ABLV

ABLV Bank, AS in liquidation

Consolidated and Separate Annual Report for 2017

and the independent auditor's report

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Liquidation Committee Report

Ladies and gentlemen, dear shareholders of ABLV Bank, AS in liquidation,

In 2017, ABLV Bank, AS in liquidation updated its business strategy and by the end of the year, all bank key performance indicators, including capital adequacy and liquidity ratio, remained at high levels. Other companies of ABLV group have also reached the set objectives.

Under the execution of the Administrative Agreement concluded with the Financial and Capital Market Commission (hereinafter – FCMC) on 26 May 2016, in the reporting period there were EUR 9.5 million invested in improvement of IT systems and business processes related to client and transaction control. In addition, from the end of 2016, the FCMC carried out off-site target inspections in the bank, which resulted with initiation of administrative case on 24 May 2017, while on 24 November 2017 the FCMC and the bank concluded an administrative agreement, in which the parties agreed on closing the administrative proceeding. The FCMC acknowledged that it had not detected any violations of international sanctions in the bank's operations, including European Union sanctions, Latvian national sanctions and United States of America (hereinafter – the U.S.) sanctions.

In 2017, the bank continued improving its internal control system, inter alia in the field of AML/CTF and sanctions risk management. Given that, in the reporting period the bank concluded a three-year agreement with Financial Integrity Network, a company from the U.S., engaging it as its principal strategic compliance advisor in anti-money laundering, counter-terrorist financing and prevention of sanctions.

However, on 13 February 2018 the Financial Crimes Enforcement Network (hereinafter – FinCEN) of the U.S. Department of the Treasury widespread a report, which resulted in bank's operations encumbrance. Shortly after that, following the instruction of the European Central bank (hereinafter – ECB), the FCMC imposed payment restrictions on clients' debit operations starting from 19 February 2018 and gave the bank time for taking measures for stabilisation of the situation and ensuring the necessary funds for continuing normal operation.

Nevertheless, within one week the bank managed to accumulate and make immediately available more than EUR 1.36 billion for strengthening its liquidity in order to resume operation, on 23 February 2018 the bank received a decision of the Board of FCMC "About occurrence of unavailability of deposits" in the bank. This decision *per se* meant that the bank is to be liquidated.

In order to ensure maximum protection of the interests of the bank's clients and creditors, on 26 February 2018 at an extraordinary meeting of shareholders of the bank there was a decision taken about voluntary liquidation, believing that in this way the asset protection will be best ensured in order to settle up with all creditors in completely. The liquidation plan is drawn-up for a 5-year period, within which it is planned to sell the major part of assets and satisfy all claims of the creditors. After the liquidation application was submitted to the FCMC on 5 March 2018, an international auditing company was engaged for independent assessment of the liquidation plan, the assessment was submitted to the FCMC on 16 April 2018 in order to confirm that the assets of the bank exceed its liabilities.

ABLV Bank, AS in liquidation (since 13.06.2018), previously – ABLV Bank, AS (before 12.06.2018), registration No. 50003149401, legal address: 23 Elizabetes Str., Riga, LV-1010, Latvia. The bank's license was issued on 9 September 1993, registered in the FCMC's registry of licences under No. 06.01.05.001/313.

On 12 June 2018, the FCMC approved the voluntary liquidation of the bank and submitted an application to the European Central Bank about withdrawal of the license. By this decision of the FCMC, all members of the board and the council of the bank lost their powers. By the decision of the Register of Enterprises of the Republic of Latvia of 14 June 2018 there are notes added to the commercial register about appointing the liquidators of ABLV Bank, AS in liquidation, who shall take over the functions of the board and the council of the bank and whose task will be to gain maximum profit from sale of the bank's assets in order to satisfy claims of all creditors.
On 11 July 2018, ECB adopted a decision on the annulment of the licence of ABLV Bank, AS in liquidation. This decision became effective on 12 July 2018. Annulment of the licence is one of the steps planned under the self-liquidation plan of the bank.

By the end of 2017, there were 685 employees working in the bank, while in all ABLV group companies in total – 847. After the decision made by the shareholders about the voluntary liquidation, in April 2018 a gradual termination of employment relationships was started with the employees whose services will not be required during the liquidation process.

Key financial indicators

The bank's key financial indicators of 2017:

- The bank's operating income totalled EUR 101.4 million, while profit amounted to EUR 44.7 million.

- As at 31 December 2017 amount of deposits with the bank equalled EUR 2.68 billion, while the assets amounted to EUR 3.68 billion.
- The amount of issued debt securities reached EUR 529.3 million.
- The bank's loan portfolio made up EUR 996.1 million.
- The bank's capital and reserves amounted to EUR 361.0 million.
- As at 31 December 2017, CET 1 capital adequacy ratio was equal to 16.28%, bank's capital adequacy ratio was 21.08%, and liquidity — 81.05%.
- As at 31 December 2017, ROE[1] reached 13.45%, and ROA[1] – 1.19%.
- Taxes paid by the group to the state budget amounted to EUR 20.9 million.

Upon their operation, the group and the bank are exposed to various risks, the most substantial of them being credit risk, market risk, liquidity risk, operational risk and other risks. More information on the group's risk management is set out in notes 34 through 38 of this year's annual report.

The total amount of the securities portfolio was equal to EUR 1.79 billion, as at 31 December 2017. The bank's securities portfolio is mostly composed of fixed-income debt securities, and 91.0% of the portfolio is constituted by securities having investment level credit rating. In terms of major countries, the securities are allocated as follows: USA – 40.2%, Germany – 12.1%, Latvia – 11.9%, Russia – 9.1%, Sweden – 5.6%, Canada – 3.7%, Finland – 3.2%, Austria – 2.0% and Netherlands – 2.0%. Whereas additional 1.6% is constituted by securities issued by international institutions. In the reporting period, average annual yield of the securities portfolio amounted to 2.16%.

ABLV group maintained conservative strategy for investment in securities. By limiting the credit risk and liquidity risk, it was ensured that investments in increased credit risk securities did not exceed 30% of the total securities portfolio. The bank has been limiting exposure of its available-for-sale portfolio to the interest rates' risk, controlling its weighted average modified duration, which shall not exceed 3.

Investments

Total assets under management of ABLV Asset Management, IPAS that clients have invested in the mutual funds managed by the company constituted EUR 130.6 million as at the end of 2017.

In the reporting period, ABLV Asset Management, IPAS started a business line of pension capital management in Latvia, offering to all citizens of Latvia a new second pension pillar plan – ABLV Active Investment Plan. By the end of 2017, ABLV Active Investment Plan managed to engage more than 700 members, while its assets exceeded EUR 7 million. In February 2018, ABLV Asset Management, IPAS signed an agreement with ABLV Bank about terminating the custodian bank agreement and concluded an agreement with Citadele banka, which will further on be the custodian bank for ABLV Active Investment Plan.

Meanwhile, ABLV Capital Markets, IBAS, which is carrying out sale and purchase of all types of financial instruments upon orders of clients, made profit of EUR 2.1 million in the reporting period. Total assets of the company`s clients invested in financial instruments amounted to EUR 1.34 billion as at 31 December 2017.

In 2017, good performance was demonstrated by New Hanza Capital, AS, ABLV group`s company for investments in commercial real estate. New Hanza Capital group worked at EUR 7.9 million profit and the good performance is explained with the increase in lease revenue from the managed properties, as well as revaluation of the real estate portfolio. In the reporting period, New Hanza Capital also carried out its first bond issue in order to attract additional capital for economic activity needs. The total size of the issue was EUR 10 million.

Real estate

Pillar group companies continued the development of the New Hanza project. In September 2017, the first stage infrastructure works were completed, while in H2 2017 Pillar started the construction of the office buildings. Also, at the end of the year the reconstruction of a multifunctional culture centre Hanzas perons (former Riga Cargo Railway Station) was launched.

By the end of 2017, the total investments in the development of New Hanza exceeded EUR 50 million, and there were more than 650 contractors involved in construction works that took place at New Hanza territory.

Given the difficulties that ABLV group companies faced after the released FinCEN statement, the initially planned construction works at the New Hanza territory are now suspended. Currently, it is planned to resume the works to complete the projects to a certain stage of development and/or freezing the construction.

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[1] Accounted in accordance with the FCMC Regulations No. 145 "Regulations on Preparation of Public Quarterly Reports of Credit Institutions".

Luxembourg

As at 31 December 2017, the assets of ABLV Bank Luxembourg, S.A, ABLV Bank, AS subsidiary in Luxembourg, amounted to EUR 209.9 million, while the assets under management – EUR 101.4 million. The bank's profit in 2017 amounted to EUR 758.0 thousand.

After the ECB's decision of 19 February 2018 to impose payment restrictions on clients' debit operations with the bank, the Luxembourg's regulator Commission de Surveillance du Secteur Financier (CSSF) applied a protection mechanism to ABLV Bank Luxembourg, S.A. requesting suspension of its debit operations at the Luxembourg District Court.

After the ECB's decision not to cancel the restrictions on the clients' debit operations, the Luxembourg's regulator brought an action before the Luxembourg's Commercial Court (Tribunal de Commerce de Luxembourg) in accordance with the applicable law, asking for liquidation of ABLV Bank Luxembourg, S.A.

Having reviewed the provided materials, on 9 March 2018 the Luxembourg Court adopted a decision to dismiss the request of the Luxembourg's regulator about the liquidation of ABLV Bank Luxembourg, S.A., *inter alia* substantiating its decision on the financial results of the ABLV Bank Luxembourg, S.A, namely the capital reserves (capital adequacy ratio at 23.67% versus the 10.5% set by the law) and high liquidity (liquidity coverage ratio at 171% versus the 100% minimum set by the law). Therefore, the Court decided on a different resolution and assigned two external administrators. The Court ruling about restriction to execute payments, by which the subsidiary bank's status of being under protection is maintained, enables it to look for new investors.

For society

In 2017, the bank continued supporting various socially and economically important projects for the society. According to the Bank's policy, all funds intended for charity were transferred to charitable organizations, which ensure professional and systemic management of these funds according to their objectives and programmes. Besides donating its funds, the bank encourages the employees and clients to follow the lead.

We would like to thank clients and creditors of the bank for their understanding and our employees for the enormous time investment to the bank's and the group's operation also in previously unexpected circumstances!

Arvīds Kostomārovs
Liquidator of ABLV Bank, AS in liquidation

Andris Kovaļčuks
Liquidator of ABLV Bank, AS in liquidation

Riga, 17 September 2018

The corporate governance statement is published at the website of the bank: www.ablv.com.

Non-financial Report

This non-financial report is prepared in accordance with Regulations No. 46 “On the Preparation of Annual Reports and Annual Consolidated Accounts for Banks, Investment Brokerage Firms and Investment Management Companies” adopted by Financial and Capital Market Commission of the Republic of Latvia applying the European Commission Methodology for Reporting Non-Financial Information 2017/C 215/01 and ISO standard No. 2600 of the International Organisation for Standardization.

The non-financial report was prepared in February 2018, according to the initially planned release of the annual report in Q1 2018. Information on the key events after the reporting period is provided in Note 40 of the financial report, as well on www.ablv.com.

Corporate Governance

Group’s Development and Business Model

In 2017, the group consisted of a licensed credit institution ABLV Bank, AS in liquidation and its subsidiaries. Since the day of its incorporation in 1993, the group has been growing and developing rapidly. Since 1995, the group has been actively working in the client service industry in Latvia and abroad offering wide range of banking products. In 2004, the group started developing a second business line – investment management – by establishing a licensed investment management company ABLV Asset Management, IPAS and brokerage company ABLV Capital Markets, IBAS. Since 2008, the group paid particular attention to elaboration of individual financial solutions for the clients, and in 2009, it started offering a third group of services – advisory in asset protection and structuring. In 2012, the bank founded a subsidiary bank in Luxembourg – ABLV Bank Luxembourg, S.A. – in an effort to offer a more diversified range of investment and fiduciary services and attract new clients. The companies belonging to the group as at the end of 2017 are listed in Note 18.

In 2014, a unified mechanism for supervision of European banks entered into force – supervision of the largest euro area banks was undertaken by ECB. In Latvia, the ECB in collaboration with the FCMC also supervised the bank.

In 2017, we were offering integrated and tailored-made solutions to the clients of the group:

- banking services;
- professional asset management;
- wealth management advisory services;
- real estate management.

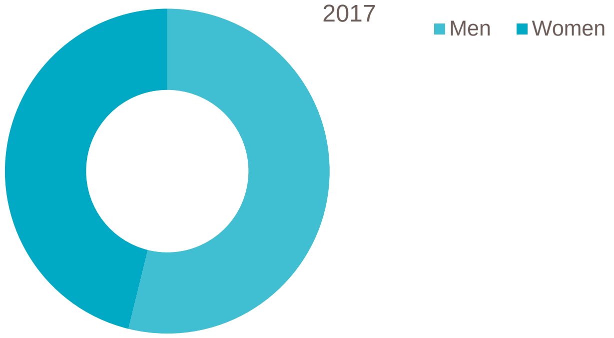
In the operation of the companies of the group, unless regulatory requirements explicitly stipulate special approach, we have always applied unified and equal requirements, policies, approaches and basic principles.

Corporate Responsibility to Employees

Group’s personnel is a loyal and solid team of employees and the most important asset of the group. This is a statement proven by a number of measures and principles aimed not only at ensuring work conditions compliant with the law, but also at rising welfare of the employees, making the work environment comfortable and forming a sense of community in the organisation.
In 2017, group’s human resources policy was in compliance with the effective regulatory enactments of the Republic of Latvia, regulations of the Financial and Capital Market Commission, internal regulations and international laws, thus fully respecting human rights and ensuring equal rights for work and development regardless of the person’s race, skin colour and gender.

Being a responsible employer as such, the group has always ensured its employees all the social guarantees provided by law and complied with the following principles in its human resources policy:

Gender diversity in management positions in the group at the end of 2017



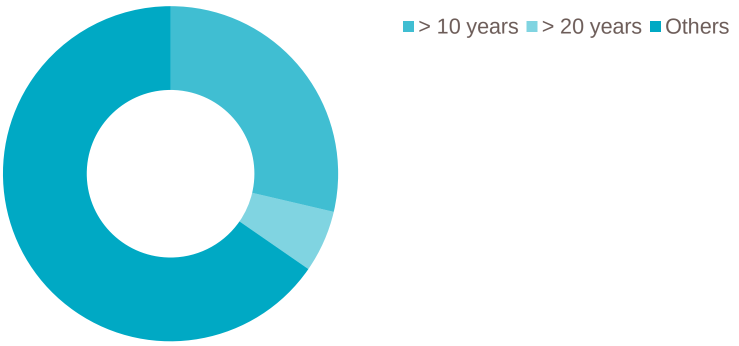
- **Career Development Opportunities**
  The group has always been offering its employees to grow professionally along with the group. The group is regularly improving its training systems that support and foster skill upgrade both within the group and through external training (different training courses, lectures, seminars are being arranged beyond the group through outsourced lecturers).

- **Transparency**
  Group's human resources policy, remuneration system, employee evaluation, career development and promotion principles are explicit to every employee. Each employee is well aware what is expected from him, what he should do in order to achieve individual development goals.

- **Stimulating, long-term-oriented remuneration**
  For each category of employees, the group develops a remuneration system to fairly compensate for their individual contribution to achievement of the group's goals at the same time preventing undertaking excessive risks upon evaluating impact of employee's work results in long-term, and to maintain low personnel turnover.

- **Honouring long-term employees**
  In 2014, the group started a tradition to honour long-term employees who have been working in the group for more than 10 or 20 years. These employees were awarded with a bronze bull statuette saying "Labor Omnia Vincit" ("Work conquers all") that is also written on the bank's art nouveau style building at 23 Elizabetes St. Important is not only the award to remember, but also the ceremony of awarding. That is why the ceremony has been included in the agenda of the group's annual event for the employees making it even more festive and important. By the end of 2017, there were 254 employees working in the group for more than 10 years, and 53 employees who have worked in the group for 20 years.

Long-term employees in the group



- **Bonuses**
  The group was offering its employees favourable conditions of health insurance, accumulative life insurance, under which in 2017 another regular disbursement of accumulated savings was made, as well as constantly conducted studies and implemented options for increasing satisfaction of the employees. In addition to annual paid leaves, the group granted its employees the right to additional off days depending on the employment period. In addition, employees were offered to use the banking products and services of the mother company on beneficial terms.

The group was holding regularly corporate events (Christmas event for the employees, event for the children of the employees, etc.). They helped strengthening the team, had positive impact on the productivity and psychological climate in the team. Also, employees of the group were offered to do various sports within ABLV teams: play football, volleyball, ice hockey and basketball. ABLV team took part also in Riga Marathon engaging the clients in this activity as well.

Another proof of the well-developed personnel policy and values regarding the employees is that the bank has been many times included in the list of TOP Employers in Latvia.

Internal Communication Website

In order to ensure comprehensive and centralised informing of the employees of the group about news in the bank and the subsidiaries, as well as to ensure feedback, the group practiced regular two-way communication with its employees not only through regular meetings, workshops and individual communication, but also through internal communication website. Rules for publishing, using and editing it are laid down in internal normative documents of the group.

The information being published on the internal website is categorised and divided into appropriate sections by theme, topicality and purpose.

Professional Behaviour and Business Ethics

As usually, in 2017, in his behaviour, each employee of the group was guided by ABLV Code – an internal code of ethics, which contains the quintessence of our corporate culture and sums up our core values, order, culture, work environment and relationships, as well as client service standards.

Work-related issues are laid down in Work Order Rules, a document binding upon all employees of the group, which *inter alia* stipulates bribery prevention measures, for example, prohibition to accept any material values, tangible or intangible goods from the clients or partners of the group, or persons acting on their behalf. The ban covers also gifts, money or gift certificates.

Any company in the group consistently follows rules of professional ethics. In order to ensure confidentiality and accordingly avoid use of classified information for self-serving purposes or any other purposes unrelated to the operation of the group, which might compromise the group as a whole or any employee in particular, a list of measures is being carried out in the field of management of conflict of interests, confidentiality, and personal data processing.

Management of Conflict of Interest

The group has developed a policy for management of conflict of interest that it is binding for every employee. The purpose of the policy and other related internal documents is to ensure preventive measures enabling to identify the cause of conflict of interest and eliminate or mitigate the negative impact of the conflict of interest that affects the interests of the clients.

To ensure timely identification, assessment and management of situations of conflict of interests, the group has developed Rules for Conflict of Interest Management providing procedure for reporting, reviewing the reports and making decisions.

In execution of their job duties, every employee shall avoid actions or situations when interests of the group and the client conflict with the interests of the personal or material interests of the employee, his relatives or business partners. The potential situations of conflict of interest and employee’s duties in conflict of interest management are laid down in the Work Order Rules. Having detected a potential situation of conflict of interest, every employee is obligated to report about it in accordance with the procedures set forth in the group.

There is a separate procedure developed for identification and control of conflict of interest in rendering investment services and management of open-end mutual funds. It is laid down in Policy for Prevention of the Conflict of Interest in the Field of Investment Services and Open-End Investment Funds Management and in Instruction about Conflicts of Interest in Transactions with Financial Instruments and their Prevention.

Confidentiality

In its operation, the group is strictly following confidentiality requirements regarding the information at its disposal. Employees are prohibited to disclose any confidential information to any third parties. Any information related to operation of the group and not publicly available is deemed confidential. The group provides information about its clients, their accounts and transactions only according to the procedure and to extent provided in the regulatory enactments. Only certain authorised employees are entitled to provide such information in accordance with their job duties and following the adopted procedure.

All and any information at disposal of the group and any information resources have a predetermined level of confidentiality. Upon classifying the information, a degree of secrecy and access rights are determined for it. The group ensures regular personnel training about use, preservation and processing of information.

The group treats information of the group, its clients and employees with equal care. Employees are not allowed to disclose personal data, address of residence, phone numbers, information about employee's family members, as well as any other information about the employee without the consent of this employee and the group. The prohibition to disclose any confidential information is provided also in the employment contract of every employee.

Personal Data Processing Protection

In preparation for the enactment of the EU General Data Protection Regulation on 25 May 2018, the group has carried out a list of activities for ensuring compliance with its requirements, as well as for improvement of its internal processes and IT solutions. The group companies are processing personal data in accordance with the requirements of Personal Data Protection Law through implementation of appropriate technical and organisational measures to ensure compliance of personal data management and protection with the effective regulations, as well as information protection regulations and procedures adopted in the group, such as Information Security Policy.

Alarming

Alarming is a person's action aimed at providing information about a potential violation or breach (for example, deficiency in internal control system, illegal or unethical deed) if such information is obtained under fulfilment of work duties or a person has reasonable grounds deemed to be true. The group has developed several channels to let employees report about the potential violations and risks. The Work Order Rules of the group describe cases about which employees can report and channels to be used for reporting. Employees are entitled to report also about any circumstances that are not provided in the Work Order Rules, yet which, in employee's opinion, may harm interests and security of the group, its information security, as well as report about major violation of these rules done by any other employee.

Improving Client Service

Client Service Principles

In 2017, the target clients of the group were legal entities and individuals looking for banking and asset management services and advisory about legal, tax and M&A issues, as well as willing to acquire real estate or rent commercial premises. All client service principles in the group's companies were based on the values of the bank, the group's mother company that enables the group to maintain consistently high quality of service and individual approach to every client.

In development of the products, we were also engaging clients through studying their requirements and needs. Keeping in mind diversity of the client pool, companies of the group did their best the products and services would be available to the broadest audience, as well as that we could service also physically impaired clients. All buildings our companies sit in are fully equipped to be available to disabled people.

Along with adoption of stricter compliance requirements regarding money laundering and terrorism financing prevention (AML/CFT), in 2017, the bank seriously reconsidered its client pool, dropping certain clients servicing whom could have caused incommensurable compliance or reputation risks. The group made major investments in this field by increasing the number of compliance specialists who worked on AML/CTF-related risk mitigation, applying new requirements in client acceptance and monitoring. In 2017, the number of compliance specialists in the bank exceeded 100 people, which means every sixth employee of ABLV bank in liquidation was working solely in compliance field.

Prevention of Fraudulent Transactions

For the purposes of improvement of its client service, there were measures implemented such as prevention of fraudulent transactions in order to protect the assets of the clients.

Aiming to protect the clients' assets from fraudulent transactions, the bank introduced several risk monitoring systems operating both online and offline for payment card and internet bank transactions. It means that the bank was not only able to analyse and control the suspicious transactions marked by the system, but also deny especially suspicious card transactions at the moment they are carried out, or suspend suspicious transactions in the Internet bank until circumstances are clarified, thus preventing potential fraud. Our card risks system is working in online mode since 2010, while Internet bank payments' risk system was introduced in 2013.

In 2017, the bank prevented potential fraudulent activities on clients' card accounts in total amount of more than EUR 1.36 million, while Internet bank payments' risk system helped prevent fraud cases in relation to clients' payments of total amount exceeding EUR 574 thousand.

Valuable Contribution to Economy

Development of Latvian Economy

The financial services rendered by ABLV Bank in liquidation, the mother company of the group, being a part of economy with a high productivity and value added were also stimulating the related industries such as insurance, exchange, infrastructure, real estate, IT, audit, advisory and many other. By the end of 2017, the bank had issued loans to Latvian companies in total amount reaching EUR 517.1 million.

In 2016, the Red Jackets movement awarded the bank as one of the best Latvian export brands.

ABLV Bank in liquidation traditionally is ranked at the top among the biggest taxpayers in banking sector: in 2017, it paid almost EUR 18.0 million in taxes, while the group as a whole paid EUR 20.9 million in taxes to state budget.
The group was also supporting and actively engaging in the work of non-profit organisations aiming to improve the general entrepreneurial environment in Latvia. We were members of the Association of Commercial Banks of Latvia, Latvian Chamber of Commerce and Industry, Employers' Confederation of Latvia. At the end of 2017, with the initiative and support of the bank, the Association of Certified Anti-Money Laundering Specialists (ACAMS) opened the Baltic Bureau. Besides, we supported the work of public policy think-tank CERTUS, since we believe that it is crucial for Latvian development to have a trustworthy research centre that would contribute to the growth of Latvian economy, as well.

Development of the New Riga Centre

The group was actively developing the new business and leisure centre in Riga – the New Hanza project. The area was intended to become a unique city neighbourhood filled with offices, residential buildings, infrastructure objects, as well as home to the Latvian Museum of Contemporary Art with a public park, etc. No doubt, it would have been able to attract new investments and increase interest in Riga as a place for economic and business activities.

Despite that the new neighbourhood project was just in the egg, the group was already trying to use its potential for public benefit. The ground that will once become the place for the Latvian Museum of Contemporary Art has already hosted a flash-exhibition called Work In Regress, which consisted of performances of 15 young Latvian artists showing their contemporary art works. It took place when the city was celebrating the White Night Festival dedicated to the contemporary art, thus attracting a lot of attention. This was not the only time New Hanza took part in projects causing great attention of the society. Under the environment objects' festival "The Way through the Christmas Trees" arranged by the municipality, territory developer Pillar offered an installation "Young Wood" created by artist Andris Eglītis. It was metaphorically portraying the shapes and elements of the future Latvian Museum of Contemporary Art to be built at New Hanza territory, and it was included in the route of the festive programme. "The Young Wood" was a call for both tourists and Riga citizens to explore Riga geographically beyond the usual boundaries of the city centre.

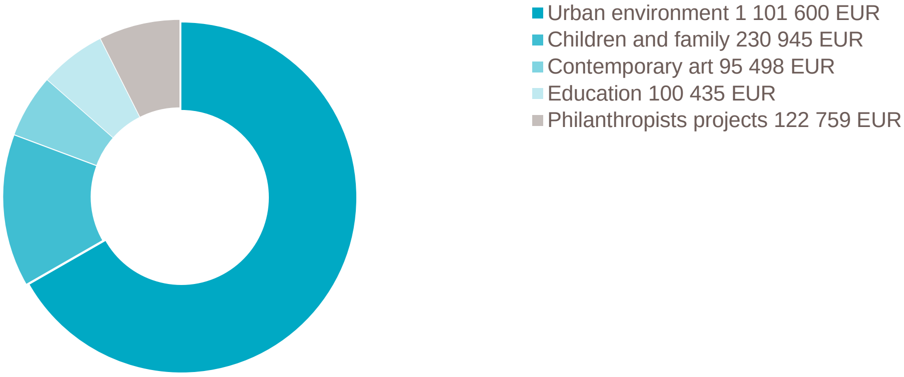
Group's Valuable Contribution to Society

Being a socially responsible organisation as such, the group was trying to take good care not only about its employees, but also about the society as a whole. In 2017, we continued several significant initiatives:

- **Christmas Charity Campaign**
  The group has always been calling its employees, clients and partners to donate to charity, for example, by donating to the programmes of ABLV Charitable Foundation. Traditionally, the biggest activity was around December, when the Christmas Charity Campaign of the Foundation started.

  Eleven years ago the ABLV Charitable Foundation was founded by Ernests Bernis and Oļegs Fiļs, the shareholders of the mother company of the group, in order to put their core values into practice and support the responsibility of entrepreneurs towards society and the environment. Over the years, the Foundation has supported 350 charity and culture projects, together with other donators assigning almost EUR 5 million for those projects. The Foundation was functioning as the group's main partner in charity, supporting creative people and outstanding organisations that invest their efforts and knowledge to achieve common significant goals – to create a united, abundant and safe society. From the day it was established, the Foundation has been focusing on contemporary art, welfare of children and adolescents, development of education and civic society, and it has become a co-founder of the future Latvian Museum of Contemporary Art. The events the group's mother company faced recently have resulted in slowing down the started and planned charity projects of ABLV Charitable Foundation, continuing merely separate programmes where possible.

Fields that ABLV Charitable Foundation was supporting in 2017



- **Contemporary art collection**
  For the pleasure of all clients and employees, in the bank's meeting areas and office rooms there were various objects of contemporary art placed. We were proud of this collection, which is one of the biggest contemporary art collections in Latvia, and new pieces were constantly added to it.

  The group was making this collection not for itself, but for our country and the people – later it was supposed to be donated to the future Latvian Museum of Contemporary Art. The pieces of collection are regularly being taken to various exhibitions. By the end of 2017, there were 1211 pieces acquired in total from 38 authors.

- **Blood Donor Day**
  In 2017, employees of the group continued participating in the comprehensive corporate blood donation called "Blood Donor Day". 63 employees donated blood, thus adding about 30 litres of blood to the reserves of the Latvian State Blood Donation Centre and helping 189 people who will need blood transfusion. The level of engagement and the number of newbies proves it once again how important this event is.

- **Shadow Day**
  In 2017, the group took part in the Shadow Day. This is a day when senior high school students come to the group's companies to watch the daily work of the specialists of various professions and to consider own future careers. We had 9 "shadows", who were mainly interested in the work of individual lending managers and assistants of private bankers.

Group's Valuable Contribution to Environment Protection

Under long-term planning of their operation and caring about sustainable development, the group companies are doing their best in protecting the environment and using the resources wisely.

Support units of ABLV Bank, AS in liquidation, the mother company of the group, and the companies of Pillar group sit in the *smart* buildings that ensure efficient use of power and heat, eliminating any losses. Also, these buildings use faucets with sensors that help to decrease water consumption. Pillar office at 28A Pulkveža Brieža Str. is a sustainable building with its reasonable exploitation costs, sufficient ventilation volume recognised to be environment and human-friendly, which was achieved through use of qualitative materials.

In order to decrease consumption of paper, the bank is not only encouraging its employees to think twice before printing, but also actively uses virtual data repository and work stations. It resulted in constantly decreasing amount of paper used in the group's daily work: in 2017 the group used 7.5% less paper than in 2016[2].

The group had also introduced measures to reduce environmental emission. The group's car fleet is being well-maintained ensuring compliance with air-emission standards.
Some external partners have also recognised the efforts of the group's mother company in reducing air emissions, for example, DHL Latvia has been awarding the group with a certificate of recognition for several years.

[2] Statistics do not include data on Pillar companies and the bank's units abroad.

Assessment of Group's Valuable Contribution

Operation of any organisation is based on efficient and mutually valuable collaboration with clients, employees, and the society. To great extent, they determine economic and social development of the company. From the very first day, the group was applying best practices, and one of our keys to success was careful analysis of the feedback of all involved parties done through the list of tools presented below.

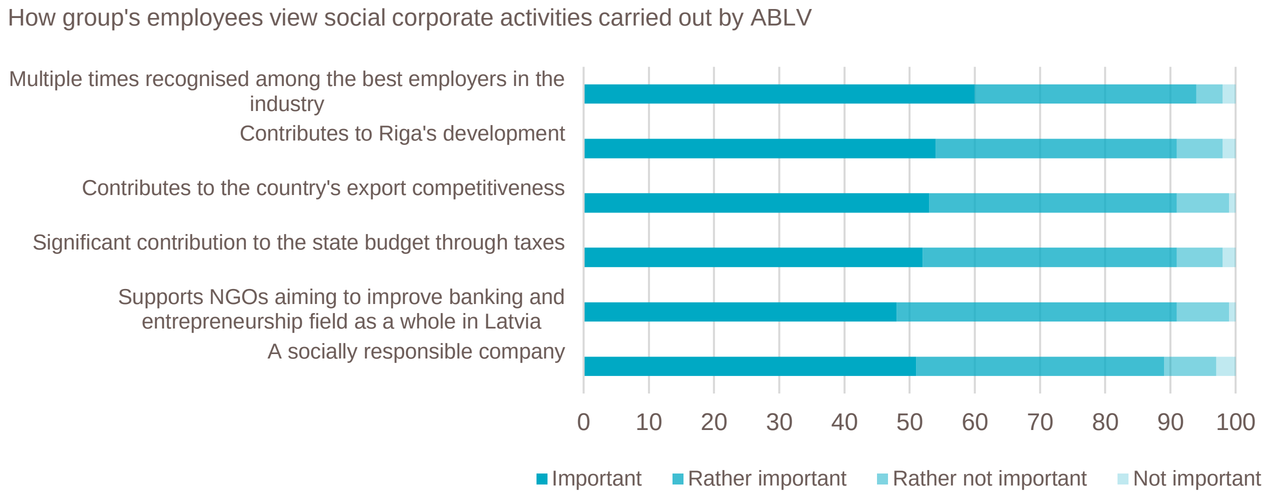
Employee Job Satisfaction Survey

The group was paying great attention to creating the work environment that enables the employees to work comfortably and feel good at their workplace. For that, we regularly carried out employee job satisfaction surveys.

According to the latest survey "ABLV Group Employee Job Satisfaction Index 2017", level of engagement among our employees is one of the highest in Latvia and substantially exceeds the average ratios in Baltics and Europe, both regarding finance industry sector and in general. It is a pure evidence of the high level of job satisfaction among employees, their motivation and positive feedbacks.

A significant job satisfaction indicator is that in 2017 84% employees definitely would have recommended the group as an employer. Almost every employee (89%) believed that the group is in ever-growing development. Moreover, our specialists are proud to be a part of the group and demonstrate high level of loyalty. Another proof of that is the average employment period – 7 years.

Notable is that in general the majority of the group's employees consider it important that the company carried out various corporate social responsibility activities.



Analysis of Client Complaints

Another tool for finding out the changes of client satisfaction level was information about clients' complaints that is used simultaneously for improvement of quality of both client service and products and services.

Having performed thorough analysis of every client complaint and acting accordingly to solve it, we significantly decreased the average number of complaints a month: there were only 24 client complaints registered in 2017 (that makes 2 complaints a month in average). The clients were mainly complaining about the issues related to their payments and fees. We provided response and solutions for every complaint. The group is assessing the complaints submitted by consumers with particular attention. In 2017, 15 complaints out of 24 submitted were coming from individuals – the consumers. In none of those cases there was a consumer rights violation.

Corporate Social Responsibility Associated Risks and Their Management

Under the general risk management strategy, the group was managing also the risks related to corporate social responsibility. These risks are managed in conjunction with other non-financial risks related to commercial operation of the company.

The key risks related to commercial operation and corporate social responsibility of the group are as follows: operational risk, AML/CTF and sanction risk, reputation risk, and compliance risk. The management of these risks is in details provided in Note 38 of the financial reports, while operational and reputation risks should be highlighted separately in the context of social responsibility.

Operational risk events that may have influenced corporate social responsibility of the group could include the following:

- fraudulent transactions (internal or external);
- incompliant employment practices and safety at workplace;
- improper attitude to the clients, incompliant products or commercial practice;
- improper use of confidential information;
- interruptions in commercial activity and system errors;
- deficiencies in execution, supply and process management.

With the key principles of operational risk management and risk mitigation methods being implemented in the group, the number of operational risk events continued dropping: in 2017, there were 6% less such events registered in comparison to 2016.

The group's **reputation risk** management was laid down in Reputation Risk Management Policy. In the context of corporate social responsibility, group also used media monitoring for reputation risk control.

Monitoring measures were carried out in order to be timely informed and to be able to react immediately to the information published in media about the companies of the group or affiliated persons in case it could have influenced the reputation risk level. There were daily reports prepared including specific data and listing the categories of reputation risks they fit in:

- high risk publication — a publication of high or very high likelihood of that in the result of reputation risk certain events will have negative impact on the group / bank;
- significant risk publication — a publication of significant likelihood of that in the result of reputation risk certain events will have negative impact on the group / bank;
- low risk publication — a publication of minimum likelihood of that in the result of reputation risk certain events will have negative impact on the group / bank;
- positive / neutral publication — the content of publication is positive or neutral, and cannot cause events that would have any negative impact on the group / bank.

In 2017, the group / bank was mentioned in 1500 articles, out of which 93% were positive or neutral for us.

Arvīds Kostomārovs
Liquidator fo ABLV Bank, AS in liquidation

Andris Kovaļčuks
Liquidator fo ABLV Bank, AS in liquidation

Riga, 17 September 2018

Information about the Bank’s Management

On 12 June 2018, the Council of the FCMC took a decision to accept the decision of shareholders’ meeting on voluntary liquidation; the date can be considered as the date of initiation of the bank’s liquidation.

As of 13 June 2018, the board and the council of the bank have lost their powers. The following persons left the position of the bank`s board members: Rolands Citajevs, Māris Kannenieks, Edgars Pavlovičs, Vadims Reinfelds, Romans Surnačovs and Chairman of the Board Ernests Bernis, and the following persons left the positions as council members: Jānis Butkevičs, Aivis Ronis un Aleksandrs Rjabovs, Deputy Chairman of the Council Jānis Krīgers and Chairman of the Council Oļegs Fiļs.

Having regard to the decision as of 14 June 2018 made in the Enterprise Register of the Republic of Latvia, information regarding the appointment of the liquidators of ABLV Bank, AS in liquidation has been registered with the Commercial Register:

Liquidation Committee

Liquidators:

Eva Berlaus
Arvīds Kostomārovs
Andris Kovaļčuks
Elvijs Vēbers

Information on the Council and the Board of the bank during the reporting period:

The council of the bank:	**Term of office (effective until 13.06.2018.):**
Chairman of the Council:	
Oļegs Fiļs	29.09.2017. - 28.09.2022.
Deputy Chairman of the Council:	
Jānis Krīgers	29.09.2017. - 28.09.2022.
Members of the Council:	
Jānis Butkevičs	29.09.2017. - 28.09.2022.
Aivis Ronis	29.09.2017. - 28.09.2022.
Aleksandrs Rjabovs	29.09.2017. - 28.09.2022.

Council Member:	**Term of office expired:**
Igors Rapoports	02.05.2016. – 15.06.2017.

During the reporting period on 15 June 2017, new members of the council of the bank were elected for the term from 15.06.2017 to 14.06.2022: Oļegs Fiļs, Jānis Krīgers, Jānis Butkevičs and Aivis Ronis, while Igors Rapoports left the position of the member of the council on 15.06.2017. On 29 September 2017, new members of the council of the bank were elected for the term from 29.09.2017 to 28.09.2022: Oļegs Fiļs, Jānis Krīgers, Jānis Butkevičs, Aivis Ronis and Aleksandrs Rjabovs.

The board of the bank:	**Term of office (effective until 13.06.2018.):**
Chairman of the Board:	
Ernests Bernis - Chief Executive Officer (CEO)	02.05.2017 – 01.05.2022.
Deputy Chairman of the Board:	
Vadims Reinfelds – Deputy Chief Executive Officer (dCEO)	02.05.2017 – 01.05.2022.
Members of the Board:	
Aleksandrs Pāže – Chief Compliance Officer (CCO)	02.05.2017 – 01.05.2022.*
Edgars Pavlovičs – Chief Risk Officer (CRO)	02.05.2017 – 01.05.2022.
Māris Kannenieks – Chief Financial Officer (CFO)	02.05.2017 – 01.05.2022.
Rolands Citajevs – Chief IT Officer (CIO)	02.05.2017 – 01.05.2022.
Romans Surnačovs – Chief Operating Officer (COO)	02.05.2017 – 01.05.2022.

During the reporting period, the board of the bank was re-elected in the above structure, with a new term of office.

* - On 21 February 2018 an application for stepping down from the position as a Member of the bank’s board from the Chief Compliance Director (CCO) Aleksandrs Pāže was received.

Statement of the Management's Responsibility

The liquidators of ABLV Bank, AS in liquidation (hereinafter – the bank) are responsible for preparation of the financial statements of the bank as well as for preparation of the consolidated financial statements of the bank and its subsidiaries (hereinafter – the group).

