RIETUMU BANKA AS

2016 Annual Report

Contents

Report of Council and Board of Directors

Dear Shareholders, Customers and Business Partners,

Rietumu Bank Group continued its successful development in 2016 and reached a net profit after tax of EUR 82,3 million. The Group's revenues are diversified between interest and commission and despite the low interest rate environment the Group continued to operate very efficiently with a cost to income ratio of 32.9% and operating income per employee of EUR 168 thousand. The successful financial results were supported by a major internal reorganization that resulted in three new board members joining our management team. In addition, we made significant changes to the type of customer we target and adjusted the existing customer portfolio in accordance to new customer policy adopted by the Bank.

Customer based approach

The Group offers a comprehensive range of banking products to corporate customers and high net worth individuals. The Group has extensive experience in the EU and CIS countries and many of its customers operate in Latvia, the Baltic States, Western Europe, Russia and other CIS countries. The Group understands the business environments in both Western and Eastern Europe. These markets still represent risks and challenges to many of our customers and with our approach of maintaining a close contact to our clients we continued to successfully cooperate with our customers.

In 2016 Latvian anti money laundering legislation has been significantly expanded and the complexity of vetting new and existing customers' profiles and transactions has dramatically increased. Given the time and effort involved with new compliance reality the Bank has decided to refocus our customer policy. Under the new policy the Group has been focusing on larger privately owned businesses to which we can offer a broader range of products. The number of staff in compliance has increased significantly during 2016 while the number of clients has fallen due to new customer policy.

The Group expanded the range of products offered to its customers such as various improvements in payment solutions and technological advances such as card to card payments.

Changes to board and growth areas

Lending is supervised by a new board member and another new board member has been given the responsibility of supervising problem exposures, collections and sale of repossessed collateral. By making these changes we believe that employees involved in lending will focus more on new business development opportunities.

As a result of the uncertain environment in the region the Bank has scaled down its commercial lending in the CIS. The Group focussed on industries that have not been significantly affected in times of crises and made significant efforts to grow its trade finance, leasing and consumer finance businesses. By focussing on these industries the Bank also offered its customers new opportunities to develop their international expansion. The Group will focus on lending development in trade finance as well as developing new lending markets such as Ireland and the United Kingdom.

The Bank also appointed a board member that will be responsible to develop wealth management packages that we offer to our client. We have combined the supervision of customer securities trading, asset management and sales under the umbrella of the new board member. Total assets under management reached EUR 729,710 thousand up from EUR 520,462 thousand in 2015. In addition the treasury function will be the responsibility of this new board member. The Bank also continued to increase its bond portfolio during 2016 to reach a total of EUR 778 million (2015: EUR 674 million). The income from this portfolio in 2016 was EUR 17 million. The bond portfolio is invested in a widely diversified range of bonds with an average maturity of 1.67 years.

Group Companies

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

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

The Group's Belorussian leasing business focuses on industrial equipment leasing which contributed to the Group's profit in the amount of EUR 1.5 million for the year ended 31 December 2016. The Bank partly owns and finances a consumer leasing company named InCredit Group SIA which is registered and operates in Latvia. As of 31 December 2016, the net leasing portfolio of InCredit Group SIA was EUR 35 million and it contributed to the net profit after tax of the Group in the amount of EUR 1 million.

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

Profitability

The Group's after tax profit attributable to the equity holders of the Bank for the year 2016 was EUR 80 million (2015: 69 million). The Group generated an after tax return on equity of 17.32% (2015: 17.5%) and an after tax return on assets of 2.3% (2015: 1.9%).

Operating income reached EUR 181 million (2015: EUR 159 million) which represents an increase of 14% from 2015. Net fee and commission income was EUR 41,1 million (2015: EUR 44.1 million). The Group's cost to income ratio was 33% for the year ended 31 December 2016 (2015: 34%). The Group's goal is to continue to maintain a cost income ratio of less than 40%. As a result of increasing tax exempt income such as income from listed securities, the effective income tax rate for the 2016 year was 7% (2015: 14%). The cumulative result of the above is that the Group reached a pre-tax profit margin of 49% compared to 51% in 2015.

Assets

As at 31 December 2016 the Group's total assets were EUR 3,474 million. This represents a decrease of 8.4% compared to 2015. The Group follows a conservative approach to asset allocation and about 42% of the Group's assets invested in liquidity management portfolios. About 82% of the liquidity management portfolio is invested in short term money market placement with large mainly European banks. The tenure of these placements is up to 7 days. The remaining 18% of the liquidity management portfolios are invested in collateralized instruments with large and stable financial institutions and a short term bond portfolio. The held to maturity portfolio was EUR 320 million as at 31 December 2016 compared to 2015 balance of EUR 221 million. The bond portfolio is primarily invested in corporate investment grade securities.

Loans and receivables due from customers represent about 30% of total assets. Since 2010 this ratio has not exceeded 45% and the Bank does not plan that this ratio exceeds 45% in the nearest future. Loans and receivables to customers have fallen to EUR 1,045 million compared to the balance of 2015 of EUR 1,102 million. This decrease is due decreases in Russian lending exposure. The commercial loan portfolio represents about 89% of the total Bank's loans of EUR 1,117 million and the effective average interest rate for 2016 was 5.7%. Latvia, Russia and Belarus represent the largest commercial lending markets with real estate management, financial services and transport representing the largest industries in the commercial loan portfolio. The second largest category of lending is margin lending to customers against liquid securities as collateral and this represents about 8% of the total loan portfolio. The effective average interest rate for 2016 for margin loans was 4%.

Funding, Equity and Expand Capital Base

Current accounts and deposits due to customers in amount of EUR 2,743 million decreased by 14% compared to 2015. The fall in deposits occurred due to the economic downturn primarily in Russia as well as a result of the new customer policy adopted by the Bank. Current accounts represented EUR 2,399 million or 87.5% of total current accounts and customer deposits. Current accounts can be withdrawn at any time but they can be considered a relatively stable funding source as outlined in Note 4 d) Liquidity risk. Term deposits amounted to EUR 344 million as at 31 December 2016 including EUR 111 million of subordinated deposits. The average remaining tenor of term deposits is 2.3 years with the average effective interest rate in 2016 of 2%. The average effective interest rate for subordinated deposits in 2016 was 5%.

Group total shareholders' equity reached EUR 494 million as of 31 December 2016 representing an 8.1% increase from 2015. Group Tier I and total capital adequacy capital adequacy ratios were 16.45% (2015: 13.06%) and 22.36% (2015: 19.2%) respectively.

2017 and Beyond

We believe that 2017 will continue to be very successful. We achieved our results while maintaining a conservative asset allocation which we believe is the basis to continue our stable development. We owe our success to our customers and business partners and the trust that they have placed in us. We are looking forward to continue developing the Bank in 2017 successfully.

Statement on Corporate Governance published on Bank's website http://www.rietumu.lv/.

Financial results of the Group

	2016	2015	2014	2013
At year end (EUR'000)				
Total assets	3,473,590	3,794,153	3,477,763	2,927,779
Loans and receivables due from customers	1,044,920	1,101,772	1,041,444	1,125,278
Current accounts and deposits due to customers	2,742,726	3,203,992	3,082,706	2,564,705
Total shareholder's equity	493,874	456,869	341,903	282,870
For the year (EUR'000)				
Net profit before tax	88,748	81,176	87,021	71,573
Net profit after tax	82,337	70,043	74,130	62,279
Operating income	180,981	158,736	154,553	140,174
Ratios				
Earnings per share (EUR) – basic and diluted				
After tax	0.68	0.65	0.66	0.54
Before tax	0.74	0.75	0.78	0.61
Dividend per share (EUR)	0.19	0.30	0.31	0.27
Return on equity				
Before tax	18.67%	20.33%	27.86%	27.90%
After tax	17.32%	17.54%	23.73%	24.28%
Return on assets				
Before tax	2.44%	2.23%	2.72%	2.71%
After tax	2.27%	1.93%	2.31%	2.36%
Capital adequacy ratio	22.36%	19.20%	18.96%	17.80%
Profit margin	49.04%	51.14%	56.30%	51.06%
Loan portfolio to total assets ratio	30.08%	29.04%	29.95%	38.43%
Number of employees	1,078	1,037	968	893

Financial results of the Bank

	2016	2015	2014	2013
At year end (EUR'000)				
Total assets	3,465,604	3,785,767	3,475,041	2,920,546
Loans and receivables due from customers	1,116,873	1,151,789	1,087,989	1,175,947
Current accounts and deposits due to customers	2 767 739	3,231,558	3,107,957	2,579,621
Total shareholder's equity	471,546	432,841	323,380	272,201
For the year (EUR'000)				
Net profit before tax	86,509	81,940	83,786	60,705
Net profit after tax	80,300	72,179	71,500	53,544
Operating income	170,212	151,164	146,336	125,544
Ratios				
Earnings per share (EUR) - basic and diluted				
After tax	0.73	0.65	0.66	0.54
Before tax	0.79	0.75	0.78	0.61
Dividend per share (EUR)	0.33	0.30	0.31	0.27
Return on equity				
Before tax	19.13%	21.67%	28.14%	24.45%
After tax	17.76%	19.09%	24.01%	21.57%
Return on assets				
Before tax	2.39%	2.26%	2.62%	2.31%
After tax	2.21%	1.99%	2.24%	2.04%
Capital adequacy ratio	22.61%	19.43%	18.91%	18.49%
Profit margin	50.82%	54.21%	57.26%	48.35%
Loan portfolio to total assets ratio	32.23%	30.42%	31.31%	40.26%
Number of employees	782	769	758	689

STATEMENT OF MANAGEMENT RESPONSIBILITY

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

The separate and consolidated financial statements on pages 16 to 118 are prepared in accordance with source documents and present fairly the financial position of the Bank and the Group as of 31 December 2016 and the results of their operations and cash flows for the year ended 31 December 2016.

