2016 '000 EUR Group	31 Dec 2016 '000 EUR Bank
Vostro accounts	26,459	26,459	33,111	33,111
Term deposits	728	569	985	846
	27,187	**27,028**	**34,096**	**33,957**

Concentration of deposits and balances due to banks

As at 31 December 2017 the Bank and the Group had balances with two clients (two as at 31 December 2016), which exceeded 10 % of total deposits and balances from banks. The gross value of these balances as of 31 December 2017 was EUR 10,311 thousand and EUR 6,236 thousand accordingly (2016: EUR 14,804 thousand and EUR 4,149 thousand).

29 Current accounts and deposits due to customers

	31 Dec 2017 '000 EUR Group	31 Dec 2017 '000 EUR Bank	31 Dec 2016 '000 EUR Group	31 Dec 2016 '000 EUR Bank
Private companies				
- current accounts	1,564,847	1,586,232	1,840,334	1,866,633
- term deposits	59,017	58,560	143,086	143,568
Total private companies	**1,623,864**	**1,644,792**	**1,983,420**	**2,010,201**
Government				
- current accounts	17	17	42	42
- term deposits	31	-	39	-
Total government	**48**	**17**	**81**	**42**
Private individuals				
- current accounts	514,327	514,327	558,428	558,428
- term deposits	202,273	200,078	200,797	199,068
Total private individuals	**716,600**	**714,405**	**759,225**	**757,496**
Total current accounts and deposits due to customers	**2,340,512**	**2,359,214**	**2,742,726**	**2,767,739**

(a) Geographical analysis

	31 Dec 2017 '000 EUR Group	31 Dec 2017 '000 EUR Bank	31 Dec 2016 '000 EUR Group	31 Dec 2016 '000 EUR Bank
Latvia	254,289	269,454	258,004	277,257
Other OECD countries	841,377	841,377	886,867	886,867
Non-OECD countries	1,244,846	1,248,383	1,597,855	1,603,615
	2,340,512	**2,359,214**	**2,742,726**	**2,767,739**

(b) Blocked accounts

As of 31 December 2017, the Bank maintained customer deposit balances of EUR 2,353 thousand (2016: EUR 18,013 thousand) which were blocked by the Bank as collateral for loans and financial guarantees and letters of credit granted by the Bank.

(c) Concentrations of current accounts and customer deposits

As of 31 December 2017 and 2016, the Bank and the Group had no customers, whose balances exceeded 10% of total customer accounts.

(c) Subordinated deposits

As of 31 December 2017 the Bank and the Group had subordinated deposits of EUR 88,633 thousand (2016: EUR 111,110 thousand). For maturities see note 4.

30 Issued debt securities

ISIN	Currency	Number of initially issued securities	Par value	Date of issue	Date of maturity	Discount /coupon rate, %	Group 31/12/2017	Bank 31/12/2017	Group 31/12/2016	Bank 31/12/2016
Subordinated bonds										
LV0000800993	EUR	200	50 000	07.09.2012	07.09.2019	7.0	-	-	10,222	10,222
LV0000801009	USD	80	75 000	07.09.2012	07.09.2019	7.0	-	-	5,818	5,818
LV0000801025	USD	67	75 000	14.09.2012	14.09.2019	7.0	-	-	4,866	4,866
Subordinated bonds, total							**-**	**-**	**20,906**	**20,906**
Ordinary bonds										
LV0000801918	USD	280	75 000	10.12.2015	10.12.2017	2.25	-	-	19,948	19,948
LV0000801900	EUR	200	50 000	10.12.2015	10.12.2017	2.00	-	-	9,912	10,012
LV0000801975	USD	100	75 000	22.12.2015	22.12.2017	2.25	-	-	7,043	7,119
Ordinary bonds, total							**-**	**-**	**36,903**	**37,079**
Issued debt securities, total ('000 EUR)							**-**	**-**	**57,809**	**57,985**

On 7th and 14th of September 2017 the Bank has used the call option embedded in subordinated bonds that allows redeeming those prematurely 5 years after the issue date. Early redemption was approved by regulator (FCMC).

There were no defaults on interest or other breaches with respect to issued debt securities.

	2017 '000 EUR Group	2017 '000 EUR Bank	2016 '000 EUR Group	2016 '000 EUR Bank
Balance at 1 January	**57,809**	**57,985**	**55,784**	**56,785**
Change from financing cash flows				
Accrued coupon	-	-	2,025	1,200
Change due to maturity and early redemption	(57,809)	(57,985)	-	-
Total changes from financing cash flows	**(57,809)**	**(57,985)**	**2,025**	**1,200**
Balance at 31 December	**-**	**-**	**57,809**	**57,985**

31 Other liabilities and accruals

	31 Dec 2017 '000 EUR Group	31 Dec 2017 '000 EUR Bank	31 Dec 2016 '000 EUR Group	31 Dec 2016 '000 EUR Bank
Other financial liabilities				
Cash in transit	1,109	-	49	-
Other	405	397	888	882
Other non-financial liabilities				
Management bonus accrual	5,318	5,318	5,803	5,803
Deferred income	3,741	966	3,681	1,154
Annual leave accrual	2,260	1,920	2,147	1,860
Deposits guarantee fund	569	388	1,169	450
VAT payable	258	-	68	-
Prepayments	1,110	23	1,062	20
Dividends payable	35	13	47	6
Accounts payable to suppliers	2,300	454	4,371	267
Accrued liabilities	3,031	2,193	1,146	2,183
Other	2,014	746	880	377
	22,150	**12,418**	**21,311**	**13,002**

32 Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities as of 31 December 2017 and 2016.

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

The Group

	Assets		**Liabilities**		**Net**	
'000 EUR	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Financial instruments at fair value through profit or loss	-	127	-	-	-	127
Loans and advances to customers	-	275	(163)	-	(163)	275
Available-for-sale financial assets	-	619	-	(499)	-	120
Investment in subsidiaries	-	1,743	-	-	-	1,743
Property and equipment	33	24	-	(1,650)	33	(1,626)
Intangible assets	-	-	-	(144)	-	(144)
Investment property	-	89	(55)	(1,995)	(55)	(1,906)
Other assets	59	431	-	(49)	59	382
Tax loss carried forward	-	254	-	-	-	254
Other liabilities	-	1,285	(263)	(403)	(263)	882
Total recognised deferred tax assets/(liabilities)	**92**	**4,847**	**(481)**	**(4,740)**	**(389)**	**107**
Unrecognised deferred tax assets					**-**	**(2,958)**
Recognised deferred tax liabilities					**(389)**	**(2,851)**

32 Deferred tax asset and liability, continued

The rate of tax applicable for deferred taxes equals tax rates applicable in countries in which subsidiaries operate, as disclosed in Note 15.

Movement in temporary differences during the year ended 31 December 2017

	2017 ’000 EUR	2016 ’000 EUR
Balance at 1 January – deferred tax liability	(3,110)	(3,246)
Balance at 1 January – deferred tax asset	259	376
Purchase of subsidiaries	-	(181)
Charge/(Release) to profit for the year	1,754	490
Charge/(Release) in other comprehensive income	499	(343)
Transfer to Revaluation reserve	159	-
Currency revaluation	50	53
Balance at 31 December	**(389)**	**(2,851)**
Deferred tax asset	**37**	**259**
Deferred tax liability	**(426)**	**(3,110)**

Deferred tax asset and liability are shown net on individual subsidiaries level, but are not netted on the Group level.