The financial statements and notes thereto set out on pages 21 to 101 are prepared in accordance with the source documents and present truly and fairly the financial position of the bank and the group as at 31 December 2017 and 31 December 2016, and the results of their operations, changes in the shareholders' equity and cash flows for the years then ended.

These financial statements were prepared on a going concern basis in accordance with the International Financial Reporting Standards as adopted by the European Union. Prudent and reasonable judgements and estimates have been made by the management in the preparation of these financial statements.

Liquidators of the bank are responsible for the maintenance of a proper accounting system, safeguarding the group's assets, and prevention and detection of fraud and other irregularities in the group. The liquidators of the bank are also responsible for observing compliance with the Law of the Republic of Latvia on Credit Institutions, Regulations of the Bank of Latvia and the FCMC, and other laws of the Republic of Latvia as well as European Union Regulations applicable to credit institution in liquidation.

Arvīds Kostomārovs
Liquidator fo ABLV Bank, AS in liquidation

Andris Kovaļčuks
Liquidator fo ABLV Bank, AS in liquidation

Riga, 17 September 2018

Statements of Comprehensive Income

EUR'000

	Note	Group 01.01.2017.–31.12.2017.	Group 01.01.2016.–31.12.2016. (restated)	Group 01.01.2016.–31.12.2016.	Bank 01.01.2017.–31.12.2017.	Bank 01.01.2016.–31.12.2016. (restated)	Bank 01.01.2016.–31.12.2016.
Interest income	3	83,324	86,019	86,019	78,516	84,208	84,208
Interest expense	3	(22,102)	(21,442)	(21,442)	(19,627)	(21,493)	(21,493)
Net interest income		**61,222**	**64,577**	**64,577**	**58,889**	**62,715**	**62,715**
Commission and fee income	4	44,648	53,082	53,082	36,659	45,403	45,403
Commission and fee expense	4	(7,541)	(8,475)	(8,475)	(11,929)	(14,115)	(14,115)
Net commission and fee income		**37,107**	**44,607**	**44,607**	**24,730**	**31,288**	**31,288**
Net gain from transactions with financial instruments	5	17,581	45,397	45,397	17,639	45,190	45,190
Net result from transaction with repossessed real estate	6	(2,035)	(2,423)	(2,423)	-	-	-
Other income	7	15,615	6,760	5,861	3,781	5,075	4,078
Other expenses	7	(5,866)	(3,280)	(2,833)	(1,580)	(1,449)	(1,449)
Dividend income		80	169	169	3,694	6,274	6,274
Impairment allowance for loans	8	852	332	332	880	57	57
Impairment allowance for investments in subsidiaries	18	-	-	-	(6,491)	(6,225)	(6,225)
Impairment allowance for financial instruments		(157)	(53)	(53)	(157)	(53)	(53)
Operating income		**124,399**	**156,086**	**155,634**	**101,385**	**142,872**	**141,875**
Personnel expense	9	(49,398)	(46,809)	(45,917)	(38,857)	(37,692)	(36,865)
Other administrative expense	9	(19,261)	(24,355)	(24,355)	(15,496)	(19,907)	(19,907)
Amortisation and depreciation	20	(3,868)	(3,948)	(4,059)	(3,119)	(3,131)	(3,142)
Profit before corporate income tax		**51,872**	**80,974**	**81,303**	**43,913**	**82,142**	**81,961**
Corporate income tax	10	36	(2,723)	(2,487)	790	(2,870)	(2,624)
Net profit for the year		**51,908**	**78,251**	**78,816**	**44,703**	**79,272**	**79,337**
Attributable to:							
Shareholders of the bank		50,953	78,029	78,594			
Non-controlling interests		955	222	222			
Other comprehensive income which has been or is to be reclassified to profit or loss							
Changes in fair value of revaluation reserve of available-for-sale financial assets		(787)	13,489	13,489	(932)	13,384	13,384
Change to income statement as a result of sale of available-for-sale securities		(742)	(22,031)	(22,031)	(661)	(21,950)	(21,950)
Change to income statement due to recognised impairment of available-for-sale securities		-	286	286	-	286	286
Changes in deferred corporate income tax		88	(78)	(78)	88	(78)	(78)
Other comprehensive income, total		**(1,441)**	**(8,334)**	**(8,334)**	**(1,505)**	**(8,358)**	**(8,358)**
Total comprehensive income		**50,467**	**69,917**	**70,482**	**43,198**	**70,914**	**70,979**
Attributable to:							
Shareholders of the bank		49,512	69,695	70,260			
Non-controlling interests		955	222	222			

Arvīds Kostomārovs
Liquidator fo ABLV Bank, AS in liquidation

Andris Kovaļčuks
Liquidator fo ABLV Bank, AS in liquidation

Riga, 17 September 2018

Statements of Financial Position

EUR'000

Assets	Note	Group 31.12.2017.	Group 31.12.2016. (restated)	Group 31.12.2016.	Bank 31.12.2017.	Bank 31.12.2016. (restated)	Bank 31.12.2016.
Cash and demand deposits with central banks	11	404,536	414,431	414,431	402,514	413,047	413,047
Balances due from credit institutions	12	271,903	272,520	272,520	285,109	281,504	281,504
Derivatives	16	1,942	624	624	96	80	80
Financial assets at fair value through profit or loss	13	24,801	28,416	28,416	13,129	21,010	21,010
Available-for-sale financial assets	14	1,074,791	1,042,574	1,042,574	995,749	957,094	957,094
Loans and receivables	17	1,044,920	1,029,944	1,029,944	1,003,062	1,012,146	1,012,146
Held-to-maturity investments	15	838,587	1,053,987	1,053,987	772,656	989,710	989,710
Investments in subsidiaries	18	-	-	-	157,651	119,945	119,945
Investments in associates	18	9,528	9,117	9,117	8,735	8,635	8,635
Investment property	19	55,857	44,016	34,690	20,875	34,384	25,058
Property and equipment	20	45,261	22,653	27,267	9,405	9,461	9,461
Intangible assets	20	5,538	6,060	6,060	5,390	5,826	5,826
Current corporate income tax receivables		1,757	2,885	3,134	1,132	2,111	2,360
Deferred corporate income tax receivables	10	1,096	1,401	1,401	-	-	-
Repossessed real estate	6	33,570	41,276	41,276	-	-	-
Other assets	21	10,138	14,126	7,882	7,973	9,954	3,710
Total assets		**3,824,225**	**3,984,030**	**3,973,323**	**3,683,476**	**3,864,907**	**3,849,586**
Liabilities							
Derivatives	16	29	42	42	12	42	42
Balances held with Bank of Latvia	22	50,000	50,000	50,000	50,000	50,000	50,000
Demand deposits from credit institutions	22	22,289	16,463	16,463	31,394	20,375	20,375
Term deposits due to credit institutions	22	13,601	-	-	9,801	-	-
Deposits	23	2,819,332	3,027,772	3,027,772	2,679,950	2,901,824	2,901,824
Current corporate income tax liabilities		86	334	334	-	-	-
Other liabilities	27	28,616	18,250	22,922	9,666	7,492	11,083
Deferred corporate income tax	10	-	2,765	1,366	-	2,745	1,346
Issued securities	24	515,842	521,281	521,281	529,327	528,304	528,304
Subordinate deposits	25	12,341	14,810	14,810	12,341	14,810	14,810
Total liabilities		**3,462,136**	**3,651,717**	**3,654,990**	**3,322,491**	**3,525,592**	**3,527,784**
Shareholders' equity							
Paid-in share capital	26	42,080	38,300	38,300	42,080	38,300	38,300
Share premium		179,295	132,423	132,423	179,295	132,423	132,423
Reserve capital and other reserves		2,222	2,217	2,217	2,134	2,134	2,134
Revaluation reserve		(314)	1,127	1,127	(366)	1,139	1,139
Retained earnings brought forward		83,759	77,946	63,401	93,139	86,047	68,469
Retained earnings for the period		50,953	78,029	78,594	44,703	79,272	79,337
Attributable to the equity holders of the bank		**357,995**	**330,042**	**316,062**	**360,985**	**339,315**	**321,802**
Non-controlling interests		**4,094**	**2,271**	**2,271**	**-**	**-**	**-**
Total shareholders' equity		**362,089**	**332,313**	**318,333**	**360,985**	**339,315**	**321,802**
Total liabilities and shareholders' equity		**3,824,225**	**3,984,030**	**3,973,323**	**3,683,476**	**3,864,907**	**3,849,586**
Memorandum items							
Contingent liabilities	28	7,314	10,015	10,015	7,227	9,928	9,928
Financial commitments	28	152,250	132,405	132,405	145,903	126,632	126,632

Arvīds Kostomārovs
Liquidator fo ABLV Bank, AS in liquidation

Andris Kovaļčuks
Liquidator fo ABLV Bank, AS in liquidation

Riga, 17 September 2018

Statement of Changes in Shareholders’ Equity of the Group

EUR'000

	Paid-in share capital	Share premium	Reserve capital and other reserves (see Note 34)	Revaluation reserve of available-for-sale financial assets	Retained earnings	Attributable to the equity holders of the bank	Non-controlling interest	Total shareholders' equity
01.01.2016.	**35,300**	**96,918**	**2,238**	**9,461**	**132,536**	**276,453**	**876**	**277,329**
Adjustment (see paragraph x))	-	-	-	-	13,087	13,087	-	13,087
01.01.2016. (restated)	**35,300**	**96,918**	**2,238**	**9,461**	**145,623**	**289,540**	**876**	**290,416**
Net profit for the year (restated)	-	-	-	-	78,029	78,029	222	78,251
Other comprehensive income/(expense) for the year (restated)	-	-	-	(8,334)	-	(8,334)	-	(8,334)
Total comprehensive income for the year (restated)	**-**	**-**	**-**	**(8,334)**	**78,029**	**69,695**	**222**	**69,917**
Increase in reserves	-	-	(21)	-	-	(21)	-	(21)
Dividends (see Note 26)	-	-	-	-	(68,835)	(68,835)	(550)	(69,385)
Allocation of personnel shares (see paragraph t) and x))	-	-	-	-	1,458	1,458		1,458
Issue of personnel shares (See Note 26)	300	-	-	-	(300)	-	-	-
Issue of shares (See Note 26)	2,700	35,505	-	-	-	38,205	1,674	39,879
Increase in non-controlling interests (see Note 18)	-	-	-	-	-	-	49	49
31.12.2016. (restated)	**38,300**	**132,423**	**2,217**	**1,127**	**155,975**	**330,042**	**2,271**	**332,313**

	Paid-in share capital	Share premium	Reserve capital and other reserves (see Note 34)	Revaluation reserve of available-for-sale financial assets	Retained earnings	Attributable to the equity holders of the bank	Non-controlling interest	Total shareholders' equity
01.01.2017.	**38,300**	**132,423**	**2,217**	**1,127**	**155,975**	**330,042**	**2,271**	**332,313**
Net profit for the year	-	-	-	-	50,953	50,953	955	51,908
Other comprehensive income/(expense) for the year	-	-	-	(1,441)	-	(1,441)	-	(1,441)
Total comprehensive income for the year	**-**	**-**	**-**	**(1,441)**	**50,953**	**49,512**	**955**	**50,467**
Decrease in reserves	-	-	5	-	(36)	(31)	-	(31)
Dividends (see Note 26)	-	-	-	-	(73,153)	(73,153)	(332)	(73,485)
Allocation of personnel shares (see t) explanation)	-	-	-	-	973	973	-	973
Issue of shares (see Note 26)	3,780	46,872	-	-	-	50,652	1,200	51,852
31.12.2017.	**42,080**	**179,295**	**2,222**	**(314)**	**134,712**	**357,995**	**4,094**	**362,089**

Statement of Changes in Shareholders' Equity of the Bank

EUR'000

	Paid-in share capital	Share premium	Reserve capital and other reserves (see Note 34)	Revaluation reserve of available-for-sale financial assets	Retained earnings	Total shareholders' equity
01.01.2016.	**35,300**	**96,918**	**2,134**	**9,497**	**137,604**	**281,453**
Adjustment (see paragraph x))	-	-	-	-	16,120	16,120
01.01.2016. (restated)	**35,300**	**96,918**	**2,134**	**9,497**	**153,724**	**297,573**
Net profit for the year (restated)	-	-	-	-	79,272	79,272
Other comprehensive income/(expense) for the year (restated)	-	-	-	(8,358)	-	(8,358)
Total comprehensive income for the year (restated)	**-**	**-**	**-**	**(8,358)**	**79,272**	**70,914**
Dividends (see Note 26)	-	-	-	-	(68,835)	(68,835)
Allocation of personnel shares (see paragraph t) and x))	-	-	-	-	1,458	1,458
Issue of personnel shares (See Note 26)	300	-	-	-	(300)	-
Issue of shares (See Note 26)	2,700	35,505	-	-	-	38,205
31.12.2016. (restated)	**38,300**	**132,423**	**2,134**	**1,139**	**165,319**	**339,315**
01.01.2017.	**38,300**	**132,423**	**2,134**	**1,139**	**165,319**	**339,315**
Net profit for the year	-	-	-	-	44,703	44,703
Other comprehensive income/(expense) for the year	-	-	-	(1,505)	-	(1,505)
Total comprehensive income for the year	**-**	**-**	**-**	**(1,505)**	**44,703**	**43,198**
Dividends (see Note 26)	-	-	-	-	(73,153)	(73,153)
Allocation of personnel shares (See paragraph t))	-	-	-	-	973	973
Issue of shares (see Note 26)	3,780	46,872	-	-	-	50,652
31.12.2017.	**42,080**	**179,295**	**2,134**	**(366)**	**137,842**	**360,985**

The accompanying notes on pages 21 to 101 form an integral part of these financial statements for 2017.

Statement of Cash Flows

EUR'000

Cash flows from operating activities	Group 01.01.2017.–31.12.2017.	Group 01.01.2016.–31.12.2016. (restated)	Group 01.01.2016.–31.12.2016.	Bank 01.01.2017.–31.12.2017.	Bank 01.01.2016.–31.12.2016. (restated)	Bank 01.01.2016.–31.12.2016.
Profit before corporate income tax	51,872	80,974	81,303	43,913	82,142	81,961
Dividend income	(80)	(169)	(169)	(3,694)	(6,274)	(6,274)
Amortisation of intangible assets and depreciation of property and equipment and invesmtent property	3,868	3,948	4,059	3,119	3,131	3,142
Revaluation of investment property	(8,208)	(897)	-	-	(997)	-
Impairment of property and equipment	496	447	-	-	-	-
Impairment of investments in subsidiaries	-	-	-	6,491	6,225	6,225
(Income) / expenses on investment based on equity method	(403)	(184)	-	-	-	-
Impairment loss	(330)	(279)	(279)	(723)	(4)	(4)
Realised (income) of available-for-sale financial instruments	(742)	(22,031)	(22,031)	(661)	(21,950)	(21,950)
Interest (income)	(83,324)	(86,019)	(86,019)	(78,516)	(84,208)	(84,208)
Interest expense	22,102	21,442	21,442	19,627	21,493	21,493
Realised (income) on financial assets at fair value through profit or loss	(620)	(1,693)	1,737	(620)	(1,693)	1,875
Net cash flows from operating activities before changes in assets and liabilities	**(15,369)**	**(4,461)**	**43**	**(11,064)**	**(2,135)**	**2,260**
Decrease/ (increase) in due from credit institutions	50,355	(19,292)	(19,292)	50,361	(19,292)	(19,292)
(Increase) in loans	(50,561)	(147,145)	(147,145)	(21,479)	(131,823)	(131,823)
(Increase)/decrease in financial assets at fair value through profit or loss	2,873	314	314	7,138	3,885	3,885
Decrease/(increase) in other assets	11,348	9,879	8,988	2,081	(144)	(971)
Increase/(decrease) in balances due to credit institutions	5,798	(130,001)	(130,001)	1,997	(130,000)	(130,000)
(Decrease)/increase in deposits	13,436	(902,677)	(902,677)	(9,955)	(946,362)	(946,362)
(Decrease) in derivatives	(1,332)	(826)	(826)	(47)	(282)	(282)
(Decrease)/increase in other liabilities	10,551	(19,115)	(19,115)	2,190	(24,269)	(24,269)
Net cash flows from operating activities before corporate income tax	**27,099**	**(1,213,324)**	**(1,209,711)**	**21,222**	**(1,250,422)**	**(1,246,854)**
Interest received in the reporting year	87,286	87,408	87,408	80,201	87,295	87,295
Interest (paid) in the reporting year	(22,005)	(21,921)	(21,921)	(19,530)	(21,973)	(21,973)
Corporate income tax (paid)	(1,331)	(2,987)	(2,987)	(747)	(1,612)	(1,612)
Net cash flows from operating activities	91,049	(1,150,824)	(1,147,211)	81,146	(1,186,712)	(1,183,144)
Cash flows from investing activities						
(Purchase) of held-to-maturity investments	(35,401)	(97,680)	(97,680)	(27,901)	(81,925)	(81,925)
Redemption of held-to-maturity investments	147,105	83,890	83,890	147,105	80,990	80,990
(Purchase) of available-for-sale financial assets	(792,468)	(313,809)	(313,809)	(707,373)	(266,403)	(266,403)
Sale of available-for-sale financial assets	646,502	1,147,507	1,143,893	559,927	1,132,145	1,128,577
(Purchase) of intangible and tangible assets and investment properties	(30,551)	(19,448)	(19,448)	(2,701)	(2,926)	(2,926)
Sale of intangible and tangible assets	291	580	580	48	73	73
Dividends received	80	169	169	3,694	6,274	6,274
Decrease in investments in subsidiaries and associated companies	-	135	135	5,000	10,234	10,234
(Increase) in investments in subsidiaries and associated companies	(8)	-	-	(35,866)	(25,003)	(25,003)
Net cash flows from investing activities	**(64,450)**	**801,344**	**797,730**	**(58,067)**	**853,459**	**849,891**
Cash flows from financing activities						
Increase of subordinated loans	300	600	600	300	600	600
(Repayment) of subordinated loans	(2,108)	(1,345)	(1,345)	(2,108)	(1,345)	(1,345)
Sale of issued securities	333,682	239,533	239,533	340,144	241,533	241,533
(Repurchase) of issued securities	(293,623)	(281,654)	(281,654)	(293,623)	(284,163)	(284,163)
Dividends (paid)	(73,485)	(69,385)	(69,385)	(73,126)	(68,840)	(68,840)
Increase in non-controlling interest	1,200	1,674	1,674	-	-	-
Issue of shares	51,625	38,205	38,205	51,625	38,205	38,205
Net cash flows from financing activities	**17,591**	**(72,372)**	**(72,372)**	**23,212**	**(74,010)**	**(74,010)**
(Decrease)/increase in cash and cash equivalents	**44,190**	**(421,852)**	**(421,853)**	**46,291**	**(407,263)**	**(407,263)**
Cash and cash equivalents at the beginning of the year	**594,637**	**1,014,984**	**1,014,984**	**598,762**	**1,002,126**	**1,002,126**
Result from revaluation of foreign currency positions	(15,485)	1,505	1,506	(19,190)	3,899	3,899
Cash and cash equivalents at the end of the year	**623,342**	**594,637**	**594,637**	**625,863**	**598,762**	**598,762**

* - In 2016, the most significant part of realised available-for-sale financial instruments consists of VISA Europe Ltd. share buyback transaction with VISA Inc. amounting to EUR 16.4 million.

EUR'000

Cash and cash equivalents	Group 31.12.2017.	Group 31.12.2016.	Bank 31.12.2017.	Bank 31.12.2016.
Cash and deposist with central banks	404,536	414,431	402,514	413,047
Balances due from credit institutions	248,936	196,669	262,584	206,090
Balances due to credit institutions	(30,130)	(16,463)	(39,235)	(20,375)
Total cash and cash equivalents	**623,342**	**594,637**	**625,863**	**598,762**

Information about balances due from credit institutions other than cash equivalents is presented in Note 12.

Notes to the Financial Statements

1. Note

General information

ABLV Bank, AS in liquidation Reg. No. 50003149401 was registered in Aizkraukle, Republic of Latvia, on 17 September 1993, as a joint stock company. At present, the legal address of the bank is Elizabetes Street 23, Riga, LV-1010, Latvia.

Information on the bank's business activity is included in the Management Report, in Note 40, as well as on the bank's website https://www.ablv.com/lv/legal-latest-news/voluntary-liquidation-of-ablv-bank-as-to-protect-the-interests-of-customers-and-creditors.

During the reporting period, the bank operated in accordance with the laws and regulations of the Republic of Latvia and the licence issued by the Financial and Capital Market Commission that allows the bank to render all the financial services specified in the Law on Credit Institutions. The bank was issued licence on 9 September 1993 by the Bank of Latvia, it was later re-registered with the Financial and Capital Market Commission under No. 06.01.05.001/313. For additional information on the licence issued please refer to Note 40.

These consolidated and separate financial statements contain the financial information about ABLV Bank, AS in liquidation and its subsidiaries. The separate financial statements of the bank are included in these consolidated financial statements to comply with legal requirements. The bank is the parent entity of the group.

The group's and bank's main scope of activity during the reporting period was provision of financial and investment services, asset management, financial advisory and real estate management.

During the reporting period, the group and the bank operated the central office and one lending centre in Riga. The most important subsidiaries of the bank are: ABLV Bank Luxembourg S.A. (Luxembourg), ABLV Asset Management, IPAS, ABLV Capital Markets, IBAS, and Pillar Holding Company, KS.
The list of all group's subsidiaries is presented in Note 18.
Information on the group's territorial structural units and client service locations is disclosed on the bank's website https://www.ablv.com/lv/about/offices.

The following abbreviations are used in the notes to these financial statements: International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), International Accounting Standards Board (IASB), International Financial Reporting Interpretations Committee (IFRIC), Financial and Capital Market Commission of the Republic of Latvia (FCMC), European Monetary Union (EMU), European Union (EU), Organisation for Economic Cooperation and Development (OECD), European Central Bank (ECB), Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (Regulation).

2. Note

Information on principal accounting policies

a) Basis of Preparation

These consolidated and separate financial statements are based on the accounting records made pursuant to the legislative requirements and prepared in conformity with IFRS as adopted by the European Union, on a going concern basis.

These financial statements are prepared on a historical cost basis, except for certain financial assets and liabilities (available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss and derivatives) which are reported at fair value. The financial statements give a structured view of the financial position of the group and the bank and their financial performance and cash flows.

During the year ended 31 December 2017, the group and the bank consistently applied accounting policies in line with those disclosed in the prior-year financial statements, except for the changes in IFRS that came effective in the reporting period.

The accounting policies are applied consistently by all entities of the group.

The functional currency of the bank and its subsidiaries is EUR, except for the foreign subsidiary ABLV Capital Markets USA LLC, whose accounting and functional currency is USD (the United States of America (hereinafter - USA) dollar). The presentation currency of the group and the bank is EUR.

These consolidated and separate financial statements are reported in thousands of the euro (EUR'000), unless otherwise stated. Information given herein in brackets represents comparative figures for the year ended 31 December 2016 or for the year ended 31 December 2016 respectively.

b) Significant Estimates and Assumptions

The preparation of financial statements in accordance with IFRS as adopted by the EU requires the management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expense, and disclosure of contingencies. Future events may impact assumptions that were used as the basis for estimates. Such estimates and assumptions are based on most reliable information available to the management in respect of specific events and actions. The effect of any changes in estimates will be recorded in the financial statements when determinable.

The significant areas of estimation and assumptions relate to determining the value of assets repossessed for sale (see paragraph k)), commission income / expenses included in the calculation of the effective interest rate (see paragraph h)), determining fair value of investment property (see Note 32), determining the impairment allowance for financial assets (see paragraph r)), determining the value of collateral (pledge) (see Note 36), estimation of impairment of other assets , including investments in subsidiaries (see paragraph s)), calculation of the fair value of assets and liabilities (see paragraph f) and Note 32)), assumptions regarding control and material impact on subsidiaries and associations (see paragraph (d)), as well as assumptions regarding the power that bank has over open-ended investment funds (see paragraph d)).

c) Foreign Currency Revaluation

Monetary assets and liabilities denominated in foreign currencies as at the period end are translated into functional currency at the exchange rate set by the ECB, while non-monetary assets in foreign currencies are translated into EUR at the official exchange rate set by the ECB at the transaction date. REUTERS exchange rates are applied to the foreign currencies having no EUR foreign exchange reference rates published by the ECB.
Transactions denominated in foreign currencies are recorded in EUR at exchange rates set by the ECB or REUTERS at the date of the transaction. Any gain or loss resulting from a change in exchange rates subsequent to the transaction date is included in the statement of comprehensive income as gain or loss from revaluation of foreign currency positions.
Paragraph a) provides information on functional and presentation currency of the group's and bank's companies.
All monetary assets and liabilities of foreign subsidiary ABLV Capital Markets USA LLC are translated into the presentation currency of the group at exchange rates set by the European Central Bank at the reporting date, however income and expenses are recalculated at average exchange rate for the reporting period. All differences arising from translation of assets, liabilities, income and expenses into the presentation currency of the group, are recognised in other comprehensive income and accumulated in currency revaluation reserve item “Reserve capital and other reserves”.

d) Consolidation

These consolidated financial statements include the bank and all subsidiaries controlled by the bank (the parent entity), i.e. the bank has the power to govern the financial and operating policies of an entity so as to obtain economic benefits. Subsidiaries are consolidated from the date on which control is transferred to the parent and are no longer consolidated from the date that control ceases.
The entities of the group are listed in Note 18.

The bank's and its subsidiaries' financial statements are consolidated in the group's financial statements using the full consolidation method, by adding together like items of assets and liabilities at the period end, as well as income and expenses. For the purposes of consolidation, intragroup balances and intragroup transactions, including interest income and expense, and unrealised profit and loss resulting from intragroup transactions are eliminated, unless there exists any indication of impairment.

The bank's subsidiaries comply with the bank's policies and risk management methods.
Investments in subsidiaries are presented in the bank's separate financial statements in accordance with the cost method.

Non-controlling interest represents the portion of profit or loss and equity not owned, directly or indirectly, by the bank. Non-controlling interests are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from parent entity shareholders' equity. Non-controlling interest is measured according to its proportionate interest in net assets.

Goodwill represents the excess of the cost of a business combination over the group's interest in the fair value of the net identifiable assets and contingent liabilities of the acquired subsidiary / associates / joint ventures at the acquisition date. Goodwill on acquisitions of business operation is included in intangible assets. The carrying amount of associates'/ joint ventures' goodwill in equity is included in the carrying amount of investment in associate / joint venture.

Goodwill is allocated to cash-generating units and is stated at cost less impairment losses.

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses. Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Negative goodwill arising on an acquisition is recognised immediately in the consolidated statement of income.

Associates are the companies over which the group has significant influence, however, there is no control over their financial and business policies. Interests in associates and the joints venture are accounted for using the equity method. They are initially recognised at cost, including transaction costs. Subsequent to initial recognition, the consolidated financial statements include the group's share of the profit or loss and OCI in equity-accounted investees, until the date on which significant influence ceases to exist.

Joint ventures are the companies established on the basis of joint arrangement where none of the shareholders have control over the company, instead all shareholders have joint control. Joint control is contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control**.** Interests in joints venture are accounted for using the equity method.

Investments in associates and joint ventures are presented in the bank's separate financial statements in accordance with the cost method.

Bank's investments in open-end investment funds as structured companies established as collective property and not recognized as a company, are presented in the separate financial statements in Note 13 as financial assets at fair value through profit or loss.
However, in the consolidated financial statements the investments in open-ended investment funds, managed by the bank's subsidiary ABLV Asset Management, IPAS, thus ensuring the bank's ability to exercise significant control over it and in which the bank owns the major part (at least 30% or above) of net assets, are consolidated according to the full consolidation method. The shares of funds owned by third parties are recognised in the consolidated financial statements as other liabilities.

e) Recognition and Derecognition of Financial Assets and Liabilities

Financial asset is any asset that is cash, an equity instrument of another entity, a contractual right to receive cash or another financial asset from another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or a contract that will or may be settled in the entity's own equity instruments and is a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments or a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose, the entity's own equity instruments are not itself agreements to receive or deliver equity instruments in the future.

Financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or a contract that will or may be settled in the entity's own equity instruments and is a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments or a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose, the entity's own equity instruments are not itself agreements to receive or deliver equity instruments in the future.

The group recognises financial assets and liabilities in its statement of financial position when, and only when, the group or the bank becomes a party to the contractual provisions of the instrument.
All purchases and sales of financial assets, except for loans issued to non-bank customers, are recognised and derecognised on the settlement date. Loans to non-bank customers are recognised in the statement of financial position when cash is transferred to the customer's current account.

A financial asset is derecognised only when the contractual rights to receive cash flows from the asset have expired, or the group and the bank have transferred the financial asset and substantially all the risks and rewards of the asset to the counterparty.

Financial liabilities are derecognised only when the contractual obligations are discharged, cancelled or expire.

f) Fair Value of Financial Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value of financial assets and liabilities is quoted prices in an active market. If the market for a financial asset or liability is inactive, fair value is established by using a valuation technique, including discounted cash flow analysis, recent transactions that are substantially the same, as well as management estimates and assumptions. The comparison of carrying amounts and fair values of the group's and bank's financial assets and liabilities is presented in Note 32.

g) Offsetting of Financial Assets and Financial Liabilities

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

h) Financial Instruments

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:
- those that the group and the bank intend to sell immediately or in the near term and those that the group and the bank upon initial recognition designate as at fair value through profit or loss;
- those that the group and the bank, upon initial recognition, designate as available for sale; or
- those for which the group and the bank may not recover substantially all of its initial investment, other than because of credit deterioration.

This portfolio includes loans and balances due from credit institutions which are carried at amortised cost using the effective interest method less the allowance for credit losses (impairment expense) as presented in Note 8.
In determining the effective interest rate, this calculation includes all contractual fees and commissions to be paid or received by the parties to the transaction, and they form an integral part to the contract:
- initiation fees the group / bank receives for the assessment of financial position, evaluation and registration of securities and other guarantees, drafting of documents and processing;
- fees related to the attraction of a borrower;
- fees received for an initiated credit, however, if the credit is not granted, these commissions are recognised in income statement as commission and fee income.

Gains or losses are recognised in the statement of comprehensive income upon derecognition or impairment of these assets, as well as through amortisation. Gains and losses are recognised in the statement of comprehensive income as interest income / expense when the liabilities are derecognised through the amortisation process.
For the purposes of these financial statements, finance lease receivables are classified as loans.

Held-to-maturity investments

The held-to-maturity portfolio represents non-derivative financial assets with fixed or determinable payments and fixed maturities that are quoted in an active market. The group/ bank has the intention to hold the financial assets included in the held-to-maturity portfolio to maturity with the purpose of generating profit from coupon and principal payments.
The financial assets of the held-to-maturity portfolio are initially recognised at fair value additionally considering direct transaction costs related to the acquisition of financial instruments and subsequently measured at amortised cost using the effective interest method, less impairment loss. Gains or losses are recognised in the statement of comprehensive income upon derecognition or impairment of these assets, as well as through the amortisation process. Gains and losses are recognised in the statement of comprehensive income as interest income/ expense when the liabilities are derecognised through the amortisation process.

Available-for-sale financial assets

The group and the bank acquire available-for-sale securities to hold them for an undefined period. The available-for-sale portfolio includes fixed income securities, investments in shares and investment funds.

Available-for-sale securities are divided into two portfolios:
- liquidity portfolio, which is aimed at forming the bank's liquidity reserve with a minimum interest rate risk and credit risk;
- investment portfolio held for undefined period portfolio, which consists of investments not classified as part of other portfolios.

Available-for-sale securities are initially measured at fair value plus incremental direct transaction costs. Subsequently available-for-sale securities are revalued at fair value and the revaluation result is presented in capital and reserves as the fair value revaluation reserve of available-for-sale financial assets. Financial assets having no quoted prices available and whose fair value cannot be determined reliably using other models are stated at cost.

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

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are assets that are held for trading. Financial assets held for trading are included in the trading portfolio. Non-fixed income securities of the trading portfolio are held by the group and the bank for the purpose of selling and/ or acquired for generating profit in the near term from the expected spread between purchasing and selling prices. The financial assets and liabilities to be included in the trading portfolio are defined by the bank’s trading portfolio policy.

Securities held for trading purposes are initially stated at fair value and further marked-to-market on the basis of quoted market prices. Any gain or loss resulting from revaluation of securities at fair value as well as any gain or loss resulting from disposal of the above securities is included in the statement of comprehensive income under “Net gain/ (loss) from financial assets at fair value through profit or loss”. Meanwhile, interest income earned and/ or accrued is charged to the statement of comprehensive income as interest income from debt securities using the effective interest rate method, while dividend income is recorded as income from dividends if the right to the payment is established.

Derivatives

In the ordinary course of business, the group and the bank use derivative financial instruments: currency swaps, futures, and forward foreign exchange rate contracts. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Derivative financial instruments are carried at cost and restated at fair value at the date of recognition and beyond. Derivative financial instruments are presented in the statement of financial position in a separate caption “Derivatives” under assets and liabilities respectively. The mark-to-market value is defined based on the quoted market prices or discounted cash flow models. Any gain or loss resulting from fair value movements of derivatives is recognised in the statement of comprehensive income as “Net gain/ (loss) from financial assets at fair value through profit or loss”.

Securities repo agreements

Securities repo agreements are secured financing transactions in which the group and the bank are involved as the seller of securities that are subsequently repurchased by them. The sold securities are continued to be recognised by the group and the bank in the financial statements as pledged assets according to relevant accounting principles. Proceeds from the sale are recognized as a liability to the purchaser of the securities. Interest income generated by the transaction is recognised in the statement of comprehensive income as interest income over the term of the respective contract using the effective interest rate.

Issued debt securities

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

Other financial liabilities measured at amortised cost

Other financial liabilities measured at amortised cost are mostly liabilities due to credit institutions and non-banking investments. These financial liabilities are recognised at amortised cost, using the effective interest rate.

i) Finance Lease – Where the Bank is Lessor

Finance lease is a long-term arrangement, which transfers substantially all the rights and duties incidental to the use of a leased item to the lessee. Finance lease receivables are recognised as assets at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Income from finance leases is recognised over the lease term to produce a constant periodic return on the remaining balance of the liability.
Lease payments are charged to the statement of comprehensive income on a straight-line basis over the lease term.

j) Investment Property

Investment properties comprise land and buildings, as well as costs of the investment property development project in progress that are not used by the group and the bank, and are held with the main purpose to earn rentals, as well as gain on value appreciation.

To provide homogeneous information to the management of the group for decision-making process and ensure unified accounting method for the recognition of the group's investment property in financial statements, during the reporting period the group changed its accounting method for all investment properties from cost method to fair value method. In accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' adjustments complying with requirements were carried out retrospectively.
Investment properties are carried in the statement of financial position at their cost value when the property rights are registered with the Land Registry or after the confirmation of the real estate acceptance act, and are subsequently measured at fair value, where any changes in fair value are recognised as profit and loss through comprehensive income. The historical cost includes expenses directly connected with the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour and any other costs directly attributable to bringing the investment property to its working condition for the intended use, and capitalized borrowing costs. See Note 32 for fair value of investment properties.
If the group acquires investment property with effective rent agreements, based on criteria provided by IFRS 3 "Business Combinations" the group analyses and determines, whether acquired investment property with the related agreements is a business activity. Investment properties acquired during the reporting year do not qualify as businesses as these properties were acquired with rent agreements but without any agreements that determine processes such as real estate management.

k) Repossessed Real Estate / Inventories

Repossessed real estate represent real estate taken over by the group / bank for the purpose of selling as collateral for the outstanding loans or acquired in the ordinary course of business. Repossessed real estate and other assets held for trading are accounted as inventories and are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price for which the property would be transferred from one owner to another in a transaction between non-related parties, less the estimated costs necessary to make the sale. The Management of the group estimates the value of inventories on a regular basis, and where the recoverable amount of inventories is lower than cost of inventories, cost is reduced to a value reflecting maintenance related costs expected to be incurred and cost to make the sale.

l) Intangible Assets

Apart from goodwill, intangible assets comprise the purchased software that does not constitute an integral part of hardware, and licences. Amortisation is provided using the straight-line method over the period of acquired rights or over the estimated useful life of the asset. Amortisation of intangible assets is recognised in comprehensive income under 'Amortisation and depreciation'.
The group and the bank have applied the annual rates ranging from 10% (10%) to 20% (20%) to amortise their intangible assets.

m) Property and Equipment

Property and equipment are accounted at cost less accumulated depreciation and impairment. Depreciation is calculated on a straight line basis over the useful life of the asset. When calculating depreciation of the buildings that are classified as tangible fixed assets, the buildings are divided in separate parts (components). Each component is depreciated separately over its estimated useful life. Those assets, including leasehold improvements under construction and preparation, are not depreciated. Land is not subject to depreciation.

The group and the bank have applied the following depreciation rates:

Category	Annual rate
Buildings and property improvements	1,25% – 20%
Vehicles	14%
Office equipment and software	10% – 50%

Costs of maintenance and repair are charged to profit and loss as incurred. Leasehold improvements are capitalised and amortised over the remaining period of lease contracts on a straight-line basis.

n) Off-balance Sheet Financial Commitments and Contingent Liabilities

In the ordinary course of business, the group and the bank are involved in off-balance sheet financial instruments comprising loan and credit line commitments, financial guarantees, as well as commercial letters of credit. These financial instruments are presented in the financial statements as memorandum items upon the conclusion of the respective agreements. The methodology for provisioning against off-balance sheet financial commitments and contingent liabilities is consistent with that described in paragraph q) below.

o) Income and Expense Recognition

All major income and expense items are recognised on an accrual basis.

Interest income/ expense is recognised in the statement of comprehensive income for financial assets/ liabilities measured at amortised cost using the effective interest method. The effective interest rate is a method of calculating the amortized cost of a financial asset or liability, which is based on the recognition of interest income and expenses over a specific period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument.

Interest income also comprises coupon payments, which are recognised for fixed income securities. Interest income on loans whose recoverability is doubtful is recognised using the effective interest rate, which is the rate that exactly discounts estimated future cash flows to the recoverable amount of loans.

Commission and fee income and expense are included in the statement of comprehensive income over the period or at a specific time, except for commission and fee income/ expense directly attributable to financial assets/ liabilities measured at amortised cost. For these assets/ liabilities the respective commission and fee income/ expense form an integral part of the effective interest rate.
Commission and fee income received once in a year for the whole reporting period is recognised in the statement of comprehensive income systematically on a straight-line basis during the period.
Income and expense other than interest and/ or commission and fee income/ expense represent items associated with the core business of non-banking entities of the group.

p) Taxation

Corporate income tax is calculated in accordance with Latvian tax regulations at the rate of 15% and is based on the taxable income reported for the taxation period.

Changes to the Calculation of Corporate Income Tax as of 1 January 2018.
As of 1 January 2018, the new Law on Enterprise Income Tax of the Republic of Latvia has come 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 equalled to dividends, conditional dividends);
- conditionally or theoretically distributed profit (non-operating expenses, doubtful debts, excessive interest payments, loans to related parties, decrease of income or excessive 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).