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

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

On behalf of the Management of Rietumu Banka AS:

Member of the Board
Ruslans Stecjuks

Member of the Board
Rolf Paul Fuls

27 February 2017

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

The Council of Rietumu Banka

1 January 2016 – 31 December 2016

Name	*Position*	*Date of appointment and current term*
Leonids Esterkins	Chairman of the Council	25/09/97 (27/03/15-27/03/18)
Arkadijs Suharenko	Deputy Chairman of the Council	25/09/97 (27/03/15-27/03/18)
Brendan Thomas Murphy	Deputy Chairman of the Council	07/09/05 (27/03/15-27/03/18)
Dermot Fachtna Desmond	Member of the Council	07/09/05 (27/03/15-27/03/18)
Alexander Gafin	Member of the Council	25/03/10 (27/03/15-27/03/18)
Valentins Blugers	Member of the Council	25/03/11 (27/03/15-27/03/18)

The Board of Directors

1 January 2016 – 4 October 2016

Name	*Position*	*Date of appointment*
Alexander Pankov	Chairman of the Board, President	04/07/06 (04/10/13-04/10/16)
Ruslans Stecjuks	Member of the Board, First Vice President	18/10/10 (04/10/13-04/10/16)
Jevgenijs Djugajevs	Member of the Board, Senior Vice President	18/10/10 (04/10/13-04/10/16)
Ilja Suharenko	Member of the Board, Senior Vice President	18/10/10 (04/10/13-04/10/16)
Rolf Paul Fuls	Member of the Board, Senior Vice President	26/11/10 (04/10/13-04/10/16)
Renats Lokomets	Member of the Board, Senior Vice President	10/12/12 (04/10/13-04/10/16)

4 October 2016 – 31 December 2016

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

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Independent Auditors' Report

To the shareholders of AS Rietumu Banka

Report on the Audit of the Separate and Consolidated Financial Statements

Our Opinion on the Separate and Consolidated Financial Statements

We have audited the accompanying separate financial statements of AS Rietumu Banka ("the Bank") and accompanying consolidated financial statements of the Bank and its subsidiaries ("the Group") set out on pages 16 to 118 of the accompanying separate and consolidated Annual Report, which comprise:

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

In our opinion, the accompanying separate and consolidated financial statements give a true and fair view of the separate and consolidated financial position of the Bank and the Group, respectively, as at 31 December 2016, and of their separate and consolidated financial performance and their separate and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

Basis for Opinion

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

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

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate and consolidated financial statements of the current period. These matters were addressed in the context of our audit of the separate and

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consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our report.

Impairment of loans (Consolidated and separate financial statements)	
Key audit matter	*Our response*
The carrying amount of loans in the consolidated financial statements as at 31 December 2016: EUR 1 045 m; impairment losses recognised in 2016: EUR 32 m; total impairment loss as at 31 December 2016: EUR 94 m. The carrying amounts of loans in separate financial statements at 31 December 2016: EUR 1 117 m; impairment losses recognised in 2016: EUR 33 m; total impairment loss as at 31 December 2016: EUR 108 m. *We refer to the financial statements: Note 3 (f) and 3 (l) (accounting policy), Notes 13 and 19 (financial disclosures).* The Bank and other entities within the Group offer a variety of loan products issued to corporate clients and individuals. The Group and the Bank have a significant exposure to borrowers in foreign jurisdictions, including those in the CIS countries, which have a recent history of depressed economic activity. Individual impairment allowances recognized by the Bank and other entities within the Group mostly relate to large, individually monitored exposures. The assessment is therefore based on the knowledge of each individual borrower and often on estimation of the fair value of the related collateral. The Bank does not recognize collective allowances as all exposures are monitored individually. Collective impairment assessed by other entities within the Group are predominantly related to consumer loan and leasing portfolio exposures and reflect both already existing known credit losses and also losses that have been incurred but are not yet identifiable on an individual exposure level. Collective impairment is estimated mainly based on historical pattern of losses and changes in loan risk characteristics based on qualitative indicators. We identified this area as a significant risk during our audit because recognition of allowances for loan impairment is associated with significant estimation	Our audit procedures included, among others: • assessing and testing of controls over the approval, recording and monitoring of loans, identification of loss events, determination of loan collateral fair values and the calculation of the impairment allowances. For individually calculated impairment: • For a sample of loans with higher risk characteristics, such as individually significant exposures to related-party borrowers, restructured or CIS-based exposures, critically assessing, by reference to the underlying loan files, and through discussion with loan officers and credit risk management personnel, the existence of any impairment triggers as at 31 December 2016; • Where impairment triggers had been identified, challenging the cash flow projections, including key assumptions used, such as discount rates, collateral values (using our own valuation specialists). This included, where applicable, assessing collateral sales costs and sales periods used in the forecasts of future cash flows provided as a basis for the assessment of loan impairment. For collective impairment: • Testing the underlying collective impairment models, including backtesting, assessing the completeness and accuracy of underlying data, and assessing the key parameters such as the impairments allowance rates; • Where model adjustments were made to reflect recent loss experience and current market conditions, critically assessing the appropriateness of any such adjustments.

uncertainty as it requires the management to exercise judgment and develop complex and subjective assumptions about both the timing of recognition and the amounts of such impairment.	

Valuation of investment properties (Consolidated financial statements)	
Key audit matter	*Our response*
The carrying amount of Investment properties in the consolidated financial statements as at 31 December 2016: EUR 91 m; *We refer to the financial statements: Note 3 (d) and 3 (i) (accounting policy), Notes 26 (financial disclosures).* Investment property is held either to earn rental income or for capital appreciation or for both. The Group's investment property is represented by repossessed real estate, which it measures at its fair value, with all changes therein recorded in profit or loss. The valuation of the Group's investment properties involves significant judgements and estimates made by the management using the input from the external valuation specialists, particularly in relation to sensitivity of assumptions regarding discount rates, cash flow projections and comparable market transactions.	Our procedures included, among others: • based on our understanding of the Group's approach to valuation of investment properties, assessing the applied valuation methodology against relevant financial reporting standards; • agreeing the fair values determined by the Group's external valuation experts to the Group's accounting records; • using our own internal valuation specialists, challenging, on a sample basis, the valuation methods and key assumptions applied by the Group's external experts, including those in respect of discount rates, reversionary cap rates, cash flow projections and comparable market transactions; • performing a sensitivity analysis in respect of the above key assumptions to evaluate the effects of their potential changes on the fair values.

Reporting on Other Information

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

- the Management Report, as set out on pages 3 to 7 of the accompanying separate and consolidated Annual Report,
- the Statement on Management Responsibility, as set out on page 8 of the accompanying separate and consolidated Annual Report,
- the Statement of Corporate Governance, set out in separate statement prepared by Bank's and Group's management and available on Bank's website http://www.rietumu.lv/.

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

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

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

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

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

Based solely on the work required to be undertaken in the course of our audit, in our opinion:

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

In accordance with the Law on Audit Services of the Republic of Latvia with respect to the Statement of Corporate Governance, our responsibility is to consider whether the Statement of Corporate Governance includes the information required in section 56. [2], third paragraph, clause 1 of the 'Financial Instruments Market Law' of the Republic of Latvia.

In our opinion, the Statement of Corporate Governance includes the information required in section 56. [2], third paragraph, clause 1 of the 'Financial Instruments Market Law' of the Republic of Latvia.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the separate and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's and Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's and Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank and Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The responsible certified auditor on the audit resulting in this independent auditors' report is Valda Užāne.