The Bank

	Assets		Liabilities		Net	
’000 EUR	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Financial instruments at fair value through profit or loss	-	127	-	-	-	127
Available-for-sale financial assets	-	1,551	-	(978)	-	573
Investments in subsidiaries	-	1,743	-	-	-	1,743
Property and equipment	-	-	-	(1,295)	-	(1,295)
Investment property	-	66	-	(400)	-	(334)
Other assets	-	395	-	-	-	395
Other liabilities	-	1,261	-	-	-	1,261
Total recognised deferred tax assets/(liabilities)	**-**	**5,143**	**-**	**(2,673)**	**-**	**2,470**
Unrecognised deferred tax assets					**-**	**(3,403)**
Recognised deferred tax liabilities					**-**	**(933)**

32 Deferred tax asset and liability, continued

Movement in temporary differences during the year ended 31 December 2017

	2017 '000 EUR	2016 '000 EUR
Balance at 1 January – deferred tax liability	(933)	(191)
Balance at 1 January – deferred tax asset	-	-
Charge/Release to profit for the year	(45)	(399)
Charge/Release in other comprehensive income	978	(343)
Balance at 31 December	**-**	**(933)**
Deferred tax asset	**-**	**-**
Deferred tax liability	**-**	**(933)**

33 Share capital and reserves

(a) Issued capital and share premium

The largest shareholders of the Bank as of 31 December 2017 and 31 December 2016 are as follows:

	2017 '000 EUR	%	2016 '000 EUR	%
Ordinary shares				
Companies non-residents				
Boswell (International) Consulting Limited	47,111	33.11%	47,111	33.11%
Companies residents				
Esterkin Family Investments Ltd	47,125	33.12%	47,125	33.12%
Suharenko Family Investments Ltd	24,665	17.34%	24,665	17.34%
Other	1,579	1.1%	1,579	1.1%
Private persons				
Others	21,807	15.33%	21,807	15.33%
Ordinary shares, total	**142,287**	**100%**	**142,287**	**100%**
Preference shares				
Companies	11,351		10,956	
Private persons	15,278		15,673	
Preference shares, total	**26,629**		**26,629**	
Issued capital	**168,916**		**168,916**	
Share premium	**52,543**		**52,543**	

The ultimate controlling parties of the Bank are Esterkin Family Investments Ltd, Boswell (International) Consulting Limited and Suharenko Family Investments Ltd.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank and to residual assets.

Preference shares

Preference shares are shares which have preference over ordinary shares for payment of dividend. The dividend is defined as percentage of issuance price and if not paid, it is accumulated. It is upon Bank's

33 Share capital and reserves, continued

discretion to delay the dividend payments indefinitely. Preference share shareholders do have voting rights if dividends are not received or are partly received for two consecutive years.

(b) Dividends

During reporting period dividends for the previous period were paid in amount of EUR 44,208 thousand (2016: EUR 20,952 thousand). As at reporting date dividends in the amount of EUR 12,729 thousand were proposed. Dividends are proportionately divided between ordinary and preference shares.

	2017 ’000 EUR Group	2017 ’000 EUR Bank	2016 ’000 EUR Group	2016 ’000 EUR Bank
Change from financing cash flows				
Dividend paid	44,208	44,208	20,952	20,952
Dividends paid to non-controlling interest shareholders	1,176	-	833	-
Total changes from financing cash flows	**45,384**	**44,208**	**21,785**	**20,952**

(c) Other reserves

Out of all Other reserves those amounting to EUR 23 thousand at the Bank (2016: EUR 23 thousand) represent contributions made by shareholders in previous years.

(d) Fair value reserve

The fair value reserve represents the changes in fair value of available for sale assets and is reduced by deferred tax charged on unrealised gains or losses on revaluation of the available for sale financial instruments.

Movements in fair value reserve

Movements in the fair value reserve net of tax for the year ended 31 December 2017 and 2016 are as follows:

	2017 ’000 EUR Group	2017 ’000 EUR Bank	2016 ’000 EUR Group	2016 ’000 EUR Bank
Balance at 1 January	1,805	4,734	23,252	25,377
Visa Europe revaluation	-	-	(27,275)	(27,275)
Revaluation of other available for sale assets	1,604	(758)	5,828	6,632
Balance at 31 December	**3,409**	**3,976**	**1,805**	**4,734**

33 Share capital and reserves, continued

(e) Revaluation reserve

A revaluation reserve represents the increase in the fair value of real estate properties classified under Property and equipment.

	2017 '000 EUR Group	2017 '000 EUR Bank	2016 '000 EUR Group	2016 '000 EUR Bank
Revaluation reserve as at 1 January	1,340	-	1,364	-
Transfer to retained earnings	(27)	-	(24)	-
Revaluation of property and equipment	(91)	-	-	-
Transfer from Deferred tax liability	159	-	-	-
Revaluation reserve as at 31 December	**1,381**	**-**	**1,340**	**-**

34 Cash and cash equivalents

Cash and cash equivalents consist of the following:

	31 Dec 2017 '000 EUR Group	31 Dec 2017 '000 EUR Bank	31 Dec 2016 '000 EUR Group	31 Dec 2016 '000 EUR Bank
Cash	3,487	3,460	2,850	2,809
Balances due from the Bank of Latvia	872,396	872,396	834,111	834,111
	875,883	**875,856**	**836,961**	**836,920**
Demand loans and receivables from banks	462,152	461,442	502,978	502,275
Demand deposits and balances due to banks	(26,459)	(26,459)	(33,111)	(33,111)
Total	**1,311,576**	**1,310,839**	**1,306,828**	**1,306,084**

35 Commitments and guarantees

In line with the lending activity the Bank enters into commitments to issue loans. These commitments take the form of approved but not yet issued loans, credit card limits and overdrafts.

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

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

The total outstanding contractual commitments to extend credit indicated above does not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

	31 Dec 2017 ’000 EUR Group	31 Dec 2017 ’000 EUR Bank	31 Dec 2016 ’000 EUR Group	31 Dec 2016 ’000 EUR Bank
Contracted amount				
Loan and credit line commitments	1,510	9,512	4,063	8,407
Credit card commitments	4,752	4,753	6,210	6,216
Undrawn overdraft facilities	12,397	12,492	14,035	14,035
Guarantees and letters of credit	7,280	7,280	7,521	7,521
Total	**25,939**	**34,037**	**31,829**	**36,179**

36 Litigations

In the ordinary course of business, the Bank and the Group are involved in a number of judicial proceedings brought against the Bank and the Group by its customers, in respect of matters such as ownership and property rights, cancellation or challenge of the transactions or contracts and monetary claims. As at 31 December 2017, there were 21 open legal proceedings against the Bank and the Group with a total amount under dispute of EUR 239 thousand (31 December 2016: EUR 376 thousand). The ultimate outcome of any such litigation is uncertain and any position taken by the Management Board involves significant judgement and inherent estimation uncertainty. In respect of the above litigation proceedings, no liability (provision) has been recognized as in the Management Board’s view, supported by the result of the analysis by the Bank’s external legal advisers, the likelihood of any loss (outcome of economic resources) arising therefrom is possible rather than probable.