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 line with IFRS as adopted by the EU. Under IAS12 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, a 20% rate is only applied to distributed profit, while a 0% rate is expected to be applied to undistributed profits. Therefore, deferred tax assets and liabilities are recognisable as nil. This principle has been applied in 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.

q) Provisions

Provisions are recognised when the group or the bank has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.
The amount of provisions is based on the best management's estimate and assumptions at the year-end concerning economic benefits required to settle the present obligation, considering the likelihood of the outflow and recovery of resources from related sources.

r) Impairment of Financial Assets and Financial Commitments

The group / bank issues loans to its customers. Doubtful debts are defined as loans and financial commitments with regard to which, based on the monitoring activities performed or other information obtained, the management of the group and the bank believe that the contractual interest and principal due might not be collected or customers might default on other contractual conditions, which might result in an outflow of resources embodying economic benefits.

According to the approved impairment assessment policy, the group and the bank determine allowance for credit losses (impairment allowance). When a loan has been classified as doubtful, an allowance for credit losses is established for that specific loan or amount of the outstanding balance, which is deemed impaired. The level of the allowance is based on the present value of expected future cash flows considering relevant factors including, but not limited to, the group's and bank's past loan loss experience, known and inherent risks in the portfolio of loans and advances, adverse situations that may affect the borrowers' ability to repay, the collateral value and current economic conditions as well as other relevant factors affecting loan and advances collectability and collateral values. Ultimate losses may vary from the current estimates. The value of the collateral held in connection with loans and advances is based on the estimated realisable value of the asset. This value is taken into account when determining expected cash flows and, accordingly, the allowance. The group and the bank determine individual and collective (portfolio) impairment.

The above estimates are reviewed periodically. As changes to the allowance become necessary as a result of the review made, respective allowance changes are taken to the statement of comprehensive income of the reporting period. The management of the group and the bank have made their best estimates of losses and believe the estimates presented in the financial statements to be reasonable in the light of the available facts and information.

The individual impairment allowance is determined after individually reviewing all credits for potentially uncollectable amounts. Individual assessment is made for credits that individually have objective evidence of impairment, based on the borrower's financial position, value of collateral, and fulfilment of the loan agreement.

Deterioration in credit quality is estimated by discounting cash flows from loans and receivable balances outstanding, applying the effective interest rate. The required level of the allowance is determined as the difference between the outstanding balance and discounted cash flows from loans and receivable balances outstanding.
Collateral loans are assessed on the basis of estimated cash flows that may result from the realisation of collateral less related realisation costs.

The collective (portfolio) allowance relates to existing credit losses, as well as those 'incurred, but not yet known to the bank'. A group of loans is deemed to be impaired if future cash flows have decreased since the initial recognition of loans and such impairment can be determined reliably, although it cannot be yet attributed to individual loans.
The collective impairment allowance is estimated based upon historical pattern of losses in the loan portfolio, as well as taking into account changes in collateral values, and general economic and market conditions or events that have occurred prior to the reporting date and that indicate an adverse impact on the future cash flows from certain loans and receivable balances outstanding. This method permits attributing each group of loans with similar credit characteristics to historical loss experience and observable market data reflecting current circumstances.

For the purposes of the collective assessment, the bank defines homogeneous pools of loans with similar risk characteristics (source of repayment, collateral type, past-due status).

In determining the rates of allowances for homogeneous pools of mortgage loans, the bank relies on the recoverable amount of loans and the historical number of loans, which become collectible over a certain period, and which in 12 months are brought to the pool with the highest credit risk (incl. the status of collectible loans). When determining the rate for impairment allowances 'incurred, but not yet known to the bank', the identification period of a loss event is assumed to be 3 months.
In determining the rates of allowances for individually assessed business loans which have no individual impairment, the bank relies on the historical proportion of loans, which become collectible over a 12 month period and the recoverable value of these loans. The identification period of a loss event is assumed to be 6 months.
In determining the amount of allowance for unsecured balances of current accounts and payment cards, it is assumed that these loans become non-recoverable after a specified number of days of delay (between 15-60 days of delay).

The existing allowances are decreased, if any of the following occurs:

- the bank obtains reliable information about additional sources of loan repayment;
- the recoverable amount of the loan has increased as a result of the improvement of the borrower's financial situation or growth of the collateral value. Changes in the market value of collateral may be taken into consideration only if the growth is observed for at least three months.

When loans cannot be recovered, they are written off and charged against allowances for credit losses. They are not written off until all the necessary legal procedures have been completed and the ultimate amount of the loss is determined.

Quantitative and qualitative criteria for the identification of credit quality deterioration, the methodology for estimating future cash flows for individually impaired loans, the establishment of homogeneous pools of loans and the calculation of the rate of collective impairment allowances are laid down in the bank's regulations.

The group / bank conducts an analysis and measures held-to-maturity investments on a regular basis and determines the amount of individual allowances according to the following principles:

- if objective evidence exists that a listed financial instrument is impaired the amount of allowance to be recognised is determined as the difference between the carrying amount and the current market value of the security;
- financial instruments that have been defaulted are measured based on the information at the group's / bank's disposal concerning debt restructuring. In this case, the amount of allowance is determined as the difference between the carrying amount of the security and the present value of the expected future cash flows expected to be received as a result of debt restructuring;
- if objective evidence exists that a held-to-maturity investment is impaired the required amount of allowance is determined using the discounted cash flow analysis as the difference between the carrying amount of the security and the present value of the expected future cash flows discounted at the effective interest rate of a similar financial asset.

Allowances for incurred but unknown losses are made under the held-to-maturity securities that are rated below investment grade by external credit assessment institutions (credit rating agencies). The allowance rate is determined considering the statistics summarized by external credit assessment institutions (credit rating agencies) regarding possible default on obligations in each rating group and the group's / bank's prior-period losses.

Impairment of held-to-maturity investments is recognised in the statement of comprehensive income as "impairment of financial instruments".

For available-for-sale financial assets, the group / bank assesses on a regular basis, if there is an indication that the assets may be impaired. If there are objective evidence of significant and permanent impairment, then the incurred fair value revaluation reserve is recognised in the statement of comprehensive income as "Impairment of financial instruments".

Allowance for the unused portion of the loan (contingent liabilities due to customers) is determined according to the calculated allowance for the credit, performing additional adjustment to the expected proportion of loan underwriting (CCF). Expected proportion of loan underwriting is calculated for each loan group separately, based on the historic data and experience of the bank / group.

Impairment loss recognised in profit or loss is not reversed through profit or loss. If, in a subsequent period, the fair value of a financial instrument 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.

s) Impairment of Non-financial Assets

It is assessed at each reporting date if events indicate that there is an indication that a non-financial asset may be impaired. This assessment is carried out more often, if there are events or changes in circumstances that indicate that a non-financial asset may be impaired. If any such indication exists, the bank makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount. This written down amount constitutes an impairment loss.

For non-financial assets, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If any such indication exists, the recoverable amount is estimated.

A previously recognised impairment loss is reversed only if there has been a change in the estimate used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. This increase constitutes to reversal of impairment losses.
The recoverable amount of investments in subsidiaries is the higher of their fair value less costs to sell and the value in use. The fair value of investments, if available, is based on binding sales agreements and best information available about similar transactions on the market. The value in use of investments is determined by discounting future estimated cash flows derived from continuing operations of the entity, applying the current market discount rate that reflects current market assessments of the time value of money and the risks specific to the investment.

t) Employee Benefits and Share Based Payments

Short-term employee benefits, including salary, statutory social insurance contributions, bonuses and benefits, as well as life insurance premiums are charged to the statement of comprehensive income as administrative expense in the period when the services are provided.
The accrual for employee vacation pay is estimated for the group's or bank's personnel based on the total number of vacation days earned but not taken, multiplied by the average daily remuneration expense pursuant to the Latvian Labour Law, and adding the related statutory social insurance contributions payable by the employer.

During the reporting period the group / bank in its financial statements have changed the principles of recognition for a part of long-term employee benefits (remuneration to staff) – efficiency bonus, where part of efficiency bonus calculated is deferred for a four-year period. In the year efficiency bonus is calculated, only part of the payable bonus is recognised in administrative expenses under comprehensive income, to be basically paid out after the financial statements are confirmed. The remaining amount is proportionally recognized in administrative expenses under the statement of comprehensive income over the next four years.
The group / bank have implemented the changes retrospectively restating prior periods. The effect of the change is disclosed under paragraph x).

The group / bank during its operation receive services from their staff and undertakes to settle for the relevant services also with own equity instruments. Payments with own equity instruments are recognised as share-based payments. Share-based payments are made free-of-charge as personnel shares granting rights to future dividends without voting rights and without rights to liquidation quota. Employees receiving personnel shares do not have rights to freely act with them, i.e., they do not have the right to sell them or dispose of them in any other way. An employee may lose personnel shares upon employment termination with the group / bank or changing the position to such, where in fulfilling his/her duties the employee does not provide such services to the group / bank that would entitle them to remuneration in the form of own equity instruments. The employee shall lose personnel shares without compensation.

The employees receive personnel shares if the respective employee has provided relevant services to the group / bank and is employed at one of the group's companies at the moment he/she received the shares. The amount of future dividends is not set as at the moment of allocation of shares. The decision regarding the amount of dividends to be paid out is made by the shareholders' meeting on the basis of the performance results of the group / bank.

Personnel shares allocated to employees are fully recognised as remuneration, without deferring it to future periods, in administrative expenses under the statements of comprehensive income with the respective increase of capital when the employee has provided a service to the group / bank; consequentially, it is considered as the fair value measurement date. Fair value of services provided by the employees is determined on the basis of the estimated fair value of personnel shares. In 2016, 330 thousand shares were allocated to employees. The fair value of one share was determined as EUR 4.42. In 2017, 300 thousand employee shares were allocated with fair value of one share amounting to EUR 3.24.

Value of personnel shares is measured considering the expected future profit of the bank and the amount of dividends payable the holders of shares are entitled to. Future expected profit is determined in line with the financial plan of the group's bank. The expected cash flow is discounted to determine the stock price as at the moment of allocation.

The expected cash flow expected by the financial plan is prepared on the basis of the prior year performance measurement and on the analysis of sustainability of performance indicators and growth opportunities. The amount of dividends to be received is determined as the expected proportion of the dividends to be paid from the annually planned profit. It depends on the management's assessment of capital required in the future to ensure development of the institution and to be able to cover risks.
Decrease in the value of one share in 2017 compared to prior year is related to a higher future cash flow risk (discount rate increased form 16% in 2016 to 17% in 2017) and lower expected future profit for upcoming periods as at the end of 2017 compared to the financial plan of the prior year. Comparatively high discount rate represents the high risk posed by personnel shares, namely, that the holder of the shares may lose shares and rights to dividends as a result of change of position or termination of employment relationships. The average weighted period for which the cash flow is planned (i.e., the expected time over which the shares allocated will be held by the employee with the right to receive dividends) is 10.2 years.

The group / bank have implemented the changes, retrospectively restating prior periods. During the reporting period, the group / bank has recognised share-based payments by allocating personnel shares; see paragraph x).

u) Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and balances due from central banks and other credit institutions with a contractual original maturity of three months or less. The cash balance is reduced by the amount of demand deposits from the above institutions. Cash and cash equivalents are highly liquid short term assets that are readily convertible to known amounts of cash and that are subject to an insignificant risk of change in value.

v) Adjustments to Financial Statements after Their Publication

Following the issuance of financial statements to their approval at shareholders' meeting, the shareholders of the bank are entitled to adjust these statements.

w) Subsequent Events

Post-year-end events that provide additional information about the group's / bank's position at the reporting date (adjusting events) are reflected in these financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

x) Effect from the Change of Accounting Method

	Group				Bank			
	31.12.2016.				31.12.2016.			
Assets	**Total effect**	Effect from the changes in the recognition principles of remuneration to staff (t) explanation)	Allocation of personnel shares (t) explanation)	Effect from the change of investment property accounting method (j) explanation)	**Total effect**	Effect from the changes in the recognition principles of remuneration to staff (t) explanation	Allocation of personnel shares (t) explanation)	Effect from the change of investment property accounting method (j) explanation)
Investment properties	9,326	-	-	9,326	9,326	-	-	9,326
Fixed assets	(4,614)	-	-	(4,614)	-	-	-	-
Corporate income tax asset	(249)	(249)	-	-	(249)	(249)	-	-
Other assets	6,244	6,244	-	-	6,244	6,244	-	-
Total changes in assets	**10,707**	**5,995**	**-**	**4,712**	**15,321**	**5,995**	**-**	**9,326**
Liabilities								
Corporate income tax liabilities	1,399	-	-	1,399	1,399	-	-	1,399
Other liabilities	(4,672)	(4,672)	-	-	(3,591)	(3,591)	-	-
Total changes in liabilities	**(3,273)**	**(4,672)**	**-**	**1,399**	**(2,192)**	**(3,591)**	**-**	**1,399**
Shareholders' equity								
Retained earnings	14,545	10,186	1,458	2,901	17,578	9,050	1,458	7,070
Retained earning for the reporting period	(565)	481	(1,458)	412	(65)	536	(1,458)	857
incl. other income	*899*	-	-	*899*	*997*	-	-	*997*
incl. other expense	*(447)*	-	-	*(447)*	-	-	-	-
incl. personnel expense	*(892)*	*566*	*(1,458)*	-	*(827)*	*631*	*(1,458)*	-
incl. amortisation and depreciation	*111*	-	-	*111*	*11*	-	-	*11*
incl. corporate income tax	*(236)*	*(85)*	-	*(151)*	*(246)*	*(95)*		*(151)*
Attributable to shareholders of the bank	13,980	10,667	-	3,313	17,513	9,586	-	7,927
Total changes in equity	**13,980**	**10,667**	**-**	**3,313**	**17,513**	**9,586**	**-**	**7,927**
Total changes in liabilities and equity	**10,707**	**5,995**	**-**	**4,712**	**15,321**	**5,995**	**-**	**9,326**

y) Adoption of New and/ or Changed IFRS and IFRIC Interpretations in the Reporting Year

During the reporting period year no new standards have come into effect that would be applicable to the group. The group has adopted the following amendments to standards, including any consequential amendments to other standards, with a date of initial application of 01 January 2017.
The application of amendments did not have any impact on these consolidated financial statements:

- IAS 7 'Statement of Cash Flows'
- IAS 12 'Income taxes'
- Annual improvements to IFRS.

Improvements to IAS 7 'Statement of Cash Flows' (effective for annual periods beginning on or after 01 January 2017 or later; to be applied prospectively. Earlier application is permitted.)
The amendments require new disclosures that help users to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes (such as the effect of foreign exchange gains or losses, changes arising for obtaining or losing control of subsidiaries, changes in fair value). These improvements do not have material impact on the financial statements of the group / bank, they impact the relevant disclosures under Statement of Cash Flows.

Improvements to IAS 12 'Income taxes' (effective for annual periods beginning on or after 01 January 2017 or later; to be applied prospectively. Earlier application is permitted.)
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.
These amendments will not have a material impact on the presentation of the financial statements of the group and the bank as the group and the bank have already measured future taxable profit in a manner consistent with the improvements.

When the adoption of the amendments of standards or interpretation is deemed to have an impact on the consolidated and separate financial statements or performance of the group / bank, its impact is described below.

z) Standards Issued but Not Yet Effective and Not Early Adopted

Standards that are issued, but not yet effective or not endorsed by the EU, and which are not applied prior to their official date of validity.

The group and the bank has not applied the following IFRS and IFRIC interpretations that have been issued to the date of these financial statements, but which are not yet effective:

IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2018 or later).

A work group for the implementation of IFRS 9 was established during the reporting period consisting of two members of the Board – CRO and CFO and bank employees from Risk Management Division, Financial Accounting Division, Operational Accounting Division, Business Technologies Division continued work initiated in 2016 to ensure the implementation of IFRS 9 according to the plan approved by the management. To ensure successful implementation of changes to internal regulations and supervision of processes related to the implementation of IFRS 9, the work group included responsible employees from the Product Development Division.

The implementation project of IFRS 9 was group wide. At the end of 2017 work on the development of changes necessary for the implementation of IFRS 9 and their integration in IT systems has been completed. Within the project the group has reviewed various calculations models, has implemented respective changes to IT systems, defined business models, developed and tested calculation principles and models for the expected impairment of assets, and drafted regulations. However, in case of necessity, at the end of the implementation of IFRS 9 the group / bank may review some aspects of business models and calculation principles currently implemented.

Initial recognition, Classification and measurement

IFRS 9 requires 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:

- fair value through profit/ loss (hereinafter – FVTPL);
- fair value through other comprehensive income (hereinafter – FVOCI);
- amortised cost of acquisition.

Equity instrument that are not held for trading may be irrevocably designated as FVOCI with no subsequent reclassification of profit or losses recognised in OCI to the income statement.

The group / bank measure financial assets at amortised cost if the both of the following conditions have been performed:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows;
- contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

The group / bank measure financial asset FVOCI if the both of the following conditions have been performed:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and sell financial assets;
- contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

Regarding specific investments in equity securities otherwise measured at fair value through profit / loss statement, the group / bank may at initial recognition irrevocably designate instruments at FVOCI. This designation is individually assessed for each investment in equity securities.
All other financial assets are designated at FVTPL. The group / bank may irrevocably designate financial asset at fair value through profit/ loss, regardless of the fact that the asset qualifies for amortised cost or FVOCI, if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would incur if financial assets or liabilities would be measured or profit / loss incurred by them would be recognised by applying different methods.

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 FVPL. Such movements will be presented in OCI with no subsequent reclassification to the income statements, unless an accounting mismatch in profit / loss would arise.

Assessment of business model

The group / bank assesses business models on portfolio level of the respective financial assets. Such process is the best way to reflect processes and methods in which the group / bank manage their financial assets to generate cash flows (i.e., whether the cash flows will result from the collection of contractual cash flows, sale of financial assets, or both), and a way in which the management of the group / bank assess performance of financial assets.
The group / bank assess their business model, considering:

- the planned objectives of the portfolio (business model);
- provisions set by internal policies and activities performed or planned regarding financial asset to achieve the objectives set forth by the business model;

- risks affecting performance of the business model, (and financial asset recognised within this business model) especially, the way in which risks are being managed;
- the way in which the management of the business is remunerated.

Those business models whose objective is to collect contractual cash flows, assessment is performed regarding the frequency, value and timing of the sales of current financial assets in prior periods, the reasons for them and the expected intensity of the sale of financial assets.

Assessment of contractual cash flows that are solely payments of principal and interest on the principal (hereinafter - SPPI) outstanding

Assessment on whether financial instrument cash flows correspond to SPPI features, is carried out at initial recognition of the financial instrument. For the purpose of assessment principal is defined as the fair value of financial asset at initial recognition. Interest is the consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs as well as a profit margin.
To evaluate, whether contractual cash flows correspond to SPPI features, the group / bank assess, if contractual obligations correspond to the features of a simplified loan agreement, which include time value of money, credit risk and other risks pertaining to a simplified loan (for example, liquidity risk) and costs related to the keeping of a financial asset for a specific time period.
The group / bank assess:

- Whether the contractual provisions include such triggering events that would change the contractual cash flow schedule;
- Whether an agreement has characteristic of leverage, as a result of which the contractual cash flows do not have the economic risk characteristics of interest;
- Whether the agreement has special provisions that stipulate or permit premature payment of the asset or extension of its term, which do not comply with SPPI criteria;
- Whether the agreement provides that a group / bank's claim is limited to specified assets of the debtor or the cash flows from specified assets.

Contractual provisions by which contractual cash flows include exposure to risk or fluctuations, are not related to a simplified loan transaction, for example, exposure to the fluctuation of capital instruments or prices for goods, do not generate contractual cash flows matching SPPI characteristics.

Impairment of financial assets

According to IFRS 9 also the loan loss impairment methodology is fundamentally changed. The standard will replace IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. The group / bank will be required to record an allowance for expected loss for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. The allowance is based on the expected credit loss associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset.
The group / bank has developed a methodology to perform an assessment at the end of each reporting period of whether credit risk has increased significantly since initial recognition by considering the change in the risk of default occurring over the remaining life of the financial instrument.
To identify significant increase in credit risk both quantitative (for example, loans past due for more than 30 days) and qualitative indicators (for example, significant financial difficulties of the borrower, default on contractual obligations, changes in contractual obligations due to financial difficulties of the borrower, impairment of collateral if loan repayment depends on the value of collateral and other loss events likely to increase credit risk) are used.
Stricter quantitative criteria will be determined for individual asset groups (for example, unsecured overdrafts, unsecured cars loans) to identify significant credit risk increase.
If the credit rating of the debt securities' issuer or issue complies with the investment grade, the group / bank plan to apply low credit risk assumption.
In accordance with IFRS 9, the group / bank believe that an event of default has occurred if the loan is past due for more than 90 days or there is objective evidence that the debtor will not be able to settle his/her liabilities in full towards the institution if the institution does not perform auxiliary measures, for example, realisation of collateral. This definition is similar to the one applied for supervision purposes. The most significant differences are made of the application of probation period for the classification of credit in the higher quality stage.

According to IFRS 9 and based on the impairment methodology below the group / bank plan to divide the financial assets in three stages: Stage 1 – Standard; Stage 2 – Heightened risk; Stage 3 – High risk:

- Stage 1 – Performing loans for which credit risk has not significantly increased since initial recognition. The group / bank recognizes an allowance based on twelve months expected credit losses. To determine 12-month expected credit losses the bank / group will apply internally summarised 5-year statistics for 12-month credit movement among credit quality stages, current value of collateral by additionally adjusting expenses related to collection and expected future events.

- Stage 2 – Loans with significant increase in credit risk: when a loan shows a significant increase in credit risk since initial recognition, the group / bank records an allowance for the lifetime expected credit loss. Lifetime expected credit loss for impairment are calculated, using internally summarised statistics on 12-month credit movement among credit quality stages and current value of collateral by additionally adjusting expenses related to collection and expected future events, as well as contractual payment schedule and effective credit rate. Lifetime expected credit loss presents the present value of probability-weighted estimated loss.
- Stage 3 – default event has occurred. Financial assets are recognized in Stage 3 when there is objective evidence that the loan is impaired or payments have been overdue for more than 90 days. The bank recognizes the lifetime expected credit losses for these loans and in addition, the bank accrues interest income on the amortised cost of the loan net of allowances. Allowance for certain credit impairment losses are calculated in line with expected loss from collection and realisation of collateral.

To determine the amount of expected loss, the following key indicators are calculated:
- Probability of default (hereinafter – PD);
- Losses given default (hereinafter – LGD);
- Exposures at default (hereinafter – EAD);

These parameters will be calculated for credits considering the group / bank's internal statistics and they are adjusted according to the expected future events.
To calculate PD, internal 5-year statistics on credit movement between quality stages will be used, developing credit movement matrices for each significant credit group (mortgage loans, commercial loans, card loans, overdrafts).
To calculate LGD, internal statistics of the group / bank on loss arising from the realisation of collateral will be used, as well as opinion from internal and external experts on the quick realisable value of collateral, collection expenses and other significant information. LGD will be calculated discounting cash flow from the realisation of collateral applying effective credit rate.
EAD will be calculated considering current balance, adjusted for expected changes including both credit amortisation and premature payment. For guarantees and unused credit liabilities, EAD is calculated according to the calculated likelihood of liabilities.

For debt instruments the group / bank will use summarised statistics on default events by Standard & Poor's and Moody's statistics for loss given default.

To determine the effect of the expected future events on the amount of expected loss, the group / bank analyse effect of macroeconomic indicators on PD and value of collateral. The key indicators are changes in GDP and unemployment rates. To determine lifetime expected credit losses, 2 scenarios were developed: one is a basic scenario based on EC forecast on changes in macroeconomic indicators, the other one is an adverse scenario based on prior period experience and the group / bank's estimates on the likelihood of realisation of prior period experience in subsequent periods.

The group / bank will determine and recognise the amount of impairment for debt securities at FVOCI based on the classification of the respective security in one of three stages. The expected impairment will not reduce the carrying amount of these financial assets in the statements of financial position which remain at fair value. This impairment is recognised in other comprehensive income as accrued impairment and the respective amounts are presented in profit / loss statement.
For FVOCI debt securities considered to be 'low risk', the group / bank intends to apply a policy which assumes that the credit risk on the instrument has not increased significantly since initial recognition and will calculate ECL as explained in Stage 1 above. Such instruments will generally include trade, investment grade securities where the borrower has strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

Transition

According to IFRS 9 the group / bank does not plan to apply full retrospective adjustment when implementing the standard. Changes in the carrying amounts of financial assets caused by the implementation of IFRS 9 are charged to retained earnings and reserves as at 1 January 2018. Quantitative effect of the implementation of IFRS 9 is disclosed in Note 33.

IFRS 15 – Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted.)

IFRS 15 establishes the principles that an entity shall apply to report 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, as well as how much and when to recognise the revenue. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.
IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The group and the bank has completed an initial review of the potential impact of the adoption of IFRS 15 on its consolidated and separate financial statements. This review particularly focused on fees and commission income.

The group and the bank earn fee and commission income (other than fees included in the calculation of the effective interest rate) on provision of the following services:

- payment servicing;
- Account servicing;
- Payment cards servicing;
- brokerage;
- Asset management.

The initial review indicates that IFRS 15 will not have a material impact on the timing of recognition or measurement of fees and commission income.

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 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 group and the bank have carried out assessment of the impact of the IFRS 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. No significant impact is expected for the group's and the bank's finance leases. 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 is a lessee.

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 and the bank are 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 / bank expect to disclose its transition approach and quantitative information before adoption.

Improvements to IFRS 2: Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively. Earlier application is permitted.)
The amendments clarify share-based payment accounting on the following areas:

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

It is expected that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the group and the bank.

Other improvements to IFRS

Annual improvements to IFRSs 2014-2016 cycle were issued on 8 December 2016. Improvements to IAS 28 'Investments in Associates and Joint Ventures' have been made, and consequential amendments to other standards and interpretations that result in accounting changes for presentation, recognition or measurement purposes. IAS 28 'Investments in Associates and Joint Ventures' are effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively. Early adoption is permitted. These amendments are not expected to have a significant impact on the consolidated financial statements of the group.

IAS 40 is amended by updating in which cases it is possible to transfer investment property. IFRIC 22 'Foreign Currency Transactions and Advance Consideration' is issued to update which exchange rate should be applied in transactions that include advance considerations paid and received in foreign currency.
These amendments and interpretations are applicable as of 1 January 2018. The above changes will not have material impact on the financial statements of the group or the bank.

3. Note

Interest income and expenses

EUR'000

	Group	Group	Bank	Bank
	01.01.2017.– 31.12.2017.	01.01.2016.– 31.12.2016.	01.01.2017.– 31.12.2017.	01.01.2016.– 31.12.2016.
Interest income				
Total interest income of financial assets at fair value through profit and loss	**6**	**37**	**6**	**37**
Interest income on financial assets at amortized cost and available-for-sale financial assets				
On loans and advances to customers	39,532	36,530	36,887	36,447
On held-to-maturity securities	27,679	31,512	26,039	30,127
On available-for-sale securities	13,017	15,229	12,400	14,936
On balances due from credit institutions and central banks	3,090	2,711	3,184	2,661
Total interest income on financial assets at amortized cost and available-for-sale financial assets	**83,318**	**85,982**	**78,510**	**84,171**
Total interest income	**83,324**	**86,019**	**78,516**	**84,208**
Interest expense				
On ordinary bonds issued	6,377	7,042	6,322	7,141
On subordinated liabilities	5,663	5,716	5,663	5,716
On deposits from non-bank customers	2,685	187	377	156
Single Resolution Fund expense	2,298	2,019	2,298	2,019
On financial stability fee cost	2,036	3,566	2,036	3,566
On balances due to credit institutions and central banks	1,651	1,306	1,539	1,289
On the deposit guarantee fund	1,392	1,606	1,392	1,606
Total interest expense	**22,102**	**21,442**	**19,627**	**21,493**

The group’s / bank’s interest income on impaired assets totalled EUR 1.7 (3.3) million. Negative interest income has been included in interest expenses on balances due to credit institutions and central banks.

4. Note

Commission and fee income and expenses

EUR'000

	Group	Group	Bank	Bank
Commission and fee income	01.01.2017.– 31.12.2017.	01.01.2016.– 31.12.2016.	01.01.2017.– 31.12.2017.	01.01.2016.– 31.12.2016.
Commission on payment transfer handling on behalf of customers	15,500	21,200	15,192	21,054
Commission on account service	9,811	12,342	9,432	11,995
Commission on handling of settlement cards	7,448	8,354	7,460	8,356
Commission on brokerage operations	4,579	4,650	-	-
Commission on assets management	3,103	3,301	451	407
Commission on documentary operations	1,397	1,387	1,400	1,387
Other commission and fee income	2,810	1,848	2,724	2,204
Total commission and fee income	**44,648**	**53,082**	**36,659**	**45,403**
Commission and fee expenses				
Correspondent banks` service charges	1,831	2,675	1,844	2,668
Commission on payment cards	2,427	2,313	2,433	2,314
Commission on customer attraction	1,409	1,571	7,179	8,584
Commission on brokerage operations	1,278	1,297	-	-
Cther commission and fee expenses	596	619	473	549
Total commission and fee expenses	**7,541**	**8,475**	**11,929**	**14,115**

As expected in the financial plan for 2017, during the reporting period the amount of commission and fee income decreased, primarily due to decrease in income related to the processing of customer payment transactions.

5. Note

Net gain from transactions with financial instruments

EUR'000

Financial instruments at fair value through profit or loss	Group 01.01.2017.– 31.12.2017.	Group 01.01.2016.– 31.12.2016.	Bank 01.01.2017.– 31.12.2017.	Bank 01.01.2016.– 31.12.2016.
Gain/ (loss) from revaluation of financial instruments at fair value through profit or loss	2,580	2,237	620	1,693
Derivatives	1,954	603	(6)	59
Securities	626	1,634	626	1,634
Gain/ (loss) from trading with financial instruments at fair value through profit or loss	(73)	(22)	485	300
Derivatives	(594)	(409)	(45)	(87)
Securities	521	387	530	387
Currency trade and revaluation	14,294	21,151	15,835	21,247
Net gain/ (loss) from financial instruments at fair value through profit or loss	**16,801**	**23,366**	**16,940**	**23,240**
Available-for-sale financial instruments				
Gain from sale of available-for-sale securities	742	22,031	661	21,950
Net realised gain from available-for-sale financial instruments	**742**	**22,031**	**661**	**21,950**
Financial instruments at amortised cost				
Gain from sale of held-to-maturity investments	38	-	38	-
Net realised gain from sale of financial instruments at amortised cost	**38**	**-**	**38**	**-**
Net gain on transactions with financial instruments	**17,581**	**45,397**	**17,639**	**45,190**

In 2016, a EUR 16.4 million gain was recognized from VISA Europe Ltd. available-for-sale share buyback transaction, representing significant extraordinary gain from available-for-sale securities transactions.

6. Note

Net gain on transactions with repossessed real estate

EUR'000

	Group 01.01.2017.– 31.12.2017.	Group 01.01.2016.– 31.12.2016.
Income from sale of repossessed real estate	6 960	12 079
Acquisition cost of repossessed real estate	(6 313)	(11 068)
Repossessed real estate sales expenses	(109)	(66)
Net gain from sale	**538**	**945**
Income from lease and management of repossessed real estate	327	330
Expense related to management of repossessed real estate	(532)	(486)
Impairment of repossessed real estate	(3 237)	(3 385)
Reversal of impairment of repossessed real estate	869	173
Net result from operations with repossessed real estate	**(2 035)**	**(2 423)**

The net carrying amount of repossessed real estate properties disclosed as assets of the subsidiaries of Pillar Holding Company, KS amounts to EUR 33.6 (41.3) million, and the largest part of which 49.8% (44.6%) consists of land plots for private and commercial construction, and apartments comprise 27.4% (29.2%).
Other repossessed real estate includes private houses, commercial sites and parking lots and other auxiliary facilities, which are mostly located within new apartment building projects.

The management of the group / bank has carried out the assessment of repossessed real estate (paragraph k) and s)). Following the assessment, changes in reversal of impairment have been identified. Based on the analysis, in 2017 and 2016 the group recognised impairment of these assets.

The gross carrying amount of repossessed real estate properties disclosed as assets of the subsidiaries of Pillar Holding Company, KS amounts to EUR 42.5 (50.2) million and the impairment recognised for these assets at the reporting date was EUR 8.9 (8.9) million.

During the reporting period, impairment charge of repossessed real estate properties increased resulting from revaluation of assets of the subsidiary of the group Pillar 3, SIA. As a precaution, during the reporting period an additional impairment was recognised for all assets of Pillar 3, SIA, based on the actual sales data of previous periods, additional impairment adjustment factor (10%) was applied to the part of the assets, which was found to bear the marks of lower liquidity. The repossessed real estate recognised on the balance sheet of Pillar 3, SIA at the end of 2017 was EUR 11.3 (15.9) million, which comprised 31.3% (38.5%) of the total repossessed real estate of the group.

7. Note

Other operating income and expense

EUR'000

	Group	Group	Bank	Bank
Other income	01.01.2017.– 31.12.2017.	01.01.2016.– 31.12.2016. (restated)	01.01.2017.– 31.12.2017.	01.01.2016.– 31.12.2016. (restated)
Income from increase in fair value of investment property	8,208	897	-	997
Income from financial consulting, legal, accounting and IT services	5,598	2,094	3,137	3,333
Other income from sale of goods/services of related companies	729	2,518	-	-
Income from insurance	327	310	327	310
Recognition of associates under the equity method	110	184	-	-
Other operating income	643	757	317	435
Total other income	**15,615**	**6,760**	**3,781**	**5,075**
Other expense				
Membership fees	1,621	1,441	1,381	1,223
Other expense related to the sale of goods/services of related companies	2,869	1,126	-	-
Losses incurred to the group due to loss of control	259	-	-	-
Other expense	1,117	713	199	226
Total other expense	**5,866**	**3,280**	**1,580**	**1,449**

8. Note

Impairment allowance for loans

EUR'000

	Group	Group	Bank	Bank
Category	01.01.2017.– 31.12.2017.	01.01.2016.– 31.12.2016.	01.01.2017.– 31.12.2017.	01.01.2016.– 31.12.2016.
Change of individual allowances, net	143	27	397	322
Change of portfolio allowances, net	(87)	379	(369)	359
Increase/ (decrease) in allowances for the reporting year	**56**	**406**	**28**	**681**
(Recovery)/loss of write-offs from asset write-off	(908)	(738)	(908)	(738)
Decrease of impairment allowances during the reporting year, net	**(852)**	**(332)**	**(880)**	**(57)**

Changes in loan impairment allowances of the group in 2017:

EUR'000

Types of loan*	Mortgage	Business	Other	Consumer	Total
Allowances at the beginning of the year	**7,811**	**7,110**	**1,365**	**81**	**16,367**
Increase	2,014	2,202	307	103	4,626
(Decrease)	(1,915)	(2,329)	(326)	-	(4,570)
Total changes in allowances for the year	**99**	**(127)**	**(19)**	**103**	**56**
(Decrease)/ increase in allowances for the year due to currency fluctations	(14)	(308)	-	(68)	(390)
(Elimination) in allowances for the year due to asset write-offs	(1,880)	(553)	(120)	(72)	(2,625)
Allowances at the end of the year	**6,016**	**6,122**	**1,226**	**44**	**13,408**
Individual allowances	276	5,538	-	-	5,814
Portfolio allowances	5,740	584	1,226	44	7,594
Total gross loans	**306,209**	**671,459**	**79,360**	**1,300**	**1,058,328**

*Credit type structure is given in Note 17.

As at 31 December 2017, the impairment allowances for loans represent 1.3% (1.6%) of the group / bank's loan portfolio. The decrease in allowances for loans during the reporting period is mostly related to improvements in the quality of the mortgage loan portfolio and write-off of lost loans.

Changes in loan impairment allowances of the group in 2016:

EUR'000

Types of loan	Mortgage	Business	Other	Consumer	Total
Allowances at the beginning of the year	**14,451**	**7,759**	**1,676**	**69**	**23,955**
Increase	3,027	3,243	720	42	7,032
(Decrease)	(4,033)	(1,831)	(762)	-	(6,626)
Total changes in allowances for the year	**(1,006)**	**1,412**	**(42)**	**42**	**406**
Increase in allowances for the year due to currency fluctations	16	86	-	-	102
(Elimination) in allowances for the year due to asset write-offs	(5,650)	(2,147)	(269)	(30)	(8,096)
Allowances at the end of the year	**7,811**	**7,110**	**1,365**	**81**	**16,367**
Individual allowances	281	4,490	-	-	4,771
Portfolio allowances	7,530	2,620	1,365	81	11,596
Total gross loans	**321,909**	**641,118**	**82,015**	**1,269**	**1,046,311**

Changes in loan impairment allowances of the bank in 2017:

EUR'000

Types of loan	Mortgage	Business	Other	Consumer	Total
Impairment allowances at the beginning of the year	**7,811**	**7,104**	**1,365**	**73**	**16,353**
Increase	2,013	2,204	308	71	4,596
(Decrease)	(1,915)	(2,327)	(326)	-	(4,568)
Total changes in impairment allowances for the year	**98**	**(123)**	**(18)**	**71**	**28**
(Decrease)/ increase in allowances for the year due to currency fluctations	(14)	(311)	-	(68)	(393)
(Elimination) in allowances for the year due to asset write-offs	(1,879)	(559)	(121)	(42)	(2,601)
Impairment allowances at the end of the year	**6,016**	**6,111**	**1,226**	**34**	**13,387**
Individual allowances	276	5,537	-	-	5,813
Portfolio allowances	5,740	574	1,226	34	7,574
Total gross loans	**306,209**	**629,606**	**79,360**	**1,274**	**1,016,449**

Changes in loan impairment allowances of the bank in 2016:

EUR'000

Types of loan	Mortgage	Business	Other	Consumer	**Total**
Allowances at the beginning of the year	**14,451**	**7,380**	**1,675**	**69**	**23,575**
Increase	3,012	3,237	734	34	7,017
(Decrease)	(4,018)	(1,543)	(775)	-	(6,336)
Total changes in allowances for the year	**(1,006)**	**1,694**	**(41)**	**34**	**681**
(Decrease) in allowances for the year due to currency fluctations	16	93	-	-	109
(Elimination) in allowances for the year due to asset write-offs	(5,650)	(2,063)	(269)	(30)	(8,012)
Allowances at the end of the year	**7,811**	**7,104**	**1,365**	**73**	**16,353**
Individual allowances	281	4,490	-	-	4,771
Portfolio allowances	7,530	2,614	1,365	73	11,582
Total gross loans	**321,909**	**623,390**	**82,015**	**1,185**	**1,028,499**

9. Note

Administrative expenses

EUR'000

Category	Group 01.01.2017.–31.12.2017.	Group 01.01.2016.–31.12.2016. (restated)	Bank 01.01.2017.–31.12.2017.	Bank 01.01.2016.–31.12.2016. (restated)
Remuneration to personnel, incl. Statutory Social Insurance Contributions	45,248	43,172	34,707	34,055
Remuneration to management, incl. Statutory Social Insurance Contributions	4,150	3,637	4,150	3,637
Total personnel expense	**49,398**	**46,809**	**38,857**	**37,692**
Office maintenance	3,730	3,544	2,547	2,408
Consulting and professional services	3,342	4,016	3,673	2,991
IT system maintenance and development	3,103	3,410	2,443	2,782
Other personnel expense	2,113	1,672	1,621	1,336
Communications and information resources	1,771	1,685	1,630	1,505
Advertising and marketing expenses	1,631	1,778	1,425	1,552
Non-deductible VAT	1,108	1,404	1,069	1,380
Other taxes	718	782	373	352
Donations	514	881	400	654
Sworn auditor statutory audit	263	138	80	70
Sworn auditor other audits	5	17	3	17
Sworn auditor consultations	22	-	9	-
Fines paid to the State Treasury in accordance with the administrative agreement of 26.05.2016	-	3,167	-	3,167
AML / CFT audit expenses (Navigant LLC)	-	1,464	-	1,464
Other administrative expense	941	397	223	229
Other administrative expense, total	**19,261**	**24,355**	**15,496**	**19,907**
Total administrative expense	**68,659**	**71,164**	**54,353**	**57,599**

In 2017 and 2016, the group employed an average of 821 (809) persons, whereas the bank employed an average of 676 (655) persons (full-time equivalent).