KPMG Baltics SIA
Licence No 55

Ondrej Fikrle
Partner pp KPMG Baltics SIA
Riga, Latvia
27 February 2017

Valda Užāne
Sworn Auditor
Certificate No 4

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

For the year ended 31 December 2016

	Note	2016 '000 EUR Group	2016 '000 EUR Bank	2015 '000 EUR Group	2015 '000 EUR Bank
Interest income	6	100,451	90,854	106,489	98,965
Interest expense	6	(22,096)	(21,405)	(23,331)	(22,635)
Net interest income		**78,355**	**69,449**	**83,158**	**76,330**
Fee and commission income	7	68,981	68,646	69,503	69,172
Fee and commission expense	8	(27,886)	(27,817)	(25,379)	(25,488)
Net fee and commission income		**41,095**	**40,829**	**44,124**	**43,684**
Net gain/(loss) on financial instruments at fair value through profit or loss	9	1,867	8	(1,141)	(187)
Net foreign exchange gain	10	22,736	22,662	23,740	24,386
Net realised gain on available-for-sale assets	11	32,387	32,385	458	458
Share of losses of equity accounted investees (net of income tax)		(14)	-	(1)	-
Other income/(expense)	12	4,555	4,879	8,398	6,493
Operating income		**180,981**	**170,212**	**158,736**	**151,164**
Impairment losses	13	(32,728)	(37,919)	(23,791)	(22,980)
General administrative expenses	14	(59,505)	(45,784)	(53,769)	(46,244)
Profit before income tax		**88,748**	**86,509**	**81,176**	**81,940**
Income tax expense	15	(6,411)	(6,209)	(11,133)	(9,761)
Profit for the period		**82,337**	**80,300**	**70,043**	**72,179**
Attributable to:					
Equity holders of the Bank		**80,088**		**69,415**	
Non-controlling interest		**2,249**		**628**	

The separate and consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 25 to 118.

Member of the Board
Ruslans Stecjuks

Member of the Board
Rolf Paul Fuls

27 February 2017

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

For the year ended 31 December 2016	Note	2016 '000 EUR Group	2016 '000 EUR Bank	2015 '000 EUR Group	2015 '000 EUR Bank
Profit for the period		**82,337**	**80,300**	**70,043**	**72,179**
Other comprehensive income					
Items that are or may be reclassified to profit or loss					
Foreign currency translation differences for foreign operations		(1,554)	-	(1,560)	-
Other reserves - net change		-	-	3	-
Available-for-sale financial assets – net change in fair value		(21,104)	(20,300)	28,444	28,191
Related tax	15	(343)	(343)	(156)	(156)
		(23,001)	**(20,643)**	**26,731**	**28,035**
Other comprehensive income for the period		**(23,001)**	**(20,643)**	**26,731**	**28,035**
Total comprehensive income for the period		**59,336**	**59,657**	**96,774**	**100,214**
Attributable to:					
Equity holders of the Group		**57,087**		**96,146**	
Non-controlling interest		**2,249**		**628**	

The separate and consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 25 to 118.

Member of the Board
Ruslans Stecjuks

Member of the Board
Rolf Paul Fuls

27 February 2017

SEPARATE AND CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016	Note	31 Dec 2016 ’000 EUR Group	31 Dec 2016 ’000 EUR Bank	31 Dec 2015 ’000 EUR Group	31 Dec 2015 ’000 EUR Bank
Assets					
Cash and balances with the Bank of Latvia	16	836,961	836,920	881,868	881,816
Financial instruments at fair value through profit or loss	17	17,052	1,333	16,439	1,166
Loans and receivables due from banks	18	522,424	521,721	841,210	840,803
Loans and receivables due from customers	19	1,044,920	1,116,873	1,101,772	1,151,789
Reverse repo	37	93,435	93,435	88,566	88,566
Available-for-sale assets	20	467,584	510,978	484,064	529,789
Non-current assets held for sale		124	-	50	-
Held-to-maturity investments	21	319,574	315,848	220,510	217,901
Investments in subsidiaries	22	-	28,381	-	28,882
Equity accounted investees	23	7	-	21	-
Investment property	26	91,299	10,687	82,968	8,447
Property and equipment	24	45,488	7,943	46,492	8,150
Intangible assets	25	4,602	2,822	4,005	2,910
Current tax asset		6,064	5,699	3,625	3,218
Deferred tax asset	32	259	-	376	-
Other assets	27	23,797	12,964	22,187	22,330
Total Assets		**3,473,590**	**3,465,604**	**3,794,153**	**3,785,767**

The separate and consolidated statement of financial position is to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 25 to 118.

SEPARATE AND CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016	**Note**	**31 Dec 2016 '000 EUR Group**	**31 Dec 2016 '000 EUR Bank**	**31 Dec 2015 '000 EUR Group**	**31 Dec 2015 '000 EUR Bank**
Liabilities and Shareholders' Equity					
Financial instruments at fair value through profit or loss	17	442	442	19	19
Due to Bank of Latvia		120,000	120,000	-	-
Deposits and balances due to banks	28	34,096	33,957	50,390	49,710
Current accounts and deposits due to customers	29	2,742,726	2,767,739	3,203,992	3,231,558
Issued debt securities	30	57,809	57,985	55,784	56,785
Current tax liability		222	-	102	-
Deferred tax liability	32	3,110	933	3,246	191
Other liabilities and accruals	31	21,311	13,002	23,751	14,663
Total Liabilities		**2,979,716**	**2,994,058**	**3,337,284**	**3,352,926**
Share capital	33	168,916	168,916	168,916	168,916
Share premium	33	52,543	52,543	52,543	52,543
Revaluation reserve	33	1,340	-	1,364	-
Fair value reserve	33	1,805	4,734	23,252	25,377
Currency translation reserve		(3,071)	-	(1,517)	-
Other reserves	33	106	23	106	23
Retained earnings		257,517	245,330	198,357	185,982
Total Equity Attributable to Equity Holders of the Bank		**479,156**	**471,546**	**443,021**	**432,841**
Non-controlling Interest		**14,718**	**-**	**13,848**	**-**
Total Shareholders' Equity		**493,874**	**471,546**	**456,869**	**432,841**
Total Liabilities and Shareholders' Equity		**3,473,590**	**3,465,604**	**3,794,153**	**3,785,767**

The separate and consolidated statement of financial position is to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 25 to 118.

Member of the Board
Ruslans Stecjuks

27 February 2017

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Rolf Paul Fuls

SEPARATE AND CONSOLIDATED STATEMENT OF CASH FLOWS For the year ended 31 December 2016	**Note**	**2016 ’000 EUR Group**	**2016 ’000 EUR Bank**	**2015 ’000 EUR Group**	**2015 ’000 EUR Bank**
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before income tax		88,748	86,509	81,176	81,940
Amortisation and depreciation	24,25	3,947	1,850	3,681	1,820
(Gain)/loss from sale of investment property		42	-	(496)	-
Negative goodwill write-off		98	-	33	-
Revaluation of investment property		6,124	(217)	(744)	(1,626)
Share of loss of equity accounted investees		14	-	1	-
(Gain)/loss on disposal of property and equipment		(35)	(13)	24	(75)
(Gain)/loss on sale of subsidiaries		(6)	-	(171)	-
Impairment losses	13	32,728	37,919	23,791	22,980
Increase in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations		**131,660**	**126,048**	**107,295**	**105,039**
(Increase)/decrease in financial instruments at fair value through profit or loss		(613)	(167)	(4,881)	3,975
Decrease in loans and receivables due from banks – term deposits		2,230	2,187	197,311	197,311
(Increase)/decrease in loans and receivables from customers		25,330	2,087	(81,816)	(84,619)
(Increase)/decrease in receivable under reverse repurchase agreements		(4,869)	(4,869)	64,669	64,669
Increase in available-for-sale assets		(4,624)	(5,092)	(355,428)	(356,899)
(Increase)/decrease in other assets		(3,496)	7,621	(4,559)	(5,043)
Increase/(decrease) in derivative liabilities		423	423	(142)	(142)
Increase/(decrease) in term deposits due to banks		(10,372)	846	(2,971)	-
Increase/(decrease) in deposits from non-banking customers		(461,347)	(463,819)	120,865	123,086
Increase in amounts payable under repurchase agreements		120,000	120,000	-	-
(Increase)/Decrease in non-current assets held for sale		(74)	-	58	-
Increase/(Decrease) in other liabilities and accruals		(2,989)	(1,660)	7,112	3,855
Increase/(Decrease) in cash and cash equivalents from operating activities before corporate income tax		**(208,741)**	**(216,395)**	**47,513**	**51,232**
Corporate income tax paid		(9,220)	(8,292)	(15,303)	(14,315)
Net cash and cash equivalents from operating activities		**(217,961)**	**(224,687)**	**32,210**	**36,917**
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property and equipment and intangible assets	24,25	(3,748)	(2,523)	(2,588)	(1,722)
Proceeds from sale of property, plant and equipment and other assets		-	-	160	-
Increase in equity investments in other entities and acquisition of subsidiaries		(21)	(82)	(1,291)	(48)
Acquisition of investment property	26	(3,807)	(201)	(4,567)	(1,415)
Proceeds from sales of investment property			-	2,625	-
Increase in held-to-maturity financial assets		(99,064)	(97,947)	(127,685)	(128,093)
(Acquisition)/sale of non-controlling interest		(546)	-	9,584	-
Cash and cash equivalents used in / from investing activities		**(107,186)**	**(100,753)**	**(123,762)**	**(131,278)**

The separate and consolidated statement of cash flows is to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 25 to 118.