In addition to the above legal proceedings, the Bank is defendant in a court case for alleged involvement in tax evasion and aggravated money laundering. Criminal investigation in France started in July 2011 (further to enquiries from that country’s tax authorities in respect of another (unrelated) entity - France Off Shore) focusing on alleged tax evasion offences committed by that entity. Within that investigation the Bank, and former head of its representative office in Paris were placed under investigation for suspicion of aggravated money laundering on 12 December 2012.

On 6 July 2017, the 32nd section of the Paris Criminal Court ruled in its first instance judgment that the Bank was guilty of aggravated money laundering by providing assistance, as a bank, to placement, concealment or conversion operations of the proceed of an offence. The Court ordered the Bank to pay a criminal fine of EUR 80 million and damages, jointly and severally with the other defendants, of EUR 10 million to the French State. In addition, the Bank was ordered to stop any banking activities in France for 5 years. The Bank lodged its appeal against the first instance judgement on 12 July 2017, followed by an appeal by the Public Prosecutor, to leave the upper limit of the amount of any penalties above that included in the first instance court’s sentence. As at the date of approval of these separate and consolidated financial statements, the date for the appeal court hearing has not yet been scheduled. The Management Board intends to cooperate with all relevant authorities in the proceeding. However, although there can be no assurance as to the ultimate outcome of the case, the Bank believes to have a meritorious defence, and so it intends to vigorously defend its position. Among other things, the amounts the Bank was sentenced to pay appear inflated and ungrounded based on the understanding of the French criminal law by the Bank and its legal advisers.

Taking into account all the remaining potential court instances of the case, both in France and in Latvia, the legal process may continue for a period of time of 2-3 years or more. As at 31 December 2017, the Bank recognized a provision amounting to EUR 20 million which it believes to be the best estimate of the expenditure to be ultimately required to settle the obligation, including fines, damages, procedural expenditure and expected legal expenses. The Management Board is of the position that the enforcement of any final decision coming out of the above-mentioned proceedings in France will require prior recognition by the relevant Latvian court in accordance with the relevant requirements of the Criminal Procedure Law of the Republic of Latvia. Assuming that the first-instance court ruling is upheld by the courts both in France and in Latvia, which in the Management Board's view is not certain, significant amount of judgment would be required in particular in estimating the amounts of the fines the Bank would be ordered to pay by the Latvian court, as there are no prior cases of judicial precedent available, coupled with the fact that certain provisions of the Latvian Criminal Procedure Law and Criminal Law are open to differing interpretations, in particular as it related to where and to what extent the fines levied in such proceedings can be capped based on the provisions of those laws. In arriving at its best estimate of the amount of the provision, the Management Board assumed that the relevant Latvian court decides to align the fine with the sanction provided in the Criminal Law, following the general provisions of that law – i.e. assuming that a cap of 3.8MEUR will apply as included in Art. 784 of the Criminal Procedure Law. However, alternative outcomes cannot be excluded based on different interpretations of the Latvian laws. Among other things, if the Latvian court decides not to align the fine with the sanction provided in the Criminal Law, the maximum financial penalty to be enforced in Latvia if the French judgment is final may amount to EUR 80 million fine, plus EUR 10 million reimbursement of damages, plus related legal expenses and procedural expenditure.
Accordingly, due to the inherent uncertainty associated with the proceedings of such nature as exacerbated by the above factors, while the Bank and the Group believe the amount of the provision recognized in these separate and consolidated financial statements to represent their best estimate of the expenditure to be ultimately required to settle the obligation, the actual expenditure required to settle the said claim may be substantially in excess of these amounts reserved.

37 Reverse repo

	31 Dec 2017 ’000 EUR Group	31 Dec 2017 ’000 EUR Bank	31 Dec 2016 ’000 EUR Group	31 Dec 2016 ’000 EUR Bank
Nomura International plc	40,825	40,825	93,419	93,419
Brissard International	-	-	16	16
Total	**40,825**	**40,825**	**93,435**	**93,435**

38 Trust and custody activities

(a) Trust activities

Funds under trust management represent securities and other assets managed and held by the Bank and the Group on behalf of customers. The Bank and the Group earn commission income for holding such assets.

38 Trust and custody activities, continued

The Bank and the Group are not subject to interest, credit, liquidity, price and currency risk with respect of these securities in accordance with the agreements concluded with the customers. As at 31 December 2017 the total assets held by the Group on behalf of customers and assets under management were EUR 531,281 thousand (2016: EUR 729,710 thousand) and by the Bank EUR 397,940 thousand (2016: EUR 561,889 thousand) accordingly.

39 Related party transactions

Related parties are defined as shareholders who have significant influence over the Bank, companies in which they have a controlling interest, members of the Council and Board of Directors, key management personnel, their close relatives and companies in which they have a controlling interest, as well as subsidiaries and associated companies.

’000 EUR	31 Dec 2017			31 Dec 2016		
	Subsidiaries and associates	**Key management**	**Other related parties**	**Subsidiaries and associates**	**Key management**	**Other related parties**
Loans and receivables due from customers	166,103	322	16,585	145,125	433	17,086
Specific impairment allowance	(16,475)	-	-	(16,376)	-	-
Current accounts and deposits due to customers	21,631	18,296	54,831	28,072	21,289	59,723
Issued debt securities	-	-	-	176	307	-
Commitments and guarantees	8,331	880	153	4,350	873	130
Interest income	7,429	11	778	5,720	10	882
Interest expense	-	1,051	1,040	-	1,121	1,040

Total remuneration included in General administrative expenses (Note 14):

	31 Dec 2017 ’000 EUR Group	**31 Dec 2017 ’000 EUR Bank**	**31 Dec 2016 ’000 EUR Group**	**31 Dec 2016 ’000 EUR Bank**
Members of the Council	557	517	329	289
Members of the Board of Directors	4,064	3,489	2,017	1,528
Total	**4,621**	**4,006**	**2,346**	**1,817**

During the year 2017, the Bank paid rent and maintenance expenses to its subsidiary Vesetas 7 SIA in the amount of EUR 2,347 thousand (2016: EUR 2,395 thousand).

During the year 2017, the Bank received dividends from its subsidiary InCredit GROUP SIA in the amount of EUR 1,224 thousand (2016: EUR 867 thousand) and from Rietumu Leasing Ltd in the amount of EUR 996 thousand (2016: EUR 1,268 thousand).

40 Fair value of financial instruments

(a) Financial instruments measured at fair value

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

The Group

31 Dec 2017	Level (1)	Level (2)	Level (3)	Total
Financial assets				
Available for sale assets	301,418	21,613	6,735	329,766
Financial assets at fair value through profit or loss	15,112	387	58	15,557
Financial liabilities				
Financial investments at fair value through profit or loss	-	30	-	30

31 Dec 2016	Level (1)	Level (2)	Level (3)	Total
Financial assets				
Available for sale assets	461,646	-	5,938	467,584
Financial assets at fair value through profit or loss	15,719	1,124	209	17,052
Financial liabilities				
Financial investments at fair value through profit or loss	-	442	-	442

The Bank

31 Dec 2017	Level (1)	Level (2)	Level (3)	Total
Financial assets				
Available for sale assets	314,909	21,613	6,339	342,861
Financial assets at fair value through profit or loss	-	387	58	445
Financial liabilities				
Financial investments at fair value through profit or loss	-	30	-	30

31 Dec 2016	Level (1)	Level (2)	Level (3)	Total
Financial assets				
Available for sale assets	476,737	-	34,241	510,978
Financial assets at fair value through profit or loss	-	1,124	209	1,333
Financial liabilities				
Financial investments at fair value through profit or loss	-	442	-	442

40 Fair value of financial instruments, continued

The following table shows the valuation techniques used in measuring Level 2 fair values:

Type	Valuation technique
Financial assets and liabilities at fair value through profit or loss	Market comparison technique: The fair values are based on broker quotes. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments.