Number of employees of the group and the bank at the year end:

	Group	Group	Bank	Bank
	31.12.2017.	31.12.2016.	31.12.2017.	31.12.2016.
	number	number	number	number
Management	12	10	12	10
Heads of divisions and departments	154	152	108	105
Other personnel	681	665	565	550
Total at the end of the year	**847**	**827**	**685**	**665**

10. Note

Taxation

Taxes paid by the group and the bank:

EUR'000

Type of tax	Group 01.01.2017.– 31.12.2017.	Group 01.01.2016.– 31.12.2016.	Bank 01.01.2017.– 31.12.2017.	Bank 01.01.2016.– 31.12.2016.
State compulsory social insurance contributions	10,664	10,863	9,409	9,333
Personal income tax	7,887	8,136	7,147	7,180
Corporate income tax	1,331	2,987	747	1,612
Real estate tax	728	751	383	367
Value added tax	317	(746)	107	140
Risk duty	3	3	3	3
Natural resources duty	3	2	-	1
Total	**20,933**	**21,996**	**17,796**	**18,636**

Corporate income tax expense:

EUR'000

	Group 01.01.2017.– 31.12.2017.	Group 01.01.2016.– 31.12.2016. (restated)	Bank 01.01.2017.– 31.12.2017.	Bank 01.01.2016.– 31.12.2016. (restated)
Corporate income tax for the reporting period	2,224	3,215	1,824	2,353
Deferred tax	(2,429)	(599)	(2,657)	418
Corporate income tax paid abroad	141	122	141	122
Prior year corporate income tax adjustments	28	(15)	(98)	(23)
Total corporate income tax expense	**(36)**	**2,723**	**(790)**	**2,870**

Effective corporate income tax calculation:

EUR'000

	Group	Group	Bank	Bank
	01.01.2017.– 31.12.2017.	01.01.2016.– 31.12.2016. (restated)	01.01.2017.– 31.12.2017.	01.01.2016.– 31.12.2016. (restated)
Profit before corporate income tax	51 872	80 974	43 913	82 142
Theoretically calculated corporate income tax	**7 781**	**12 146**	**6 587**	**12 321**
Non-taxable portion for bonds which are publicly traded in the EU/EEA	(5 440)	(6 266)	(5 440)	(6 266)
Changes in deferred tax	(2 657)	-	(2 657)	-
Permanent differences	672	(2 244)	1 013	(2 680)
Actual corporate income tax expense for the reporting year	**356**	**3 636**	**(497)**	**3 375**
Adjustments to prior-year corporate income tax	28	(15)	(98)	(23)
Adjustments to prior-year deferred tax	3	(152)	-	-
Assessment of deferred tax recoverability	(147)	(73)	-	-
Minimum tax from operation	1	-	-	-
Tax rebate	(418)	(795)	(336)	(604)
Tax paid abroad	141	122	141	122
Total effective corporate income tax expense	**(36)**	**2 723**	**(790)**	**2 870**

Changes in deferred tax separated from permanent differences are related to changes in tax legislation of the Republic of Latvia, and are further described under p) explanation.

Deferred tax movement of group:

EUR'000

	01.01.2017.				31.12.2017.		31.12.2017.
	Net balance	Recognized in profit or loss	Recognized in other comprehensive income	Write-off due to loss of control	Net balance	Deferred tax (assets)	Deferred tax liabilities
Difference between intangible and tangible asset carrying balance in financial accounting and for tax purposes	1,353	(1,353)	-	-	-	-	-
Revaluation reserve of available-for-sale financial assets	88	-	(88)	-	-	-	-
Revaluation of derivatives and securities	1	(1)	-	-	-	-	-
Revaluation of assets and reserve for unused vacation	1,271	(1,271)	-	-	-	-	-
Deferred tax asset from transactions within the group	(57)	57	-	-		-	-
Tax losses	(1,292)	196	-	-	(1,096)	(1,096)	-
Deferred tax (assets)/ liabilities before off-set	1,364	(2,372)	(88)	-	(1,096)	**(1,096)**	
Tax off-set						-	-
Net deferred tax (assets)/ liabilities						**(1,096)**	

Given the improved financial performance of the subsidiary ABLV Luxembourg S.A., the deferred tax position was reviewed during the reporting period. The management recognised a deferred tax asset of EUR 1.1 (1.1) million, based on the forecast operational results and the amount of projected taxable profit for the next three years disclosed in the strategic plan of ABLV Luxembourg S.A.

EUR'000

	01.01.2016.				31.12.2016.		31.12.2016.
	Net balance (restated)	Recognized in profit or loss	Recognized in other comprehensive income	Write-off due to loss of control	Net balance	Deferred tax (assets)	Deferred tax liabilities
Difference between intangible and tangible asset carrying balance in financial accounting and for tax purposes	1,326	27	-	-	1,353	-	1,353
Revaluation reserve of available-for-sale financial assets	10	-	78	-	88	-	88
Revaluation of derivatives and securities	(29)	30	-	-	1	-	1
Revaluation of assets and reserve for unused vacation	(340)	1,611	-		1,271	-	1,271
Deferred tax asset from transactions within the group	(57)	-	-	-	(57)	(57)	-
Tax losses	(273)	(1,019)	-	-	(1,292)	(1,292)	-
Deferred tax (assets)/ liabilities before off-set	637	649	78	-	1,364	**(1,349)**	**2,713**
Tax off-set						(52)	52
Net deferred tax (assets)/ liabilities						**(1,401)**	**2,765**

Deferred tax movement of bank:

EUR'000

	01.01.2017.			31.12.2017.		31.12.2017.
	Net balance	Recognized in profit or loss	Recognized in other comprehensive income	Net balance	Deferred tax (assets)	Deferred tax liabilities
Difference between intangible and tangible asset carrying balance in financial accounting and for tax purposes	1,257	(1,257)	-	-	-	-
Revaluation reserve of available-for-sale financial assets	88	-	(88)	-	-	-
Revaluation of derivatives and securities	1	(1)	-	-	-	-
Revaluation of assets and reserve for unused vacation	1,399	(1,399)	-	-	-	-
Deferred tax (assets)/ liabilities before off-set	2,745	(2,657)	(88)	**-**	**-**	**-**
Tax off-set					**-**	**-**
Net deferred tax (assets)/ liabilities					**-**	**-**

EUR'000

	01.01.2016.			31.12.2016.		31.12.2016.
	Net balance (restated)	Recognized in profit or loss	Recognized in other comprehen-sive income	Net balance	Deferred tax (assets)	Deferred tax liabilities (restated)
Temporary difference between intangible and fixed asset carrying balance in financial accounting and for tax purposes	1,232	25	-	1,257	-	1,257
Fair value revaluation reserve	10	-	78	88	-	88
Revaluation of derivatives and securities	(29)	30	-	1	-	1
Revaluation of assets and reserve for unused vacations	(212)	1,611	-	1,399	-	1,399
Deferred tax liabilities before off-set	1,001	1,666	78	2,745	**-**	**2,745**
Tax off-set					**-**	**-**
Net deferred tax liabilities					**-**	**2,745**

11. Note

Cash and demand deposits with central banks

EUR'000

	Group 31.12.2017.	Group 31.12.2016.	Bank 31.12.2017.	Bank 31.12.2016.
Demand deposits with the Bank of Latvia	388 993	398 719	388 993	398 719
Cash on hand	13 521	14 331	13 521	14 328
Demand deposits with Banque de Luxembourg	2 022	1 381	-	-
Total cash and deposits with central banks	**404 536**	**414 431**	**402 514**	**413 047**

As at 31 December 2017 and 2016, the bank had no overdue balances due from central banks.

12. Note

Balances due from credit institutions

As at 31 December 2017, the bank had established correspondent relationships with 28 (32) credit institutions registered in the EU and OECD area, 3 (4) credit institutions registered in Latvia, and 37 (36) credit institutions incorporated in other countries.
As at 31 December 2017, the group's and bank's major balances due from credit institutions were as follows: Transkapitalbank PAO EUR 44.2 (0.5) million, Raiffeisen Schweiz Genossenschaft EUR 29.2 (0) million, Sberbank EUR 26.5 (20.2) million.

EUR'000

	Group	Group	Bank	Bank
Demand deposits with credit institutions	31.12.2017.	31.12.2016.	31.12.2017.	31.12.2016.
Correspondent account balances	219 439	178 833	217 241	175 484
Overnight deposits	-	3 734	15 845	16 067
Total demand deposits with credit institutions	**219 439**	**182 567**	**233 086**	**191 551**
Other balances due from credit institutions				
Term deposits	41 617	79 189	41 176	79 189
Other balances	10 847	10 764	10 847	10 764
Total other balances due from credit institutions	**52 464**	**89 953**	**52 023**	**89 953**
Total balances due from credit institutions	**271 903**	**272 520**	**285 109**	**281 504**

As at 31 December 2017, part of the group's and bank's balances due from credit institutions totalling EUR 11.3 (24.8) million and EUR 10.9 (24.3) million respectively were pledged to secure transactions with financial instruments other than cash equivalents. Cash equivalents do not include the group's and bank's term deposits of EUR 22.9 (51.1) million.

As at 31 December 2017 and 2016, the group's and bank's balances due from credit institutions were neither past due nor impaired. The maximum credit risk exposure of the balances due from credit institutions is equal to the carrying amount of these assets.

13. Note

Financial assets at fair value through profit or loss

EUR'000

Issuer	Group 31.12.2017.	Group 31.12.2016.	Bank 31.12.2017.	Bank 31.12.2016.
Fixed-income debt securities				
Corporate companies	15 880	12 352	-	-
Credit institutions	2 109	6 647	372	4 671
Central governments	1 102	2 483	-	-
Financial auxillaries and other financial intermediaries	348	229	-	-
Municipalities	-	112	-	-
Total fixed-income debt securities	19 439	21 823	372	4 671
Equity shares				
Corporate companies	280	272	273	272
Credit institutions	-	-	-	-
Total investments in equity shares	280	272	273	272
Investments in funds	5 082	6 321	12 484	16 067
Total financial instruments at fair value	**24 801**	**28 416**	**13 129**	**21 010**

The maximum credit risk exposure of securities designated at fair value is equal to the carrying amount of these assets. As at 31 December 2017, the group's and bank's investments at fair value of EUR 5.1 (5.3) million and EUR 12.5 (15.0) million respectively in open-ended investment funds registered in Latvia, which are redeemable at net asset value, were not listed on stock exchanges.

Ten largest exposures as at 31 December 2017 amounted to 25.2% (42.6%) of the total group's financial assets at fair value through profit or loss, whereas ten largest exposures of the total bank's financial assets at fair value through profit or loss, amounted to 95.1% (78.3%).

14. Note

Available-for-sale financial assets

EUR'000

Issuer	Group 31.12.2017.	Group 31.12.2016.	Bank 31.12.2017.	Bank 31.12.2016.
Fixed-income debt securities				
Central governments	895,134	630,171	871,238	608,301
Credit institutions	62,524	237,546	41,067	214,832
International organisations	4,178	67,092	4,178	67,092
Corporate companies	62,844	64,766	45,493	41,776
Local governments	23,683	22,760	19,102	17,013
Financial auxillaries and other financial intermediaries	7,689	6,974	5,928	4,806
Total fixed-income debt securities	1,056,052	1,029,309	987,006	953,820
Equity shares				
Financial auxillaries and other financial intermediaries	4,695	2,974	4,695	2,974
Credit institutions	3,572	-	3,572	-
Corporate companies	463	300	463	300
Total investments in equity shares	8,730	3,274	8,730	3,274
Investments in funds	10,009	9,991	13	-
Total available-for-sale financial instruments	**1,074,791**	**1,042,574**	**995,749**	**957,094**

The maximum credit risk exposure of securities designated at fair value is equal to the carrying amount of these assets. During the reporting period, an impairment allowance was not recognised for available-for-sale debt securities, while in 2016 impairment allowance was recognised in the amount of EUR 0.3 million.

The largest part of the group's available-for-sale financial assets, 95.0% (88.9%), is invested in investment grade securities. Whereas, the share of the portfolio of available-for-sale securities that the bank has invested in investment grade securities is 95.6% (88.9%).
At the end of the reporting year, the weighted average modified duration of the bank's securities portfolio was 2.6 (2.5) years.
Ten largest exposures as at 31 December 2017 amounted to 83.1% (62.2%) of the total group's available-for-sale financial assets, whereas ten largest exposures of the total bank's available-for-sale financial assets amounted to 88.7% (66.5%).

15. Note

Held-to-maturity investments

EUR'000

Issuer	Group 31.12.2017.	Group 31.12.2016.	Bank 31.12.2017.	Bank 31.12.2016.
Fixed-income debt securities				
Central governments	580 685	645 800	557 811	623 428
Corporate companies	140 777	185 403	116 437	159 001
Credit institutions	57 521	120 197	43 338	109 754
Municipalities	32 516	71 615	30 406	69 214
International organisations	26 737	30 322	25 196	28 667
Financial auxillaries and other financial intermediaries	1 742	1 982	859	978
Total held-to-maturity financial instruments, gross	**839 978**	**1 055 319**	**774 047**	**991 042**
Impairment allowance	(1 391)	(1 332)	(1 391)	(1 332)
Total held-to-maturity financial instruments, net	**838 587**	**1 053 987**	**772 656**	**989 710**

The maximum credit risk exposure of held-to-maturity securities is equal to the carrying amount of these assets.

The largest part of the group's portfolio of held-to-maturity securities, 87.8% (84.9%), is invested in investment grade securities. Whereas, the share of the portfolio of held-to-maturity securities that the bank has invested in investment grade securities is 87.2% (84.1%).

As at 31 December 2017, part of the held-to-maturity financial instruments totalling EUR 11.9 (4.6) million were pledged for securing transactions with financial instruments and held-to-maturity financial instruments totalling EUR 53.2 (53.2) million for securing targeted longer-term refinancing operations (TLTRO).

Ten largest exposures as at 31 December 2017 amounted to 66.2% (59.6%) of the total group's held-to-maturity financial instruments, whereas ten largest exposures of the total bank's held-to-maturity financial instruments amounted to 70.5% (62.5%).

EUR'000

	Group / bank 01.01.2017.– 31.12.2017.	Group / bank 01.01.2016.– 31.12.2016.
Impairment allowance at the beginning of the period	**1,332**	**2,566**
Increase	423	623
(Decrease)	(266)	(856)
(Decrease) due to asset write-offs	-	(1,017)
Changes in allowances for the year due to currency fluctations	(98)	16
Impairment allowance at the end of the period	**1,391**	**1,332**

16. Note

Derivatives

The table below presents the notional amounts and fair values of foreign currency exchange contracts and other derivative financial instruments. The notional amount of foreign currency exchange contracts is the amount receivable. The notional amount of other derivative financial instruments is the value of the underlying assets of these instruments.

EUR'000

	31.12.2017.			31.12.2016.		
	Notional amount	Fair value		Notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Group						
Gold futures	405	-	6	405	59	-
Currency forwards	41,838	1,942	23	19,934	565	42
Total derivatives	**42,243**	**1,942**	**29**	**20,339**	**624**	**42**
Bank						
Gold futures	405	-	6	405	59	-
Currency forwards	13,804	96	6	2,903	21	42
Total derivatives	**14,209**	**96**	**12**	**3,308**	**80**	**42**

The bank uses derivative foreign currency exchange instruments in order to manage currency positions.
As at 31 December 2017 and 31 December 2016, payments related to derivatives were not past due.

17. Note

Loans and receivables

The breakdown of loans issued by the group and the bank by customer profile:

EUR'000

Type of borrower	Group 31.12.2017.	Group 31.12.2016.	Bank 31.12.2017.	Bank 31.12.2016.
Private companies	554,323	483,065	517,133	465,337
Private individuals	332,271	348,924	327,583	348,840
Financial auxillaries and other financial intermediaries	164,770	204,382	164,769	204,382
Credit institutions	6,964	9,940	6,964	9,940
Total loans, gross	1,058,328	1,046,311	1,016,449	1,028,499
Impairment allowance	(13,408)	(16,367)	(13,387)	(16,353)
Total loans, net	**1,044,920**	**1,029,944**	**1,003,062**	**1,012,146**

The maximum credit risk exposure of loans issued to customers is equal to the carrying amount of these assets.

As at 31 December 2017, a part of liabilities of the group and the bank to other financial intermediaries in the amount of EUR 27.5 (22.8) million was pledged to secure transactions with financial instruments.
More detailed information about impairment allowances for loans is disclosed in Note 8.

Ten largest exposures of the group as at 31 December 2017 amounted to 21.7% (22.9%) of the total group's net loan portfolio, however, those of the bank amounted to 22.6% (23.3%) of the total bank's net loan portfolio. No individual impairment allowances has been established for these loans.
The breakdown of loans issued by the group and the bank by category:

EUR'000

Category	31.12.2017. Carrying amount	31.12.2017. Off-balance sheet amount	31.12.2017. Total exposure, gross	31.12.2016. Carrying amount	31.12.2016. Off-balance sheet amount	31.12.2016. Total exposure, gross
Group						
Ordinary loans	862,472	63,141	925,613	851,391	27,517	878,908
Credit lines	113,485	70,059	183,544	109,505	61,672	171,177
Receivable from financial intermediaries	63,547	-	63,547	56,395	-	56,395
Security payments for financial transactions	7,583	-	7,583	13,994	-	13,994
Balances on current accounts	2,620	-	2,620	3,261	-	3,261
Balances on payment cards	1,657	12,423	14,080	1,548	13,187	14,735
Debt securities	6,964	-	6,964	10,217	-	10,217
Total gross loans	**1,058,328**	**145,623**	**1,203,951**	**1,046,311**	**102,376**	**1,148,687**
Impairment allowance	(13,408)	-	(13,408)	(16,367)	-	(16,367)
Total net loans	**1,044,920**	**145,623**	**1,190,543**	**1,029,944**	**102,376**	**1,132,320**
Bank						
Ordinary loans	828,191	58,763	886,954	833,603	27,517	861,120
Credit lines	105,945	70,058	176,003	109,506	61,672	171,178
Receivable from financial intermediaries	63,547	-	63,547	56,395	-	56,395
Security payments for financial transactions	7,583	-	7,583	13,994	-	13,994
Balances on current accounts	2,565	-	2,565	3,236	-	3,236
Balances on payment cards	1,654	12,489	14,143	1,548	13,257	14,805
Debt securities	6,964	-	6,964	10,217	-	10,217
Total gross loans	**1,016,449**	**141,310**	**1,157,759**	**1,028,499**	**102,446**	**1,130,945**
Impairment allowance	(13,387)	-	(13,387)	(16,353)	-	(16,353)
Total net loans	**1,003,062**	**141,310**	**1,144,372**	**1,012,146**	**102,446**	**1,114,592**

The maximum credit risk exposure of loans issued to customers is equal to the carrying amount of these assets.

Credit type structure of the group / bank:

EUR'000

Category	31.12.2017. Mortgage	Business	Other	Consumer	Total	31.12.2016. Mortgage	Business	Other	Consumer	Total
Group										Group
Ordinary loans	306,209	554,754	1,265	244	862,472	321,909	527,736	1,408	338	851,391
Credit lines	-	113,485	-	-	113,485	-	109,505	-	-	109,505
Receivables from financial intermediaries	-	-	63,548	-	63,548	-	-	56,396	-	56,396
Security payments for financial transactions	-	-	7,583	-	7,583	-	-	13,994	-	13,994
Balances on current accounts	-	2,577	-	43	2,620	-	3,205	-	56	3,261
Balances on payments cards	-	643	-	1,013	1,656	-	672	-	875	1,547
Debt securities	-	-	6,964	-	6,964	-	-	10,217	-	10,217
Total gross loans	**306,209**	**671,459**	**79,360**	**1,300**	**1,058,328**	**321,909**	**641,118**	**82,015**	**1,269**	**1,046,311**
Impairment allowance	(6,016)	(6,122)	(1,226)	(44)	(13,408)	(7,811)	(7,110)	(1,365)	(81)	(16,367)
Total net loans	**300,193**	**665,337**	**78,134**	**1,256**	**1,044,920**	**314,098**	**634,008**	**80,650**	**1,188**	**1,029,944**
Bank										Bank
Ordinary loans	306,209	520,473	1,265	244	828,191	321,909	510,022	1,408	263	833,602
Credit lines	-	105,945	-	-	105,945	-	109,506	-	-	109,506
Receivables from financial intermediaries	-	-	63,548	-	63,548	-	-	56,396	-	56,396
Security payments for financial transactions	-	-	7,583	-	7,583	-	-	13,994	-	13,994
Balances on current accounts	-	2,545	-	20	2,565	-	3,190	-	46	3,236
Balances on payments cards	-	643	-	1,010	1,653	-	672	-	876	1,548
Debt securities	-	-	6,964	-	6,964	-	-	10,217	-	10,217
Total gross loans	**306,209**	**629,606**	**79,360**	**1,274**	**1,016,449**	**321,909**	**623,390**	**82,015**	**1,185**	**1,028,499**
Impairment allowance	(6,016)	(6,111)	(1,226)	(34)	(13,387)	(7,811)	(7,104)	(1,365)	(73)	(16,353)
Total net loans	**300,193**	**623,495**	**78,134**	**1,240**	**1,003,062**	**314,098**	**616,286**	**80,650**	**1,112**	**1,012,146**

The breakdown of allowances established by the group and the bank by loan category:

EUR'000

	31.12.2017.				31.12.2016.			
		Portfolio allowances				Portfolio allowances		
Category	Individual allowances	allowances for impaired loans	allowances for not impaired loans	Total	Individual allowances	allowances for impaired loans	allowances for not impaired loans	Total
Group								Group
Mortgage	276	5,314	426	6,016	281	6,780	750	7,811
Business	5,538	247	337	6,122	4,490	256	2,364	7,110
Other	-	1,226	-	1,226	-	1,365	-	1,365
Consumer	-	44	-	44	-	81	-	81
Total impairment allowances for loans	**5,814**	**6,831**	**763**	**13,408**	**4,771**	**8,482**	**3,114**	**16,367**
Bank								Bank
Mortgage	276	5,314	426	6,016	281	6,781	749	7,811
Business	5,537	235	339	6,111	4,490	245	2,369	7,104
Other	-	1,226	-	1,226	-	1,365	-	1,365
Consumer	-	34	-	34	-	73	-	73
Total impairment allowances for loans	**5,813**	**6,809**	**765**	**13,387**	**4,771**	**8,464**	**3,118**	**16,353**

As loans, for which the impairment is recognised, are regarded loans, for which the group / bank has made allowances after the loss event has occurred. Taking into account that at the end of reporting year the group / bank is not aware of all loss events that have occurred, allowances are made for potential loss that have occurred, but are unknown.

The breakdown of loans issued by the group and the bank by industry profile:

EUR'000

Industry	Group 31.12.2017.	Group 31.12.2016.	Bank 31.12.2017.	Bank 31.12.2016.
Real estate management	302,066	272,525	304,201	277,265
Mortgage loans to private individuals	294,309	307,772	294,309	307,772
Financial and insurance activities	171,576	213,969	171,576	213,970
Trading	49,228	58,872	46,338	49,530
Transportation and logistics	38,909	28,099	38,908	28,099
Construction	37,749	13,372	1,330	278
Other loans to private individuals	29,945	30,914	25,267	30,837
Manufacturing	25,301	29,958	25,300	29,958
Energy	7,797	3,831	7,797	3,831
Agriculture and forestry	2,894	3,781	2,894	3,781
Other industries	85,146	66,851	85,142	66,825
Total net loans	**1,044,920**	**1,029,944**	**1,003,062**	**1,012,146**

The breakdown of loans issued by the group and the bank by 5 largest countries of borrowers:

EUR'000

Country	Group 31.12.2017.	Group 31.12.2016.	Bank 31.12.2017.	Bank 31.12.2016.
Latvia	732,693	721,342	737,316	726,057
Russia	88,808	135,441	88,805	113,008
United States of America	57,278	51,366	56,462	51,366
Luxembourg	41,297	75	3,168	-
Great Britain	20,720	30,832	19,463	30,831
Total other countries	104,124	90,888	97,848	90,884
Total net loans	**1,044,920**	**1,029,944**	**1,003,062**	**1,012,146**

Collateral analysis for the group's loans:

EUR'000

Category	Total gross loans	Deposit	Securities	Real estate	Other collateral	Fair value of collateral, total
						31.12.2017.
Mortgage	**306,209**	**-**	**-**	**249,049**	**394**	**249,443**
LTV up to 100%	130,059	-	-	129,665	394	130,059
LTV over 100%	176,150	-	-	119,384	-	119,384
Business	**671,459**	**43,938**	**73,708**	**412,394**	**122,074**	**652,114**
LTV up to 100%	644,049	43,019	73,558	406,855	120,617	644,049
LTV over 100%	27,410	919	150	5,539	1,457	8,065
Other	**79,360**	**-**	**-**	**-**	**1**	**1**
LTV up to 100%	-	-	-	-	-	-
LTV over 100%	79,360	-	-	-	1	1
Consumer	**1,300**	**457**	**-**	**-**	**-**	**457**
LTV up to 100%	457	457	-	-	-	457
LTV over 100%	843	-	-	-	-	-
Total gross loans	**1,058,328**	**44,395**	**73,708**	**661,443**	**122,469**	**902,015**
Impairment allowances	(13,408)					
Total net loans	**1,044,920**					
Category						31.12.2016.
Mortgage	**321,909**	**105**	**-**	**254,974**	**264**	**255,343**
LTV up to 100%	123,990	105	-	123,621	264	123,990
LTV over 100%	197,919	-	-	131,353	-	131,353
Business	**641,118**	**28,444**	**86,687**	**423,792**	**81,815**	**620,738**
LTV up to 100%	604,239	28,444	86,687	407,402	81,706	604,239
LTV over 100%	36,879	-	-	16,390	109	16,499
Other	**82,015**	**-**	**-**	**-**	**1**	**1**
LTV up to 100%	-	-	-	-	-	-
LTV over 100%	82,015	-	-	-	1	1
Consumer	**1,269**	**387**	**18**	**-**	**-**	**405**
LTV up to 100%	405	387	18	-	-	405
LTV over 100%	864	-	-	-	-	-
Total gross loans	**1,046,311**	**28,936**	**86,705**	**678,766**	**82,080**	**876,487**
Impairment allowances	(16,367)					
Total net loans	**1,029,944**					

LTV[2] above 100% does not generate significant risk as allowances are recognised both for existing losses and losses that have been incurred but are not yet known. The need for allowances is assessed by taking into account the unsecured portion of a mortgage and consumer loan and the statistics collected on loan movements to lower quality groups. Allowances for corporate loans are recognised if the primary source of repayment or cash flows from operating activities of the customer and the secondary source of repayment, or potential income from the sale of collateral becomes insufficient for repayment of the loan. As concerns other loans, the most significant part is brokerage accounts and security deposits which are partially covered by customer funds.

For the purpose of these financial statements, for loans whose gross carrying amount is less than fair value of collateral, fair value of collateral is disclosed as the gross value of the loan.

Collateral analysis for the bank's loans:

EUR'000

	Total gross loans	Deposit	Securities	Real estate	Other collateral	Fair value of collateral, total
Category						31.12.2017.
Mortgage	**306,209**	**-**	**-**	**249,049**	**394**	**249,443**
LTV up to 100%	130,059	-	-	129,665	394	130,059
LTV over 100%	176,150	-	-	119,384	-	119,384
Business	**629,606**	**7,808**	**66,163**	**417,019**	**122,074**	**613,064**
LTV up to 100%	605,173	6,913	66,163	411,480	120,617	605,173
LTV over 100%	24,433	895	-	5,539	1,457	7,891
Other	**79,360**	**-**	**-**	**-**	**1**	**1**
LTV up to 100%	-	-	-	-	-	-
LTV over 100%	79,360	-	-	-	1	1
Consumer	**1,274**	**457**	**-**	**-**	**-**	**457**
LTV up to 100%	457	457	-	-	-	457
LTV over 100%	817	-	-	-	-	-
Total gross loans	**1,016,449**	**8,265**	**66,163**	**666,068**	**122,469**	**862,965**
Impairment allowances	(13,387)					
Total net loans	**1,003,062**					
Category						31.12.2016.
Mortgage	**321,909**	**105**	**-**	**254,974**	**264**	**255,343**
LTV up to 100%	123,990	105	-	123,621	264	123,990
LTV over 100%	197,919	-	-	131,353	-	131,353
Business	**623,390**	**9,897**	**82,803**	**428,488**	**81,815**	**603,003**
LTV up to 100%	586,504	9,897	82,803	412,098	81,706	586,504
LTV over 100%	36,886	-	-	16,390	109	16,499
Other	**82,015**	**-**	**-**	**-**	**1**	**1**
LTV up to 100%	-	-	-	-	-	-
LTV over 100%	82,015	-	-	-	1	1
Consumer	**1,185**	**331**	**-**	**-**	**-**	**331**
LTV up to 100%	331	331	-	-	-	331
LTV over 100%	854	-	-	-	-	-
Total gross loans	**1,028,499**	**10,333**	**82,803**	**683,462**	**82,080**	**858,678**
Impairment allowances	(16,353)					
Total net loans	**1,012,146**					

The principles for determining the fair value of collateral are described in Note 32.
During the reporting year, the real estate with a total value of EUR 0.3 (1.2) million was taken over.

[2] LTV- loan carrying amounts to the fair value of collateral, where LTV < 100%, if the carrying amount of the loan is lower than fair value of collateral, but LTV > 100%, if the carrying amount of the loan is higher than the fair value of collateral or loans are unsecured.

18. Note

Investments in subsidiaries and associates

The group's investments in associates:

EUR'000

Company	Country of incor-poration	31.12.2017. Share capital	31.12.2017. Equity (non-audited)	31.12.2017. Group's share of total share capital, %	31.12.2017. Carrying amount under equity method	31.12.2016. Share capital	31.12.2016. Equity (non-audited)	31.12.2016. Group's share of total share capital, %	31.12.2016. Carrying amount under equity method
AmberStone Group, AS	LV	35,000	40,572	24.28	9,076	35,000	40,886	24.28	9,117
ABLV Corporate Services Holding Company, SIA	LV	250	1,201	40.00	439	-	-	-	-
SIA SG Capital Partners AIFP	LV	25	48	26.40	13	-	-	-	-
Total investments in associates		**35,275**	**41,821**	**x**	**9,528**	**35,000**	**40,886**	**x**	**9,117**

The bank's investments in associates:

EUR'000

Company	Country of incor-poration	31.12.2017. Share capital	31.12.2017. Equity (non-audited)	31.12.2017. Group's share of total share capital, %	31.12.2017. Carrying amount under equity method	31.12.2016. Share capital	31.12.2016. Equity (non-audited)	31.12.2016. Group's share of total share capital, %	31.12.2016. Carrying amount under equity method
AmberStone Group, AS	LV	35,000	40,572	24.28	8,635	35,000	40,886	24.28	8,635
ABLV Corporate Services Holding Company, SIA	LV	250	1,201	40.00	100	-	-	-	-
Total investments in associates		**35,250**	**41,773**	**x**	**8,735**	**35,000**	**40,886**	**x**	**8,635**

Movements in the investments in subsidiaries and associates:

EUR'000

	Group 01.01.2017.– 31.12.2017.	Group 01.01.2016.– 31.12.2016.	Bank 01.01.2017.– 31.12.2017.	Bank 01.01.2016.– 31.12.2016.
Gross investments at the beginning of the year	**9,117**	**9,068**	**8,635**	**8,770**
Acquired share in associates	8	-	-	-
(Dispossessed) shares in associates	-	(135)	-	(135)
Change in investments in associates under equity method	110	184	-	-
Dividends paid by associates	(145)	-	-	-
Increase in investments in associates as a result of loss of control over subsidiary	438	-	100	-
Tota investments at the end of the year	**9,528**	**9,117**	**8,735**	**8,635**

Consolidated operating results of associated company Amberstone Group, AS:

EUR'000

Position	31.12.2017. (non-audited)	31.12.2016. (audited)
Non-current assets	41,554	27,826
Current assets	12,131	25,888
Total assets	**53,685**	**53,714**
Non-current liabilities	7,514	8,597
Current liabilities	5,599	4,231
Total liabilities	**13,113**	**12,828**
Capital and reserves	40,572	40,886
incl. other comprehensive income	-	-
incl. gain/(loss) for the reporting period	427	759
Total liabilities, capital and reserves	**53,685**	**53,714**
Net turnover	**14,544**	**12,515**

Changes in non-controlling interest:

EUR'000

	Group 01.01.2017.– 31.12.2017.	Group 01.01.2016.– 31.12.2016.
Non-controlling interest at the beginning of the year	**2,271**	**876**
Issue of shares	1,200	1,674
Acquisition of shares	-	49
Portion of profit related to non-controlling share	955	222
Distributed dividends	(332)	(550)
Non-controlling interest at the end of the year	**4,094**	**2,271**

Group entities:

					31.12.2017		31.12.2016	
No	Company	Country of incorpo-ration	Registration number	Business profile	Share in the entity's capital (%)	Share in the entity's capital with voting rights (%)	Share in the entity's capital (%)	Share in the entity's capital with voting rights (%)
1	ABLV Bank, AS	LV	50003149401	Financial services	100	100	100	100
2	ABLV Bank Luxembourg, S.A.	LU	B 162048	Financial services	100	100	100	100
3	ABLV Consulting Services, AS	LV	40003540368	Consulting services	100	100	100	100
4	ABLV Advisory Services, SIA	LV	40103964811	Consulting services	100	100	100	100
5	ABLV Capital Markets, IBAS	LV	40003814705	Financial services	90	100	90	100
6	ABLV Capital Markets USA LLC	US	6399457	Financial services	90	100	-	-
7	ABLV Asset Management, IPAS	LV	40003814724	Financial services	90	100	90	100
8	PEM, SIA	LV	40103286757	Investment project management	51	51	51	51
9	PEM 1, SIA	LV	40103551353	Wholesale trade services of other machinery and equipment	51	51	51	51
10	New Hanza Capital, AS	LV	50003831571	Holding company	88	88	88	88
11	NHC 1, SIA	LV	50103247681	Investments in real estate	88	88	88	88
12	NHC 2, SIA	LV	40103963977	Investments in real estate	88	88	88	88
13	NHC 3, SIA	LV	50103994841	Investments in real estate	88	88	88	88
14	NHC 4, SIA	LV	40203032424	Investments in real estate	88	88	88	88
15	NHC 5, SIA	LV	50203032411	Investments in real estate	88	88	88	88
16	NHC 6, SIA	LV	40203032439	Investments in real estate	88	88	88	88
17	Hanzas Dārzs, SIA	LV	40203078059	Territory maintenance	100	100	-	-
18	Pillar, SIA	LV	40103554468	Holding company	100	100	100	100
19	Pillar Holding Company, KS	LV	40103260921	Holding company	100	100	100	100
20	Pillar 3, SIA	LV	40103193067	Real estate transactions	100	100	100	100
21	Pillar 4 & 6, SIA	LV	40103210494	Real estate transactions	100	100	100	100
22	Pillar 7 & 8, SIA	LV	40103240484	Real estate transactions	100	100	100	100
23	Pillar 11, SIA	LV	40103258310	Real estate transactions	100	100	100	100
24	Pillar 2, 12 & 14, SIA	LV	50103313991	Real estate transactions	100	100	100	100
25	Pillar 18, SIA	LV	40103492079	Real estate transactions	100	100	100	100
26	Pillar 19, SIA	LV	40103766952	Real estate transactions	100	100	100	100
27	Pillar 20, SIA	LV	40103903056	Real estate transactions	100	100	100	100
28	Pillar 21, SIA	LV	40103929286	Real estate transactions	100	100	100	100
29	Pillar 22, SIA	LV	50103966301	Real estate transactions	100	100	100	100
30	Pillar 23, SIA	LV	40203107574	Real estate transactions	100	100	-	-
31	Pillar Management, SIA	LV	40103193211	Real estate management and administration	100	100	100	100
32	Pillar RE Services, SIA	LV	40103731804	Parking management	100	100	100	100
33	Pillar Contractor, SIA	LV	40103929498	Management and coordination of construction processes	100	100	100	100
34	Pillar Architekten, SIA	LV	40103437217	Designing and designers supervision	100	100	100	100
35	Pillar Development, SIA	LV	40103222826	Infrastructure maintenance	100	100	100	100
36	Pillar Utilities, SIA	LV	40103693339	Infrastructure management	100	100	100	100
37	ABLV Building Complex, SIA	LV	40203037667	Investments in real estate	100	100	100	100

Open-end mutual funds included in the group:

No	Open-end mutual fund	Country of registration	ISIN	Fund type	31.12.2017. Share in the equity's capital (%)	31.12.2016. Share in the equity's capital (%)
1	ABLV Multi-Asset Total Return USD Fund	LV	LV0000400919	Total return fund	61.6	70.6
2	ABLV European Industry EUR Equity Fund	LV	LV0000400844	Equity fund	41.5	54.6
3	ABLV Emerging Markets Corporate USD Bond Fund	LV	LV0000400935	Corporate bond fund	40.7	58.4
4	ABLV High Yield CIS RUB Bond Fund	LV	LV0000400778	Corporate bond fund	-	69.3

The bank’s investments in subsidiaries:

EUR'000

Company	Country of incor-poration	31.12.2017. Share capital	31.12.2017. Equity	31.12.2017. Bank's share of total share capital, %	31.12.2017. Gross carrying amount	31.12.2016. Share capital	31.12.2016. Equity	31.12.2016. Bank's share of total share capital, %	31.12.2016. Gross carrying amount
Pillar Holding Company, KS	LV	70,000	29,822	100	70,000	75,000	54,373	100	75,000
Pillar Development, SIA	LV	33,700	31,501	100	33,700	15,600	14,087	100	15,600
ABLV Building Complex, SIA	LV	30,200	30,149	100	30,200	8,500	8,497	100	8,500
ABLV Bank Luxembourg, S.A.	LU	25,000	15,949	100	25,000	25,000	15,191	100	25,000
New Hanza Capital, AS	LV	25,000	21,175	88	22,000	15,000	14,904	88	13,200
Pillar Management, SIA	LV	1,000	741	100	1,073	1,000	991	100	1,073
ABLV Capital Markets, IBAS	LV	1,000	3,105	90	900	1,000	4,173	90	900
ABLV Consulting services, AS	LV	711	784	100	711	711	907	100	711
Hanzas Dārzs, SIA	LV	990	982	69.7	690	-	-	-	-
ABLV Asset Management, IPAS	LV	650	690	90	585	650	830	90	585
PEM, SIA	LV	100	659	51	51	100	849	51	51
Pillar, SIA	LV	10	6	100	13	3	(2)	100	6
ABLV Advisory Services, SIA	LV	3	26	100	3	3	26	100	3
ABLV Corporate Services Holding Company, SIA	LV	-	-	-	-	100	211	100	100
Total bank's investments in subsidiaries, gross		**185,364**	**135,589**	**x**	**184,926**	**142,667**	**115,037**	**x**	**140,729**
Impairment allowances					(27,275)				(20,784)
Total bank's investments in subsidiaries, net					**157,651**				**119,945**

Customer assets under trust management by ABLV Asset Management, IPAS and assets of the open investment funds managed by ABLV Asset Management, IPAS at the end of the reporting period amount to EUR 130.6 (127.2) million. Customer financial instruments of ABLV Capital Markets, IBAS at the end of the reporting period amount to EUR 1.34 (1.27) billion. The bank and ABLV Capital Markets, IBAS provide investments services to customers jointly: ABLV Capital Markets, IBAS accepts customer orders for transactions with financial instruments and the bank executes these orders and acts as the custodian of customer financial instruments.
The related credit risk and other risks remain fully with the customer, which provided these funds to the group and / or the bank.