SEPARATE AND CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2016

	Note	2016 '000 EUR Group	2016 '000 EUR Bank	2015 '000 EUR Group	2015 '000 EUR Bank
CASH FLOWS FROM FINANCING ACTIVITIES					
Shares issued		-	-	8,073	8,073
Share premium		-	-	18,661	18,661
Decrease in other reserves		-	-	2	-
Issued debt securities		2,025	1,200	36,286	37,287
Dividends paid		(21,785)	(20,952)	(18,075)	(17,487)
Cash and cash equivalents used in/from financing activities		**(19,760)**	**(19,752)**	**44,947**	**46,534**
Net cash flow for the period		**(344,907)**	**(345,192)**	**(46,605)**	**(47,827)**
Cash and cash equivalents at the beginning of the year		**1,651,735**	**1,651,276**	**1,698,340**	**1,699,103**
Cash and cash equivalents at the end of the year	34	**1,306,828**	**1,306,084**	**1,651,735**	**1,651,276**

The separate and consolidated statement of cash flows is to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 25 to 118.

Member of the Board
Ruslans Stecjuks

Member of the Board
Rolf Paul Fuls

27 February 2017

GROUP CONSOLIDATED STATEMENT OF CHANGES IN THE SHAREHOLDERS' EQUITY
For the year ended 31 December 2016

	Attributable to Equity Holders of the Bank									
	Share capital	**Share premium**	**Revaluation reserve**	**Fair value reserve**	**Foreign currency translation reserve**	**Other reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total Equity**
	'000 EUR	**'000 EUR**	**'000 EUR**	**'000 EUR**	**'000 EUR**	**'000 EUR**	**'000 EUR**	**'000 EUR**	**'000 EUR**	**'000 EUR**
Balance at 1 January 2015	**160,843**	**33,882**	**1,387**	**(5,036)**	**43**	**104**	**146,405**	**337,628**	**4,275**	**341,903**
Transactions with shareholders recorded directly in equity										
Dividends paid	-	-	-	-	-	-	(17,487)	(17,487)	-	(17,487)
Preference share issued	8,073	-	-	-	-	-	-	8,073	-	8,073
Share premium received	-	18,661	-	-	-	-	-	18,661	-	18,661
Transactions with non-controlling interest										
Dividends paid to non-controlling interest shareholders	-	-	-	-	-	-	-	-	(588)	(588)
Transactions with thirds parties related to units of funds controlled by Group	-	-	-	-	-	-	-	-	9,584	9,584
Change in ownership interests										
Purchase of subsidiaries with non-controlling interest	-	-	-	-	-	-	-	-	(51)	(51)
Comprehensive income										
Profit for the current year	-	-	-	-	-	-	69,415	69,415	628	70,043
Other comprehensive income (Note 33)	-	-	-	28,288	(1,560)	3	-	26,731	-	26,731
Other										
Depreciation of revalued property	-	-	(24)	-	-	-	24	-	-	-
Other reserve transfer	-	-	1	-	-	(1)	-	-	-	-
Balance at 31 December 2015	**168,916**	**52,543**	**1,364**	**23,252**	**(1,517)**	**106**	**198,357**	**443,021**	**13,848**	**456,869**

The Group consolidated statement of changes in the shareholders' equity is to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 25 to 118.

GROUP CONSOLIDATED STATEMENT OF CHANGES IN THE SHAREHOLDERS' EQUITY

For the year ended 31 December 2016

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

The Group consolidated statement of changes in the shareholders' equity is to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 25 to 118.

Member of the Board
Ruslans Stecjuks

Member of the Board
Rolf Paul Fuls

27 February 2017

BANK’S SEPARATE STATEMENT OF CHANGES IN SHAREHOLDERS’ EQUITY
For the year ended 31 December 2016

	Share capital ’000 EUR	Share premium ’000 EUR	Revaluation reserve ’000 EUR	Fair value reserve ’000 EUR	Other reserves ’000 EUR	Retained earnings ’000 EUR	Total equity ’000 EUR
Balance at 1 January 2015	**160,843**	**33,882**	**-**	**(2,658)**	**23**	**131,290**	**323,380**
Transactions with shareholders recorded directly in equity							
Dividends paid	-	-	-	-	-	(17,487)	**(17,487)**
Preference share issued	8,073	-	-	-	-	-	**8,073**
Share premium received	-	18,661	-	-	-	-	**18,661**
Total comprehensive income							
Profit for the period	-	-	-	-	-	72,179	**72,179**
Other comprehensive income	-	-	-	28,035	-	-	**28,035**
Balance at 31 December 2015	**168,916**	**52,543**	**-**	**25,377**	**23**	**185,982**	**432,841**
Transactions with shareholders recorded directly in equity							
Dividends paid	-	-	-	-	-	(20,952)	**(20,952)**
Comprehensive income							
Profit for the period	-	-	-	-	-	80,300	**80,300**
Other comprehensive income (Note 33)	-	-	-	(20,643)	-	-	**(20,643)**
Balance at 31 December 2016	**168,916**	**52,543**	**-**	**4,734**	**23**	**245,330**	**471,546**

The Bank’s separate statement of changes in shareholders’ equity is to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 25 to 118.

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27 February 2017

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1 Background

Principal activities

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

JSC “Rietumu Banka” was established in the Republic of Latvia as a Joint Stock Company and was granted it’s general banking license in 1992. The principal activities of the Bank are deposit taking and customer accounts maintenance, lending, issuing guarantees, cash and settlement operations and operations with securities and foreign exchange. The activities of the Bank are regulated by the Bank of Latvia and the Financial and Capital Market Commission (“FCMC”) of the Republic of Latvia. The registered address of the Bank’s head office is Vesetas street 7, Riga, Latvia. The average number of people employed by the Group during the year was 1,078 (2015: 1,037) and by the Bank 782 (2015: 769).

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

Name	Country of incorporation	Principal activities	Ownership %	
			31 Dec 2016	**31 Dec 2015**
RB Securities Ltd	Stasinou Str.1, Mitsi Building 1, 2nd floor, Flat/office 5, Plateia Eleftherias, P.C.1060, Nicosia, Cyprus	Financial services	99.99%	99.99%
RB Investments SIA	Vesetas Str.7, Riga, Latvia	Investments	100%	100%
Rietumu Leasing Ltd	Odoevskogo Str.117, 6th floor, office 9, Minsk Belarus	Leasing company	100%	100%
RB Opportunity Fund I	Vesetas Str.7, Riga, Latvia	Investments	100%	100%
Vesetas 7 SIA	Vesetas Str.7, Riga, Latvia	Real estate operating	100%	100%
Overseas Estates SIA	Vesetas Str.7, Riga, Latvia	Terminal	100%	100%
M 322 SIA	Vesetas Str.7, Riga, Latvia	Real estate operating	100%	100%
InCREDIT GROUP SIA	Krisjana Barona Str.130, Riga, Latvia	Customer lending	51%	51%
KI Nekustamie ipasumi SIA	Vesetas Str.7, Riga, Latvia	Real estate operating	100%	100%
KI Zeme SIA	Vesetas Str.7, Riga, Latvia	Real estate operating	100%	100%
Devindesmit sesi SIA	Juras str. 56, Jurmala, Latvia	Hotel	100%	100%
RAM Fund-Fixed Income High Yield USD	Vesetas Str.7, Riga, Latvia	Investments	67.36%	57.90%
RAM Fund-Fixed Income Investment Grade USD	Vesetas Str.7, Riga, Latvia	Investments	34.37%	35.58%
RAM Cash Reserve Fund USD	Vesetas Str.7, Riga, Latvia	Investments	93.18%	99.56%
Ekoagro SIA	Vesetas Str.7, Riga, Latvia	Real estate operating	100%	-

2 Basis of preparation

(a) Statement of compliance

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

The Board of Directors signed these separate and consolidated financial statements, and submitted for shareholders' approval on the shareholders meeting on 30 March 2017.

(b) Basis of measurement

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

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

(c) Functional and Presentation Currency

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

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

RB Securities Ltd	USD (US dollar)
Rietumu Asset Management funds	USD (US dollar)
Rietumu Leasing Ltd	BYN (Belarus rouble)

3 Significant accounting policies

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

(a) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of the Bank and its subsidiary companies at the spot exchange rate on the date of the transaction as determined by the respective Central Bank of the respective country in which each entity operates.