Under Level 3 of fair value hierarchy certain shares were classified, the fair value of which is measured based on estimated fair value of underlying assets.

Financial instruments not measured at fair value

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

The Group

31 December 2017	Level 1 ’000 EUR	Level 2 ’000 EUR	Level 3 ’000 EUR	Total fair values ’000 EUR	Total carrying amount ‘000 EUR
Financial assets					
Loans and receivables due from banks	-	-	462,796	462,796	462,796
Loans and receivables due from customers	-	-	832,340	832,340	832,340
Reverse repo	-	-	40,825	40,825	40,825
Held-to-maturity instruments	278,490	-	-	278,490	277,514
Other financial assets	-	-	24,346	24,346	24,346
Financial liabilities					
Deposits and balances due to banks	-	-	27,187	27,187	27,187
Deposits and balances due to customers	-	-	2,340,512	2,340,512	2,340,512
Due to Bank of Latvia	-	-	120,000	120,000	120,000
Other financial liabilities	-	-	1,514	1,514	1,514
31 December 2016					
Financial assets					
Loans and receivables due from banks	-	-	522,424	522,424	522,424
Loans and receivables due from customers	-	-	1,044,920	1,044,920	1,044,920
Reverse repo	-	-	93,435	93,435	93,435
Held-to-maturity instruments	319,773	-	-	319,773	319,574
Other financial assets	-	-	9,837	9,837	9,837
Financial liabilities					
Deposits and balances due to banks	-	-	34,096	34,096	34,096
Deposits and balances due to customers	-	-	2,742,726	2,742,726	2,742,726
Due to Bank of Latvia	-	-	120,000	120,000	120,000
Issued debt securities	-	-	57,809	57,809	57,809
Other financial liabilities	-	-	937	937	937

40 Fair value of financial instruments, continued

The Bank

31 December 2017	**Level 1 '000 EUR**	**Level 2 '000 EUR**	**Level 3 '000 EUR**	**Total fair values '000 EUR**	**Total carrying amount '000 EUR**
Financial assets					
Loans and receivables due from banks	-	-	462,086	462,086	462,086
Loans and receivables due from customers	-	-	916,987	916,987	916,987
Reverse repo			40,825	40,825	40,825
Held-to-maturity instruments	277,656	-	-	277,656	276,673
Other financial assets	-	-	22,394	22,394	22,394
Financial liabilities					
Deposits and balances due to banks	-	-	27,028	27,028	27,028
Due to Bank of Latvia			120,000	120,000	120,000
Deposits and balances due to customers	-	-	2 359,214	2,359,214	2,359,214
Other financial liabilities	-	-	397	397	397
31 December 2016					
Financial assets					
Loans and receivables due from banks	-	-	521,721	521,721	521,721
Loans and receivables due from customers	-	-	1,116,873	1,116,873	1,116,873
Reverse repo			93,435	93,435	93,435
Held-to-maturity instruments	319,227	-	-	319,227	315,848
Other financial assets	-	-	7,061	7,061	7,061
Financial liabilities					
Deposits and balances due to banks	-	-	33,957	33,957	33,957
Due to Bank of Latvia			120,000	120,000	120,000
Deposits and balances due to customers	-	-	2,767,739	2,767,739	2,767,739
Issued debt securities	-	-	57,985	57,985	57,985
Other financial liabilities	-	-	882	882	882

The fair value of financial assets and liabilities measured at amortized cost, except for held to maturity investments, is measured using discounted cash flows. Discounting rate is derived from market interest rate adjusted for risk related to individual instruments. Held to maturity investments fair value is measured based on individual market price.

41 Currency analysis

The following table shows the currency structure of financial assets and liabilities of the Group as at 31 December 2017:

The Group

	EUR '000 EUR	USD '000 EUR	Other currencies '000 EUR	Total '000 EUR
Financial assets				
Cash and balances with Bank of Latvia	873,776	1,298	809	**875,883**
Financial instruments at fair value through profit or loss	144	15,347	66	**15,557**
Loans and receivables due from banks	2,078	348,211	112,507	**462,796**
Loans and receivables due from customers	436,978	393,144	2,218	**832,340**
Reverse repo	-	40,825	-	**40,825**
Available-for-sale assets	129,612	200,061	93	**329,766**
Held-to-maturity investments	6,718	270,796	-	**277,514**
Total financial assets	**1,449,306**	**1,269,682**	**115,693**	**2,834,681**
Financial liabilities				
Financial instruments at fair value through profit or loss	30	-	-	**30**
Due to Bank of Latvia	120,000	-	-	**120,000**
Deposits and balances due to banks	5,735	15,063	6,389	**27,187**
Current accounts and deposits due to customers	980,760	1,243,863	115,889	**2,340,512**
Total financial liabilities	**1,106,525**	**1,258,926**	**122,278**	**2,487,729**
Net position as of 31 December 2017	**342,781**	**10,756**	**(6,585)**	
Net off balance sheet position as of 31 December 2017	**21,269**	**(20,839)**	**(430)**	
Net total positions as of 31 December 2017	**364,050**	**(10,083)**	**(7,015)**	
Net total positions as of 31 December 2016	**341,181**	**9,337**	**(3,641)**	

41 Currency analysis, continued

The following table shows the currency structure of financial assets and liabilities of the Group as at 31 December 2016:

The Group

	EUR '000 EUR	USD '000 EUR	Other currencies '000 EUR	Total '000 EUR
Financial assets				
Cash and balances with Bank of Latvia	835,424	801	736	**836,961**
Financial instruments at fair value through profit or loss	1,000	15,988	64	**17,052**
Loans and receivables due from banks	35,284	393,937	93,203	**522,424**
Loans and receivables due from customers	403,311	634,609	7,000	**1,044,920**
Reverse repo	-	93,435	-	**93,435**
Available-for-sale assets	122,570	344,925	89	**467,584**
Held-to-maturity investments	6,183	313,391	-	**319,574**
Total financial assets	**1,403,772**	**1,797,086**	**101,092**	**3,301,950**
Financial liabilities				
Financial instruments at fair value through profit or loss	442	-	-	**442**
Due to Bank of Latvia	120,000	-	-	**120,000**
Deposits and balances due to banks	5,424	25,709	2,963	**34,096**
Current accounts and deposits due to customers	917,250	1,719,203	106,273	**2,742,726**
Issued debt securities	20,057	37,752	-	**57,809**
Total financial liabilities	**1,063,173**	**1,782,664**	**109,236**	**2,955,073**
Net position as of 31 December 2016	**340,599**	**14,422**	**(8,144)**	
Net off balance sheet position as of 31 December 2016	**582**	**(5,085)**	**4,503**	
Net total positions as of 31 December 2016	**341,181**	**9,337**	**(3,641)**	
Net total positions as of 31 December 2015	**311,325**	**16,798**	**(3,879)**	