During the reporting period the bank increased its share in the share capital of New Hanza Capital, AS by EUR 8.8 million, in the share capital of ABLV Building Complex, SIA by EUR 21.7 million and in the share capital of Pillar Development, SIA by EUR 18.1 million, as well as in the share capital of Hanzas Dārzs, SIA by EUR 0.7 million.

In the reporting year, ABLV Corporate Services Holding Company SIA increased its share capital by issuing new shares totalling EUR 150.0 thousand. The bank did not buy the new shares issued by ABLV Corporate Services Holding Company SIA, therefore the bank’s share decreased from 100.0% to 40.0%.
The management believes that, as a result of this issue, de facto control over ABLV Corporate Services Holding Company, SIA and its subsidiaries, previously ensured by 100.0% of the votes, has been lost. In these financial statements ABLV Corporate Services Holding Company, SIA and its subsidiaries are recognised as the group's / bank's associates and are not included in the group.

As at the date of loss of control the net assets of ABLV Corporate Services Holding Company, SIA and its subsidiaries were as follows:

EUR'000

Position	ABLV Corporate Holding Company, SIA
Property and equipment	(92)
Cash equivalents within the group	(777)
Other assets	(444)
Other liabilities	565
Net assets and liabilities attributable to the group	**(748)**
Investment in associate measured at fair value	**(489)**
Group loss due to loss of control	**(259)**

Movements in the allowance for impairment of subsidiaries:

EUR'000

	Bank 01.01.2017.–31.12.2017.	Bank 01.01.2016.–31.12.2016.
Impairment allowances at the beginning of the period	**20,784**	**14,559**
Increase in impairment alowances	6,491	6,225
incl. Pillar Holding Company, KS	1,837	6,225
incl. ABLV Bank Luxembourg, S.A.	4,526	-
incl. Pillar Management, SIA	121	-
incl. Pillar, SIA	7	-
Impairment allowances at the end of the period	**27,275**	**20,784**

Upon assessing the assets of the subsidiary ABLV Bank Luxembourg S.A during the reporting period, the management of the bank believes that the investment can be only partly recovered. After assessing the net asset value, the recoverable amount of the bank's investment in ABLV Bank Luxembourg S.A. amounted to EUR 15.9 million, which is EUR 9.0 million less than the carrying amount of this investment. However, as the uncovered part of investments has been incurred due to losses carried forward from previous years and accumulated losses may be covered from future profit of the subsidiary ABLV Bank Luxembourg, S.A (result for 2017 was a profit), the management of the bank believes that part of impairment will not be long-term, and in these financial statements it recognised investment impairment in the amount of 50% or EUR 4.5 million.

During the reporting period the bank recognised allowance impairment of its subsidiary Pillar Management, SIA amounting to EUR 127.0 thousand and Pillar Holding Company, KS amounting to EUR 1.8 (6.2) million. Impairment is related to the decrease in expected cash flows generated by the operating result of the subsidiary (See Note 6). The recoverable amount of the investment was measured at value in use determined by discounting future cash flows from the sale of property owned by subsidiaries at the expected market value on the date of sale net of selling and maintenance costs of this property. Should the discount rate of Pillar Holding Company, KS cash flow increased by 1 percentage point – to 4.0%, then the investment value of the subsidiary would decrease by 1.2% (1.3%) to EUR 0.4 (0.5) million.

Movements in the bank's investment in subsidiaries:

EUR'000

	Bank 01.01.2017.–31.12.2017.	Bank 01.01.2016.–31.12.2016.
Investments at the beginning of period, gross	**140,729**	**125,825**
Established / acquired subsidiaries	690	21,703
(Dispossessed) / (liquidated) subsidiaries	-	(50)
(Decrease) in investments due to the loss of control	(100)	-
Increase in investments in subsidiaries	35,176	3,300
Increase in investments in subsidiaries by material investment	13,431	-
(Decrease) in investments in subsidiaries	(5,000)	(10,049)
Investments at the end of the period, gross	**184,926**	**140,729**
Impairment allowances	(27,275)	(20,784)
Investments at the end of the period, net	**157,651**	**119,945**

19. Note

Investment property

During the reporting period the management of the group / bank decided to change its accounting method for all investment properties from cost approach to fair value method (see paragraph j)).

EUR'000

	Group	Bank
Carrying amount as at 01.01.2016	**22,976**	**25,069**
Restated (see paragraph X))	8,318	8,318
Carrying amount as at 01.01.2016 restated	**31,294**	**33,387**
Acquisitions	12,481	-
Reclassification	(185)	-
Disposals and write offs	(471)	-
Revaluation result recognised in income statement as income from revaluation of investment property	897	997
Carrying amount as at 31.12.2016	**44,016**	**34,384**
Acquisitions during the reporting period	13,382	-
Reclassification	(9,522)	-
Disposals and write-offs	(227)	(78)
In-kind contribution	-	(13,431)
Revaluation result recognised in income statement as income from revaluation of investment property	8,208	-
Carrying amount as at 31.12.2017	**55,857**	**20,875**

Valuation methods applied by investment property appraiser to measure the fair value of investment property, as well as key unobservable data:

EUR'000

Type	Type of valuer	Valuation methods applied	Leased	Address	Significant unobservable data	Group	Group	Bank	Bank
						31.12.2017.	31.12.2016.	31.12.2017.	31.12.2016.
Commercial premises	The valuation report by valuation experts regarding the bank's real estate	Discounted cash flow model with a terminal value component at the end of the cash flow forecast period, and comparable transaction method	100%	Riga, 21 Elizabetes Str., room No.103	Monthly rental income during the estimation of cash flows – 30 EUR/m2 (30 EUR/m2); Discount rate during the estimation of cash flows 5 years (5 years) – 8.8% (8.8%); Terminal growth rate – 1.3% (1.3%); Capitalisation rate – 7.5% (7.5%)	277	277	-	-
				Riga, 21A Elizabetes Str., room No.101	Monthly rental income during the estimation of cash flows – 23.2 EUR/m2 (23.2 EUR/m2); Discount rate during the estimation of cash flows 5 years (5 years) – 8.8% (8.8%); Terminal growth rate – 1.3% (1.3%); Capitalisation rate – 7.5% (7.5%)				
Administrative buildings	External independent valuer real estate valuation expert	Discounted cash flow model with a terminal value component at the end of the cash flow forecast period	100%	3 Tehnikas Str., Riga airport	Monthly rental income – 6.56 EUR/m2 (6.31 EUR/m2) for office premises and 3.29 EUR/m2 (3.16 EUR/m2) for auxiliary premises; Annual increase in revenue – 4% (4%); Discount rate – 7.50% (8.20%); Load – 98% (98%); Cash flow estimation period - 9 years (10 years); Capitalisation rate – 7.50% (7.75%)	6,750	6,190	-	-

(continued)

Office buildings:	External independent valuer real estate valuation expert	Discounted cash flow model with a terminal value component at the end of the cash flow forecast period	55%	Riga, 214M Brīvības Str.	Before reconstruction in 2017: Area for lease – 17 043 m2 Monthly rental income – 4.95 EUR/m2; Annual increase in revenue – 1%, Discount rate - 9.25%, Load during the first period – 95% Planned after reconstruction in 2020: Area for lease – 23 264 m2 Total reconstruction period – 3 years; Average reconstruction expenses –				
			78%	Riga, 214B Brīvības Str.	304.0 EUR/m2; Monthly rental income – 5.24 EUR/m2 (based on the effective lease agreement and accepted rates for premises not yet leased) Annual revenue increase – 2%; Discount rate – 9.25%; Load during the fifth period – 85%; Cash flow estimation period – 5 years; Capitalisation rate – 9.75%. Value of the property without redecoration of premises – EUR 9 172 000	10,142	-	-	-
			79%	Riga, 1 Bērzaunes Str.					
Office building and warehouse complex	The valuation report by valuation experts regarding the bank's real estate	Capitalisation model: The model is based on capitalisation of net cash flow as a result of providing discounted cash flow services	88%	Krustkalni, Ķekavas pagasts, Piepilsētas	Monthly rental income – 4.39 EUR/m2 for warehouse premises and 5.40 EUR/m2 (4.08 EUR/m2) for office premises (based on the effective lease agreement and accepted rates for premises not yet leased) Load of office premises leased - 98% (96%); Load of warehouse premises leased – 98% (96%); Load of free premises – 60%; Capitalisation rate – 9.0% (9.0%).	7,176	6,205	-	-
Warehouse complex	External independent valuer real estate valuation expert	Discounted cash flow model with a terminal value component at the end of the cash flow forecast period	93% (lease agreement effective from 01.01.2018)	Riga, 462 Maskavas Str. un 464A Maskavas Str.	Monthly rental income – 3.10 EUR/m2 (based on the effective lease agreement and accepted rates for premises not yet leased); Discount rate – 9.50%; Load – 97%; Annual revenue increase – 2.8%; Cash flow estimation period – 5 years; Capitalisation rate – 8.50%; When estimating the cash flows, it is assumed that the part of the territory to be developed (~7.5 ha with low value buildings) is being sold. Sales price is determined using the sales comparison method. Assumed price per square meter –15.9 EUR/m2.	10,637	-	-	-

(continued)

Construction sites	External independent valuer real estate valuation expert	Comparable transaction method	Riga, 5 Mihaila Tāla Str.	When evaluating the land plots, the valuer used four comparable sales transactions (a site at Sporta Str.; sites at J.Dikmaņa/ Grostonas Str.; a site at Grostonas Str. and a site at Rūpniecības Str.). To make the selected sales comparable, the valuer has additionally used adjustment coefficients, incl. the size of the land plots (area), available utilities, development potential and encumbrances (red lines, etc.).	1,874	1,874	1,874	1,874
			Riga, 3 Mihaila Tāla Str.		-	3,502	-	3,502
			Riga, 16A Hanzas Str.		-	5,580	-	5,580
			Riga, 14C Hanzas Str.		-	78	-	78
			Riga, 3A Aleksandra Laimes Str.; 1A Aleksandra Laimes Str. and other construction sites without an address		-	619	-	3,659
			Riga, construction site for park without an address		-	690	-	690
			Riga, 7 Mihaila Tāla Str.		2,416	2,415	2,416	2,415
			Riga, 2 Mihaila Tāla Str.		1,973	1,973	1,973	1,973
			Riga, 2B Skanstes Str.		3,648	3,648	3,648	3,648
			Riga, 6 Gustava Kluča Str.		589	588	589	588
			Riga, 14C Hanzas Str.		320	320	320	320
			Riga, 16 Sporta Str.		1,689	1,689	1,689	1,689
			Riga, 12 Mihaila Tāla Str.		989	989	989	989
			Riga, 14 Sporta Str.		2,394	2,394	2,394	2,394
			Riga, 5 Aleksandra Laimes Str.		1,286	1,286	1,286	1,286
			Riga, 3 Aleksandra Laimes Str.		1,189	1,189	1,189	1,189
			Riga, 1 Aleksandra Laimes Str.		1,338	1,338	1,338	1,338
			Riga,4 Mihaila Tāla Str.		917	917	917	917
			Riga, 19 Sporta Str.		184	183	184	183
			Riga, 16C Hanzas Str.		69	72	69	72
		Total			**55,857**	**44,016**	**20,875**	**34,384**

In 2017, the bank's lease and rent income from investments in real estate amounted to EUR 140.6 (86.0) thousand, maintenance expense – EUR 372.3 (290.1) thousand, including maintenance expense for non-performing real estate – EUR 145.3 (209.3) thousand.
In 2017, the group's lease and rent income from investments in real estate amounted to EUR 1.74 (0.6) million, maintenance expense – EUR 650.7 (472.7) thousand, including maintenance expense for non-performing real estate – EUR 321.5 (209.3) thousand.

Non-cancellable operating lease revenue of:

EUR'000

Period	Group 31.12.2017.	Group 31.12.2016.	Bank 31.12.2017.	Bank 31.12.2016.
Up to 1 year	1,675	676	-	9
1 to 5 years	2,931	2,031	-	-
5 years to maturity	1,780	2,204	-	-

20. Note

Intangible assets, property and equipment

EUR'000

Position	Group 31.12.2017.	Group 31.12.2016.	Bank 31.12.2017.	Bank 31.12.2016.
Intangible assets	4,948	5,600	4,809	5,366
Prepayments for intangible assets	590	460	581	460
Total intangible assets	**5,538**	**6,060**	**5,390**	**5,826**
Construction in progress	17,539	6,572	-	-
Land	13,739	3,123	173	173
Buildings and property improvements	5,732	5,644	3,579	3,785
Office equipment and IT hardware	3,638	3,542	2,793	3,019
Vehicles	1,684	1,646	1,035	1,054
Art objects	1,105	942	1,105	942
Leasehold improvements	318	424	318	424
Prepayments for property and equipment	1,506	760	402	64
Total property and equipment	**45,261**	**22,653**	**9,405**	**9,461**

As at 31 December 2017, the group had intangible assets, property and equipment with the carrying amount of 0, and acquisition cost of EUR 7.3 (6.2) million, whereas the cost of the bank's intangible assets, property and equipment was EUR 7.0 (6.1) million.
Movements in the group's intangible assets, property and equipment in 2017:

EUR'000

	Intangible assets	Land	Construction in progress and leashold improvements	Buildings and property improvement	Vehicles	Office equipment, IT and other	Total, excl. Prepayments
Acquisition value as at 01.01.2017.	**13,420**	**3,123**	**7,993**	**11,197**	**2,396**	**14,127**	**52,256**
Additions	912	1,102	11,497	645	588	1,556	16,300
Reclassification	-	9,514	-	8	-	-	9,522
Disposed due to loss of control	(5)	-	-	-	(36)	-	(41)
Disposals	(29)	-	(528)	-	(418)	(185)	(1,160)
Acquisition value as at 31.12.2017.	**14,298**	**13,739**	**18,962**	**11,850**	**2,530**	**15,498**	**76,877**
Accumulated depreciation as at 01.01.2017.	**7,820**	-	**997**	**5,553**	**750**	**9,643**	**24,763**
Depreciation calculated for the period	1,556	-	109	568	356	1,279	3,868
Reclassification	-	-	-	(3)	-	-	(3)
Disposed due to loss of control	5	-	-	-	10	-	15
Write-off of depreciation	(31)	-	(1)	-	(270)	(167)	(469)
Accumulated depreciation as at 31.12.2017.	**9,350**	**-**	**1,105**	**6,118**	**846**	**10,755**	**28,174**
Net carrying amount 01.01.2017.	**5,600**	**3,123**	**6,996**	**5,644**	**1,646**	**4,484**	**27,493**
Net carrying amount 31.12.2017.	**4,948**	**13,739**	**17,857**	**5,732**	**1,684**	**4,743**	**48,703**

Movements in the group's intangible assets, property and equipment in 2016:

EUR'000

	Intangible assets	Land	Construction in progress and leashold improvements	Buildings and property improvements	Vehicles	Office equipment, IT and other	Total, excl.prepayments
Acquisition value as at 01.01.2016.	**12,582**	**2,938**	**9,539**	**11,195**	**2,058**	**14,016**	**52,328**
Additions	839	-	3,068	2	613	1,753	6,275
Reclassification	-	185	-	-	-	-	185
Effect from change of accounting policy	-	-	(4,614)	-	-	-	(4,614)
Disposals	(1)	-	-	-	(275)	(1,642)	(1,918)
Acquisition value as at 31.12.2016.	**13,420**	**3,123**	**7,993**	**11,197**	**2,396**	**14,127**	**52,256**
Accumulated depreciation as at 01.01.2016.	**6,449**	**-**	**868**	**4,915**	**617**	**9,775**	**22,624**
Depreciation calculated for the period	1,372	-	129	638	320	1,489	3,948
Write-off of depreciation	(1)	-	-	-	(187)	(1,621)	(1,809)
Accumulated depreciation as at 31.12.2016.	**7,820**	**-**	**997**	**5,553**	**750**	**9,643**	**24,763**
Net carrying amount as at 01.01.2016.	**6,133**	**2,938**	**8,671**	**6,280**	**1,441**	**4,241**	**29,704**
Net carrying amount as at 31.12.2016.	**5,600**	**3,123**	**6,996**	**5,644**	**1,646**	**4,484**	**27,493**

Movements in the bank's intangible assets, property and equipment in 2017:

EUR'000

	Intangible assets	Land	Buildings and property improve-ments	Leasehold improve-ments	Vehicles	Office equipment, IT and other fixed assets	Total, excl. Prepay-ments
Acquisition value as at 01.01.2017.	**12,491**	**173**	**7,921**	**1,164**	**1,608**	**12,400**	**35,757**
Acquisitions	889	-	97	8	264	983	2,241
Disposals	(29)	-	-	(6)	(205)	(166)	(406)
Acquisition value as at 31.12.2017.	**13,351**	**173**	**8,018**	**1,166**	**1,667**	**13,217**	**37,592**
Accumulated depreciation as at 01.01.2017.	**7,125**	**-**	**4,136**	**740**	**554**	**8,439**	**20,994**
Depreciation calculated for the period	1,447	-	303	109	228	1,032	3,119
Disposals	(30)	-	-	(1)	(150)	(152)	(333)
Accumulated depreciation 31.12.2017.	**8,542**	**-**	**4,439**	**848**	**632**	**9,319**	**23,780**
Net carrying amount as at 01.01.2017.	**5,366**	**173**	**3,785**	**424**	**1,054**	**3,961**	**14,763**
Net carrying amount as at 31.12.2017.	**4,809**	**173**	**3,579**	**318**	**1,035**	**3,898**	**13,812**

Movements in the bank's intangible assets, property and equipment in 2016:

EUR'000

	Intangible assets	Land	Buildings and property improve-ments	Leasehold improve-ments	Vehicles	Office equipment, IT and other fixed assets	Total, excl. Prepaym-ents
Acquisition value as at 01.01.2016.	**11,691**	**173**	**7,921**	**1,120**	**1,396**	**12,308**	**34,609**
Additions	800	-	-	44	322	1,676	2,842
Disposals	-	-	-	-	(110)	(1,584)	(1,694)
Acquisition value as at 31.12.2016.	**12,491**	**173**	**7,921**	**1,164**	**1,608**	**12,400**	**35,757**
Accumulated depreciation as at 01.01.2016.	**5,880**	**-**	**3,754**	**611**	**412**	**8,826**	**19,483**
Depreciation calculated for the period	1,245	-	382	129	196	1,179	3,131
Write-off of depreciation	-	-	-	-	(54)	(1,566)	(1,620)
Accumulated depreciation as at 31.12.2016.	**7,125**	**-**	**4,136**	**740**	**554**	**8,439**	**20,994**
Net carrying amount as at 01.01.2016.	**5,811**	**173**	**4,167**	**509**	**984**	**3,482**	**15,126**
Net carrying amount as at 31.12.2016.	**5,366**	**173**	**3,785**	**424**	**1,054**	**3,961**	**14,763**

Information about contractual commitments on the purchase of intangible assets, property and equipment is disclosed in Note 28.

21. Note

Other assets

EUR'000

	Group 31.12.2017.	Group 31.12.2016. (restated)	Bank 31.12.2017.	Bank 31.12.2016. (restated)
Receivables	1,126	1,133	565	79
Payments to subsidiaries	-	-	446	422
Payments for financial instruments	148	162	148	162
Total other financial assets	**1,274**	**1,295**	**1,159**	**663**
Deferred expenses and accrued income	6,686	8,382	6,422	7,880
Stock	1,568	994	-	-
Precious metals	447	451	447	451
Overpaid tax	314	2,170	27	346
Other assets	583	1,167	24	742
Total other non-financial assets	**9,598**	**13,164**	**6,920**	**9,419**
Impairment allowance	(734)	(333)	(106)	(128)
Total other assets, net	**10,138**	**14,126**	**7,973**	**9,954**

22. Note

Balances held with Bank of Latvia and demand deposits from credit institutions

Balances held with Due Bank of Latvia:

EUR'000

	Group 31.12.2017.	Group 31.12.2016.	Bank 31.12.2017.	Bank 31.12.2016.
Targeted longer term refinancing operation (TLTRO) liabilities	50,000	50,000	50,000	50,000
Total balances due to Bank of Latvia	**50,000**	**50,000**	**50,000**	**50,000**

Demand deposits from credit institutions:

EUR'000

	Group	Group	Bank	Bank
	31.12.2017.	31.12.2016.	31.12.2017.	31.12.2016.
Latvian credit institutions	17,791	12,138	17,791	12,138
Credit institutions in EMU countries	-	220	9,105	4,132
Credit institutions in other countries	4,498	4,105	4,498	4,105
Total demand deposits from credit institutions	**22,289**	**16,463**	**31,394**	**20,375**
Latvian credit institutions	3,800	-	-	-
Credit institutions in EMU countries	7,841	-	7,841	-
Credit institutions in other countries	1,960	-	1,960	-
Total term liabilities from credit institutions	**13,601**	**-**	**9,801**	**-**
Total due to credit institutions	**35,890**	**16,463**	**41,195**	**20,375**

As at 31 December 2017, the group had balances due to 3 (5) credit institutions, which exceeded 10% of the total balances due to credit institutions, which amounted to EUR 19.7 (11.8) million. The bank had balances due to 3 (5) credit institutions, which exceeded 10% of the total balances due to credit institutions, which amounted to EUR 25.0 (13.7) million.

23. Note

Deposits

EUR'000

	Group	Group	Bank	Bank
Customer type	31.12.2017.	31.12.2016.	31.12.2017.	31.12.2016.
Corporate companies				
current accounts	2,061,410	2,201,391	1,991,653	2,124,978
term deposits	64,039	73,929	30,733	52,206
Total corporate companies	2,125,449	2,275,320	2,022,386	2,177,184
Other financial intermediaries				
current accounts	150,851	210,779	156,542	221,356
term deposits	12,351	19,196	13,685	19,196
Total other financial intermediaries	163,202	229,975	170,227	240,552
Other customers				
current accounts	2,677	629	2,681	629
term deposits	2	-	2	-
Total other customers	2,679	629	2,683	629
Total deposits from corporate customers	**2,291,330**	**2,505,924**	**2,195,296**	**2,418,365**
Private individuals				
current accounts	497,225	500,331	464,995	466,820
term deposits	30,777	21,517	19,659	16,639
Total deposits from private individuals	**528,002**	**521,848**	**484,654**	**483,459**
Total deposits	**2,819,332**	**3,027,772**	**2,679,950**	**2,901,824**

The group’s top 20 customers in terms of the deposit amount account 15.8% (14.0%) of the total deposits the banks top 20 customers in terms of the deposit amount account for 16.0% (14.3%) of the total deposits.

Of the total deposits placed with the group and the bank, 83.7% (85.9%) are from customers whose beneficiaries are CIS residents.

24. Note

Issued securities

EUR'000

ISIN	Currency	Number of intially issued securities	Par value	Date of emmision	Date of maturity	Discount / coupon rate, %	Group 31.12.2017.	Group 31.12.2016.	Bank 31.12.2017.	Bank 31.12.2016.
Subordinated bonds										
LV0000800977	EUR	50,000	100	25.06.2012.	25.06.2022.	4.50	-	4,883	-	4,883
LV0000800985	USD	200,000	100	27.06.2012.	27.06.2022.	4.50	-	18,983	-	18,983
LV0000801124	USD	200,000	100	18.03.2013.	18.03.2023.	4.50	9,632	17,792	9,632	17,792
LV0000801173	USD	200,000	100	27.06.2013.	27.06.2023.	4.25	1,432	17,815	1,432	17,815
LV0000801181	EUR	200,000	100	27.06.2013.	27.06.2023.	4.25	12,352	18,723	12,352	18,723
LV0000801223	USD	150,000	100	23.10.2013.	23.10.2023.	4.25	5,268	14,098	5,268	14,098
LV0000801520	EUR	200,000	100	27.10.2014.	27.10.2024.	4.05	14,099	17,592	14,099	17,592
LV0000801835	EUR	200,000	100	26.10.2015.	26.10.2025.	3.75	18,003	17,348	18,003	17,348
LV0000802189	EUR	200,000	100	31.10.2016.	31.10.2026.	3.75	17,343	2,685	17,343	2,685
LV0000802346	EUR	250,000	100	27.10.2017	27.10.2027	3.75	20,898	-	20,898	-
LV0000802361	USD	400,000	100	17.11.2017	17.11.2027	4.25	27,166	-	27,166	-
Subordinated bonds, total							**126,193**	**129,919**	**126,193**	**129,919**
Ordinary bonds										
LV0000801645	USD	75,000	1,000	23.02.2015.	23.02.2017.	2.20	-	62,671	-	62,671
LV0000801652	EUR	20,000	1,000	23.02.2015.	23.02.2017.	1.80	-	16,902	-	18,411
LV0000801751	USD	75,000	1,000	07.07.2015.	07.07.2017.	1.55	-	50,234	-	50,234
LV0000801769	EUR	20,000	1,000	07.07.2015.	07.07.2017.	0.80	-	11,291	-	12,797
LV0000801850	USD	75,000	1,000	26.10.2015.	26.10.2017.	1.65	-	42,498	-	42,498
LV0000801868	EUR	20,000	1,000	26.10.2015.	26.10.2017.	0.80	-	5,365	-	7,368
LV0000801991	USD	75,000	1,000	22.02.2016.	22.02.2018.	1.85	49,631	60,328	49,631	60,328
LV0000802007	EUR	20,000	1,000	22.02.2016.	22.02.2018.	0.70	5,536	6,273	20,050	8,278
LV0000802072	USD	75,000	1,000	11.07.2016.	11.07.2018.	1.85	42,182	57,310	42,182	57,310
LV0000802080	EUR	20,000	1,000	11.07.2016.	11.07.2018.	0.70	7,218	8,572	7,517	8,572
LV0000802163	USD	75,000	1,000	31.10.2016.	31.10.2018.	1.85	56,123	56,039	56,123	56,039
LV0000802171	EUR	20,000	1,000	31.10.2016.	31.10.2018.	0.70	7,926	13,879	9,178	13,879
LV0000802239	USD	75,000	1,000	27.02.2017.	27.02.2019.	2.25	60,770	-	60,770	-
LV0000802247	EUR	20,000	1,000	27.02.2017.	27.02.2019.	0.75	7,860	-	10,367	-
LV0000802270	USD	75,000	1,000	03.07.2017	03.07.2019	2.25	62,996	-	62,996	-
LV0000802288	EUR	20,000	1,000	03.07.2017	03.07.2019	0.75	6,770	-	9,280	-
LV0000802312	EUR	10,000	1,000	16.10.2017	16.10.2022	4.90	10,103	-	-	-
LV0000802320	USD	75,000	1,000	27.10.2017	27.10.2019	2.15	62,193	-	62,193	-
LV0000802338	EUR	20,000	1,000	27.10.2017	27.10.2019	0.95	10,341	-	12,847	-
Ordinary bonds, total							**389,649**	**391,362**	**403,134**	**398,385**
Issued securities, total							**515,842**	**521,281**	**529,327**	**528,304**

The group / bank retains the right to exercise early redemption of subordinated bonds according to the information provided on the base prospectuses of the respective programmes.

During the period New Hanza Capital, AS, merged with the group, issued ordinary bonds ISIN LV0000802312 in the amount of EUR 10.0 million with the annual interest rate of 4.9%. On 19 October 2017 the bonds were placed on a regulated market, the Baltic list of debt securities of Nasdaq Riga.

As at 31 December 2017 71.4% (76.0%) of the group’s issued security holders were legal entities and 28.6% (24.0%) were individuals. In turn, 92.1% (93.0%) of the bond holders were non-residents while 7.9% (7.0%) – residents, however 72.8% (76.0%) of the bank’s issued security holders were legal entities, and 27.2% (24.0%) – individuals. In turn 88.9% (93.0%) of the bond holders were non-residents, while 11.1% (7.0%) – residents.

Changes in due to banks as a result of financing activities:

EUR'000

Liabilities from financing activities	31.12.2017.	Currency fluctuation	Interest paid	Accumulated interest recognised	Paid	Issued	31.12.2016.
							Group
Issued securities	515,842	(45,555)	(11,584)	11,641	(293,623)	333,682	521,281
Subordinated deposits	12,341	(657)	(403)	399	(2,108)	300	14,810
Total liabilities from financing activities	**528,182**	**(46,212)**	**(11,988)**	**12,040**	**(295,731)**	**333,982**	**536,091**
							Bank
Issued securities	529,327	(45,555)	(11,528)	11,585	(293,623)	340,144	528,304
Subordinated deposits	12,341	(657)	(403)	399	(2,108)	300	14,810
Total liabilities from financing activities	**541,667**	**(46,212)**	**(11,932)**	**11,984**	**(295,731)**	**340,444**	**543,114**

25. Note

Subordinated liabilities

As at 31 December 2017, the group's and bank's subordinated liabilities of EUR 138.5 (144.7) million comprised subordinated bonds amounting to EUR 126.2 (129.9) million and subordinated deposits amounting to EUR 12.3 (14.8) million.
Subordinated deposits by currencies amount to USD 8.3 (9.8) million and EUR 5.5 (5.5) million.

The information on the subordinated bonds issued by the bank are disclosed in Note 24.

The analysis of subordinated deposits as at 31 December 2017:

Lenders	Loan amount, EUR'000	Accumulated interest, EUR'000	Total subordinated loans, EUR'000	Interest rate, %	Currency
non-residents	5,540	8	5,548	3.00 - 3.15	USD
non-residents	5,450	8	5,458	3.00 - 3.76	EUR
residents	1,334	1	1,335	3.15	USD
Total subordinated deposits	**12,324**	**17**	**12,341**		

The analysis of subordinated deposits as at 31 December 2016:

Lenders	Loan amount, EUR'000	Accumulated interest, EUR'000	Total subordinated loans, EUR'000	Interest rate, %	Currency
non-residents	7,442	12	7,454	1.75 - 3.15	USD
non-residents	5,450	7	5,457	3.00 - 3.76	EUR
residents	1,898	1	1,899	1.99 - 3.15	USD
Total subordinated deposits	**14,790**	**20**	**14,810**		

The proportionate share of lenders (for each individual lender) does not exceed 10% of the total amount of the subordinated liabilities.
The remaining weighted average maturity of subordinated deposits from lenders is 2.0 (2.9) years.

Subordinated loans are included in the second tier of equity calculation and are stated at amortised cost. According to the provisions of the subordinated loan agreements, the lenders have no right to demand premature repayment of the loans. The lenders have no right to capitalise the subordinated deposits or bonds into the bank's share capital.
Discount/ coupon rates and payment frequency are indicated in the final issue regulations, and no solvent issuers may annul coupon payments. If an issuer is dissolved, the payments are made in accordance with statutory requirements.
More detailed information about the conditions of issues is available on the bank's website www.ablv.com and relevant final bond issue regulations.

26. Note

Paid-in share capital

As at 31 December 2017, the paid-in share capital of the bank amounted to EUR 42.1 million (38.3 million). The par value of each share is EUR 1.0 (1.0).
The bank's share capital consists of 38,250,000 (34,470,000) ordinary registered voting shares and 3,830,000 (3,830,000) registered non-voting shares (personnel shares).
As at 31 December 2017, the bank had 138 (138) voting shareholders.

The major shareholders of the bank and groups of related shareholders are as follows:

	31.12.2017.		31.12.2016.	
Shareholders	Share of the bank's share capital, EUR'000	Share of the bank's voting capital, %	Share of the bank's share capital, EUR'000	Share of the bank's voting capital, %
Ernests Bernis and Nika Berne (directly and indirectly shareholding)				
Ernests Bernis	1,887	4.93	1,701	4.93
Nika Berne	325	0.85	293	0.85
Cassandra Holding Company, SIA	14,433	37.73	12,924	37.49
Ernests Bernis and Nika Berne (directly and indirectly shareholding) total	**16,645**	**43.51**	**14,918**	**43.27**
Oļegs Fiļs (indirectly shareholding)				
OF Holding, SIA	16,646	43.52	14,918	43.28
Oļegs Fiļs (indirectly shareholding) total	**16,646**	**43.52**	**14,918**	**43.28**
Other shareholders, total	4,959	12.97	4,634	13.45
Total voting shares	**38,250**	**100.00**	**34,470**	**100.00**
Non-voting shares (personnel shares)	3,830		3,830	
Total share capital	**42,080**		**38,300**	

During the reporting period the bank issued 3,780,000 ordinary voting shares. The par value of all the issued shares was EUR 1.0, while the emission price of each ordinary registered voting share was EUR 13.40, comprised of the par value of EUR 1.0 and the share premium of EUR 12.40. The issue was intended to ensure steady development of the group / bank in the future.
After this issue, share capital of the bank consisted of 38,250,000 name shares with voting rights and 3,830,000 personnel shares. All name shares with voting rights rank equal with respect to dividends, liquidation quota and voting rights in the Shareholders meeting. All personnel shares grant equal rights to dividends. Holders of personnel shares are not granted any right to vote or receive liquidation quotas. Most of the issued voting shares have been acquired by the existing shareholders of the bank - Cassandra Holding Company, SIA and OF Holding, SIA.

The registered non-voting shares (personnel shares) are as follows:

	31.12.2017.			31.12.2016.		
	Number of employees	Number of personnel shares	Share of the bank's share capital, EUR'000	Number of employees	Number of personnel shares	Share of the bank's share capital, EUR'000
Chairman of the council and council members	5	-	-	3	-	-
Chairman of the board and board members	7	1,930,000	1,930	7	1,705,000	1,705
Heads and deputy heads of divisions	25	1,800,000	1,800	26	1,775,000	1,775
Department heads	3	75,000	75	1	50,000	50
Non-distributed	-	25,000	25	-	300,000	300
Registered non-voting shares (personnel shares), total	**x**	**3,830,000**	**3,830**	**x**	**3,830,000**	**3,830**

Dividends declared and paid:

EUR'000

	Bank 01.01.2017.–31.12.2017.	Bank 01.01.2016.–31.12.2016.
Dividends declared	73,153	68,835
Dividends paid	(73,126)	(68,840)

EUR

	Bank 01.01.2017.–31.12.2017.	Bank 01.01.2016.–31.12.2016.
Bank's share par value	1.00	1.00
Dividends declared per bank's value	1.91	1.95
Dividends paid per bank's value	1.91	1.95

27. Note

Other liabilities

EUR'000

	Group 31.12.2017.	Group 31.12.2016. (restated)	Bank 31.12.2017.	Bank 31.12.2016. (restated)
Group's consolidated fund shares owned by third parties	13,272	6,541	-	-
Other liabilities	1,839	2,232	1,839	1,691
Payments in progress for transactions with financial instruments	1,367	1,355	1,367	235
Payments to subsidiaries	-	-	635	195
Payables to suppliers	4,990	1,118	20	158
Total other financial liabilities	**21,468**	**11,246**	**3,861**	**2,279**
Deferred expenses and accrued income	4,058	4,410	3,854	3,476
Accrual for employee vacation pay	1,783	1,805	1,570	1,670
Other liabilities	1,307	789	381	67
Total other non-financial liabilities	**7,148**	**7,004**	**5,805**	**5,213**
Total other liabilities	**28,616**	**18,250**	**9,666**	**7,492**

28. Note

Memorandum items

EUR'000

Contingent liabilities	Group 31.12.2017.	Group 31.12.2016.	Bank 31.12.2017.	Bank 31.12.2016.
Guarantees and indemnities	7,314	10,015	7,227	9,928
Total contingent liabilities	**7,314**	**10,015**	**7,227**	**9,928**
Other financial commitments to customers				
Undrawn credit lines	70,059	61,672	70,058	61,672
Loan commitments	63,141	27,517	58,763	27,517
Letters of credit	4,091	23,965	4,091	23,965
Undrawn payment card limits	12,423	13,187	12,489	13,257
Contractual commitments on purchase of non-financial assets	2,536	6,064	502	221
Other financial commitments to customers, total	**152,250**	**132,405**	**145,903**	**126,632**
Total contingent liabilities and financial commitments to customers	**159,564**	**142,420**	**153,130**	**136,560**

29. Note

Assets under Management

As at 31 December 2017, funds under trust management by the group amounted to EUR 258.8 (279.8) million, while funds under trust management by the bank amounted to EUR 26.7 (25.4) million.
The bank's funds under trust management comprise loans issued from the funds specifically assigned by customers to the bank. Meanwhile, the group's funds under trust management also include funds of the customers of ABLV Asset Management, IPAS managed by the said company based on the customers' authorisation and the funds under trust management of ABLV Bank Luxembourg, S.A.
More detailed information on the funds of the customers of ABLV Asset Management, IPAS is disclosed in Note 18.
The related credit risk and other risks remain fully with the customer, which provided these funds to the group and / or the bank.

30. Note

Related party disclosures

Related parties of the group and the bank are defined as shareholders who have a qualifying holding in the bank, and chairman and members of the bank's council and board, staff of the Internal Audit Department, key management personnel of the group and the bank that are authorised to plan, manage and control group's / bank's operations and are responsible for these functions, and spouses, children and other persons of the individuals referred to previously, bank's subsidiaries and companies in which the group / bank has an interest, companies in which these individuals have a qualifying holding as well as other legal entities.