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

(ii) Foreign operations

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

(iii) Foreign exchange rates

	31 Dec 2016	**31 Dec 2015**
USD	1.0541	1.0887
BYR	-	20,300.00
BYN	2.045	-
RUB	64.3	80.6736

3 Significant accounting policies, continued

(b) Basis of consolidation

(i) Subsidiaries

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

(ii) Equity accounted investees

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

(iii) Transactions eliminated on consolidation

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

(iv) Non – controlling interest

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

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

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

(vi) Assets management

The Bank and the Group hold assets which are purchased on behalf of investors. The assets held on behalf of investors are not included in the separate and consolidated financial statements except the assets held in trust.

(c) Goodwill

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

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

3 Significant accounting policies, continued

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

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

Negative goodwill arising on business combination is recognised immediately in profit or loss.

(d) Fair value measurement principles

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

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

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

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

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

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

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

(i) Financial assets and liabilities

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

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

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

3 Significant accounting policies, continued

(ii) Investment property and owner occupied buildings

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

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

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

(iii) Intangible assets

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

(e) Cash and cash equivalents

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

(f) Financial instruments

(i) Classification

Financial instruments are classified into the following categories:

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

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

3 Significant accounting policies, continued

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

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

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

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

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

(ii) Initial recognition

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

(iii) Measurement

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

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

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

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

3 Significant accounting policies, continued

(iv) Gains and losses on subsequent measurement

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

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

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

(v) Derecognition

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

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

(vi) Repurchase and reverse repurchase agreements

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

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

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

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

3 Significant accounting policies, continued

(vii) Derivative financial instruments

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

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

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

(viii) Offsetting

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

(g) Leases

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

The Company as lessor

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

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

The Company as lessee

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

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

(h) Property and equipment

(i) Owned assets

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

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

3 Significant accounting policies, continued

(ii) Revaluation

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

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

(iii) Depreciation

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

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

(i) Investment property

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

(j) Repossessed collateral

If the borrower fails to fulfil the contractual obligations, the Bank may decide that the loan agreement will be terminated and that the right to collateral pledged as security, will be exercised. According to Latvian law, the Bank and the Group cannot assume formal title of the asset pledge, but can initiate the sale, proceeds of which will be used to repay or partly repay the outstanding loan receivable. As the Bank and the Group are assuming the de facto title to the asset, and retain no contractual obligation to the original borrower, the Bank and the Group classify the asset as other assets. The repossessed collateral is measured at its fair value based on external valuation prepared by independent valuator.

If the collateral is property and title has been transferred to the Bank and the Group, the assets are shown as investment property.

(k) Intangible assets

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

3 Significant accounting policies, continued

(l) Impairment

(i) Financial assets

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

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

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

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

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

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

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

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

3 Significant accounting policies, continued

(ii) Non-financial assets

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

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

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

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

(m) Provisions

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

(n) Credit related commitments

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

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

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

(o) Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or directly in equity respectively.

3 Significant accounting policies, continued

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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

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

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

(p) Income and expense recognition

(i) Interest income and expense

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability. When calculating the effective interest rate, the Bank and the Group estimate future cash flows considering all contractual terms of the financial instruments, but not future credit losses.

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

(ii) Fee and commission income and expense

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

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

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

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

(q) Dividends

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

3 Significant accounting policies, continued

(r) Employee benefits

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

(s) Non-current assets held for sale

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

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

3 Significant accounting policies, continued

(t) Changes in accounting policies

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

The Group and the Bank have adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2016.

The following guidance with effective date of 1 January 2016 did not have any impact on these consolidated financial statements:

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

(u) New standards and interpretations

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

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

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 Financial Instruments. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Group currently plans to apply IFRS 9 initially on 1 January 2018.

The actual impact of adopting IFRS 9 on the Group's consolidated financial statements and Bank’s separate financial statements in 2018 is not known and cannot be reliably estimated because it will be dependent on the financial instruments that the Group and the Bank hold and economic conditions at that time as well as accounting elections and judgements that it will make in the future. The new standard will require the Group and the Bank to revise its accounting processes and internal controls related to reporting financial instruments and these changes are not yet complete. However, the Group and the Bank have performed a preliminary assessment of the potential impact of adoption of IFRS 9 based on its positions at 31 December 2016.

Classification and measurement

From classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity’s business model for managing the assets and the instruments’ contractual cash flow characteristics. The IAS 39 measurement categories will be replaced by: Fair value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI), and amortised cost. IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortised cost or fair value through OCI instruments as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instrument that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement.

3 Significant accounting policies, continued

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 or loss would arise.

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

- The majority of loans and advance to banks, loans and advances to customers, cash collateral for reverse repo agreements and balances with financial institutions that are classified as loans and receivables under IAS 39 are expected to be measured at amortised cost under IFRS 9.
- Financial assets and liabilities held for trading and financial assets and liabilities designated at FVPL are expected to continue to be measured at FVPL.
- The majority of the debt securities classified as available for sale under IAS 39 are expected to be measured at amortised cost or FVOCI. Some securities, however, will be classified as FVPL, either because of their contractual cash flow characteristics or the business model within which they are held.
- Debt securities classified as held to maturity are expected to continue to be measured at amortised cost.

Impairment of financial assets

IFRS 9 will also fundamentally change the loan loss impairment methodology. The standard will replace IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. The Bank will be required to record an allowance for expected loss for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the expected credit loss associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset.

The Bank has established a policy to perform an assessment at the end of each reporting period of the whether credit risk has increased significantly since initial recognition by considering the change in the risk of default occurring over the remaining life of the financial instrument.

In comparison to IAS 39, the Bank expects the impairment charge under IFRS 9 to result in an increase in the total level of current impairment allowances.

The Bank is planning to group its loans into Stage 1, Stage 2 and Stage 3, based on the applied impairment methodology, as described below:

- Stage 1 – Performing loans: when loans are fist recognized, the Bank recognizes an allowance based on twelve months expected credit losses. Under IAS 39 the Bank has been recording an allowance for Incurred But Not Identified (IBNI) impairment losses. The change is expected to increase the impairment allowance compared to the current IBNI approach.
- Stage 2 – Loans with significant increase in credit risk: when a loan shows a significant increase in credit risk since initial recognition, the Bank records an allowance for the lifetime expected credit loss. Since this is a new concept compared to IAS 39, it will result in an increase in the allowance as most such assets are not considered to be credit-impaired under IAS 39.

3 Significant accounting policies, continued

The Bank intends to evaluate increase in credit risk by comparing the lifetime probability of default upon initial recognition of the asset against the risk of a default occurring on the asset as at the end of each reporting period.

Stage 3 – Impaired loans: Financial assets will be recognized in Stage 3 when there is objective evidence that the loan is impaired. The Bank recognizes the lifetime expected credit losses for these loans and in addition, the Bank accrues interest income on the amortised cost of the loan net of allowances. The criteria of the objective evidence are the same as under the current IAS 39 methodology, and accordingly, the Bank expects the population to be generally the same under both standards. The individual impairment allowance will continue to be calculated on the same basis as under IAS 39, and collateral values will be adjusted to reflect the amounts that can be expected to be realized.

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

For FVOCI debt securities considered to be 'low risk', the Bank intends to apply a policy which assumes that the credit risk on the instrument has not increased significantly since initial recognition and will calculate ECL as explained in Stage 1 above. Such instruments will generally include trade, investment grade securities where the borrower has strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

Forward-looking information

The Bank plans to use internal quantitative information, as well as opinion of internal economic experts, combined with published external information from government and private economic forecasting services.

Capital management

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

IFRS 9 implementation strategy

The Group's IFRS 9 implementation process is governed by a Steering Committee whose members include representatives from risk, finance, operations and IT functions. The Steering Committee meets weekly to challenge key assumptions, approve decisions and monitor the progress of the implementation work across the Group, including evaluation of whether the project has sufficient resources.

The Group and the Bank have completed a preliminary impact assessment and most of the accounting analysis and has commenced work on the design and build of models, systems, processes and controls.

3 Significant accounting policies, continued

Transition

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

The Group and the Bank plan to take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognised in retained earnings and reserves as at 1 January 2018.

- The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.
- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- The designation of certain investments in equity instruments not held for trading as at FVOCI.

Timeline for implementing IFRS 9

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

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

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

The Group and the Bank has completed an initial review of the potential impact of the adoption of IFRS 15 on its consolidated and separate financial statements. This focused on a review of fees and commission income.

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

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

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

3 Significant accounting policies, continued

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

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

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

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

The Group and the Bank have started an initial assessment of the potential impact on its consolidated and separate financial statements. So far, the most significant impact identified is that the Group and the Bank will recognise new assets and liabilities for its operating leases of branches and 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 and the Bank expect to disclose its transition approach and quantitative information before adoption.

3 Significant accounting policies, continued

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

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

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

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

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

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

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

- a partial gain or loss is recognised when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

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

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

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

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

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

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

The Group and the Bank expect that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the Group and the Bank because the Group and the Bank already measure future taxable profit in a manner consistent with the Amendments.