41 Currency analysis, continued

The following table shows the currency structure of financial assets and liabilities of the Bank as at 31 December 2017:

The Bank

	EUR '000 EUR	USD '000 EUR	Other currencies '000 EUR	Total '000 EUR
Financial assets				
Cash and balances with Bank of Latvia	873,750	1,298	808	**875,856**
Financial instruments at fair value through profit or loss	130	315	-	**445**
Loans and receivables due from banks	1,495	348,210	112,381	**462,086**
Loans and receivables due from customers	520,113	393,990	2,884	**916,987**
Reverse repo	-	40,825	-	**40,825**
Available-for-sale assets	129,283	213,485	93	**342,861**
Held-to-maturity investments	6,718	269,955	-	**276,673**
Total financial assets	**1,531,489**	**1,268,078**	**116,166**	**2,915,733**
Financial liabilities				
Financial instruments at fair value through profit or loss	30	-	-	**30**
Due to Bank of Latvia	120,000	-	-	**120,000**
Deposits and balances due to banks	5,610	15,063	6,355	**27,028**
Current accounts and deposits due to customers	996,425	1,246,884	115,905	**2,359,214**
Total financial liabilities	**1,122,065**	**1,261,947**	**122,260**	**2,506,272**
Net position as of 31 December 2017	**409,424**	**6,131**	**(6,094)**	
Net off balance sheet position as of 31 December 2017	**21,269**	**(20,839)**	**(430)**	
Net total positions as of 31 December 2017	**430,693**	**(14,708)**	**(6,524)**	
Net total positions as of 31 December 2016	**427,132**	**(7,523)**	**(2,624)**	

41 Currency analysis, continued

The following table shows the currency structure of financial assets and liabilities of the Bank as at 31 December 2016:

The Bank

	EUR '000 EUR	USD '000 EUR	Other currencies '000 EUR	Total '000 EUR
Financial assets				
Cash and balances with Bank of Latvia	835,383	800	737	**836,920**
Financial instruments at fair value through profit or loss	989	344	-	**1,333**
Loans and receivables due from banks	34,873	393,791	93,057	**521,721**
Loans and receivables due from customers	474,133	634,579	8,161	**1,116,873**
Reverse repo	-	93,435	-	**93,435**
Available-for-sale assets	151,045	359,844	89	**510,978**
Held-to-maturity investments	6,184	309,664	-	**315,848**
Total financial assets	**1,502,607**	**1,792,457**	**102,044**	**3,397,108**
Financial liabilities				
Financial instruments at fair value through profit or loss	442	-	-	**442**
Due to Bank of Latvia	120,000	-	-	**120,000**
Deposits and balances due to banks	5,424	25,709	2,824	**33,957**
Current accounts and deposits due to customers	929,958	1,731,434	106,347	**2,767,739**
Issued debt securities	20,233	37,752	-	**57,985**
Total financial liabilities	**1,076,057**	**1,794,895**	**109,171**	**2,980,123**
Net position as of 31 December 2016	**426,550**	**(2,438)**	**(7,127)**	
Net off balance sheet position as of 31 December 2016	**582**	**(5,085)**	**4,503**	
Net total positions as of 31 December 2016	**427,132**	**(7,523)**	**(2,624)**	
Net total positions as of 31 December 2015	**378,696**	**(840)**	**(4,098)**	

42 Interest rate risk analysis

The following table shows the interest rate contracted re-pricing risk of financial assets and liabilities of the Group as at 31 December 2017, based on the earlier of contractual interest rate repricing or maturity:

	Less than 1 month ’000 EUR	**1 to 3 months ’000 EUR**	**3 months to 1 year ’000 EUR**	**1 to 5 years ’000 EUR**	**More than 5 years ’000 EUR**	**Non-interest bearing ’000 EUR**	**Total ’000 EUR**
Financial assets							
Cash and balances with Bank of Latvia	-	-	-	-	-	875,883	**875,883**
Financial instruments at fair value through profit or loss	-	-	-	-	-	15,557	**15,557**
Loans and receivables due from banks	-	-	-	-	-	462,796	**462,796**
Loans and receivables due from customers	87,472	264,605	53,739	200,147	3,046	223,331	**832,340**
Reverse repo	-	-	-	-	-	40,825	**40,825**
Available-for-sale assets	14,275	133,217	45,452	106,857	21,217	8,748	**329,766**
Held-to-maturity investments	505	14,322	31,589	180,262	3,940	46,896	**277,514**
Total financial assets	**102,252**	**412,144**	**130,780**	**487,266**	**28,203**	**1,674,036**	**2,834,681**
Financial liabilities							
Financial instruments at fair value through profit or loss	-	-	-	-	-	30	**30**
Due to Bank of Latvia	-	-	-	-	-	120,000	**120,000**
Deposits and balances due to banks	-	-	-	500	-	26,687	**27,187**
Current accounts and deposits due to customers	13,482	19,889	74,515	140,217	11,048	2,081,361	**2,340,512**
Total financial liabilities	**13,482**	**19,889**	**74,515**	**140,717**	**11,048**	**2,228,078**	**2,487,729**
Net position as at 31 December 2017	**88,770**	**392,255**	**56,265**	**346,549**	**17,155**	**(554,042)**	
Net position as at 31 December 2016	**196,746**	**301,658**	**(70,101)**	**255,870**	**(3,399)**	**(333,897)**	

42 Interest rate risk analysis, continued

The following table shows the interest rate contracted re-pricing risk of financial assets and liabilities of the Group as at 31 December 2016, based on the earlier of contractual interest rate repricing or maturity:

	Less than 1 month '000 EUR	1 to 3 months '000 EUR	3 months to 1 year '000 EUR	1 to 5 years '000 EUR	More than 5 years '000 EUR	Non-interest bearing '000 EUR	Total '000 EUR
Financial assets							
Cash and balances with Bank of Latvia	-	-	-	-	-	836,961	**836,961**
Financial instruments at fair value through profit or loss	11	17	938	12,219	2,214	1,653	**17,052**
Loans and receivables due from banks	144	5,194	-	-	-	517,086	**522,424**
Loans and receivables due from customers	199,743	320,124	85,401	178,043	587	261,022	**1,044,920**
Reverse repo	898	-	-	-	-	92,537	**93,435**
Available-for-sale assets	38,123	81,177	96,886	132,475	10,287	108,636	**467,584**
Held-to-maturity investments	-	5,319	9,100	252,014	5,954	47,187	**319,574**
Total financial assets	**238,919**	**411,831**	**192,325**	**574,751**	**19,042**	**1,865,082**	**3,301,950**
Financial liabilities							
Financial instruments at fair value through profit or loss	-	-	-	-	-	442	**442**
Due to Bank of Latvia	-	-	-	-	-	120,000	**120,000**
Deposits and balances due to banks	-	285	-	500	-	33,311	**34,096**
Current accounts and deposits due to customers	4,050	28,711	128,503	165,623	12,154	2,403,685	**2,742,726**
Issued debt securities	-	-	37,037	20,283	-	489	**57,809**
Total financial liabilities	**4,050**	**28,996**	**165,540**	**186,406**	**12,154**	**2,557,927**	**2,955,073**
Net position as at 31 December 2016	**234,869**	**382,835**	**26,785**	**388,345**	**6,888**	**(692,845)**	
Net position as at 31 December 2015	**1,012,555**	**333,612**	**41,749**	**345,546**	**5,215**	**(1,414,433)**	