Group's transactions with related parties:

EUR'000

	31.12.2017.					31.12.2016.				
Assets	Share-holders	Manage-ment	Related companies	Associated companies	Other related individuals	Sharehol-ders	Manage-ment	Related companies	Associated companies	Other related individuals
Loans	498	1,607	181	7,223	153	1,438	1,873	9,252	8,726	29
Liabilities										
Deposits	4,048	2,148	3,099	6,471	499	5,698	2,037	7,036	8,306	940
Subordinated deposits	-	-	-	-	-	380	-	-	-	-
Ordinary bonds	404	116	909	-	99	-	15	-	6,665	33
Subordinated bonds	1,381	7,530	2,398	2,118	1,289	49	6,919	865	2,453	849
Memorandum items										
Undrawn credit lines and payment card limits	-	109	8	4,594	18	-	167	78	703	20
Guarantees	-	-	-	-	-	-	125	-	-	-
Income/ expense	01.01.2017.–31.12.2017.					01.01.2016.–31.12.2016.				
Interest income	27	43	3	263	2	104	42	196	345	-
Interest expense	(62)	(307)	(57)	(130)	(45)	(2)	(228)	(61)	(300)	(28)
Dividend income	-	-	-	-	-	-	-	-	-	-
Commission income	64	17	17	26	4	36	19	40	44	5
Commission expenses	(15)	-	-	-	-	-	-	-		-
Other ordinary income	-	-	-	538	-	-	-	-	31	-
Other administrative expense	-	-	-	(205)	-	-	-	-	-	-
Net results form sale of repossessed real estate	-	-	-	-	-	-	-	-	-	77
Allowance recognised for impairment, net	-	(1)	-	(3)	-	-	-	-	-	-

Bank’s transactions with related parties:

EUR'000

	31.12.2017.					31.12.2016.				
Assets	Share-holders	Manage-ment	Related companies	Associated companies	Other related individuals	Sharehol-ders	Manage-ment	Related companies	Associated companies	Other related individuals
Due from credit institutions	-	-	-	15,845	-	-	-	-	12,333	-
Loans	498	1,607	181	11,846	153	1,438	1,873	9,252	13,445	29
Liabilities										
Due to credit institutions	-	-	-	9,104	-	-	-	-	3,913	-
Deposits	4,048	2,148	5,260	41,871	499	5,698	1,974	7,036	35,186	940
Subordinated deposits	-	-	-	-	-	380	-	-	-	-
Ordinary bonds	-	-	-	23,583	34	-	15	-	13,689	33
Subordinated bonds	1,381	7,530	2,398	2,118	1,289	49	6,919	865	2,453	849
Memorandum items										
Undrawn credit lines and payment card limits	-	109	8	4,661	18	-	167	78	773	20
Guarantees	-	-	-	8	-	-	125	-	168	-
Income/ expense	01.01.2017.–31.12.2017.					01.01.2016.–31.12.2016.				
Interest income	27	43	3	459	2	104	42	196	401	-
Interest expense	(58)	(306)	(48)	(313)	(44)	(2)	(228)	(61)	(419)	(28)
Dividend income	-	-	-	3,614	-	-	-	-	6,104	-
Commission income	1	14	11	701	2	1	16	7	728	4
Commission expenses	-	-	-	(5,776)	-	-	-	-	(7,013)	-
Other ordinary income	-	-	-	3,065	-	-	-	-	3,333	-
Other administrative expense	-	-	-	(1,287)	-	-	-	-	(937)	-
Net results from sale of repossessed real estate	-	-	-	-	-	-	-	-	-	-
Allowance recognised for impairment, net	-	(1)	-	(6,496)	-	-	-	-	(6,225)	-

Information on registered non-voting shares (personnel shares) is presented in Note 26, information on remuneration to the council and board members of the group and the bank is presented in Note 9. Meanwhile, information on changes in investments in subsidiaries and associates is disclosed in Note 18.

31. Note

Segment information

The management of the group and the bank believe that the group’s operations can be organised into four segments based on the core business activities as follows: banking services, advisory services, investment management services, and real estate development.
During the reporting period the group / bank did not change classification of primary lines of business into segments compared to classification used in the preparation of prior period financial statements.

The group defines its operating segments based on its organisational structure. The bank views its operations as one single segment, without making any separate disclosures, while at the group level the bank and all its subsidiaries are attributed to the group’s operating segments as follows:

- banking services: ABLV Bank, AS, ABLV Bank Luxembourg, S.A.;
- investment management services: ABLV Asset Management, IPAS, ABLV Capital Markets, IBAS, ABLV Capital Markets USA LLC, PEM, SIA, PEM 1, SIA, New Hanza Capital, AS, NHC 1, SIA, NHC 2, SIA, NHC 3, SIA, NHC 4, SIA, NHC 5, SIA, NHC 6, SIA, open-end investment fund included in the fund (see Note 18);
- advisory services: ABLV Consulting Services, AS, ABLV Advisory Services, SIA
- real estate development: ABLV Building Complex, SIA, Pillar Holding Company, KS, Pillar, SIA, Pillar 3, SIA, Pillar 4 & 6, SIA, Pillar 7 & 8, SIA, SIA, Pillar 11, SIA, Pillar 2, 12 & 14 SIA, Pillar 18, SIA, Pillar 19, SIA, Pillar 20, SIA, Pillar 21, SIA, Pillar 22, SIA, Pillar 23, SIA, Pillar Development, SIA, Pillar Utilities, SIA, Hanzas Dārzs, SIA, Pillar Management, SIA, Pillar RE Services, SIA, Pillar Contractor, SIA, Pillar Architekten, SIA.

Operating segment information is prepared on the basis of internal reports. Part of advisory services segment over which the group has lost control (see Note 18) has been presented separately.

Analysis of the operating segments of the group:

EUR'000

	01.01.2017.-31.12.2017.							
	Banking	Investment management	Advisory services	Advisory services eliminated due to loss of control	Real estate development	Total group before consolidated adjustments	Eliminated or corrected on consolidation	Group, total
Net interest income	61,445	(268)	-	-	56	61,233	(11)	61,222
External transactions	61,403	(181)	-	-	-			
Internal transactions	42	(87)	-	-	56			
Net commission income	27,255	6,279	(15)	(3)	(8)	33,508	3,599	37,107
External transactions	32,411	4,704	(8)	-	-			
internal transactions	(5,156)	1,575	(7)	(3)	(8)			
Net result of transactions with securities and foreign exchange, and dividends received	21,356	(66)	(54)	2	4	21,242	(3,581)	17,661
External transactions	17,713	(17)	(37)	2	-			
Internal transactions	3,643	(49)	(17)	-	4			
Net other income/expenses	865	7,306	4,693	2,648	2,752	18,264	(10,550)	7,714
External transactions	(3,116)	7,432	106	2,595	697			
Internal transactions	3,981	(126)	4,587	53	2,055			
Personnel and other administrative expenses	(58,669)	(4,566)	(4,378)	(2,196)	(4,537)	(74,346)	5,687	(68,659)
Depreciation	(3,337)	(76)	(120)	(10)	(402)	(3,945)	77	(3,868)
Impairment allowance and other provisions	(1,270)	(289)	-	-	(18,781)	(20,340)	21,035	695
Corporate income tax	828	(464)	(125)	(70)	(69)	100	(64)	36
Total segment profit/(loss)	**48,473**	**7,856**	**1**	**371**	**(20,985)**	**35,716**	**16,192**	**51,908**
Additions of property and equipment, intangible assets and investment property	2,713	14,567	1	-	13,269	30,550	-	**30,550**
Total segment assets	**3,897,952**	**102,474**	**2,690**	**-**	**155,911**	**4,159,027**	**(334,802)**	**3,824,225**
Total segment liabilities	**3,516,475**	**59,070**	**1,034**	**-**	**9,962**	**3,586,541**	**(124,405)**	**3,462,136**

* - For more details on Real estate development segment operating results see Note 6 and Note 18.

EUR'000

	01.01.2016.-31.12.2016. (restated)						
	Banking	Investment management	Advisory services	Real estate development	Total group before consolidated adjustments	Eliminated or corrected on consolidation	Group, total
Net interest income	64,452	(35)	-	134	64,551	26	64,577
External transactions	64,495	82	-	-			
Internal transactions	(43)	(117)	-	134			
Net commission income	33,258	7,468	(18)	(8)	40,700	3,907	44,607
External transactions	39,763	4,853	(9)	-			
internal transactions	(6,505)	2,615	(9)	(8)			
Net result of transactions with securities and foreign exchange, and dividends received	51,684	(5)	402	57	52,138	(6,572)	45,566
External transactions	45,546	(3)	23	-			
Internal transactions	6,138	(2)	379	57			
Net other income/expenses	2,608	2,640	6,973	(1,443)	10,778	(9,721)	1,057
External transactions	(284)	1,472	2,118	(2,249)	-	-	-
Internal transactions	2,892	1,168	4,855	806	-	-	-
Personnel and other administrative expenses	(61,500)	(3,860)	(6,545)	(3,676)	(75,581)	4,417	(71,164)
Depreciation	(3,257)	(162)	(144)	(385)	(3,948)	-	(3,948)
Impairment allowance and other provisions	(6,243)	32	-	-	(6,211)	6,490	279
Corporate income tax	(1,802)	(672)	(81)	(168)	(2,723)	-	(2,723)
Total segment profit/(loss)	**79,200**	**5,406**	**587**	**(5,489)**	**79,704**	**(1,453)**	**78,251**
Additions of property and equipment, intangible assets and investment property	2,868	12,576	81	4,024	19,549	(793)	**18,756**
Total segment assets	**4,048,132**	**58,542**	**3,011**	**136,947**	**4,246,632**	**(262,602)**	**3,984,030**
Total segment liabilities	**3,692,295**	**32,834**	**1,459**	**10,228**	**3,736,816**	**(85,099)**	**3,651,717**

32. Note

Fair value

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. The group and the bank disclose the fair values of assets and liabilities in such a manner so as to be able to compare the fair values with the carrying amounts.

Fair value of financial instruments, such as available-for-sale financial assets, financial assets at fair value through profit or loss and held-to-maturity investments, is mostly defined based on quoted prices in an active market. Where no price is observable for some of these financial instruments, fair value is determined based on observable prices in a market, where no active trading is done – this is applicable to several debt securities and open-ended investment funds. Finally, other valuation techniques are used for some financial assets which are not quoted in the market and for which no quoted prices for similar financial assets in active markets are available. Fair value of such financial instruments is estimated based on valuation models which are based on the assumptions and estimates regarding the potential future financials of the investment property, and the industry and geographical area risks in which the respective investment property operates. Fair value of derivatives is calculated based on the net present value method, where all inputs in the valuation model are observable, while exchanged traded derivatives, such as futures, are valued based on quoted prices.

The management of the bank and the group believe that the most credible market value of real estate was identified based on the evaluations presented by both external real estate appraisers and bank's real estate experts. Investment properties are valued applying market approach and/ or on the basis of discounted cash flows with a terminal value component at the end of the cash forecast period, capitalisation method. According to this approach, fair value is calculated based on assumptions regarding expected future cash flows from income and expense resulting from the holding of real estate during its life cycle, including the value of the property at the date of sale. These cash flows are discounted at a discount rate, which is equal to the market return from similar assets, to arrive at the present value. The gross value of investment property is derived by applying market yields to the estimated value of lease. Where the actual lease payment is significantly different from the estimated payment adjustments are made to reflect the actual lease payment.
Comparable transaction approaches are based on the estimated market value for which property could be exchanged on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably. The selling value of the investment properties may differ from the market value as defined, if the market of such kind of properties is not properly developed in Latvia.

As regards other assets and liabilities for which fair value is disclosed and which have a short maturity (less than three months), except for loans and receivables, the group and the bank assume that the fair value approximates to their carrying amount. This assumption also applies to demand deposits and savings accounts. The fair value of loans and advances to customers is estimated by discounting the expected cash flows at a discount rate calculated according to the money market rates at the end of the year and loan interest margins.
The fair value of term deposits is estimated by discounting the expected cash flows at the average market interest rates prevailing at the end of the year.

The carrying amounts and fair values of the group's assets and liabilities are as follows:

EUR'000

Assets at fair value	31.12.2017. Carrying amount	31.12.2017. Fair value	31.12.2016.(restated) Carrying amount	31.12.2016.(restated) Fair value
Derivatives	1,942	1,942	624	624
Investment property	55,857	55,857	44,016	44,016
At fair value through profit or loss				
Financial assets at fair value through profit or loss	24,801	24,801	28,416	28,416
Available-for-sale				
Available-for-sale financial assets	1,074,791	1,074,791	1,042,574	1,042,574
Total assets at fair value	**1,157,391**	**1,157,391**	**1,115,630**	**1,115,630**
Assets not measured at fair value				
Cash and demand deposits with central banks	404,536	404,536	414,431	414,431
Balances due from credit institutions	271,903	271,903	272,520	272,520
Loans	1,044,920	1,044,324	1,029,944	1,029,081
Held-to-maturity investments	838,587	864,693	1,053,987	1,084,140
Other financial assets	1,274	1,274	1,295	1,295
Total assets not measured at fair value	**2,561,220**	**2,586,730**	**2,772,177**	**2,801,467**
Liabilities at fair value				
Derivatives	29	29	42	42
Group's consolidated fund shares owned by 3rd parties	13,272	13,272	6,541	6,541
Total liabilities at fair value	**13,301**	**13,301**	**6,583**	**6,583**
Liabilities not valued at fair value				
Liabilities not valued at fair value	3,441,601	3,437,666	3,635,031	3,630,313
Total liabilities not valued at fair value	**3,441,601**	**3,437,666**	**3,635,031**	**3,630,313**

The carrying amounts and fair values of the bank's assets and liabilities are as follows:

EUR'000

Assets at fair value	31.12.2017. Carrying amount	31.12.2017. Fair value	31.12.2016.(restated) Carrying amount	31.12.2016.(restated) Fair value
Derivatives	96	96	80	80
Investment property	20,875	20,875	34,384	34,384
At fair value through profit or loss				
Financial assets at fair value through profit or loss	13,129	13,129	21,010	21,010
Available-for-sale				
Available-for-sale financial assets	995,749	995,749	957,094	957,094
Total assets at fair value	**1,029,849**	**1,029,849**	**1,012,568**	**1,012,568**
Assets not measured at fair value				
Cash and demand deposits with central banks	402,514	402,514	413,047	413,047
Balances due from credit institutions	285,109	285,109	281,504	281,504
Loans	1,003,062	1,002,656	1,012,146	1,011,445
Held-to-maturity investments	772,656	799,501	989,710	1,020,884
Other financial assets	1,159	1,159	663	663
Total assets not measured at fair value	**2,464,500**	**2,490,939**	**2,697,070**	**2,727,543**
Liabilities at fair value				
Derivatives	12	12	42	42
Total liabilities at fair value	**12**	**12**	**42**	**42**
Liabilities not valued at fair value				
Liabilities not valued at fair value	3,316,674	3,312,700	3,517,592	3,512,838
Total liabilities not valued at fair value	**3,316,674**	**3,312,700**	**3,517,592**	**3,512,838**

Hierarchy of input data for determining the fair value of assets and liabilities

The group and the bank use the following hierarchy of three levels of input data for determining and disclosing the fair value of assets and liabilities:

- Level 1: Quoted prices in active markets;
- Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable;
- Level 3: Other techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Level 1 instruments are liquid securities and exchange traded derivatives. Level 2 instruments are securities that do not have an active market, standardised OTC derivatives and foreign exchange transactions as well as certain open-ended investment funds. Level 3 instruments are certificates of venture capital funds, investment properties, term deposits and loans. For valuation methods and assumptions, please see the description above. The group's assets and liabilities according to the hierarchy of input data for determining the fair value:

EUR'000

Assets at fair value	31.12.2017.				31.12.2016.(restated)			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Derivatives	-	1,942	-	1,942	59	565	-	624
Financial assets at fair value through profit or loss	24,004	424	373	24,801	21,519	6,897	-	28,416
Available-for-sale financial assets	1,054,174	15,378	5,239	1,074,791	989,277	49,955	3,342	1,042,574
Investment properties	-	-	55,857	55,857	-	-	44,016	44,016
Total assets at fair value	**1,078,178**	**17,744**	**61,469**	**1,157,391**	**1,010,855**	**57,417**	**47,358**	**1,115,630**
Assets not measured at fair value								
Loans	-	-	1,044,920	1,044,920	-	-	1,029,944	1,029,944
Held-to-maturity investments	833,802	4,396	389	838,587	1,035,724	17,905	358	1,053,987
Total assets not measured at fair value	**833,802**	**4,396**	**1,045,309**	**1,883,507**	**1,035,724**	**17,905**	**1,030,302**	**2,083,931**
Liabilities at fair value								
Derivatives	6	23	-	29	-	42	-	42
Group's consolidated fund shares owned by 3rd parties	-	13,272	-	13,272	-	6,541	-	6,541
Total liabilities at fair value	**6**	**13,295**	**-**	**13,301**	**-**	**6,583**	**-**	**6,583**
Liabilities not measured at fair value								
Liabilities not measured at fair value	-	611,294	87,659	698,953	-	603,941	96,792	700,733
Total liabilities not measured at fair value	**-**	**611,294**	**87,659**	**698,953**	**-**	**603,941**	**96,792**	**700,733**

The bank's assets and liabilities according to the hierarchy of input data for determining the fair value:

EUR'000

Assets at fair value	31.12.2017.				31.12.2016.(restated)			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Derivatives	-	96	-	96	59	21	-	80
Financial assets at fair value through profit or loss	-	12,756	373	13,129	1,117	19,893	-	21,010
Available-for-sale financial assets	985,128	5,382	5,239	995,749	919,764	33,988	3,342	957,094
Investment properties	-	-	20,875	20,875	-	-	34,384	34,384
Total assets at fair value	**985,128**	**18,234**	**26,487**	**1,029,849**	**920,940**	**53,902**	**37,726**	**1,012,568**
Assets not measured at fair value								
Loans	-	-	1,003,062	1,003,062	-	-	1,012,146	1,012,146
Held-to-maturity investments	767,871	4,396	389	772,656	971,447	17,905	358	989,710
Total assets not measured at fair value	**767,871**	**4,396**	**1,003,451**	**1,775,718**	**971,447**	**17,905**	**1,012,504**	**2,001,856**
Liabilities at fair value								
Derivatives	6	6	-	12	-	42	-	42
Total liabilities at fair value	**6**	**6**	**-**	**12**	**-**	**42**	**-**	**42**
Liabilities not measured at fair value								
Liabilities not measured at fair value	-	622,313	43,235	665,548	-	610,964	70,191	681,155
Total liabilities not measured at fair value	**-**	**622,313**	**43,235**	**665,548**	**-**	**610,964**	**70,191**	**681,155**

The analysis of fair value measurement's hierarchy of assets does not include cash on hands, deposits with central banks, balances due from credit institutions and other financial assets, due to the fact that these assets have not differences between the carrying amount and fair value in terms of short residual maturity. The analysis of fair value measurement's hierarchy of liabilities, which are not recognized at fair value, does not include demand deposits amounted to 2.72 (2.95) billion EUR in the group and demand deposits amounted to 2.64 (2.85) billion EUR in the bank, as these liabilities do not have differences between carrying amount and fair value.

Reclassification of financial instruments between level 1 and 2 of the hierarchy of sources of determining the fair value made in the reporting period and previous reporting period was insignificant, except the reclassification of Latvian central government bonds from the second level of the hierarchy of sources of determining the fair value to the first one amounting to EUR 25.8 (0) million.

Analysis of changes in the group's / bank's financial instruments of hierarchy Level 3:

EUR'000

Assets at fair value	31.12.2017.	Recognition	Change in revaluation reserve	Reclassification	31.12.2016.
Available-for-sale financial assets	5,239	60	1,837	-	3,342
Financial assets at fair value through profit or loss	373	-	-	373	-
Total assets at fair value	**5,612**	**60**	**1,837**	**373**	**3,342**

Analysis of change in the amount of investment property disclosed under Note 0.

During the reporting period securities amounting to EUR 0.4 (0) million of one credit institution registered in Latvia were reclassified from Level 2 to Level 3 during the reporting period.

EUR'000

Assets at fair value	31.12.2016.	Redemption	Recognition	Change in revaluation reserve	31.12.2015.
Available-for-sale financial assets	3,342	(12,274)	2,401	518	12,697
Total assets at fair value	**3,342**	**(12,274)**	**2,401**	**518**	**12,697**

In the prior period there were no reclassifications to/from Level 3 during the reporting period.

Level 3 available-for-sale security discounted value as at 31 December 2017 amounted to 0.49% (0.32%) from total available-for-sale portfolio, which is insignificant, therefore group / bank did not conduct a sensitivity analysis. Sensitivity of investment property value assessed by using the discounted cash flow method against market fluctuations match changes in lease payments, i.e., when income from lease payments decrease by 5.0% (10.0%), the value of assets decrease by 5.26% (10.54%).

33. Note

IFRS 9 implementation analysis

Classification of assets and liabilities according to IFRS 9:

EUR'000

	At fair value with changes in fair value through profit / loss	At fair value with changes in fair value through comprehensive income		At amortised cost	Total
		Debt securities	Capital instruments		
Assets					Group
Cash and demand deposits from central banks	-	-	-	404,536	404,536
Balances due from credit institutions	-	-		271,903	271,903
Derivatives	1,942	-	-	-	1,942
Financial assets at fair value through profit or loss	24,801	-	-	-	24,801
Available-for-sale financial assets	-	1,056,052	18,739	-	1,074,791
Loans and receivables	-	-	-	1,044,920	1,044,920
Held-to-maturity investments	389	244,521	-	593,677	838,587
Other assets	-	-	-	162,745	162,745
Total assets	**27,132**	**1,300,573**	**18,739**	**2,477,781**	**3,824,225**
Derivatives	29	-	-	-	29
Balances due to credit institutions and other institutions	-	-	-	85,890	85,890
Deposits	-	-	-	2,819,332	2,819,332
Other liabilities	-	-	-	28,702	28,702
Issued securities	-	-	-	515,842	515,842
Subordinated deposits	-	-	-	12,341	12,341
Total liabilities	**29**	**-**	**-**	**3,462,107**	**3,462,136**
					Bank
Cash and demand deposits from central banks	-	-	-	402,514	402,514
Balances due from credit institutions	-	-		285,109	285,109
Derivatives	96	-	-	-	96
Financial assets at fair value through profit or loss	13,129	-	-	-	13,129
Available-for-sale financial assets	-	987,006	8,743	-	995,749
Loans and receivables	-	-	-	1,003,062	1,003,062
Held-to-maturity investments	389	244,521	-	527,746	772,656
Other assets	-	-	-	211,161	211,161
Total assets	**13,614**	**1,231,527**	**8,743**	**2,429,592**	**3,683,476**
Derivatives	12	-	-	-	12
Balances due to credit institutions and other institutions	-	-	-	91,195	91,195
Deposits	-	-	-	2,679,950	2,679,950
Other liabilities	-	-	-	9,666	9,666
Issued securities	-	-	-	529,327	529,327
Subordinated deposits	-	-	-	12,341	12,341
Total liabilities	**12**	**-**	**-**	**3,322,479**	**3,322,491**

Initial assessment of the impact of implementing of IFRS 9 in the group:

EUR'000

Assets	31.12.2017.	Reclassification	Value recalculation	01.01.2018.
Measured at amortised cost				
Cash and demand deposits from central banks	404,536	-	-	404,536
Balances due from credit institutions	271,903	-	-	271,903
Loans and receivables	1,044,920	-	(7,250)	1,037,670
Held-to-maturity investments	838,587	(244,910)	(2,067)	591,610
incl. measured at fair value with changes in fair value recognised through comprehensive income		(244,521)	-	-
incl. measured at fair value with changes in fair value recognised through profit/loss		(389)	-	-
Other assets	162,745	-	-	162,745
Total measured at amortised cost	**2,722,691**	**(244,910)**	**(9,317)**	**2,468,464**
Available-for-sale				
measured at fair value with changes in fair value recognised through comprehensive income - debt securities	1,056,052	(1,056,052)	-	-
measured at fair value with changes in fair value recognised through comprehensive income - capital instruments	18,739	(18,739)	-	-
Total available-for-sale	**1,074,791**	**(1,074,791)**	-	**-**
Measured at fair value with changes in fair value recognised through comprehensive income - debt securities				
from available-for-sale	-	1,056,052	-	1,056,052
from measured at amortised cost	-	244,521	(360)	244,161
Total measured at fair value with changes in fair value recognised through comprehensive income - debt securities	**-**	**1,300,573**	**(360)**	**1,300,213**
Measured at fair value with changes in fair value recognised through comprehensive income - capital instruments				
incl. from available-for-sale	-	18,739	-	18,739
Total measured at fair value with changes in fair value recognised through comprehensive income - capital instruments	**-**	**18,739**	**-**	**18,739**
Measured at fair value with changes in fair value recognised through profit / loss				
Derivatives	1,942	-	-	1,942
Financial assets at fair value through profit or loss	24,801	389	-	25,190
incl. from measured at amortised cost	-	389	-	389
Total measured at fair value with changes in fair value recognised through profit / loss	**26,743**	**389**	**-**	**27,132**
Other commitments to customers	159,564	-	(187)	**159,377**
Total effect on financial assets and other commitments to customers	**-**	**-**	**(9,864)**	**-**
Liabilities				
Derivatives	29			29
Due to central banks and other credit institutions	85,890			85,890
Deposits	2,819,332			2,819,332
Other liabilities	28,702			28,702
Issued securities	515,842			515,842
Subordinated deposits	12,341			12,341
Total effect on financial liabilities:	**-**	**-**	**-**	**-**

Initial assessment of the impact of implementing of IFRS 9 in the bank:

EUR'000

Assets	31.12.2017.	Reclassification	Value recalculation	01.01.2018.
Measured at amortised cost				
Cash and demand deposits from central banks	402,514	-	-	402,514
Balances due from credit institutions	285,109	-	-	285,109
Loans and receivables	1,003,062	-	(7,250)	995,812
Held-to-maturity investments	772,656	(244,910)	(2,004)	525,742
incl. measured at fair value with changes in fair value recognised through comprehensive income	-	(244,521)	-	(244,521)
incl. measured at fair value with changes in fair value recognised through profit/loss	-	(389)	-	(389)
Other assets	211,161	-	-	211,161
Total measured at amortised cost	**2,674,502**	**(244,910)**	**(9,254)**	**2,420,338**
Available-for-sale				
measured at fair value with changes in fair value recognised through comprehensive income - debt securities	987,006	(987,006)	-	-
measured at fair value with changes in fair value recognised through comprehensive income - capital instruments	8,743	(8,743)	-	-
Total available-for-sale	**995,749**	**(995,749)**	-	**-**
Measured at fair value with changes in fair value recognised through comprehensive income - debt securities				
from available-for-sale	-	987,006	-	987,006
from measured at amortised cost	-	244,521	(355)	244,166
Total measured at fair value with changes in fair value recognised through comprehensive income - debt securities	**-**	**1,231,527**	**(355)**	**1,231,172**
Measured at fair value with changes in fair value recognised through comprehensive income - capital instruments				
incl. from available-for-sale	-	8,743	-	8,743
Total measured at fair value with changes in fair value recognised through comprehensive income - capital instruments	**-**	**8,743**	**-**	**8,743**
Measured at fair value with changes in fair value recognised through profit / loss				
Derivatives	96	-	-	96
Financial assets at fair value through profit or loss	13,129	389	-	13,518
incl. from measured at amortised cost	-	389	-	389
Total measured at fair value with changes in fair value recognised through profit / loss	**13,225**	**389**	**-**	**13,614**
Other commitments to customers	153,130	-	(187)	**152,943**
Total effect on financial assets and other commitments to customers	**-**	**-**	**(9,796)**	**-**
Liabilities				
Derivatives	12			12
Due to central banks and other credit institutions	91,195			91,195
Deposits	2,679,950			2,679,950
Other liabilities	9,666			9,666
Issued securities	529,327			529,327
Subordinated deposits	12,341			12,341
Total effect on financial liabilities:	**-**	**-**	**-**	**-**

Initial assessment of the impact of implementing of IFRS 9 in the group:

Effect on shareholders` equity	31.12.2017.	Reclassification	Value recalculation	01.01.2018.
Change in impairment for financial instruments	-	-	(9,317)	-
Change in impairment for memorandum items	-	-	(187)	-
Change in impairment for financial assets measured at fair value with changes in fair value recognised through comprehensive income	-	-	(552)	-
Changes in financial assets measured at fair value with changes in fair value recognised through comprehensive income	-	-	(360)	-
Total effect on shareholders` equity	**-**	**-**	**(10,416)**	**-**

Initial assessment of the impact of implementing of IFRS 9 in the bank:

Effect on shareholders` equity	31.12.2017.	Reclassification	Value recalculation	01.01.2018.
Change in impairment for financial instruments	-	-	(9,254)	-
Change in impairment for memorandum items	-		(187)	-
Change in impairment for financial assets measured at fair value with changes in fair value recognised through comprehensive income	-	-	(502)	-
Changes in financial assets measured at fair value with changes in fair value recognised through comprehensive income	-	-	(355)	-
Total effect on shareholders` equity	**-**	**-**	**(10,298)**	**-**

34. Note

Capital management and capital adequacy

The primary objective of the group's and bank's capital management is to ensure that the group and the bank comply with externally imposed capital requirements and maintain healthy capital ratios in order to support their business and maximise the shareholders' value.

From 1 January 2017 to 31 December 2017 the goals of the group's and bank's capital management are consistent with those of the previous years.

According to the Regulation, the group / bank use the Standardised Approach for credit risk and market risk capital requirements, the Basic Indicator Approach for operational risk capital requirement, and the Standardised Approach to calculate the capital requirement for credit valuation adjustment (CVA) risk of OTC derivatives and simplified approach to determine the additional value adjustment and this additional value adjustment is calculated as 0.1% from the total value of assets and liabilities at fair value.
It is specified in the Regulation that Tier 1 common capital (CET1) ratio should be 4.5%, Tier 1 capital should be 6.0% and the total capital ratio should be at least 8.0%. According to the Regulation, the total capital of the group / bank should be equal to the sum of credit risk, market risk and operational risk capital requirements, including capital reserves and potential Pillar II capital increases.

According to the Law on Credit Institutions, the group and the bank maintains a capital conservation buffer in the amount of 2.5% of total exposures, which restricts dividend payment and redemption of certain Tier 1 equity instruments, which effectively sets a target of 8.5% for Tier 1 capital and 10.5% for the total capital adequacy ratio.

At the end of 2016, the FCMC made the decision to list the bank as other systemically significant institution and specified that from 30 June 2017 the group / bank was required to maintain a capital reserve of other systemically significant institutions of 1.0% of total exposures and from 30 June 2018 of 2.0%.

In addition to the above, on 1 January 2016 the requirements of the FCMC for countercyclical capital buffer came into effect, which are based on risk distribution by geography.
The group / bank ensures that the common equity tier 1 capital (CET1) is sufficient to cover the capital conservation, countercyclical capital buffer and other systematically significant capital reserve.

Reserve capital – the value of the group / bank's property to cover according to a procedure previously unexpected accumulated losses and to fund other needs as they arise. There are no legal restrictions on utilisation of the reserves. Decision on the use of reserve capital can be made by a shareholders' meeting.

The group and the bank have fulfilled the requirements of the Regulation and during the reporting period and at the end of the reporting period the CET1 ratio of the group was 15.04% (12.31%), the total capital ratio was 19.55% (18.81%), thus the capitalisation of the group is maintained at a level exceeding the capital requirements according to the Regulation.

Apart from the calculation of the minimum capital adequacy ratio, the bank documents and assesses internal capital adequacy. The internal capital adequacy assessment (ICAAP) procedure performed by the bank comprises both quantitative capital adequacy assessment and qualitative aspects, including long-term business planning and formulation of the development strategy, identification of material risks, determination of acceptable risk exposure, development and improvement of risk management systems, as well as identification and control of risks inherent in the bank's business (risk profile) on an ongoing basis.
The methods employed for the ICAAP purposes and the calculation procedure are detailed in the Statement on Information Disclosure published on the bank's website www.ablv.com.

Own funds and capital requirements:

EUR'000

	Group*	Group*	Bank	Bank
	31.12.2017.	31.12.2016.	31.12.2017.	31.12.2016.
Tier 1				
paid-in share capital	42,080	38,300	42,080	38,000
share premium	179,295	132,423	179,295	132,423
reserve capital and other reserves	2,172	2,134	2,134	2,134
retained earnings	68,648	62,805	74,654	68,770
current year's profit	-	6,000	-	6,000
intangible assets	(5,522)	(6,029)	(5,390)	(5,826)
revaluation reserve of available-for-sale financial assets	(313)	676	(366)	683
non-controlling interests	1,213	1,010	-	-
additional value adjustment for assets measured at fair value	(875)	(647)	(812)	(596)
Common equity tier 1 capital (CET1)	**286,698**	**236,672**	**291,595**	**241,588**
Additional Tier 1 capital	**-**	**-**	**-**	**-**
Tier 1 capital	**286,698**	**236,672**	**291,595**	**241,588**
Tier 2				
subordinated capital	85,966	125,063	85,966	125,063
Total Tier 2 capital	**85,966**	**125,063**	**85,966**	**125,063**
Total own funds	**372,664**	**361,735**	**377,561**	**366,651**
Capital requirement				
Capital requirement for credit risk	121,849	126,178	118,877	124,879
Total capital requirement for market risks	9,507	7,353	6,137	7,289
capital requirement for foreign currency risk	1,985	1,671	2,052	1,686
capital requirement for position risk	7,522	5,682	4,085	5,603
Capital requirement for counterparty credit risk	190	63	19	5
CVA	33	12	4	1
Capital requirement for operational risk	20,896	20,229	18,265	17,601
Total capital requirement	**152,475**	**153,835**	**143,302**	**149,775**
Common equity tier 1 capital ratio (CET1) (%)	15.04	12.31	16.28	12.90
Total capital ratio (%)	19.55	18.81	21.08	19.58

*the group is compliant with the requirements of the Regulation, differences from the IFRS requirements are indicated in the disclosure of information on the bank's website www.ablv.com.

35. Note

Risk Management

Risks are inherent in the group's and bank's business and risk management is one of the group's and bank's strategic values, which is based on the confidence that efficient risk management is critical for the success of the group and the bank. Managing risks permits keeping the group's and bank's exposure at a level meeting their willingness and ability to undertake risks.

In the ordinary course of business, the group and the bank are exposed to various risks, the most significant of them being credit risk, market risk, liquidity risk, operational risk, AML/CTF risk and other unquantifiable risks (reputation risk, compliance risk, strategy and business risk, commission fee income and expenses volatility risk).
Risk management stands for identification, assessment and control of potential risks; it is a structured, coordinated and ongoing process across all levels of the entity aimed at identifying and assessing potential threats and making decisions on the prevention of such threats, maintaining the appropriate balance between risks and profits and minimising potential adverse effects of risks on the entity's financial position and operations.

The risk management process includes the following:

- identification, assessment and measurement of the significant risks;
- setting restrictions and limits defining the maximum permissible exposure;
- regular monitoring of the compliance with the risk management policies and procedures and with any limits set;
- defining the risk assessment procedures and limits before commencing new transactions;
- within capital adequacy assessment process carrying out comprehensive risk assessment and creation of capital adequacy statements, that are based on the group's and the bank's risk profile;
- stress testing aimed at the following:
    - identification of situations which are likely to produce a significant impact on the group's and / or bank's operations;
    - assessment of the group's and/ or bank's ability to withstand any significant deterioration in external and internal conditions;
    - determination of ways to minimise certain risks;
    - formulation of contingency plans;
    - regular revision and enhancement of the policies and instructions following the market changes.

For the purposes of risk management, a risk strategy has been articulated. This strategy defines risks assumed by the bank both individually and at the group level in carrying on its operations and providing services, the level of risk tolerance and actions to ensure compliance with this level. The risk management strategy, which has been approved by the council of the bank, is based on the Operational Strategy of the ABLV Group and determines the acceptable risk level, defining the overall risk appetite in the form of strategic indicators on separate and consolidated level. Apart from the risk strategy, risk management policies have been developed regarding all key risks and approved by the council of the bank. Risk Management policies and other internal regulations establish basic principles and processes for risk management, functions and responsibilities of structural units / officials, risk limits, as well as risk control and reporting system. Risk management strategy, policies and other internal risk management regulations are reviewed on a regular basis, and their efficiency assessment is performed at least on an annual basis. The introduction and effectiveness of these policies are controlled by the board and the Chief Risk Officer (CRO), while the practical implementation is provided by the respective structural units, including the Risk Management Division whose functions are strictly segregated from the business functions.

The Risk management department on a regular basis prepares and submits to the management risk management report which includes assessment on all key risks, as well as report on the performance of strategic indicators. Risk management employees, responsible structural units and management are informed on the performance of defined internal and regulatory risk limits.

The council of the bank monitors the development of the internal system and effective functionality, assessing the overall efficiency of the internal control system.

To create a highly disciplined, conservative and constructive risk management and control environment, training seminars are organised for the staff.

The risk management system has been constantly improved following the group's and bank's operational and financial market development. The improvement process is controlled by the Internal Audit Department on a regular basis.

36. Note

Credit risk

Credit risk is exposure to potential loss in case the group's or bank's counterparty or debtor will be unable to fulfil the contractual obligations to the group or the bank or pledged assets will not cover the group's or bank's requirements.

Credit risk is managed according to the Credit risk management Policy, which sets out the establishment and basic principles of the credit risk management system that would allow timely detection, analysis, assessment and prevention of any potential credit risks. The group and the bank believe that their exposure to credit risk arises mainly from loans, investments in fixed income securities, and balances due from credit institutions.

The credit risk management process comprises the following:

- placing and monitoring of credit risk and concentration risk limits;
- setting and monitoring of criteria for granting of loans;
- evaluation of customer's solvency and collateral;
- monitoring of credit quality, both individually and collectively;
- Monitoring of credit institutions and financial companies;
- Monitoring or securities and their issuers;
- determination of the recoverable amount of loans and other assets;
- measurement and assessment of credit risk;
- revision of regulations concerning credit risk and concentration risk management.

For credit risk management the following is used:

- limits system:
  - loan portfolio limits for individual loan programs, lines, economy industries, types of collaterals;
  - Risk transactions with customers or groups of related customers;
  - limits for credit institutions and financial companies;
  - limits for investments in securities;
  - limits for financial instruments and goods holders;
  - limits for country risk and credit rating groups;
  - limits for high risk transactions according to the Regulation.
- asset quality monitoring.

In order to measure credit risk, the group and the bank perform the following:

- regular loan portfolio quality analysis – at least once per quarter;
- regular analysis of compliance with the limits set for the loan portfolio, securities portfolio, and claims on credit institutions – at least once per quarter;
- regular concentration analysis of the loan portfolio, claims on credit institutions, and debt securities – at least once per year;
- regular asset quality assessment, which is performed at least once per quarter for the loan portfolio and securities portfolio and at least once per year – for other assets;
- country's risk analysis on a regular basis, at least once every six months;
- regular analysis of credit institutions, financial companies, and financial instrument and commodity custodians – at least once per year;
- credit risk stress testing on a regular basis, at least once every six months;
- capital adequacy assessment on a regular basis, at least once every six months;
- regular credit risk and concentration risk assessment under the risk management report – at least once per quarter;
- Strategic indicators assessment on a regular basis, at least once every four months;

Before entering into any cooperation with customers, the group and the bank perform a comprehensive review of the customer's solvency and collateral.
In analysing any potential cooperation with financial institutions, the group and/or the bank assesses each potential counterparty, by analysing both its financial performance and other criteria, and further reviews these indicators on a regular basis. To assess solvency of private individuals, the bank has developed an internal rating system whereby customers are divided in categories on the basis of their income level and quality of their credit histories. After initiating cooperation with a customer, the bank monitors loan payment delays and changes in collateral value, as well as evaluates on a sample basis sufficiency of the customer's income. The group and the bank assess creditworthiness of corporate customers by conducting the financial due diligence for each new customer; subsequently, the borrower's financial position is reviewed on a regular basis. Corporate customers are also granted monitoring/ risk factors, and any instances of non-compliance with these factors indicate that credit risk might have increased before the financial position of such customer is reviewed.