3 Significant accounting policies, continued

(viii) Amendments to IAS 40 Transfers of Investment Property

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

The Group and the Bank do not expect that the amendments will have a material impact on the financial statements because the Group and the Bank transfer a property asset to, or from, investment property only when there is an actual change in use.

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

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

The Group and the Bank do not expect that the Interpretation, when initially applied, will have material impact on the financial statements as the Group and the Bank uses the exchange rate on the transaction date for the initial recognition of the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

(x) Annual Improvements to IFRSs

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

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

4 Risk management

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

- market risk
- credit risk
- liquidity risks
- money laundering and terrorist financing risk

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

(a) Risk management policies and procedures

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

The Board of Directors of the Bank has overall responsibility for the oversight of the risk management framework for the Bank and the Group, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Board of Directors of the Bank is responsible for monitoring and implementation of risk mitigation measures and making sure that the Bank and the Group operate within the established risk parameters. Chief risk officer of the Bank is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the Council of the Bank.

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

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

(b) Market risks

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

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

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

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

4 Risk management, continued

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

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

(i) Interest rate risk

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

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

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

Group	**2016**		**2015**	
'000 EUR	**Profit for the period**	**Other comprehensive income**	**Profit for the period**	**Other comprehensive income**
100bp parallel increase	4,229	-	5,082	-
100bp parallel decrease	(4,229)	-	(5,082)	-

Bank	**2016**		**2015**	
'000 EUR	**Profit for the period**	**Other comprehensive income**	**Profit for the period**	**Other comprehensive income**
100bp parallel increase	4,958	-	5,746	-
100bp parallel decrease	(4,958)	-	(5,746)	-

4 Risk management, continued

(ii) Currency risk

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

An analysis of sensitivity of the Bank's and the Group's net income and other comprehensive income for the year to changes in the foreign currency exchange rates based on positions existing as at 31 December 2016 and 2015 and a scenario of a 5% change in USD to EUR exchange rates, while the other variable remain constant, is as follows:

Group	**2016**		**2015**	
'000 EUR	**Profit for the period**	**Other comprehensive income**	**Profit for the period**	**Other comprehensive income**
5% appreciation of USD against EUR	(501)	254	(1,106)	10
5% depreciation of USD against EUR	501	(254)	1,106	(10)

Bank	**2016**		**2015**	
'000 EUR	**Profit for the period**	**Other comprehensive income**	**Profit for the period**	**Other comprehensive income**
5% appreciation of USD against EUR	(89)	999	219	693
5% depreciation of USD against EUR	89	(999)	(219)	(693)

4 Risk management, continued

(iii) Price risk

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

An analysis of sensitivity of the Bank's and the Group's net income for the year and equity to changes in securities prices based on positions existing as at 31 December 2016 and 2015 and a scenario of a 5% change in all securities prices, while the other variables remain constant, is as follows:

Group	**2016**		**2015**	
'000 EUR	**Profit for the period**	**Other comprehensive income**	**Profit for the period**	**Other comprehensive income**
5% increase in securities prices	759	23,379	774	24,203
5% decrease in securities prices	(759)	(23,379)	(774)	(24,203)

Bank	**2016**		**2015**	
'000 EUR	**Profit for the period**	**Other comprehensive income**	**Profit for the period**	**Other comprehensive income**
5% increase in securities prices	10	25,549	9	26,489
5% decrease in securities prices	(10)	(25,549)	(9)	(26,489)

(c) Credit risk

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

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

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

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

4 Risk management, continued

(c) Credit risk, continued

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

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

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

Maximum credit risk exposure

		Gross maximum credit exposure			
	Notes	**Group**	**Bank**	**Group**	**Bank**
31 December		**2016**	**2016**	**2015**	**2015**
EUR'000					
Cash and balances with the Bank of Latvia	16	836,961	836,920	881,868	881,816
Loans and receivables due from banks	18	522,424	521,721	841,210	840,803
Loans and receivables due from customers, gross	19	1,139,251	1,224,412	1,197,530	1,243,437
Reverse repo	37	93,435	93,435	88,566	88,566
Financial instruments at fair value through profit or loss	17	16,081	682	15,846	964
Available-for-sale financial assets	20	461,994	461,994	456,102	456,102
Held-to-maturity investments	21	319,574	315,848	220,510	217,901
Total financial assets		**3,389,720**	**3,455,012**	**3,701,632**	**3,729,589**
Guarantees and letters of credit	35	7,521	7,521	9,779	9,779
Credit card commitments	35	6,210	6,216	9,027	9,028
Undrawn overdraft facilities	35	14,035	14,035	11,435	11,435
Loan and credit line commitments	35	4,063	8,407	14,396	18,515
Total guarantees and commitments		**31,829**	**36,179**	**44,637**	**48,757**
Total maximum credit risk exposure		**3,421,549**	**3,491,191**	**3,746,269**	**3,778,346**

4 Risk management, continued

(d) Liquidity risk

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

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

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

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

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

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

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

The process of the Bank's liquidity management includes assessment and analysis of banking financing sources. A significant source of funding is customer demand deposits, most of which are current accounts. These funds are considered to be open-ended, i.e. they have no contractual maturity and are available to customers without any restrictions on withdrawals. Experience of the Bank and conducted statistical analysis, applied on historical data of changes on current account and card account balances, make it possible to estimate the effective maturity of such funds remaining in the accounts of the bank. The following table provides a breakdown of demand deposits based on the time of their presence in the account, which does not exceed 5 years.

4 Risk management, continued

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

The Group

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

	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities							
Due to Bank of Latvia	-	-	-	120,000	-	**120,000**	**120,000**
Deposits and balances due to banks	33,250	295	-	551	-	**34,096**	**34,096**
Current accounts and deposits due to customers	449,765	158,523	361,007	1,781,471	23,872	**2,774,638**	**2,742,726**
Issued debt securities	-	-	-	62,914	-	**62,914**	**57,809**
Other financial liabilities	937	-	-	-	-	**937**	**937**
Derivative liabilities							
- Inflow	(3,147)	(2,483)	(750)	-	-	**(6,380)**	**-**
- Outflow	3,320	2,500	1,003	-	-	**6,823**	**442**
Total	**484,125**	**158,835**	**361,260**	**1,964,936**	**23,872**	**2,993,028**	**2,956,010**
Guarantees (maximum exposure)	**533**	**2,951**	**1,676**	**348**	**-**	**5,508**	**7,521**
Credit related commitments	**24,308**	**-**	**-**	**-**	**-**	**24,308**	**24,308**

Analysis of financial liabilities' undiscounted cash flows based on effective maturity as at 31 December 2015:

	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances due to banks	50,390	-	-	-	-	**50,390**	**50,390**
Current accounts and deposits due to customers	542,504	109,805	212,607	2,325,571	50,911	**3,241,398**	**3,203,992**
Issued debt securities	-	-	-	62,958	-	**62,958**	**55,784**
Other financial liabilities	2,253	-	-	-	-	**2,253**	**2,253**
Derivative liabilities							
- Inflow	-	(99)	(920)	-	-	**(1,019)**	**-**
- Outflow	-	100	938	-	-	**1,038**	**19**
Total	**595,147**	**109,806**	**212,625**	**2,388,529**	**50,911**	**3,357,018**	**3,312,438**
Guarantees (maximum exposure)	**883**	**715**	**3,853**	**368**	**-**	**5,819**	**9,779**
Credit related commitments	**34,858**	**-**	**-**	**-**	**-**	**34,858**	**34,858**

4 Risk management, continued

The Bank

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

	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities							
Due to Bank of Latvia	-	-	-	120,000	-	**120,000**	**120,000**
Deposits and balances due to banks	33,111	295	-	551	-	**33,957**	**33,957**
Current accounts and deposits due to customers	476,058	158,523	360,105	1,780,948	23,859	**2,799,493**	**2,767,739**
Issued debt securities	-	-	-	63,090	-	**63,090**	**57,985**
Other financial liabilities	882	-	-	-	-	**882**	**882**
Derivative liabilities							
- Inflow	(3,147)	(2,483)	(750)	-	-	**(6,380)**	**-**
- Outflow	3,320	2,500	1,003	-	-	**6,823**	**442**
Total	**510,224**	**158,835**	**360,358**	**1,964,589**	**23,859**	**3,017,865**	**2,981,005**
Guarantees (maximum exposure)	**533**	**2,951**	**1,676**	**348**	**-**	**5,508**	**7,521**
Credit related commitments	**28,658**	**-**	**-**	**-**	**-**	**28,658**	**28,658**

Analysis of financial liabilities' undiscounted cash flows based on effective maturity as at 31 December 2015:

	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances due to banks	49,710	-	-	-	-	**49,710**	**49,710**
Current accounts and deposits due to customers	570,829	109,798	212,275	2,325,048	50,898	**3,268,848**	**3,231,558**
Issued debt securities	-	-	-	63,999	-	**63,999**	**56,785**
Other financial liabilities	101	-	-	-	-	**101**	**101**
Derivative liabilities							
- Inflow	-	(99)	(920)	-	-	**(1,019)**	**-**
- Outflow	-	100	938	-	-	**1,038**	**19**
Total	**620,640**	**109,799**	**212,293**	**2,389,047**	**50,898**	**3,382,677**	**3,338,173**
Guarantees (maximum exposure)	**883**	**715**	**3,853**	**368**	**-**	**5,819**	**9,779**
Credit related commitments	**38,978**	**-**	**-**	**-**	**-**	**38,978**	**38,978**

4 Risk management, continued

The Group

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

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

	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities							
Due to Bank of Latvia	-	-	-	120,000	-	**120,000**	**120,000**
Deposits and balances due to banks	33,250	295	-	551	-	**34,096**	**34,096**
Current accounts and deposits due to customers	2,402,983	29,409	135,535	182,838	23,872	**2,774,637**	**2,742,726**
Issued debt securities	-	-	-	62,914	-	**62,914**	**57,809**
Other financial liabilities	937	-	-	-	-	**937**	**937**
Derivative liabilities							
- Inflow	(3,147)	(2,483)	(750)	-	-	**(6,380)**	**-**
- Outflow	3,320	2,500	1,003	-	-	**6,823**	**442**
Total	**2,437,343**	**29,721**	**135,788**	**366,303**	**23,872**	**2,993,027**	**2,956,010**
Guarantees (maximum exposure)	**533**	**2,951**	**1,676**	**348**	**-**	**5,508**	**7,521**
Credit related commitments	**24,308**	**-**	**-**	**-**	**-**	**24,308**	**24,308**

Analysis of financial liabilities' contractual undiscounted cash flows as at 31 December 2015:

	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances due to banks	50,390	-	-	-	-	**50,390**	**50,390**
Current accounts and deposits due to customers	2,852,097	32,626	100,060	205,704	50,911	**3,241,398**	**3,203,992**
Issued debt securities	-	-	-	62,958	-	**62,958**	**55,784**
Other financial liabilities	2,253	-	-	-	-	**2,253**	**2,253**
Derivative liabilities							
- Inflow	-	(99)	(920)	-	-	**(1,019)**	**-**
- Outflow	-	100	938	-	-	**1,038**	**19**
Total	**2,904,740**	**32,627**	**100,078**	**268,662**	**50,911**	**3,357,018**	**3,312,438**
Guarantees (maximum exposure)	**883**	**715**	**3,853**	**368**	**-**	**5,819**	**9,779**
Credit related commitments	**34,858**	**-**	**-**	**-**	**-**	**34,858**	**34,858**

4 Risk management, continued

The Bank

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

	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities							
Due to Bank of Latvia	-	-	-	120,000	-	**120,000**	**120,000**
Deposits and balances due to banks	33,111	295	-	551	-	**33,957**	**33,957**
Current accounts and deposits due to customers	2,429,276	29,409	134,633	182,315	23,859	**2,799,492**	**2,767,739**
Issued debt securities	-	-	-	63,090	-	**63,090**	**57,985**
Other financial liabilities	882	-	-	-	-	**882**	**882**
Derivative liabilities							
- Inflow	(3,147)	(2,483)	(750)	-	-	**(6,380)**	**-**
- Outflow	3,320	2,500	1,003	-	-	**6,823**	**442**
Total	**2,463,442**	**29,721**	**134,886**	**365,956**	**23,859**	**3,017,864**	**2,981,005**
Guarantees (maximum exposure)	**533**	**2,951**	**1,676**	**348**	**-**	**5,508**	**7,521**
Credit related commitments	**28,658**	**-**	**-**	**-**	**-**	**28,658**	**28,658**

Analysis of financial liabilities' contractual undiscounted cash flows as at 31 December 2015:

	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances due to banks	49,710	-	-	-	-	**49,710**	**49,710**
Current accounts and deposits due to customers	2,880,422	32,619	99,728	205,181	50,898	**3,268,848**	**3,231,558**
Issued debt securities	-	-	-	63,999	-	**63,999**	**56,785**
Other financial liabilities	101	-	-	-	-	**101**	**101**
Derivative liabilities							
- Inflow	-	(99)	(920)	-	-	**(1,019)**	**-**
- Outflow	-	100	938	-	-	**1,038**	**19**
Total	**2,930,233**	**32,620**	**99,746**	**269,180**	**50,898**	**3,382,677**	**3,338,173**
Guarantees (maximum exposure)	**883**	**715**	**3,853**	**368**	**-**	**5,819**	**9,779**
Credit related commitments	**38,978**	**-**	**-**	**-**	**-**	**38,978**	**38,978**

4 Risk management, continued

(e) Money laundering and terrorist financing risk

The Group and the Bank devote significant efforts to compliance with international and national laws and regulations on the prevention of money laundering and terrorism financing.

The requirements of the Latvian law On the Prevention of Money Laundering and Terrorism Financing and other related acts of legislation are met by the Group and the Bank by developing and introducing an internal control system put in place in the bank and its subsidiaries.

The key elements of the internal control system are ensured on a daily basis primarily by staff of the Customer Management Department and Internal Control Department and additional control over compliance is effected by the Internal Audit Service and Operational Compliance Control Department.

It is recognized by the Group and the Bank that the 'Know Your Customer' (KYC) principle is the basis for strict control over money laundering and terrorism financing. The KYC principle is based on the following criteria: understanding of each customer's business; knowledge of the customer's operating regions and key (typical) transactions (to prevent execution of known illegal, fraudulent or suspicious transactions); individual identification of each customer; understanding the source of funds and transactions made by the customer; regular monitoring and analysis of the customer's transactions focusing on all non-routine transactions or transactions that fall outside the scope of the customer's regular business activities.

To ensure compliance with laws, the Bank provides that up-to-date information on current activities of customers is shared among units of the bank and between the bank and supervisors accurately and without delay.

(f) Capital Management

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

The Bank and the Group define as capital those items defined by statutory regulation as capital. Under the current capital requirements set by Financial and Capital Market Commission, banks must maintain a ratio of capital to risk weighted assets ("statutory capital ratio") above the prescribed minimum level. As at 31 December 2016, the individual minimum level for the Bank is 11.6% (2015: 15.6%). The Bank was in compliance with the statutory capital ratio during the years ended 31 December 2016 and 31 December 2015.

4 Risk management, continued

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

	2016 ’000 EUR Group	2016 ’000 EUR Bank	2015 ’000 EUR Group	2015 ’000 EUR Bank
Tier 1 capital				
Share capital	142,287	142,287	142,287	142,287
Share premium	6,843	6,843	6,843	6,843
Other reserves	116	23	41	23
Accumulated other comprehensive income	309	4,734	22,399	25,377
Other transitional adjustment to CET1 Capital	(1,247)	(3,030)	(22,479)	(16,812)
Non-controlling interest	-	-	7,055	-
Value adjustments due to the requirements for prudent valuation	(485)	(513)	-	-
Retained earnings from prior years	172,789	165,030	124,905	113,803
Current year profit	79,303	80,300	69,012	72,179
Intangible assets	(2,823)	(2,822)	(4,004)	(2,910)
Additional deductions of CET1 Capital due to Article 3 (CRR)	(13,616)	(11,261)	(18,295)	(15,905)
Dividends declared or proposed	(29,006)	(29,006)	(36,090)	(36,090)
Total tier 1 capital	**354,470**	**352,585**	**291,674**	**288,795**
Tier 2 capital				
Paid up capital instruments (preference shares)	26,629	26,629	26,629	26,629
Share premium (preference shares)	45,700	45,700	45,700	45,700
Long term deposits qualifying as regulatory capital	70,951	70,951	84,514	84,514
Additional deductions of T2 Capital due to Article 3 CRR	(13,616)	(11,260)	(18,295)	(15,905)
Total tier 2 capital	**129,664**	**132,020**	**138,548**	**140,938**
Total capital	**484,134**	**484,605**	**430,222**	**429,733**
Total risk exposure amount	**2,165,381**	**2,143,538**	**2,241,227**	**2,211,793**
Total capital ratio	**22.36%**	**22.61%**	**19.20%**	**19.43%**

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

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

5 Use of estimates and judgements

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

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

Key sources of estimation uncertainty and judgement:

(i) Allowances for credit losses on loans and receivables

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

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

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

(ii) Determining fair value of financial instruments

All financial instruments that are carried at fair value were valued based on their market value, except for units in RB Opportunity Fund. Units in RB Opportunity Fund are valued based on the estimated fair value of underlying assets, mostly properties. To determine fair value of the properties valuation techniques were used that are based on market prices for similar properties sold on the market or based on discounted estimated future income.