42 Interest rate risk analysis, continued

The following table shows the interest rate contracted re-pricing risk of financial assets and liabilities of the Bank as at 31 December 2017, based on the earlier of contractual interest rate repricing or maturity:

Financial assets	Less than 1 month '000 EUR	1 to 3 months '000 EUR	3 months to 1 year '000 EUR	1 to 5 years '000 EUR	More than 5 years '000 EUR	Non-interest bearing '000 EUR	Total '000 EUR
Cash and balances with Bank of Latvia	-	-	-	-	-	875,856	**875,856**
Financial instruments at fair value through profit or loss	-	-	-	-	-	445	**445**
Loans and receivables due from banks	-	-	-	-	-	462,086	**462,086**
Loans and receivables due from customers	113,093	334,874	50,644	189,625	51	228,700	**916,987**
Reverse repo	-	-	-	-	-	40,823	**40,825**
Available-for-sale assets	14,275	133,217	45,452	106,857	21,217	21,843	**342,861**
Held-to-maturity investments	-	13,986	31,589	180,262	3,941	46,895	**276,673**
Total financial assets	**127,368**	**482,077**	**127,685**	**476,744**	**25,209**	**1,676,650**	**2,915,733**
Financial liabilities							
Financial instruments at fair value through profit or loss	-	-	-	-	-	30	**30**
Due to Bank of Latvia	-	-	-	-	-	120,000	**120,000**
Deposits and balances due to banks	-	-	-	500	-	26,528	**27,028**
Current accounts and deposits due to customers	13,482	19,885	72,319	139,733	11,048	2,102,747	**2,359,214**
Issued debt securities	-	-	-	-	-	-	**-**
Total financial liabilities	**13,482**	**19,885**	**72,319**	**140,233**	**11,048**	**2,249,305**	**2,506,272**
Net position as at 31 December 2017	**113,886**	**462,192**	**55,366**	**336,511**	**14,161**	**(572,655)**	
Net position as at 31 December 2016	**213,098**	**365,338**	**(76,106)**	**231,851**	**(5,686)**	**(311,510)**	

42 Interest rate risk analysis, continued

The following table shows the interest rate contracted re-pricing risk of financial assets and liabilities of the Bank as at December 31, 2016, based on the earlier of contractual interest rate repricing or maturity:

Financial assets	**Less than 1 month ’000 EUR**	**1 to 3 months ’000 EUR**	**3 months to 1 year ’000 EUR**	**1 to 5 years ’000 EUR**	**More than 5 years ’000 EUR**	**Non-interest bearing ’000 EUR**	**Total ’000 EUR**
Cash and balances with Bank of Latvia	-	-	-	-	-	836,920	**836,920**
Financial instruments at fair value through profit or loss	-	-	-	-	-	1,333	**1,333**
Loans and receivables due from banks	144	5,194	-	-	-	516,383	**521,721**
Loans and receivables due from customers	216,106	386,399	80,709	165,965	513	267,181	**1,116,873**
Reverse repo	898	-	-	-	-	92,537	**93,435**
Available-for-sale assets	38,123	81,177	96,886	132,474	10,287	152,031	**510,978**
Held-to-maturity investments	-	2,741	7,952	252,014	5,954	47,187	**315,848**
Total financial assets	**255,271**	**475,511**	**185,547**	**550,453**	**16,754**	**1,913,572**	**3,397,108**
Financial liabilities							
Financial instruments at fair value through profit or loss	-	-	-	-	-	442	**442**
Due to Bank of Latvia	-	-	-	-	-	120,000	**120,000**
Deposits and balances due to banks	-	285	-	500	-	33,172	**33,957**
Current accounts and deposits due to customers	4,050	28,711	127,730	165,169	12,153	2,429,926	**2,767,739**
Issued debt securities	-	-	37,037	20,459	-	489	**57,985**
Total financial liabilities	**4,050**	**28,996**	**164,767**	**186,128**	**12,153**	**2,584,029**	**2,980,123**
Net position as at 31 December 2016	**251,221**	**446,515**	**20,780**	**364,325**	**4,601**	**(670,457)**	
Net position as at 31 December 2015	**1,023,928**	**390,331**	**34,405**	**327,060**	**(3,778)**	**(1,398,188)**	

43 Interest in other entities

Non-controlling interest in subsidiaries

The following table summarises the information relating to each of the Group`s subsidiaries that have material non-controlling interests (NCI), before any intra-group eliminations as at 31 December 2017 and for the year ended:

`000 EUR	InCredit Group SIA	RAM Fund-Fixed income High Yield USD	RAM Fund-Fixed income Investment grade USD	Other subsidiaries	Total
Percentage of Non-controlling interest	**49%**	**40.50%**	**48.82%**		
Financial instruments at fair value through profit or loss	-	4,996	7,244		
Loans and advances due from customers	43,236	-	-		
Loans and receivables due from banks	297	2,478	1,225		
Other assets	409	-	-		
Deposits and balances due to financial institutions	(33,295)	-	-		
Current accounts and deposits due to customers	(2,196)	-	-		
Other liabilities	(3,408)	(17)	(14)		
Net assets	**5,043**	**7,457**	**8,455**		
Carrying amount of Non-controlling interest	**2,471**	**3,020**	**4,128**	**647**	**10,266**
Revenue	9,717	450	399		
Profit after tax	2,722	350	309		
Total comprehensive income	**2,722**	**350**	**309**		
Profit/(loss) allocated to Non-controlling interest	**1,334**	**142**	**151**	**(70)**	**1,557**
Cash flows from operating activities	(4,166)	(542)	2,577		
Cash flows from investment activities	(108)	-	-		
Cash flows from financing activities, before dividends to NCI	5,532	162	(2,885)		
Cash flows from financing activities - cash dividends to NCI	(1,176)	-	-		
Net increase (decrease) in cash and cash equivalents	**82**	**(380)**	**(308)**		

43 Interest in other entities, continued

The following table summarises the information relating to each of the Group`s subsidiaries that has material non-controlling interests (NCI), before any intra-group eliminations as at 31 December 2016 and for the year ended:

`000 EUR	InCredit Group SIA	RAM Fund-Fixed income High Yield USD	RAM Fund-Fixed income Investment grade USD	Other subsidiaries	Total
Percentage of Non-controlling interest	**49%**	**32.64%**	**65.63%**		
Financial instruments at fair value through profit or loss	-	4,727	10,673		
Loans and advances due from customers	35,045	-	-		
Loans and receivables due from banks	221	3,226	1,724		
Other assets	715	-	-		
Deposits and balances due to financial institutions	(27,011)	-	-		
Current accounts and deposits due to customers	(1,726)	-	-		
Other liabilities	(2,522)	(17)	(16)		
Net assets	**4,722**	**7,936**	**12,381**		
Carrying amount of Non-controlling interest	**2,314**	**2,590**	**8,126**	**1,688**	**14,718**
Revenue	8,611	1,083	690		
Profit after tax	1,874	1,247	966		
Total comprehensive income	**1,874**	**1,247**	**966**		
Profit/(loss) allocated to Non-controlling interest	**918**	**407**	**634**	**290**	**2,249**
Cash flows from operating activities	(502)	1,692	(352)		
Cash flows from investment activities	(47)	-	-		
Cash flows from financing activities, before dividends to NCI	1,503	(436)	(1,146)		
Cash flows from financing activities - cash dividends to NCI	(833)	-	-		
Net increase (decrease) in cash and cash equivalents	**121**	**1,256**	**(1,498)**		

43 Interest in other entities, continued

The Group is holding units of investment funds for which it acts as asset management company, i.e. has power over individual investment decisions in line with investment strategy published in the prospectus. The Group is obtaining fixed fee for asset management and custodian services. As at 31 December 2017 and 2016, the Group evaluated that it has control over the investment funds and the funds are consolidated. Units of the funds are traded on regular basis.