Real estate is appraised by an independent appraiser accepted by the group and the bank. The group/the bank may adjust (reduce) the value defined by the independent appraiser if, in the bank's opinion, the appraiser has not considered certain risk factors. For the purposes of loan collateral, the bank / group considers such reduced value. The value of other collateral is their purchase value or carrying amount taking into consideration the valuation provided by independent experts and the bank. Depending on the type of collateral and risk exposure, the bank's employees perform monitoring of the collateral value 1 – 4 times per year. On certain occasions, an independent appraiser may be involved. With regard to exposures in excess of EUR 3 million or 5% of the bank's equity, independent appraisals are conducted once every three years.

For effective credit risk management, the bank has set up the permanent Assets Evaluation Committee which performs a regular analysis of assets and memorandum items, i.e., their recoverability. Depending on the results of such analysis, the amount of the allowance for credit losses (impairment) is determined. For the purposes of such analysis, both specific and collective (portfolio) risks are considered.
The group / bank analyses the quality of its loan portfolio on a regular basis to identify loss events.
Loss events are the following:

- significant financial difficulties of the borrower;
- non-compliance with the agreement;
- benefits granted to the borrower for economic or legal reasons associated with the financial difficulties of the borrower, which would not be otherwise granted by the group / bank;
- relatively high likelihood of bankruptcy proceedings or other financial reorganisation initiated by the borrower;
- absence of pre-requisites for the implementation of funded projects;
- default on obligations by a party related to the borrower, which affects the borrower's ability to settle its obligations to the bank;
- decrease in the value of collateral if repayment of the loan is directly dependent on the collateral value;
- other events leading to the elevation of credit risk.

If a loss event is identified, the loan is assessed for impairment.

Past due loans are loans with delayed contractual interest and/or principal payments. Different loan groups (mortgage loans, corporate loans, consumer loans, etc.) have different aging criteria (8 to 90 days) which are determined by assessing and considering risks inherent in the relevant loan group. Information on delayed credit payments is disclosed starting from the first day of delay. Impaired loans are loans for which the bank has recognised impairment allowances as a result of a loss event. Credit is not deemed impaired if it is secured by a collateral that fully covers the customer's liabilities towards the group / bank.

Credit quality analysis for the group:

EUR'000

	Mortgage	Business	Other	Consumer	Total gross loans	Fair value of collateral
						31.12.2017.
Neither past due nor impaired loans	257,575	651,423	78,095	1,095	988,188	849,922
Past due but not impaired loans, incl.:	29,631	2,701	-	106	32,438	25,116
less than 30 days	23,624	2,662	-	80	26,366	20,274
31 to 59 days	4,441	33	-	18	4,492	3,474
60 to 89 days	678	6	-	8	692	480
more than 90 days	888	-	-	-	888	888
Impaired loans	19,003	17,335	1,265	99	37,702	26,977
Total gross loans	**306,209**	**671,459**	**79,360**	**1,300**	**1,058,328**	**902,015**
Impairment allowance	(6,016)	(6,122)	(1,226)	(44)	(13,408)	
Total net loans	**300,193**	**665,337**	**78,134**	**1,256**	**1,044,920**	
						31.12.2016.
Neither past due nor impaired loans	269,227	622,659	80,607	1,055	973,548	825,782
Past due but not impaired loans, incl.:	30,607	7,254	-	124	37,985	29,822
less than 30 days	24,852	3,571	-	54	28,477	21,830
31 to 59 days	4,472	3,403	-	26	7,901	6,550
60 to 89 days	505	6	-	23	534	369
more than 90 days	778	274	-	21	1,073	1,073
Impaired loans	22,075	11,205	1,408	90	34,778	20,883
Total gross loans	**321,909**	**641,118**	**82,015**	**1,269**	**1,046,311**	**876,487**
Impairment allowance	(7,811)	(7,110)	(1,365)	(81)	(16,367)	
Total net loans	**314,098**	**634,008**	**80,650**	**1,188**	**1,029,944**	

Credit quality analysis for the bank:

EUR'000

	Mortgage	Business	Other	Consumer	Total gross loans	Fair value of collateral
						31.12.2017.
Neither past due nor impaired loans	257,575	609,602	78,095	1,094	946,366	810,872
Past due but not impaired loans, incl.:	29,631	2,702	-	106	32,439	25,116
less than 30 days	23,624	2,663	-	80	26,367	20,274
31 to 59 days	4,441	33	-	18	4,492	3,474
60 to 89 days	678	6	-	8	692	480
more than 90 days	888	-	-	-	888	888
Impaired loans	19,003	17,302	1,265	74	37,644	26,977
Total gross loans	**306,209**	**629,606**	**79,360**	**1,274**	**1,016,449**	**862,965**
Impairment allowance	(6,016)	(6,111)	(1,226)	(34)	(13,387)	
Total net loans	**300,193**	**623,495**	**78,134**	**1,240**	**1,003,062**	
						31.12.2016.
Neither past due nor impaired loans	269,227	604,945	80,607	982	955,761	807,973
Past due but not impaired loans, incl.:	30,607	7,255	-	123	37,985	29,822
less than 30 days	24,852	3,571	-	53	28,476	21,830
31 to 59 days	4,472	3,404	-	26	7,902	6,550
60 to 89 days	505	6	-	23	534	369
more than 90 days	778	274	-	21	1,073	1,073
Impaired loans	22,075	11,190	1,408	80	34,753	20,883
Total gross loans	**321,909**	**623,390**	**82,015**	**1,185**	**1,028,499**	**858,678**
Impairment allowance	(7,811)	(7,104)	(1,365)	(73)	(16,353)	
Total net loans	**314,098**	**616,286**	**80,650**	**1,112**	**1,012,146**	

The maximum exposure to credit risk is assessed without taking into account collateral and other credit enhancements, while the minimum exposure is assessed taking into account the fair value of the collateral at the reporting date. If the loan is secured against a financial instrument, its fair value is determined according to the market value of the respective financial instrument; if the loan is secured against a bank deposit, the fair value of the collateral is the nominal value of the respective deposit; if the loan is secured against real estate, its fair value is determined according to the valuation provided by independent experts and adjusted (reduced) based on the bank's experience. The fair value of other collateral is their purchase value or carrying amount taking into consideration the valuation provided by independent experts and the bank.

As at 31 December 2017, the gross amount of loans having the maturity date for principal or interest changed totalled EUR 85.0 (80.8) million.
These changes were made on the basis of the agreements between the group or the bank and customers amending respective loan conditions, as otherwise the loans might be past due. A loan is considered to be restructured from the date of the above mutual agreement to the date when at least two years have passed without delays of contractual payments by more than 30 days or any of the loss events has taken place.

The group and the bank manage the credit quality of their financial assets by applying internal ratings. Loans to customers are assigned internal ratings where higher-rating assets are standard assets with a sound credit standing, while lower-rating assets are those assets which have doubtful credit quality and require close monitoring by the group and the bank. Meanwhile, balances due from credit institutions and securities are granted credit ratings assigned by rating agencies. Higher-rating assets represent investment-grade assets, i.e., assets having a rating of no lower than BBB-, while lower-rating assets represent assets rated below investment grade.

Financial assets of the group by risk rating:

EUR'000

							31.12.2017.
			Portfolio allowance		Individually assessed		
	Assets not overdue without recognised impairment						
Financial assets	Higher rating	Lower rating	Assets overdue without recognised impairment	Assets with recognised impairment	Assets without recognised impairment	Assets with recognised impairment	**Gross financial assets**
Cash and demand deposits with central banks	404,536	-	-	-	-	-	404,536
Balances due from credit institutions	138,036	133,867	-	-	-	-	271,903
Derivatives	1,942	-	-	-	-	-	1,942
Financial assets at fair value through profit or loss	7,225	17,576	-	-	-	-	24,801
Available-for-sale financial assets	1,020,625	54,166	-	-	-	-	1,074,791
Held-to-maturity investments	736,607	101,871	-	-	-	1,500	839,978
Loans	927,637	60,551	32,035	20,374	403	17,328	1,058,328
Mortgage	257,134	441	29,631	18,728	-	275	306,209
Business	591,313	60,110	2,370	282	331	17,053	671,459
Other	78,095	-	-	1,265	-	-	79,360
Consumer	1,095	-	34	99	72	-	1,300
Other financial assets	-	1,274	-	-	-	-	1,274
Total financial assets, gross	**3,236,608**	**369,305**	**32,035**	**20,374**	**403**	**18,828**	**3,677,553**
							31.12.2016.(restated)
Cash and demand deposits with central banks	414,431	-	-	-	-	-	414,431
Balances due from credit institutions	226,241	46,279	-	-	-	-	272,520
Derivatives	624	-	-	-	-	-	624
Financial assets at fair value through profit or loss	11,815	16,601	-	-	-	-	28,416
Available-for-sale financial assets	1,001,455	41,119	-	-	-	-	1,042,574
Held-to-maturity investments	894,397	159,342			-	1,580	1,055,319
Loans	907,476	66,072	37,804	23,524	181	11,254	1,046,311
Mortgage	268,570	657	30,607	21,754		321	321,909
Business	557,244	65,415	7,170	272	84	10,933	641,118
Other	80,607	-	-	1,408	-	-	82,015
Consumer	1,055	-	27	90	97	-	1,269
Other financial assets	-	1,295	-	-	-	-	1,295
Total financial assets, gross	**3,456,439**	**330,708**	**37,804**	**23,524**	**181**	**12,834**	**3,861,490**

Financial assets of the bank by risk rating:

EUR'000

31.12.2017.

Financial assets	Assets not overdue without recognised impairment: Higher rating	Assets not overdue without recognised impairment: Lower rating	Portfolio allowance: Assets overdue without recognised impairment	Portfolio allowance: Assets with recognised impairment	Individually assessed: Assets without recognised impairment	Individually assessed: Assets with recognised impairment	**Gross financial assets**
Cash and demand deposits with central banks	402,514	-	-	-	-	-	402,514
Balances due from credit institutions	137,535	147,574	-	-			285,109
Derivatives	96	-	-	-	-	-	96
Financial assets at fair value through profit or loss	-	13,129	-	-	-	-	13,129
Available-for-sale financial assets	951,579	44,170	-	-	-	-	995,749
Held-to-maturity investments	673,671	98,876	-	-	-	1,500	774,047
Loans	885,815	60,551	32,036	20,316	403	17,328	1,016,449
Mortgage	257,133	441	29,632	18,728	-	275	306,209
Business	549,493	60,110	2,370	249	331	17,053	629,606
Other	78,095	-	-	1,265	-	-	79,360
Consumer	1,094	-	34	74	72	-	1,274
Other financial assets	-	1,159	-	-	-	-	1,159
Total financial assets, gross	**3,051,210**	**365,459**	**32,036**	**20,316**	**403**	**18,828**	**3,488,252**
							31.12.2016.(restated)
Cash and demand deposits with central banks	413,047	-	-	-	-	-	413,047
Balances due from credit institutions	225,118	56,386	-	-	-	-	281,504
Derivatives	80	-	-	-	-	-	80
Financial assets at fair value through profit or loss		21,010	-	-	-	-	21,010
Available-for-sale financial assets	925,966	31,128	-	-	-		957,094
Held-to-maturity investments	832,528	156,934	-	-	-	1,580	991,042
Loans	889,689	66,072	37,804	23,499	181	11,254	1,028,499
Mortgage	268,570	657	30,607	21,754		321	321,909
Business	539,531	65,415	7,170	257	84	10,933	623,390
Other	80,607	-	-	1,408	-	-	82,015
Consumer	981	-	27	80	97	-	1,185
Other financial assets	-	663	-	-	-	-	663
Total financial assets, gross	**3,286,428**	**332,193**	**37,804**	**23,499**	**181**	**12,834**	**3,692,939**

Credit risk concentration

The exposure to any single borrower, including banks and brokers, is further restricted by sub-limits.
The group and the bank place limits on the amount of risk for individual borrowers (groups of related customers), loan programmes, industry segment and risk transactions, having one type of collateral in one geographical segment, etc. With a view to limiting credit risk and concentration risk, considering risks associated with the lending product, industry, location of the collateral and risks related to collateral liquidity.

In the event that any group of loans is affected by economic factors deteriorating the condition of all loans belonging to this group, it is decided to place certain restrictions on lending in the specific industry, and potential credit losses are identified.

The credit risk inherent in the group's and bank's securities portfolios is reflected by the credit rating granted to respective securities and issuers. The group's and bank's securities portfolios are well-diversified and portfolio diversification is based on issues, credit rating classes, issuers and maturities. For the purposes of the credit risk concentration analysis, the issuers incorporated in a country only for the attraction of funds are disclosed as attributable to the country or region where the guarantors of the issue are located.

Apart from the effective management of credit risk concentration, the bank has set limits for credit institutions and financial companies in order to restrict balances held with one institution and group of related institutions. Limits are established by applying an internally developed model for the assessment of credit institutions.

The credit risk concentration is analysed also by estimating the credit exposure ratio to eligible capital. According to the Regulation, the group and the bank treat credit exposure as a high risk transaction if it exceeds 10% of the eligible capital.

Analysis of concentration of the group's financial assets and liabilities by geographical area as at 31 December 2017:

EUR'000

Assets	Latvia	EMU countries	Other EU member states	Other OECD countries	International organisations	CIS countries	Other countries	Total
Cash and demand deposits with central banks	402,514	2,022	-	-	-	-	-	404,536
Balances due from credit institutions	62	86,032	5,904	78,691	-	88,099	13,115	271,903
Derivatives	-	-	97	-	-	-	1,845	1,942
Financial assets at fair value through profit or loss	651	4,107	961	5,492	-	2,107	11,483	24,801
Available-for-sale financial assets	26,118	273,061	95,069	620,393	4,178	40,864	15,108	1,074,791
Loans	732,694	80,250	21,176	60,536	-	110,565	39,699	1,044,920
Held-to-maturity investments	174,507	156,383	48,315	261,432	26,032	130,752	41,166	838,587
Other financial assets	757	41	105	358	-	13	-	1,274
Total financial assets	**1,337,303**	**601,896**	**171,627**	**1,026,902**	**30,210**	**372,400**	**122,416**	**3,662,754**
Liabilities								
Derivatives	-	-	6	6	-	-	17	29
Financial liabilities at amortised cost	313,778	292,282	555,388	126,096	-	539,665	1,606,196	3,433,405
Other financial liabilities	21,431	15	8	-	-	14	-	21,468
Total financial liabilities	**335,209**	**292,297**	**555,402**	**126,102**	-	**539,679**	**1,606,213**	**3,454,902**
Memorandum items	**66,879**	**17,749**	**5,551**	**32,602**	**-**	**5,036**	**31,747**	**159,564**

Analysis of concentration of the group's financial assets and liabilities by geographical area as at 31 December 2016 (restated):

EUR'000

Assets	Latvia	EMU countries	Other EU member states	Other OECD countries	International organisations	CIS countries	Other countries	Total
Cash and demand deposits with central banks	413,047	1,384	-	-	-	-	-	414,431
Balances due from credit institutions	2	99,120	8,457	44,676	-	50,769	69,496	272,520
Derivatives	-	-	15	59	-	-	550	624
Financial assets at fair value through profit or loss	5,529	2,368	1,668	7,054	-	4,006	7,791	28,416
Available-for-sale financial assets	39,311	369,907	147,332	369,177	67,092	32,826	16,929	1,042,574
Loans	721,342	41,653	30,855	57,867	-	156,176	22,051	1,029,944
Held-to-maturity investments	209,493	186,521	55,767	319,961	29,616	207,377	45,252	1,053,987
Other financial assets	1,277	18	-	-	-	-	-	1,295
Total financial assets	**1,390,001**	**700,971**	**244,094**	**798,794**	**96,708**	**451,154**	**162,069**	**3,843,791**
Liabilities								
Derivatives	-	-	18	-	-	-	24	42
Financial liabilities at amortised cost	277,024	349,130	609,062	126,053	-	536,686	1,732,371	3,630,326
Other financial liabilities	3,452	1,497	538	1,707	-	3	4,049	11,246
Total financial liabilities	**280,476**	**350,627**	**609,618**	**127,760**	-	**536,689**	**1,736,444**	**3,641,614**
Memorandum items	**44,619**	**29,128**	**6,158**	**40,138**	**-**	**13,092**	**9,285**	**142,420**

Analysis of concentration of the bank's financial assets and liabilities by geographical area as at 31 December 2017:

EUR'000

Assets	Latvia	EMU countries	Other EU member states	Other OECD countries	International organisations	CIS countries	Other countries	Total
Cash and demand deposits with central banks	402,514	-	-	-	-	-	-	402,514
Balances due from credit institutions	3	99,407	5,904	78,627	-	88,053	13,115	285,109
Derivatives	-	-	96	-	-	-	-	96
Financial assets at fair value through profit or loss	13,128	-	-	-	-	1	-	13,129
Available-for-sale financial assets	21,105	245,500	86,296	587,697	4,178	40,864	10,109	995,749
Loans	737,316	40,088	19,480	58,090	-	110,556	37,532	1,003,062
Held-to-maturity investments	170,932	143,993	39,639	232,059	25,196	128,223	32,614	772,656
Other financial assets	502	194	105	358	-	-	-	1,159
Total financial assets	**1,345,500**	**529,182**	**151,520**	**956,831**	**29,374**	**367,697**	**93,370**	**3,473,474**
Liabilities								
Derivatives	-	-	6	6	-	-	-	12
Financial liabilities at amortised cost	350,395	287,030	525,996	120,475	-	518,379	1,510,538	3,312,813
Other financial liabilities	3,824	15	8	-	-	14	-	3,861
Total financial liabilities	**354,219**	**287,045**	**526,010**	**120,481**	-	**518,393**	**1,510,538**	**3,316,686**
Memorandum items	**60,445**	**17,749**	**5,551**	**32,602**	**-**	**5,036**	**31,747**	**153,130**

Analysis of concentration of the bank's financial assets and liabilities by geographical area as at 31 December 2016 (restated):

EUR'000

Assets	Latvia	EMU countries	Other EU member states	Other OECD countries	International organisations	CIS countries	Other countries	Total
Cash and demand deposits with central banks	413,047	-	-	-	-	-	-	413,047
Balances due from credit institutions	1	108,193	8,456	44,633		50,725	69,496	281,504
Derivatives	-	-	15	59	-	-	6	80
Financial assets at fair value through profit or loss	19,892	-	-	1,021	-	97	-	21,010
Available-for-sale financial assets	34,288	340,848	136,357	332,603	67,092	32,826	13,080	957,094
Loans	726,056	41,578	30,854	57,867	-	133,742	22,049	1,012,146
Held-to-maturity investments	205,558	172,612	47,710	295,201	28,667	204,515	35,447	989,710
Other financial assets	645	18	-	-	-	-	-	663
Total financial assets	**1,399,487**	**663,249**	**223,392**	**731,384**	**95,759**	**421,905**	**140,078**	**3,675,254**
Liabilities								
Derivatives	-	-	18	-	-	-	24	42
Financial liabilities at amortised cost	296,550	346,063	582,356	122,941	-	511,970	1,655,433	3,515,313
Other financial liabilities	1,611	200	38	192	-	3	235	2,279
Total financial liabilities	**298,161**	**346,263**	**582,412**	**123,133**	-	**511,973**	**1,655,692**	**3,517,634**
Memorandum items	**38,759**	**29,128**	**6,158**	**40,138**	**-**	**13,092**	**9,285**	**136,560**

37. Note

Other financial risks

Liquidity risk

Liquidity is the group's and bank's ability to maintain or ensure sufficient cash and cash equivalents to meet the expected (everyday) or sudden (critical) legally justified claims of its creditors. This means the group's and bank's ability to turn their assets into cash with minimal loss or ensure reasonably priced credit facilities.

The Chief Risk Officer (CRO) is responsible for liquidity risk management. The Risk Management Division is responsible for liquidity risk assessment and control. The Chief Financial Officer (CFO) is responsible for liquidity maintenance and management and the Financial Market Division is responsible for ensuring the required liquidity level and compliance with the set limits according to the policies and instructions adopted.

The key principles and procedures to identify, analyse and control liquidity risk on a timely basis are laid down in the Liquidity Management Policy and approved by the Council.
The Council of the bank determines the total liquidity risk appetite as strategic indicators that include relative amounts of securities portfolio, including for liquidity portfolio, liquidity ratio for "less than 30 days" limit, liquidity coverage ratio (hereinafter – LCR) limit, net stable funding ratio (hereinafter – NSFR) limit and relative limits of funding structure.

In addition to the above, for ordinary liquidity risk management purposes, the bank applies the following indicators having certain limits and restrictions set:
- deposit coverage ratio;
- net liquidity positions by all currencies in total and by each separate currency;
- large deposits on demand to liquid assets on demand;
- sum of term deposits of one customer (group of related customers)

To identify the potential deterioration in the liquidity position on a timely basis, an early warning indicators system has been designed:
- substantial daily reduction of the amounts to be claimed under savings accounts and term deposits with the remaining maturities of "Less than 30 days";
- simultaneous decrease in the weighted average duration and the total balance of term deposits;
- substantial growth of deposits claimed before their contractual maturity;
- decrease in the proportion of liquid assets in the total assets of the bank;
- negative information reported in the mass media about the bank or its related parties that may harm the bank's reputation;

As at 31 December 2017, the bank's liquidity ratio was 81.05% (78.40%).

As at 31 December 2017 LCR for the group and bank was 380.0% (398.0%) and 372.0% (375.0%). According to the Regulation, as at 31 December 2017 the group and the bank were required to maintain an LCR of at least 80% (70%).

The bank manages funding liquidity risk and controls the funding structure by assessing the following:
- the funding structure in order to define the bank's dependence on certain types of resources;
- diversification of funding maturities;
- potential funding sources and the bank's access to such sources.

The key funding sources for the group / bank are customer deposits and issued debt securities. Credit institution deposits and central bank funding within targeted longer-term refinancing operations (TLTROs) represent insignificant part of funding.

The bank regularly evaluates and controls its liquid assets and collateral positions (assets, which can be used by the bank as collateral for funding). The bank diversifies these assets, taking into account potential restrictions (legal, regulatory, operating, etc.) as to funding (transactions), price fluctuations, discounts (the difference between the amount of funding and the fair value of related collateral), additional collateral requirements in critical situations, etc.

As at 31 December 2017 liquidity reserve of the group / bank amounted to 280% (328%) and 292% (305%) respectively, consisting of cash and assets transferable to cash without incurring loss within 30 days, i.e., deposits with central banks and credit institutions, and liquid securities.

Contingency liquidity risk

Contingency liquidity risk relates to the organisation and planning for liquidity management in times of stress. Within the group/the bank a specific crisis team is responsible for the liquidity management in times of crisis. This crisis team consists of the CEO, CRO, CFO, the Financial Market Division and the Risk Management Division. The group and the bank have defined principles to identify liquidity crisis stages and actions to overcome crisis situations. The main objective of group's contingency plans is to enable senior management to act effectively and efficiently at times of crisis.

The contingency plans are established for addressing temporary and long-term liquidity disruptions caused by a general event in the market or a group / bank specific event. These plans ensure that all roles and responsibilities are clearly defined and the necessary management information is in place.

According to the internal classification of the group and the bank, several liquidity crisis stages are distinguished: potential liquidity crisis, short-term and long-term liquidity crisis. Each stage has quantitative and qualitative indicators fixed, which, if observed, also require certain actions to enhance liquidity.
The bank performs regular liquidity stress tests to identify the sources of potential liquidity problems, determine when the mandatory ratios may be breached or the crisis indicators listed in the Liquidity Crisis Manual may emerge as well as establish whether the bank's liquidity management documents need to be revised.
The capital requirement for liquidity risk is determined by the group and the bank based on the results of liquidity stress tests.

Maturity analysis

The group and the bank have prepared these consolidated financial statements on a going concern basis. The group's and bank's management closely monitor and manage the group's and bank's liquidity position in accordance with the liquidity risk management framework.

Assets and liabilities are distributed into maturity bands in the following liquidity gap analysis tables according to the signed agreements, except as stated below.

Securities in the bank's portfolio are included in the maturity range in which they can be sold without loss, i.e. at the market value, except for held-to-maturity investments. Securities of the held-to-maturity portfolio are disclosed in the maturity range based on the ability to perform repo transactions with these securities in exchange for a secured loan. The share of the securities qualifying for repo transactions is presented in the "on demand and up to 1 month" maturity range, while the share of the securities not qualifying for repo transactions is disclosed according to the maturity date.

According to the bank's experience, current accounts and other similar deposits constitute a sound source of financing. Current accounts and conceptually similar deposit types due "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 demand deposits from the bank at any time and without any penalties applied. The breakdown of demand deposits by maturity does not exceed 5 years and complies with the bank's historical experience regarding the length of the period and the extent of the outflow of demand deposits from the bank. This principle is not applied to demand deposits placed by large customers as the bank considers them less stable and these deposits are included in the maturity band of "on demand and up to 1 month".

Term deposits are disclosed according to contractual terms; however, customers may claim term deposits from the group / bank before the maturity date.
Impaired assets are stated net of allowances.

Liquidity gap analysis for the group's assets, liabilities and memorandum items as at 31 December 2017:

EUR'000

Assets	On demand and up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	More than 5 years and termless	Total
Cash and demand deposits with central banks	404,536	-	-	-	-	404,536
Balances due from credit institutions	249,124	2,447	9,044	441	10,847	271,903
Derivatives	96	995	851	-	-	1,942
Financial assets at fair value through profit or loss	24,156	-	645	-	-	24,801
Available-for-sale financial assets	991,664	2,509	31,953	40,524	8,141	1,074,791
Loans	130,874	59,758	124,044	499,724	230,520	1,044,920
Held-to-maturity investments	630,473	17,919	13,298	132,133	44,764	838,587
Other assets	3,739	-	2,394	-	156,612	162,745
Total assets	**2,434,662**	**83,628**	**182,229**	**672,822**	**450,884**	**3,824,225**
Liabilities						
Derivatives	6	6	17	-	-	29
Financial liabilities at amortised cost	940,987	179,067	502,540	1,684,387	126,424	3,433,405
Other liabilities	28,702	-	-	-	-	28,702
Total liabilities	**969,695**	**179,073**	**502,557**	**1,684,387**	**126,424**	**3,462,136**
Shareholders' equity	-	-	-	-	362,089	362,089
Total liabilities and shareholders' equity	**969,695**	**179,073**	**502,557**	**1,684,387**	**488,513**	**3,824,225**
Memorandum items	30,985	11,871	52,545	16,433	47,730	159,564
Net liquidity position	1,433,982	(107,316)	(372,873)	(1,027,998)	(85,359)	x
Total liquidity position	1,433,982	1,326,666	953,793	(74,205)	(159,564)	x

Liquidity gap analysis for the group's assets, liabilities and memorandum items as at 31 December 2016 (restated):

EUR'000

Assets	On demand and up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	More than 5 years and termless	Total
Cash and demand deposits with central banks	414,431	-	-	-	-	414,431
Balances due from credit institutions	245,629	2,562	-	-	24,329	272,520
Derivatives	20	60	365	179	-	624
Financial assets at fair value through profit or loss	23,569	-	4,847	-	-	28,416
Available-for-sale financial assets	945,876	10,233	27,112	55,805	3,548	1,042,574
Loans	142,606	26,882	139,818	482,851	237,787	1,029,944
Held-to-maturity investments	727,925	15,320	53,597	124,673	132,472	1,053,987
Other assets	15,012	-	5,976	-	120,546	141,534
Total assets	**2,515,068**	**55,057**	**231,715**	**663,508**	**518,682**	**3,984,030**
Liabilities						
Derivatives	23	19	-	-	-	42
Financial liabilities at amortised cost	753,772	200,966	575,567	1,968,895	131,126	3,630,326
Other liabilities	21,349	-	-	-	-	21,349
Total liabilities	**775,144**	**200,985**	**575,567**	**1,968,895**	**131,126**	**3,651,717**
Shareholders' equity	-	-	-	-	332,313	332,313
Total liabilities and shareholders' equity	**775,144**	**200,985**	**575,567**	**1,968,895**	**463,439**	**3,984,030**
Memorandum items	32,478	11,199	66,943	15,910	15,890	142,420
Net liquidity position	1,707,446	(157,127)	(410,795)	(1,321,297)	39,353	x
Total liquidity position	1,707,446	1,550,319	1,139,524	(181,773)	(142,420)	x

Liquidity gap analysis for the bank's assets, liabilities and memorandum items as at 31 December 2017:

EUR'000

Assets	On demand and up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	More than 5 years and termless	Total
Cash and demand deposits with central banks	402,514	-	-	-	-	402,514
Balances due from credit institutions	262,771	2,447	9,044	-	10,847	285,109
Derivatives	96		-	-	-	96
Financial assets at fair value through profit or loss	12,484	-	645	-	-	13,129
Available-for-sale financial assets	982,909	2,509	5,173	-	5,158	995,749
Loans	123,310	46,472	103,036	499,724	230,520	1,003,062
Held-to-maturity investments	628,908	10,749	6,741	94,203	32,055	772,656
Other assets	4,666	-	673	-	205,822	211,161
Total assets	**2,417,658**	**62,177**	**125,312**	**593,927**	**484,402**	**3,683,476**
Liabilities						
Derivatives	6	6	-	-	-	12
Financial liabilities at amortised cost	913,541	179,766	459,549	1,633,533	126,424	3,312,813
Other liabilities	9,666	-	-	-	-	9,666
Total liabilities	**923,213**	**179,772**	**459,549**	**1,633,533**	**126,424**	**3,322,491**
Shareholders' equity	-	-	-	-	360,985	360,985
Total liabilities and shareholders' equity	**923,213**	**179,772**	**459,549**	**1,633,533**	**487,409**	**3,683,476**
Memorandum items	24,551	11,871	52,545	16,433	47,730	153,130
Net liquidity position	1,469,894	(129,466)	(386,782)	(1,056,039)	(50,737)	x
Total liquidity position	1,469,894	1,340,428	953,646	(102,393)	(153,130)	x

Liquidity gap analysis for the bank's assets, liabilities and memorandum items as at 31 December 2016 (restated):

EUR'000

Assets	On demand and up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	More than 5 years and termless	Total
Cash and demand deposits with central banks	413,047	-	-	-	-	413,047
Balances due from credit institutions	254,613	2,562	-	-	24,329	281,504
Derivatives	20	60	-	-	-	80
Financial assets at fair value through profit or loss	16,163	-	4,847	-	-	21,010
Available-for-sale financial assets	944,919	6,181	5,423	-	571	957,094
Loans	142,523	26,882	121,573	483,381	237,787	1,012,146
Held-to-maturity investments	727,401	14,603	51,912	89,399	106,395	989,710
Other assets	10,284	-	2,207	-	177,825	190,316
Total assets	**2,508,970**	**50,288**	**185,962**	**572,780**	**546,907**	**3,864,907**
Liabilities						
Derivatives	23	19	-	-	-	42
Financial liabilities at amortised cost	725,047	198,975	544,957	1,915,209	131,125	3,515,313
Other liabilities	10,237	-	-	-	-	10,237
Total liabilities	**735,307**	**198,994**	**544,957**	**1,915,209**	**131,125**	**3,525,592**
Shareholders' equity	-	-	-	-	339,315	339,315
Total liabilities and shareholders' equity	**735,307**	**198,994**	**544,957**	**1,915,209**	**470,440**	**3,864,907**
Memorandum items	26,618	11,199	66,943	15,910	15,890	136,560
Net liquidity position	1,747,045	(159,905)	(425,938)	(1,358,339)	60,577	x
Total liquidity position	1,747,045	1,587,140	1,161,202	(197,137)	(136,560)	x

In estimating the amount of expected financial liabilities, the group and the bank have included in the maturity gap analysis also interest payable on financial liabilities and memorandum items effective as at 31 December 2017 and 2016 which is expected in the future but has not been assessed at the reporting date.

Financial liabilities and memorandum items of the group as at 31 December 2017 which are expected in the future:

EUR'000

Financial liabilities	Carrying amount	Up to 1 month	1 – 12 months	1 – 5 years	More than 5 years	Total
Demand deposits from credit institutions	22,289	22,289	-	-	-	22,289
Derivative inflow amount	29	(13,865)	(29,615)	-	-	(43,480)
Derivative outflow amount	-	13,804	28,034	-	-	41,838
Financial liabilities at amortised cost	3,411,116	2,739,757	269,212	289,430	127,497	3,425,896
Other financial liabilities	21,468	21,468	-	-	-	21,468
Total financial liabilities	**3,454,902**	**2,783,453**	**267,631**	**289,430**	**127,497**	**3,468,011**
Memorandum items	159,564	30,985	64,416	16,433	47,730	159,564
Total financial liabilities and memorandum items	**3,614,466**	**2,814,438**	**332,047**	**305,863**	**175,227**	**3,627,575**

Financial liabilities and memorandum items of the group as at 31 December 2016 (restated) which are expected in the future:

EUR'000

Financial liabilities	Carrying amount	Up to 1 month	1 – 12 months	1 – 5 years	More than 5 years	Total
Demand deposits from credit institutions	16,463	16,463	-	-	-	16,463
Derivative inflow amount	42	(1,695)	(1,189)	-	-	(2,884)
Derivative outflow amount	-	1,694	1,155	-	-	2,849
Financial liabilities at amortised cost	3,613,863	3,032,637	242,539	222,609	131,882	3,629,667
Other financial liabilities	11,246	11,246	-	-	-	11,246
Total financial liabilities	**3,641,614**	**3,060,345**	**242,505**	**222,609**	**131,882**	**3,657,341**
Memorandum items	142,420	32,478	78,142	15,910	15,890	142,420
Total financial liabilities and memorandum items	**3,784,034**	**3,092,823**	**320,647**	**238,519**	**147,772**	**3,799,761**

Financial liabilities and memorandum items of the bank as at 31 December 2017 which are expected in the future:

EUR'000

Financial liabilities	Carrying amount	Up to 1 month	1 – 12 months	1 – 5 years	More than 5 years	Total
Demand deposits from credit institutions	31,394	31,394	-	-	-	31,394
Derivative inflow amount	12	(13,865)	-	-	-	(13,865)
Derivative outflow amount	-	13,804	-	-	-	13,804
Financial liabilities at amortised cost	3,281,419	2,644,620	240,833	283,091	127,497	3,296,041
Other financial liabilities	3,861	3,861	-	-	-	3,861
Total financial liabilities	**3,316,686**	**2,679,814**	**240,833**	**283,091**	**127,497**	**3,331,235**
Memorandum items	153,130	24,551	64,416	16,433	47,730	153,130
Total financial liabilities and memorandum items	**3,469,816**	**2,704,365**	**305,249**	**299,524**	**175,227**	**3,484,365**

Financial liabilities and memorandum items of the bank as at 31 December 2016 (restated) which are expected in the future:

EUR'000

Financial liabilities	Carrying amount	Up to 1 month	1 – 12 months	1 – 5 years	More than 5 years	Total
Demand deposits from credit institutions	20,375	20,375	-	-	-	20,375
Derivative inflow amount	42	(1,695)	(1,189)	-	-	(2,884)
Derivative outflow amount	-	1,694	1,155	-	-	2,849
Financial liabilities at amortised cost	3,494,938	2,932,824	224,721	221,314	131,882	3,510,741
Other financial liabilities	2,279	2,279	-	-	-	2,279
Total financial liabilities	**3,517,634**	**2,955,477**	**224,687**	**221,314**	**131,882**	**3,533,360**
Memorandum items	136,560	26,618	78,142	15,910	15,890	136,560
Total financial liabilities and memorandum items	**3,654,194**	**2,982,095**	**302,829**	**237,224**	**147,772**	**3,669,920**

Market risk

Market risk is exposure to potential losses due to the revaluation of assets and liabilities and memorandum items caused by changes in the market prices of financial instruments resulting from the fluctuations of currency exchange rates, interest rates and other factors.
The Chief Risk Officer (CRO) is responsible for market risk monitoring management. The Risk Management Division is responsible for market risk assessment and control. The Chief Finance Director (CFO) is responsible for maintaining market rate risk within specified limits.

Market risk identification, assessment and management of the group and the bank are laid down in the Market Risk Management Policy, approved by the Council. The Council of the bank establishes the total risk appetite in the form of strategic indicators which include the relative amounts of securities portfolios, value-at-risk limits, interest rate risk limits, total and separate currency position limits. The Board reviews and approves scenarios and results of stress tests. Approval of internal market risk limits and risk management instructions is delegated to Asset-Liability Committee (hereinafter – ALCO).

The group and the bank distinguish the following components of market risk:

- securities price risk – the risk of loss due to the revaluation of debt or equity securities positions caused by changes in the price of relevant securities;
- interest rate risk – potential adverse effects of interest rate fluctuations on the group's and bank's income and the economic value of their capital;
- currency risk – the risk of loss due to the revaluation of assets and liabilities and memorandum items denominated in foreign currencies caused by changes in foreign exchange rates, with gold treated as a foreign currency;
- commodity risk – the risk of loss due to the revaluation of commodity positions caused by changes in the price of the relevant commodity. Commodity hereunder is a tangible item which is or may be marketed on the secondary market, such as agricultural products, oil, precious metals (except for gold).

Neither the group, nor the bank had securitisation positions in 2017 and 2016.

Price risk

Almost the entire security portfolio of the group and the bank consists of fixed-income debt securities.
Securities price fluctuation risk is managed for trading and banking book securities.

The “loss” indicator is used by the group and the bank as one of the tools to manage price risk in order to identify any reductions in the securities prices below the mandatory level in a timely fashion. Based on the above, the heads of responsible structural units may decide whether the affected securities should be sold or kept in the portfolio. ALCO is regularly informed on decisions made.

The group’s exposure to equity securities not held in the trading book as of 31 December 2017 amounts to EUR 18.7 (12.9) million, while the bank’s exposure amounts to EUR 8.7 (2.9) million.

The level of risk related to changes in securities prices is limited by the bank and the group by setting internal limits that are controlled on a regular basis using an internal value-at-risk model, as well as monitoring the early warning indicators of market risk.

As part of liquidity stress testing, the bank and the group regularly evaluate the risk of changes in security prices.

Currency risk

The group and the bank are exposed to negative effects of fluctuations in foreign currency exchange rates on their financial position and cash flows. The exposure to currency risk is calculated for each separate currency and includes assets and liabilities denominated in foreign currencies, as well as cash flows arising from derivatives.

The Risk Management Division is responsible for currency risk assessment and control. The Financial Market Division is responsible for maintaining currency rate risk within specified limits.

According to the group / bank’s policy, the group / bank may use derivatives to limit its exposure to currency risk. Any transactions involving derivatives with aim to earn profits are prohibited.

The bank`s largest open currency positions are in EUR and USD (US dollars). The bank’s open currency position in USD is rather small as it is hedged by using currency forwards/ futures. As at 31 December 2017, the bank’s open currency position in USD was 4.8% (3.6%) of the bank’s eligible capital and, therefore, the effect of changes in the USD exchange rate is insignificant

The group / bank control this risk by defining internal limits for total currency open position and separate open position, as well as major principles for limits application and control. As at 31 December 2017, all the above limits were met.