44 Disposal of subsidiaries

The disposal of the subsidiaries in 2017 had the following effect on the Group`s assets and liabilities at the date of disposal:

`000 EUR	Miera 30C SIA	Rietumu IT services SIA	Rietumu Transport un Logistics SIA	Ilūkstes siltums SIA	RB Namu serviss SIA	Total
Disposed shares %	**100%**	**100%**	**100%**	**100%**	**100%**	
Assets						
Cash and due from central banks	-	-	-	5	-	**5**
Loans and receivables due from banks	24	691	3	11	11	**740**
Loans and receivables	-	-	-	14	-	**14**
Property and equipment	-	305	-	20	4	**329**
Intangible assets	-	835	-	-	-	**835**
Other assets	-	72	-	19	15	**106**
Current tax asset	1	-	-	-	-	**1**
Liabilities						
Current accounts and deposits due to customers	-	-	-	(2)	-	**(2)**
Other liabilities	-	(90)	-	(60)	(14)	**(164)**
Net identifiable assets and liabilities	**25**	**1,813**	**3**	**7**	**16**	**1,864**
Attributable to equity holders of the Bank	**25**	**1,813**	**3**	**7**	**16**	**1,864**
Consideration received	**25**	**300**	**3**	**190**	**3**	**521**

44 Disposal of subsidiaries, continued

The disposal of the subsidiaries in 2016 had the following effect on the Group`s assets and liabilities at the date of disposal:

	RB Commercial Consulting Co SIA	Total
Disposed shares %	**100%**	**100%**
	’000 EUR	**’000 EUR**
Assets		
Loans and advances due from banks	1	**1**
Property and equipment	2	**2**
Other assets	17	**17**
Liabilities		
Other liabilities	(26)	**(26)**
Net identifiable assets and liabilities	**(6)**	**(6)**
Attributable to equity holders of the Bank	**(6)**	**(6)**
Consideration received	**-**	**-**

45 Acquisition of subsidiaries

In 2017 no new subsidiaries were acquired.

In 2016, RB Investments SIA (a subsidiary of the Bank) acquired the following subsidiaries:

	KI – 135 SIA Group	**Ekoagro SIA**	**Penrox Petroleum SIA**
Date of acquisition	28.11.2016	25.10.2016	28.01.2016
Acquired shares %	100%	100%	100%

The acquisition of the subsidiaries had the following effect on the Group`s assets and liabilities at the date acquisition:

‘000 EUR	**KI – 135 SIA Group**	**Ekoagro SIA**	**Penrox Petroleum SIA**	**Total**
Assets				
Loans and advances due from banks	41	2	1	44
Loans and advances due from customers	-	45	-	45
Investment property	4,425	5,370	464	10,259
Property and equipment	41	-	-	41
Current tax asset	4	-	-	4
Other assets	136	9	397	542
Liabilities				
Deposits and balances due to banks	(4,995)	(5,370)	(312)	(10,677)
Current accounts and deposits due to customers	(25)	(34)	(22)	(81)
Other liabilities	(156)	(35)	(385)	(576)
Deferred tax liability	(146)	-	(35)	(181)
Net identifiable assets and liabilities	**(675)**	**(13)**	**108**	**(580)**
Net identifiable assets and liabilities attributable to equity holders of the bank	**(675)**	**(13)**	**108**	**(580)**
(Goodwill)/Negative goodwill	**(676)**	**(23)**	**98**	**(601)**
Consideration paid	**1**	**10**	**10**	**21**

Acquisition of business

On 18th of November 2016, the Group acquired the full control over a business combination KI-135 SIA the main operating activity of which is renting and maintenance own or leased investment property. The company operates in Latvia and is acquired for further development.

Acquisition of investment property through purchase of subsidiaries

On 25th of October 2016, the Group acquired 100% shares in Ekoagro SIA The investment property consists of commercial premises in Riga and has been acquired for further development.
On 28th of January 2016 the Group has acquired 100% shares in Penrox Petroleum SIA.The company manages an investment property object in Riga region.

Investment properties are valued at fair value based on independent appraisers report.

46 Transactions with non-controlling interest without impact on control

In October 2017, the Group acquired additional 33.11% interest in SBD SIA, increasing its ownership from 66.89% to 100%.

The result of the transaction is summarized below:

`000 EUR	**SBD SIA**	**Total**
Non-controlling interest purchased	**33.11%**	**33.11%**
Net assets at the date of the purchase	**62**	**62**
Consideration paid	**-**	**-**
Impact on individual items of equity		
Increase in retained earnings	21	21

47 Liquidation of CIF RB Opportunity Fund I

On 22nd of June 2017, the Bank and the Board of CIF RB Opportunity Fund I (the Fund) decided to liquidate the Fund (100% owned by the Bank). The decision was made to optimize the operations of the Group. The liquidation process was finished on 21st of December 2017. The liquidation had the following effect on the Bank`s assets and equity at the date of liquidation:

‘000 EUR	
Assets	
Cash	16,696
Available-for-sale assets	(26,504)
Investments in subsidiaries	9,808
Equity	
Fair value reserve	(3,194)
Profit for the period	3,194

48 Subsequent events

Recent developments in the Latvian banking market

In the beginning of year 2018 Latvian banking sector faced local and international reputational crisis that has been demonstrated by a number of events:

- On 13 February 2018, the U.S. Department of the Treasury's Financial Crimes Enforcement Network ('FinCEN') issued a finding and notice of proposed rulemaking ('NPRM'), pursuant to Section 311 of the USA PATRIOT Act, against one of Latvia's largest banks. On 19 February 2018, following an outflow of funds from that bank, the European Central Bank (ECB) instructed the local banking regulator to impose a moratorium on outgoing payments from that bank. On 24 February 2018, the process of effectively a wind up of the bank started.
- On 17 February 2018, a high government official was detained by Latvia's anti-corruption authorities ('KNAB') in a bribery-linked allegation case in banking sector.
- US government representatives' call for swift changes to banks' business models in the industry, for a decrease of volumes and number of non-resident business in Latvian banks and further improvements in anti-money laundering area.
- In response to the above developments, in March 2018, the Financial Sector Development Council of the Republic of Latvia approved the proposals concerning AML/CTF laws that are presumed to, among other things, introduce a prohibition to service shell companies. The legislation is expected to come into force in May 2018. In addition, also in March 2018, the Bank was in discussions with the Commission, who expressed its expectation for the Bank to prepare a new strategy supported by long term business plan assuming substantial reduction of its exposure to and business with customers not domiciled in the Republic of Latvia (non-resident customers).

The Bank's response

These changes affect not only services to the existing customers of the Bank but also require review of potential target markets and customers of the Bank.

Significant amendments to the Bank's strategy are planned to be developed and implemented in year 2018 and beyond.

As an immediate response, on 13 March 2018, the Bank decided to initiate process of re-translating effectively all customer balances previously denominated in USD into Euros. As at 31 March 2018, the Bank's liquid assets denominated in USD were USD 264 million and total current liabilities denominated in USD were USD 297 million. The USD currency position was fully hedged. Total assets of the Bank fell by 28% in the first quarter 2018. Funds at current accounts and deposits due to customers decreased to EUR 1.5 billion at the end of 1st quarter 2018 comparing to EUR 2.4 billion as at 31 December 2017. The Bank has successfully managed this outflow following its conservative liquidity management policy. Despite the severe outflow on customers' funds, the Bank continues to hold strong liquidity position with the Liquidity coverage ratio (LCR) at the end of 1st quarter being 1011% with minimum requirement of 100% (according Regulation (EU) No 575/2013 Of The European Parliament And Of The Council). The fall of assets led to decrease in total risk exposure amount and change in capital ratio. The Capital ratio rose to 31% at the end of 1st quarter of 2018 from 24.36% at the end of 2017. The own funds were EUR 431,272 at the end of March comparing with EUR 440,681 thousand as at 31 December 2017. The Bank has been profitable in 1st quarter of 2018.

On 19 March 2018, the Bank decided to reclassify more than 4,000 of its corporate customers from "High Risk" category to "Prohibited Risk" category. Prohibited Risk means that the Bank is to terminate its relationship with these customers within a period of two months. In addition, customers classified as "Prohibited Risk" are not allowed to execute transactions. Account closure of a "Prohibited Risk" account is subject to increased compliance restrictions. These customers represent about two-thirds of all non-Latvian corporate customers of the Bank. The majority of these customers are domiciled outside the EU and OECD in so-called off-shore jurisdictions.

Furthermore, effective 19 March 2018, the Bank decided not to accept any new corporate customers domiciled outside of EU or OECD.

The management of the Bank and the Group is continuously monitoring and assessing the market situation and potential impact of the above market developments on the Bank and the Group. Based on information available to the management at the date of these financial statements, the management is confident that the measures in place at the Bank at this moment, planned future changes to the business model and implemented strategy are sufficient and appropriate to ensure further successful operations of the Bank and the Group. Management believes that the Bank will come out stronger when its new strategy is successfully implemented.

Please refer to Note 49 Going concern assumption for further details.

At the end of April 2018 the Council of the Bank approved new Chairman of the Board - Rolf Paul Fuls.

On 26 April 2018 the Parliament of Latvia adopted amendments to the Law on prevention of laundering of proceeds derived from criminal activity and terrorist financing. The amended law will enter into force on the day following its promulgation. The amendments to the law include a prohibition to enter into and maintain business relationships, or to carry out one-off transactions, with shell arrangements that simultaneously meet the criteria set out in points a) and b) of Section 1, paragraph 151 of the law.

It is specified in the amendments that the Financial and Capital Market Commission (FCMC) should issue regulations that lay down the minimum measures to be taken to verify the compliance of a shell arrangement to the criteria set out in points a) and b) of Section 1, paragraph 151 of the law In order to be able to make a sound decision on further cooperation with existing customers that are shell arrangements and to assess the potential impact of the amendments on banking operations, the Bank will wait for the FCMC to issue regulations which have not yet been adopted.

49 Going Concern assumption

In July 2017, the Bank was fined by the Financial and Capital Market Commission (“FCMC” or the “regulator”) of the Republic of Latvia EUR 1,567 thousand for breaches of the Anti-Money Laundering (“AML”) Law and regulatory requirements. In an administrative agreement with the regulator, the Bank accepted the fine, and committed to relevant improvements of its internal control system in the area of AML.

In March 2018, the government of Latvia expressed its intent to strengthen the legislation on servicing foreign customers. Consequently, the introduced amendments may result in a further part of the Bank’s customers being recognized as prohibited. It is considered that a high risk is connected with servicing foreign customers who rely in their operations on legal arrangements established in, among others, low tax countries.

Following the events in the market of February and March 2018, the Bank adopted a number of immediate steps (described in Note 48 *Subsequent events*).

Furthermore, significant amendments to the Bank’s strategy are planned to be developed and implemented in year 2018 and beyond.

Management of the Bank expects to complete preparation of its new strategy by June 2018.

Given that the details of the building blocks of the new strategy are not available as at the date of these financial statements due to the fact that the details of the changes in Latvian legislation are not yet published and adopted into law, there is a material uncertainty related to the above events and conditions that may cast significant doubt on the Bank’s and the Group’s ability to continue as a going concern. As a result, the Bank and the Group may be unable to realize its assets or discharge its liabilities in the normal course of business. The management is confident that the response initiated in February and March 2018 will ensure a sustainable future development and profitability of the Bank and the Group.

In relation to the above uncertainty, the Bank have performed several stress tests with the aim to assess potential impact of different severe adverse scenarios on the Bank’s financial position, its performance, and regulatory ratios. None of the stress-testing scenarios resulted into the Bank’s or Group’s liquidity or capital adequacy levels falling below required thresholds.

The Bank plans to build future funding for the Bank on the pillars of savings accounts, investment banking products for private accounts and EU / OECD registered customers. Given the fact that the Bank already has a significant number of such customers, that the Bank already offers a product mix that is tailored for such customers and that the Bank has significant expertize in these areas, the Bank is confident that it will successfully build this funding base. The Bank plans to build future pillars of lending on corporate lending and investment projects in the Baltics in which the Bank also has significant experience. The Bank and Group also plan to expand its existing asset management and E-Commerce activities. As of date of this report, the Bank has terminated the employment of more than 150 employees. The Bank is also in the process of closing all its representative offices. The Bank has had a very low cost to income ratio for many years and the Bank plans to continue saving efforts to maximize the Bank's profitability.

Management believes that the activities and measures being undertaken to fundamentally transform the Bank's business model will not have a material impact on the Bank's or the Group's financial or operational stability. Among other things, as discussed above, all relevant statutory core ratios are expected to remain above the required minimum levels.

Nevertheless, the transformation is expected to have a direct effect on the expense and revenue structure, and will necessitate changes to the key business processes, as outlined above. The change in the customer base will enable the Bank to mitigate its compliance and reputational risks significantly.

Having considered the facts and circumstances laid out in the preceding paragraphs, these separate and consolidated financial statements were prepared on the going concern basis, and they do not include any adjustments that would have been required had the Bank or the Group not applied the going concern basis of accounting. As the transformation process is ongoing, the management made certain judgements and assumptions related to future events disclosed above that form the basis for financial plans for 2018 and further years and allowed the management to conclude on the appropriateness of further application of the going concern basis in the preparation of these separate and consolidated financial statements. The Board of Directors admits that material uncertainty exists in relation to the future outcomes of these events that may cast significant doubt on the Bank's and the Group's ability to continue as a going concern. The key sources of this uncertainty include:

- The ability of the Bank and the Group to implement the measures to reduce the regulatory, compliance and reputational risks outlined above;
- The ability of the Bank and the Group to demonstrate the practical viability of the new business model, including the reduction in administrative expenses;
- Any potential fines and/or sanctions resulting from the AML/CTF area being now subject to an increased scrutiny (see also Note 4(e) Risk of Money Laundering and Terrorism Financing, and Violation of Sanctions); and
- litigation in which the Bank and the Group are involved (see Note 36).