According to Credit Institution Law of Latvia open positions in each foreign currency may not exceed 10% of the bank’s equity and that the total foreign currency open position may not exceed 20% of equity. As at 31 December 2017 the bank was in compliance with this requirement. As part of liquidity and credit risk stress testing, the group / bank assess currency risk on a regular basis.

Group's currency position as at 31 December 2017:

EUR'000

Assets	EUR	USD	RUB	Other currencies	**Total**
Cash and demand deposits with central banks	401,077	3,044	94	321	404,536
Balances due from credit institutions	22,832	216,706	3,229	29,136	271,903
Derivatives	1,942	-	-	-	1,942
Financial assets at fair value through profit or loss	3,836	20,964	1	-	24,801
Available-for-sale financial assets	80,941	982,210	4,483	7,157	1,074,791
Loans	797,314	242,785	3,457	1,364	1,044,920
Held-to-maturity investments	194,808	638,086	5,259	434	838,587
Other assets	161,894	404	-	447	162,745
Total assets	**1,664,644**	**2,104,199**	**16,523**	**38,859**	**3,824,225**
Liabilities					
Derivatives	29	-	-	-	29
Financial liabilities at amortised cost	1,355,016	2,004,060	22,046	52,283	3,433,405
Other liabilities	14,985	13,672	18	27	28,702
Total liabilities	**1,370,030**	**2,017,732**	**22,064**	**52,310**	**3,462,136**
Net memorandum items	**45,337**	**(68,205)**	**3,704**	**20,814**	**x**
Net open long / (short) currency position	-	18,262	(1,837)	7,363	x
Sensitivity gap if exchange rate against the national currency drops by 15%	**-**	**(2,739)**	**276**	**(1,104)**	**x**

Group's currency position as at 31 December 2016 (restated):

EUR'000

Assets	EUR	USD	RUB	Other currencies	**Total**
Cash and demand deposits with central banks	410,719	3,476	35	201	414,431
Balances due from credit institutions	28,940	178,353	5,970	59,257	272,520
Derivatives	624	-	-	-	624
Financial assets at fair value through profit or loss	7,914	18,897	1,605	-	28,416
Available-for-sale financial assets	105,747	929,574	2,364	4,889	1,042,574
Loans	750,291	275,332	2,132	2,189	1,029,944
Held-to-maturity investments	204,516	842,483	6,514	474	1,053,987
Other assets	140,997	84	-	453	141,534
Total assets	**1,649,748**	**2,248,199**	**18,620**	**67,463**	**3,984,030**
Liabilities					
Derivatives	42	-	-	-	42
Financial liabilities at amortised cost	1,318,121	2,227,988	20,696	63,521	3,630,326
Other liabilities	13,381	7,420	514	34	21,349
Total liabilities	**1,331,544**	**2,235,408**	**21,210**	**63,555**	**3,651,717**
Net memorandum items	**-**	**(363)**	**1,361**	**4,204**	**x**
Net open long / (short) currency position	-	12,428	(1,229)	8,112	x
Sensitivity gap if exchange rate against the national currency drops by 15%	**-**	**(1,864)**	**184**	**(1,217)**	**x**

Bank's currency position as at 31 December 2017:

EUR'000

Assets	EUR	USD	RUB	Other currencies	**Total**
Cash and demand deposits with central banks	399,055	3,044	94	321	402,514
Balances due from credit institutions	21,326	232,300	3,214	28,269	285,109
Derivatives	96	-	-	-	96
Financial assets at fair value through profit or loss	2,229	10,899	1	-	13,129
Available-for-sale financial assets	31,580	952,529	4,483	7,157	995,749
Loans	791,878	206,363	3,457	1,364	1,003,062
Held-to-maturity investments	186,926	580,037	5,259	434	772,656
Other assets	210,310	404	-	447	211,161
Total assets	**1,643,400**	**1,985,576**	**16,508**	**37,992**	**3,683,476**
Liabilities					
Derivatives	12	-	-	-	12
Financial liabilities at amortised cost	1,314,369	1,924,875	22,142	51,427	3,312,813
Other liabilities	7,020	2,601	18	27	9,666
Total liabilities	**1,321,401**	**1,927,476**	**22,160**	**51,454**	**3,322,491**
Net memorandum items	**15,722**	**(40,171)**	**3,704**	**20,814**	**x**
Net open long / (short) currency position	-	17,929	(1,948)	7,352	x
Sensitivity gap if exchange rate against the national currency drops by 15%	**-**	**(2,689)**	**292**	**(1,103)**	**x**

Bank's currency position as at 31 December 2016 (restated):

EUR'000

Assets	EUR	USD	RUB	Other currencies	**Total**
Cash and demand deposits with central banks	409,335	3,476	35	201	413,047
Balances due from credit institutions	27,038	189,409	5,964	59,093	281,504
Derivatives	80	-	-	-	80
Financial assets at fair value through profit or loss	7,011	12,887	1,112	-	21,010
Available-for-sale financial assets	55,493	894,348	2,364	4,889	957,094
Loans	754,925	252,900	2,132	2,189	1,012,146
Held-to-maturity investments	195,434	787,288	6,514	474	989,710
Other assets	189,825	38	-	453	190,316
Total assets	**1,639,141**	**2,140,346**	**18,121**	**67,299**	**3,864,907**
Liabilities					
Derivatives	42	-	-	-	42
Financial liabilities at amortised cost	1,287,713	2,143,665	20,708	63,227	3,515,313
Other liabilities	9,543	638	22	34	10,237
Total liabilities	**1,297,298**	**2,144,303**	**20,730**	**63,261**	**3,525,592**
Net memorandum items	**-**	**16,668**	**1,361**	**4,204**	**x**
Net open long / (short) currency position	-	12,711	(1,248)	8,242	x
Sensitivity gap if exchange rate against the national currency drops by 15%	**-**	**(1,907)**	**187**	**(1,236)**	**x**

Interest rate risk

Interest rate risk represents the adverse effect of market interest rate fluctuations on the group / bank's financial position. The Risk Management Division ensures interest rate risk assessment and management for both trading and banking books. The Financial Market Division is responsible for maintaining interest rate risk within specified limits.

Interest rate risk is assessed on a regular basis both from the income perspective and the economic value perspective. The term 'economic value' denotes the economic value of equity, which is the difference between the economic value of claims and that of liabilities. Based on the results of analysis, it is evaluated whether an interest rate stress test is required and if so potential scenarios are developed for the stress test modelling potential adverse changes in interest rates. The aim of stress testing is to assess the impact of adverse changes in interest rates on net interest income and the economic value under difficult market conditions. The Management reviews and approves scenarios and results of stress tests.

In order to mitigate interest rate risk certain thresholds have been set for an acceptance decrease in the economic value and for the modified duration of the portfolio of open-ended investments. According to the bank's financial instrument policy, hedging derivatives may be used to hedge interest rate risk.

Assets, liabilities and contingent liabilities are distributed into maturity bands according to the following conditions:

- shorter of the remaining repayment/execution/maturity term – for financial instruments with fixed interest rates;
- term until the next interest rate change date or the interest rate repricing date – for financial instruments with floating interest rates;
- demand deposits are distributed into maturity bands by reference to the historical stability of demand deposits and the historical life cycle based on the decay rate. Maturity bands are assigned to the part of demand deposits

that corresponds to the core part under the assumption concerning the shock scenario of interest rate by 200 basis points.

Derivatives are disclosed simultaneously as long and short off-balance-sheet positions. The impact of interest rate risk on the economic value of equity is calculated based on the duration method– a parallel increase in interest rates by 1 per cent (or 100 basis points) while the impact on profit is analysed using GAP analysis, i.e. analysis of the term structure of interest rate sensitive assets and liabilities and summing up the impact (profit or loss) calculated in each term interval up to one year.
In determining the impact of interest rate risk on equity the analysis is conducted by taking into consideration potential changes in the market value of debt securities in the available-for-sale portfolio upon changes in market interest rates. The impact on profit is comprised of changes in interest income resulting from changes in market interest rates taking into consideration all assets and liabilities exposed to interest rate risk.

The table below reflects the group's and the bank's sensitivity to changes in interest rates and the impact of these changes on profit and equity:

EUR'000

		Group		Group		Bank		Bank	
		01.01.2017.– 31.12.2017.		01.01.2016.– 31.12.2016.		01.01.2017.– 31.12.2017.		01.01.2016.– 31.12.2016.	
		+100 bps	-100 bps	+100 bps	-100 bps	+100 bps	-100 bps	+100 bps	-100 bps
Total for all currencies	Effect of changes on equity	(18,314)	18,314	(11,885)	11,885	(17,731)	17,731	(11,207)	11,207
	Effect of changes on profit	5,667	(5,667)	6,231	(6,231)	5,505	(5,505)	6,331	(6,331)
USD	Effect of changes on equity	(17,329)	17,329	(10,574)	10,574	(17,162)	17,162	(10,259)	10,259
	Effect of changes on profit	706	(706)	2,177	(2,177)	837	(837)	2,275	(2,275)
EUR	Effect of changes on equity	(625)	625	(1,311)	1,311	(209)	209	(948)	948
	Effect of changes on profit	4,772	(4,772)	4,054	(4,054)	4,479	(4,479)	4,056	(4,056)

Commodity risk

Precious metals represent the category of commodities exposing the group and the bank to commodity risk. The group's and bank's regulations set position limits and lay down the procedure for calculating the minimum capital requirement for commodity risk in respect of precious metals (except for gold), which are recognised on the group's and bank's balance sheet at the date of the calculation.

Settlement risk

Settlement risk is the risk to which the group and the bank are exposed in unfinished transactions with foreign currency, securities or commodities, except for repo transactions, securities or commodity lending or borrowing transactions. Settlement risk comprises the risk of payments/purchase and the risk of free deliveries, and the capital requirement for settlement risk represents the total of capital requirements for these two risks. To limit the exposure to the risk of payments/delivery, the holders of the financial instruments are regularly assessed and the group and the bank place limits for the holders of their financial instruments. Where the group and the bank assume the risk of payments/delivery in customer transactions with financial instruments, the regulations set out actions to be taken by the group and the bank in the event of overdue payments and lay down the procedure for calculating the minimum capital requirement for settlement risk. The group and the bank have established the payment procedure for their counterparties in financial trading, thereby limiting their exposure to the risk of free deliveries.

Counterparty credit risk

Counterparty credit risk is the risk that the counterparty to a transaction could default on its obligations to the group or the bank before the final settlement of the transaction's cash flows. The group and the bank is exposed to counterparty credit risk in derivatives deals. To limit counterparty credit risk, internal rules developed by the group and the bank specify limits for counterparties, define positions to be included in these limits, set out the procedure and frequency for monitoring compliance with the limits and the procedure to attract the collateral. Sufficiency of collateral is controlled on a daily basis. The group and the bank use Mark-to-Market Method for calculating the minimum capital requirement for counterparty credit risk.

38. Note

Non-financial risks

During the course of their operations, the group and the bank encounter also non-financial risks (including operational risk, reputational risk, etc.) with exposure to sudden loss. The cause of such risks may be, for instance, clerical errors or fraud, break-downs in information systems, insufficient internal control and procedures, etc. The bank makes every effort to maintain the lowest possible risk level, meanwhile striving at not exceeding a reasonable level of expense. Internal control within the bank's structural units and the control exercised by the Risk Management Division are one of the measures taken to prevent the potential loss.

Operational risk

Operational risk is a risk of direct or indirect loss caused by non-complying or incomplete internal processes, human error or systems failure, as well as external factors. Operational risk comprises legal risk but excludes strategic and reputational risk.

Operational risk is inherent in all products, activities, processes, and systems of the group and the bank.

The Operational Risk Management Policy is approved by the council of the bank. The board of the bank is responsible for considering the risk analysis results and setting limits and other qualitative and quantitative indicators based on such results, so defining the level of operational risk acceptable for the group and the bank. The Chief Risk Officer (CRO) is responsible for monitoring the operational risk management process and making related final decisions within the limits fixed in the policy. The Risk Management Division is responsible for the centralisation and coordination of the operational risk management.

Given that businesses and processes for which operational risk is being assessed are different and specific, each risk event management is a responsibility of the head of a respective structural unit, according to the relevant internal regulations.

The key principles allowing efficient operational risk management are as follows:
- setting up an adequate operational risk management system;
- employing an adequate method to identify and assess operational risk;
- monitoring operational risk on a regular basis;
- controlling and/ or mitigating operational risk adequately;
- ensuring business continuity.

The following risk mitigation techniques are employed for the purposes of operational risk management:
- process automation – investments in data processing and information security technologies to automate processes;
- outsourcing – partial elimination of causes of operational risk by making use of the experience and possibilities of outsourcing service providers;
- a system of limits – setting of limits for certain transactions, employees/ structural units and group's and bank's business activities;
- prudent organisation of group's and bank's business processes, applying the following principles: segregation of functions, independent performance evaluation, authorisation of transactions;
- insurance – it is used to minimise operational risk loss caused by low-probability events having significant potential losses, and it is also recommended when the process is not fully or partially automated.

To manage the group's and bank's exposure to operational risk, an operational risk event database has been established. The key objectives of the database are as follows:
- collection of data about operational risk events and losses of the group and the bank;
- analysis of operational risk events and losses;
- assessment of the frequency of operational risk events and significance of operational risk losses;
- prevention of potential losses, based on the event assessment;
- definition of the major tendencies and making forecasts of future operational risk losses.

Information is registered and categorised in the database following the good practice principles defined by the Operational Riskdata eXchange Association (ORX). In addition to events resulting in actual losses, information about events for which no actual losses have been registered is also aggregated in the database, which enables the bank to identify potential losses and take all required measures to prevent such losses.

Operational risk testing is performed on a regular basis in order to assess potential losses related to operational risk. The results of operational risk testing are used in the assessment of the minimum capital requirement for operational risk.

During the reporting year, 951 (949) events were registered in the database, of which only 63 (67) events were those which resulted in actual losses amounting to EUR 229.5 (126.4) thousand. The considerable number of the identified and registered events and, at the same time, relatively small amount of loss indicates to the active involvement of the group's and bank's employees in the operational risk management and to the effectiveness of the control environment.

Money laundering and terrorism financing and sanction risk

AML/CTF and sanction risk 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.

Management and control of AML/CTF and sanction risk is the responsibility of Chief Compliance Officer. AML/CTF and sanction risk is managed by the employees of the Compliance Department who develop risk prevention measures and ensure that approved AML/CTF and sanction laws, regulations and standards are complied with and preclude the bank and the group companies from being involved in the laundering of proceeds derived from criminal activity and terrorism financing.

To ensure effective customer monitoring and AML/CTF and sanction risk management, the bank has set up a permanent Customer Control Committee whose functions include approval of procedures and instructions related to customer identification, acceptance and due diligence, consideration of the results of investigating suspicious transactions and adoption of relevant decisions, analysis of KYC (due diligence) results within the limits of its competence and decision-making on abstaining from/ termination or continuation of business relationships with a certain customer, as well as presentation to the board of recommendations for improvement of the AML/CTF and sanction risk prevention system.

To increase the operational efficiency of the AML/CFT area, the bank has also established a Customer Monitoring Committee whose primary task is to review reports prepared as a result of monitoring customer activities and make decisions thereon. The Committee supervises matters related to further service provision to customers and restrictions on services, and is also reviewing the results of due diligence procedures performed on certain customers.

Group's and bank's business strategy principles of client acquisition and servicing, which are specified in the Client's Policy and other regulatory documents of the bank, are implemented in accordance with the legislation or the Republic of Latvia and banking best practice.

The AML/CFT and sanctions policy details the control principles and the procedure for the bank and its subsidiaries to manage AML/CTF and sanction risks, to comply with economic/ financial sanctions and Latvian, EU and international laws on AML/CFT and sanctions. It is laid down in this policy how to identify and manage AML/CFT and sanction risk, including measurement, assessment, control and reporting of this risk to the management of the bank.

To mitigate AML/CTF and sanction risk, the bank has formulated and documented an internal AML/CTF and sanction 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. All the group's employees and authorised representatives involved in customer servicing and KYC processes are subject to the procedure prescribed by the aforementioned documents and relevant internal regulations.

Bank's AML/CTF and sanction risk management regulations lay down the following:

- criteria to commence cooperation with customers and counterparties;
- potential customers;
- procedure for commencing business relationships;
- procedure for customer identification and establishing actual beneficiaries;
- indicators of unusual and suspicious transactions, the procedure for establishing and investigating such indicators;
- procedure for abstaining from and reporting suspicious transactions to the Financial Intelligence Unit;
- customer risk identification;
- KYC procedures;
- customer transactions monitoring and customer due diligence;
- the procedure for ensuring processing of check sheets.

During the reporting period group / bank continued to significantly reduce AML/CFT and sanction risks related to customer transactions, as well as reputational risks. Systematically and purposefully we reviewed our customer base, and as at the end of 2017 we had reduced it by 21.3%, compared to 2016. The group / bank refrained from cooperating with customers whose operations would pose unacceptably high risk, or the customers were not ready to submit information supporting their transactions.

Under the administrative agreement of 26 May 2016 concluded with Financial and Capital Market Commission (FCMC), we invested EUR 9.5 million in IT systems and business process improvements related to customer and transaction control. The overall capacity of structural units operating in the field of risk management and prevention of financial crimes was substantially increased – at the end of 2017 every sixth employee of the bank of 16% was involved in the field of compliance. Special AML/CFT and sanction breach training was also organised for other employees whose daily duties are not directly related to customer service and transaction processing.

From the end of 2016 to October 2017, FCMC performed off-site target examination of the bank. On 24 May 2017, FCMC initiated administrative proceedings resulting from the examination, and on 24 November 2017 FCMC and ABLV Bank AS in liquidation concluded an administrative agreement on the termination of administrative proceedings. During its examination FCMC concluded that the operation of the bank complies with the international regulatory norms, as well as the legislation of the EU and the Republic of Latvia.
Under the administrative agreement the bank undertook to invest EUR 12.0 million in the development of internal control system, incl. reducing AML/CTF and sanctions profile. In addition, the bank undertook to reduce the proportion of shell companies to the total amount of customers' financial assets, to organise independent audit sanction for risk management improvement purposes, and to perform other measures with the aim to ensure identification, assessment and management of sanctions violation risks. Considering the events after the reporting date (see Note 40), measures established under this administrative agreement will be carried out after agreeing with the FCMC and in line with the changes in the bank's business activity.

During the reporting period, the group / bank continued to improve its internal control system, including in the areas of managing AML/CTF and sanctions risk. In line with that, during the reporting period the bank concluded an agreement with the US company Financial Integrity Network, involving it as the chief strategic compliance advisor in matters related to anti-money laundering. Financial Integrity Network provided consultations on the ways to strengthen risk management capacity and systems for the prevention of financial crimes, based on independent risk assessment.

Other risks

Other unquantifiable risks include:
- reputational risk;
- compliance risk;
- strategic and business risk;
- commission fee income and expenses volatility risk.

Given the difficulty to quantify certain risks the bank and the group have set up a high quality and efficient environment for the management of such risks.
The amount of capital required to cover other risks is determined using the simplified method by an additional assessment of suitability of this method for the bank's operations.

Reputational risk

Reputation risk is the risk of potential harm to reputation which may lead to adverse publicity, revenue decrease, costly litigation, reduction in the customer base or departure of key employees.
Reputational risk is a non-quantifiable risk and the consequences and losses that may be caused by this risk can hardly be determined. Reputational risk management by the bank is governed by the Reputational Risk Management Policy.

Management and control of ML/CF risk is the responsibility of Chief Operating Officer.

Reputation risk is managed by the following methods:
- risk identification and assessment;
- risk monitoring;
- risk control and prevention;
- set up of a risk communication and action plan.

Certain risk assessment criteria and indicators signalling changes in the level of risk have been introduced to support the assessment of reputation risk. Reputation risk is assessed using the expert method and the appointed experts are Deputy Chief Executive Officer, Chief Risk Officer, Chief Operations Officer, Head of Public Relations and an employee of the Risk Analysis Department.

Monitoring measures are carried out in order to learn in due time and take immediate action in response to information on group companies or related parties published in the mass media that may impact the level of reputation risk. Monitoring and management reporting upon discovering information that may have an adverse impact on reputation is ensured by the Head of Public Relations.

The group and the bank have documented rules in place for communication in reputation crisis, which aim to ensure that all structural units act in a prompt and consistent manner and there is optimum communication to prevent the crisis to the extent possible and to mitigate the harm to the bank's operations, reputation and image.

Reputation risk is mitigated by:
- control over compliance with legal requirements;
- analysis of reputation risk factors, impact on financial indicators and data;
- ensuring and controlling that settlements with customers and cooperation partners are made in due time;
- control of reliability of accounting data and reports;
- raising staff qualifications.

Compliance risk

Compliance risk is the risk that the bank or its subsidiary may incur losses or legal obligations, be subject to sanctions or suffer impairment of reputation as a result of a failure to comply or a breach of compliance laws, regulations and standards.
Compliance risk is unquantifiable and its consequences and losses are difficult to determine. Compliance risk is managed according to the Compliance risk management policy.

Management and control of Compliance risk is the responsibility of Chief Compliance Officer.

The core elements of compliance risk management are:
- identification of compliance laws, regulations and standards and problems and critical areas;
- analysis of compliance risk and its impact;
- determination and implementation of measures to prevent (mitigate) compliance risk;
- monitoring of compliance risk.

Data required for the assessment of compliance risk are gathered and summarised by way of surveys and interviews conducted by a compliance expert.
Interviews are conducted with heads of the bank's structural units and subsidiaries and, where required, with other employees (specialists, subject matter experts) who have knowledge and experience that may help in the risk assessment. In addition, the following is used: case studies, information from the litigation register, risk events registered in the risk event and loss data base, findings from regulator reviews and other sources of information.
Compliance risk is assessed using expert valuations.
The assigned level of risk indicates the type of reaction that needs to be taken, i.e. level of detail of the preventive and corrective measures for the respective risk, what level of employees need to be assigned responsibility for the prevention of risk, and in what timeframe and manner one should react when the risk has materialised.
Compliance risk is monitored in order to be able to learn about and take immediate action in response to changes in compliance laws, regulations and standards.
Change monitoring is carried out by the Compliance Expert Unit. Observance of compliance laws, standards and rules in day to day operations of a structural unit is provided by the manager of each structural unit.

Compliance risk is mitigated by the following measures:
- constant control over compliance with laws, regulations and standards;
- analysis of compliance risk factors, their impact on financial indicators and data of the bank and its subsidiaries;
- raising staff qualifications and staff training.

Strategic and business risk

Strategic and business risk is the risk of adverse impact on the group's and bank's profit, capital and liquidity caused by changes in the business environment and the group's and bank's inability to react to these changes in due time or choosing an inappropriate or wrong development strategy, or the group's and bank's inability to secure resources required to implement the strategy.

Strategic and business risk is managed and mitigated at the bank using a strategic planning system.
The strategic planning is a process aimed at focussing resources and securing that the actions of all structural units are directed towards the same objectives and helping determine what decisions and action plans need to be in place for a successful implementation of the operational strategy.

The group and the bank have a documented Strategic Planning Regulation which specifies that strategic planning involves the following:
- operational strategy;
- financial plan for one year;
- budget for one year;
- preliminary financial plan for three years;
- worst - case scenario/factors analysis for a two year period.

Control over implementation of the strategy is carried out at the bank's and group's level by regular oversight and assessment of progress in the implementation versus planned results. Where digressions are identified from planned results, a financial analysis is conducted and, if applicable, the management makes a decision on risk mitigation measures.

Commission fee income and expenses volatility risk

Commission fee income and expenses volatility risk is the risk that the group and the bank may fail to receive the planned net commission income. Commission fee income and expenses represent a significant part of operating income and changes in the types of operations or services that generate such income may have a significant impact on the operational result and capital of the group and the bank. Commission fee income and expenses volatility risk is managed as part of strategy and business risk.

Information system risk

The bank has formulated the Information Technology Security Policy, the Information System Risk Analysis Regulations, the Security Requirements for Information Systems Being Designed, and other regulations dealing with information system risk management. Information system risk is included in operational risk based on the Operational Risk Management Policy adopted by the bank and, therefore, for capital adequacy purposes it was resolved not to segregate it from the capital requirement for operational risk. The group analyses the data of the operational risk event and loss database to identify whether it is possible and necessary to establish a separate capital requirement for information system risk.
The group / bank conducts risk analysis on the basis of a documented methodology, which enables the effective planning of risk management measures. According to the risk analysis results, the group / bank chooses appropriate risk management (security) tools. Risk management measures are determined by the bank based on the relationship between security costs and potential loss. The group / bank specifically focuses and makes every effort to prevent risks associated with unauthorised access to the bank's information by third parties or leakage of confidential information via global networks (Internet, etc.), e-mail, modems, optical discs, USB flash and other information media.
When commencing new projects for the designing, acquisition and alteration (modification) of information systems, the group / bank conducts risk analysis pertaining to these changes and takes measures to minimise the risk exposure.

39. Note

Litigation and claims

In the ordinary course of business, the bank has been involved in a number of legal proceedings to recover outstanding credit balances and maintain collateral, as well as other proceedings related to specific transactions. The management believes that any legal proceedings pending as at 31 December 2017 and as at the date of these financial statements will not result in material losses for the bank and / or the group.

40. Note

Subsequent events and going concern

Following the proposal released by the US Department of Treasury Financial Crimes Enforcement Network (FinCEN) on 13 February 2018, pursuant to Section 311 of the USA PATRIOT Act, the operation of ABLV Bank AS was burdened.

In their statement, FinCEN proposed to apply Section 311 of the Patriot Act to ABLV Bank, AS, establishing prohibition to open and maintain corresponding accounts in the USA, and to deny the bank access to the US financial sector. In its suggestion, FinCEN elaborated that ABLV Bank has transferred cash to corrupt, politically influential individuals and has been involved in withdrawing assets via shell company accounts. The bank has not prevent the risk arising from these accounts which represent widely illegal operations in Azerbaijan, Russia and Ukraine. The report mentioned potential breaches of the bank in the area of North Korean sanctions. It also states that the management of ABLV Bank, AS has used bribes to influence Latvian state officials thus seeking ways to prevent legal actions aimed at it and reducing threats to its high-risk business activity.

Despite the fact that the FinCEN proposal is not a final decision and according to FinCEN's own proposal, it with the annexes was put to the public deliberation (60 days from the date of publication of the FinCEN proposal), during which any person was able to submit his comments on the FinCEN proposal, the bank's operation was difficult immediately after its publication on 13 February 2018.

On 17 April 2018, the bank's attorneys from WilmerHare US office submitted a letter of comments to FinCEN regarding the suggestion published by FinCEN. The letter notes that the suggestion published by FinCEN caused such string of events which led to the ECB's decision to determine the bank as such financial institution which is failing or likely to fail. In the result of the decisions of the EB and the Single Resolution Board (hereinafter - SRB), shareholders of the bank took an irreversible decision to initiate self-liquidation. Regardless of the above, ABLV Bank, AS in liquidation has express its readiness to closely cooperate with FinCEN, providing it with any information that would be necessary to withdraw the suggestion.

The letter of comments expanded on the bank's achievements in risk mitigation in recent years, as well as provides information on key improvements regarding the internal system for anti-money laundering and terrorism financing and prevention of sanction violations. The reply points out that these changes and activities performed are of particular significance when assessing, whether the bank is posing or may pose potential financial crimes risk, as set out in Section 311 of the US Patriot Act.

In this letter the bank also expressed its opinion on FinCEN statements regarding the administrative case of 2017 on potential violation of North Korean sanctions, as well as regarding the banks of Moldova, Ukrainian businessman Sergey Kurchenko and other matters mentioned in FinCEN report.

The bank in its letter of comments emphasised the negative surprise caused by the unjustified statement of FinCEN regarding bribery. It repeatedly points out that the bank is categorically denying that any of the bank's representatives would have bribed Latvian officials, stating that this accusation is completely unsubstantiated. As the bribery fact has extremely upset the management of the bank, it has filed applications to the Latvian State Police and Corruption Prevention and Combating Bureau of Latvia, asking to fully assess and investigate FinCEN's statements, and offering full cooperation in the process of investigation.

As FinCEN has not taken into account numerous material matters and as there was a process of liquidation of the bank initiated, there are no legal basis and practical significance to direct the suggestion by FinCEN to the so-called 'final rule', therefore the bank has requested FinCEN to revoke its announcement and suggestion included thereby. FinCEN has not made any decision yet.

On 18 February 2018, the FCMC, in line with the instruction of ECB, made a decision to temporary restrict payments of the bank preventing the bank from performing debit transactions in customer accounts in any currency.
The decision came into effect on 19 February 2018.

On 23 February 2018 FCMC adopted a decision on unavailability of deposits at the bank.
On 26 February 2018, the shareholders of the bank decided on self-liquidation of the bank.
On 05 March 2018 the self-liquidation plan was submitted to the FCMC and on 12 June 2018 the Council of the FCMC approved the bank's application for self-liquidation. With this approval, all members of the board and the council lost their powers.

On 11 July 2018, ECB adopted a decision on the annulment of the licence of ABLV Bank, AS in liquidation. This decision became effective on 12 July 2018. Annulment of the licence is one of the steps planned under the self-liquidation plan of the bank.

On 03 May 2018, the bank and its largest shareholders filed an application to the Court of the European Union in which it asks to assess decisions of 23 February 2018 made by the ECB and the Single Resolution Board that led the bank's shareholders to a decision on the initiation of liquidation.

As indicated in the bank's application to the Court, an unanswered question is prevailing in the case, namely, whether the SRB and ECB had the right to decide that the bank should be liquidated in accordance with its national legislation. Another material matter to be assessed by the court is, whether the ECB and SRB provided substantiated evaluation on the financial situation of ABLV Bank, AS in liquidation. Also, the bank pointed to that the ECB and SRB in making their decisions have not considered anti-money laundering and prevention of terrorism financing aspect, since the suggestion prepared by FinCEN did not include any new information that would not have already been available to the capital markets supervisor and that was already taken into account when establishing supervision measurements.

The bank's applications to the court do not reverse the bank's decision on liquidation, however the filing of the claim is crucial for the reputation of the bank's employees and partners, as well as for the right to claim damages in case of a favourable court decision to the bank and its shareholders.

Information about the liquidation of the bank

The liquidation plan of the bank is prepared for a 5-year period during which it is planned to realise most of the assets and satisfy all creditors' claims.

Immediately after the decision by the bank's shareholders to initiate self-liquidation (hereinafter – liquidation), in a short period of time significant payments were made to cover liabilities. Pursuant to legislation, the first to be covered are liabilities under the Deposit Guarantee Law of Latvia. The payment to the FCMC in the amount of EUR 480 million to cover the guarantee compensation to the bank's customers pursuant to the Deposit Guarantee Law of Latvia was made on 27 February 2018. Payment of guarantee compensations was commenced on 3 March 2018, ensured by AS Citadele banka, chosen by the FCMC.

In March 2018, a loan from the Bank of Latvia amounting to EUR 297 million received within the Emergency liquidation assistance (ELA) following the announcement by FinCEN in mid-February, was covered. Also, TLTRO due to the Bank of Latvia in the amount of EUR 50 million was covered.

The bank plans to settle with other creditors over the liquidation process (5 years), however most of the creditors could recover their funds within the plan in the next 2 years. The plan provides that by 2020 the bank should pay out approximately 95% of all deposits.

Creditor claims will be accepted until 18 September 2018, afterwards all applications will be reviewed for at least three months to create a list of creditors. Procedure for the settlement with creditors will be established in line with Articles 191-195 of the Credit Institution Law. The first payments are planned at the end of 2018 or the beginning of 2019.

Under the liquidation, the bank has terminated provision all the financial services (incl. payment services, issuance of loans, investment operations, etc.) rendering which required a license of a credit institution. During the liquidation the bank will continue to implement the activities that are approved in the liquidation plan and are basically related to the recovery of assets and measures to satisfy creditor claims (incl. loan portfolio servicing, receipt of income from securities acquired (coupon payments, release), sales of other assets) unrelated to long-term business operations, instead related to business termination activities.

During the liquidation, the bank plans to significantly change its structure and reduce the number of available staff. At the same time, reduction of the number of staff is planned prudently to ensure adequate resources for the implementation of liquidation measures, realising the bank's assets, preparing reports on the results of liquidation process, processing creditor claims and settling the claims.

3 key asset groups are defined within the liquidation process that will serve as the source of funds to cover creditors' claims:

Bank's loan portfolio

The bank's loan portfolio consists of 31% mortgage loans, 57% commercial loans, 12% other loans (incl. loans against financial instrument pledge, safety deposits and other loans). Major part of mortgage portfolio consists of loans issued before 2008 that have been paid for more than 10 years. Commercial credit portfolio consists mainly of loans secured by real estate collateral, where in case on default the bank has the right to recover the collateral. The planned liquidation process is lengthy enough to ensure significant principal repayment in line with contractual payment schedules, and at the end of the period the loan will be either repaid or it will have adequate collateral proportion to let the customers easily refinance it with other credit institutions.

Portfolio of securities

The bank's securities portfolio consists of securities with substantially low credit risk level to guarantee coupon payments over the self-liquidation process or the maturity of securities could be expected thus maximising the expected cash flows. Also, their liquidity is high enough to sell them in a short period without significant drop in price, thus ensuring that creditors' claims are satisfied as soon as possible. Considering the duration of securities portfolio and the planned schedule to satisfy creditors' claims, it is planned to sell a significant part of portfolio before maturity.

Bank services

After the decision by the ECB regarding the financial difficulties of ABLV Bank, AS, the Luxembourgian bank supervisor CSSF filed a claim to the court regarding the liquidation of ABLV Bank Luxembourg S.A, however with the decision of 9 March, the Court of Luxembourg rejected the claim, appointed two external administrators, preserved protection of the bank with payment restrictions for 6 months' during which the bank must find new investors. Currently, the bank's liquidators have engaged an international auditor company as a consultant in the sales process.

Real estate development segment companies

Asset realisation is planned for companies established with the purpose to overtake recoverable loan collaterals (subsidiaries of Pillar Holding Company, KS). The planned self-liquidation period is adequate to be able to sell the property without significant discounts.

It is expected that the companies involved in the development of New Hanza block (New Hanza Centre, Pillar Development and their subsidiaries) will finish the projects until a certain stage of development or/and will freeze the construction process. Under the current liquidation plan shares or assets of these companies are not planned to be sold. The decision may be changed depending on the interests of potential investors and the possibility to finish the projects began. In future development and/or sales scenarios of the projects independent valuers will be involved to ensure the most economically beneficial solution.

Investment management services segment companies

It is planned that New Hanza Capital, AS will continue to investments in real estate thus managing the real estate portfolio. New investments will be curbed with the improvement of the current sites under management with the aim to increase cash flows form lease of premises, and to maximise the value of company shares.

ABLV Capital Markets, IBAS and ABLV Asset Management, IPAS plan to attract an external investor who would let continue the provision of the relevant services and would generate incoming cash flow for the bank that may be transferred to cover creditors' claims.

Consulting services segment companies

ABLV Consulting Services, AS is liquidated along with the termination of the operation of the bank's representative offices. The bank estimates that loss resulting from these actions will be less than EUR 1 million.

Associated companies

Accounting and advisory services companies of the group Corporate Services Holding Company, SIA continue their operation or are being liquidated. After the reporting period own shares of the bank were sold to AmberStone Group, AS. The transaction amounted to the carrying amount of the remaining part of holding and no loss was incurred as a result of the transaction.

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Independent Auditors' Report

To the shareholders of ABLV Bank, AS in Liquidation

Report on the Audit of the Consolidated and Separate Financial Statements

Disclaimer of Opinion

We were engaged to audit the accompanying separate financial statements of ABLV Bank, AS in Liquidation ("the Bank") and consolidated financial statements of the Bank and its subsidiaries (collectively, "the Group") set out on pages 16 to 101 of the accompanying consolidated and separate annual report, which comprise:

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

We do not express an opinion on the accompanying consolidated and separate financial statements of the Group and the Bank. Because of the significance of the matter described in the first paragraph of the *Basis for Disclaimer of Opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated and separate financial statements.

Basis for Disclaimer of Opinion

As disclosed in Note 40 of the consolidated and separate financial statements, on 13 February 2018 Financial Crimes Enforcement Network ("FinCEN") of the U.S. Department of the Treasury issued a notice of proposed rulemaking ("NPRM"), pursuant to Section 311 of the USA PATRIOT Act, seeking to prohibit the opening or maintaining of a correspondent account in the United States for, or on behalf of, the Bank. As described in the NPRM, among other things, FinCEN claimed that the Bank had institutionalized money laundering as a pillar of its business practices and has facilitated transactions for corrupt politically exposed persons. We were unable to obtain sufficient appropriate audit evidence either conclusively rebutting these allegations or in their support. However, given the pervasive nature of the allegations, and the doubt they cast upon the integrity of management in place during 2017 and through 12 June 2018, when replaced by the Liquidators, we were unable to rely on the management's assertions that serve as the basis for these consolidated and separate financial statements nor on their representations and other audit evidence obtained in the course of our audit. We could not determine the effects of the inability to rely on such assertions, representations and audit evidence on the financial position of the Group and the Bank as at 31 December 2017, or on the Group's and Bank's financial performance and its cash flows for the year then ended.

Furthermore, the consolidated and separate financial statements have been prepared on a going concern basis that assumes the Group and the Bank will continue to operate.

As disclosed in Note 40, on 12 June 2018, the Financial and Capital Market Commission approved the self-liquidation of the Bank. As a result, in our opinion, neither the Group nor the Bank can be considered to be a going concern and thus the preparation of their consolidated and separate financial statements on a going concern basis is inappropriate. In our opinion the consolidated and separate financial statements should reflect adjustments to reduce the value of assets to their recoverable amount under the condition that the Group and the Bank will not continue to operate and to provide for any further liabilities that might arise under such circumstances. These adjustments are likely to be substantial, but we are unable to determine the total of the required adjustments and provisions with a reasonable degree of accuracy.

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

Liquidators are responsible for the preparation of the consolidated and separate 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 Liquidators determine is necessary to enable the preparation of the consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Our responsibility is to conduct an audit of the Group's consolidated and Bank's separate financial statements in accordance with International Standards on Auditing and to issue an auditors' report. However, because of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated and separate financial statements.

We are independent of the Group and the Bank in accordance with the ethical requirements that are relevant to our audit of the consolidated and separate financial statements in the Republic of Latvia, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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 21 April 2017 to audit the consolidated and separate financial statements of ABLV Bank, AS for the year ended 31 December 2017. Our total uninterrupted period of engagement is 3 years, covering the years ended 31 December 2015 to 31 December 2017.

We confirm that:

- our disclaimer of opinion is consistent with the additional report presented to the Audit Committee of the Group and the Bank;
- 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 Group and the Bank the prohibited non-audit services (NASs) referred to of EU Regulation (EU) No 537/2014. We also remained independent of the audited entity (the Bank) and the Group in conducting the audit.

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

KPMG Baltics SIA
License No 55

Armine Movsisjana
Chairperson of the Board
Sworn Auditor
Certificate No 178
Riga, Latvia
17 September 2018