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

5 Use of estimates and judgments, continued

(iii) Impairment of held-to-maturity investments

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

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

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

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

(v) Impairment of assets shown under other assets

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

(vi) Impairment of investments in subsidiaries

Investments in subsidiaries are valued at cost less accumulated impairment losses in the Bank's separate financial statements. On a regular basis, the Bank compares the cost of investment with the carrying amount of net assets of a subsidiary to see whether any impairment indication exists. If impairment indication exists, the recoverable amount of the investment is calculated based on discounted estimated future cash flows of the subsidiary. Future cash flows are based on budgets and projections prepared by the subsidiary and assessed for reasonableness.

(vii) Impairment of goodwill

Goodwill is assessed for impairment on an annual basis by discounting estimated future cash flows for the underlying cash generating unit using a discount rate equal to return on equity expected by shareholders. The estimated future cash flows are projected based on historical experience adjusted for expected changes in the business.

(viii) Useful lives of equipment

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

(ix) Deferred tax asset recognition

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

5 Use of estimates and judgments, continued

(x) Consolidation of investment funds

The Group is holding units of investment funds for which it acts as asset management company, i.e. has power over investment decisions within the investment strategy published in the fund prospectus. At each reporting date the Group evaluates the linkage between power and exposure to variable returns and decides whether the respective fund shall be consolidated or not. See Note 44.

(xi) Acquisition of new subsidiaries

Upon each acquisition of a subsidiary, the Group evaluates whether it obtained control over business as defined by IFRS adopted by EU, in which case acquisition accounting is applied. If control is gained only over individual assets and liabilities, the consideration paid is allocated to the acquired assets and liabilities. See Note 46.

6 Net interest income

	2016 '000 EUR Group	2016 '000 EUR Bank	2015 '000 EUR Group	2015 '000 EUR Bank
Interest income				
Loans and receivables due from customers	78,840	69,305	89,804	82,312
Loans and receivables due from financial institutions	3,533	3,520	3,260	3,245
Available for sale assets	8,867	8,867	6,254	6,254
Held-to-maturity investments	8,453	8,412	6,592	6,575
Amounts receivable under reverse repurchase agreements	750	750	532	532
Financial instruments at fair value through profit or loss	8	-	47	47
	100,451	**90,854**	**106,489**	**98,965**
Interest expense				
Current accounts and deposits due to customers	12,623	12,609	14,771	14,754
Loans and receivables due from financial institutions	2,725	2,638	1,406	1,406
Deposits and balances due to financial institutions	-	-	154	-
Other interest expense	6,748	6,158	7,000	6,475
	22,096	**21,405**	**23,331**	**22,635**

Included within interest income from loans and receivables due from customers for the year ended 31 December 2016 is interest income of EUR 7,274 thousand (2015: EUR 6,966 thousand) relating to impaired loans issued by the Bank and EUR 7,325 thousand (2015: EUR 7,199 thousand) accordingly by the Group.

7 Fee and commission income

	2016 '000 EUR Group	2016 '000 EUR Bank	2015 '000 EUR Group	2015 '000 EUR Bank
E-commerce	20,752	20,752	19,865	19,865
Money transfers	18,814	18,814	19,321	19,321
Commission income from payment cards	10,206	10,206	10,632	10,632
Commission from account servicing	7,980	7,980	9,617	9,617
Revenue from customer asset management and brokerage commissions	5,388	4,883	5,097	4,754
Commission from documentary operations	730	730	599	599
Cash withdrawals	215	215	230	230
Remote system fee	142	142	166	166
Other	4,754	4,924	3,976	3,988
	68,981	**68,646**	**69,503**	**69,172**

8 Fee and commission expense

	2016 ’000 EUR Group	2016 ’000 EUR Bank	2015 000 EUR Group	2015 ’000 EUR Bank
E-commerce	12,382	12,382	10,854	10,854
Payment card expenses	9,573	9,573	8,054	8,054
Agent commissions	2,107	1,839	2,624	2,440
On correspondent accounts	2,332	2,332	2,115	2,115
Brokerage fees	1,111	1,043	804	832
Other	381	648	928	1,193
	27,886	**27,817**	**25,379**	**25,488**

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

	2016 ’000 EUR Group	2016 ’000 EUR Bank	2015 ’000 EUR Group	2015 ’000 EUR Bank
Equity instruments	24	24	(278)	(278)
Debt instruments	1,834	-	(901)	27
Derivatives	9	(16)	38	64
	1,867	**8**	**(1,141)**	**(187)**

10 Net foreign exchange gain/(loss)

	2016 ’000 EUR Group	2016 ’000 EUR Bank	2015 ’000 EUR Group	2015 ’000 EUR Bank
Gain/(loss) from revaluation of financial assets and liabilities	217	144	(729)	(86)
Gain on spot transactions and derivatives	22,519	22,518	24,469	24,472
	22,736	**22,662**	**23,740**	**24,386**

11 Net realised gain on available-for-sale assets

	2016 ’000 EUR Group	2016 ’000 EUR Bank	2015 ’000 EUR Group	2015 ’000 EUR Bank
Equity instruments	30,961	30,959	193	193
Debt instruments	1,426	1,426	265	265
	32,387	**32,385**	**458**	**458**

During 2016, Visa Inc. completed the purchase of Visa Europe from all European participating banks. As a result of the transaction the Bank realized a profit of EUR 24,74 million from the cash settlement and EUR 2 million from deferred payment in 2016. In year 2016 Bank received 8 991 Visa Inc. preference shares. Fair value of preference shares as at 31 December 2016 is EUR 4,65 million.

12 Other income/(expense)

	2016 '000 EUR Group	2016 '000 EUR Bank	2015 '000 EUR Group	2015 '000 EUR Bank
Rental income from operating leases	4,079	653	3,542	760
Fair value change in investment property	(6,124)	217	744	1,626
Penalties received	725	553	1,148	962
(Written off)/Recovery of assets written off	(144)	4	(30)	12
Gain/(Loss) from sale of property and equipment	35	-	(24)	-
Gain /(Loss) from sale of Investment property	(42)	(8)	496	-
Dividends received	402	2,263	4	2,334
Gain/(Loss) from sale of subsidiaries	6	-	171	-
Negative goodwill write-off (Note 46)	98	-	33	-
Income from production of electricity and heating	1,694	-	1,823	-
Other	3,826	1,197	491	799
	4,555	**4,879**	**8,398**	**6,493**

13 Impairment losses

	2016 '000 EUR Group	2016 '000 EUR Bank	2015 '000 EUR Group	2015 '000 EUR Bank
Impairment losses				
Loans and receivables due from customers	(44,198)	(44,260)	(26,015)	(25,600)
Intangible assets	(699)	-	-	-
Available-for-sale financial assets	-	(3,603)	-	-
Investments in subsidiaries	-	(1,640)	-	(20)
Other financial assets	-	-	(354)	(354)
Other non-financial assets	(62)	(63)	(1,956)	(1,827)
	(44,959)	**(49,566)**	**(28,325)**	**(27,801)**
Reversals of impairment losses				
Loans and receivables due from customers	12,017	11,431	4,527	4,781
Available-for-sale financial assets	-	-	-	33
Other non-financial assets	214	216	7	7
	12,231	**11,647**	**4,534**	**4,821**
Net impairment losses	**(32,728)**	**(37,919)**	**(23,791)**	**(22,980)**

14 General administrative expenses

	2016 '000 EUR Group	2016 '000 EUR Bank	2015 '000 EUR Group	2015 '000 EUR Bank
Employee compensation	21,515	16,861	19,794	16,493
Salaries to Board of Directors and Council	2,346	1,817	4,558	3,573
Payroll related taxes on employee remuneration	5,407	4,364	4,358	3,534
Depreciation and amortisation	3,947	1,850	3,681	1,820
Repairs and maintenance	3,981	869	2,317	815
Taxes other than on corporate income and payroll	2,966	1,827	2,066	1,175
IT related costs	1,874	1,874	1,983	1,983
Rent	1,665	3,526	1,903	3,627
Representative offices	1,937	1,374	1,883	1,426
Advertising and marketing	1,791	1,115	1,512	1,002
Communications and information services	1,368	1,218	1,344	1,254
Travel expenses	1,524	1,248	1,302	1,214
Professional services	1,675	1,604	1,183	1,061
Provision for bonus and payroll related taxes	1,966	1,966	906	906
Representation	776	254	774	438
Charity and sponsorship	1,234	1,761	723	2,203
Credit card service	369	369	489	489
Insurance	315	254	285	236
Employee health insurance	297	272	295	278
Audit services	209	143	231	142
Subscription of information	164	159	197	154
Office supplies (Stationery)	81	67	116	64
Security	93	122	95	98
Other	2,398	1,263	3,493	3,978
Reverse of provisions for the management bonus	(393)	(393)	(1,719)	(1,719)
	59,505	**45,784**	**53,769**	**46,244**

15 Income tax expense

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

	2016 '000 EUR Group	2016 '000 EUR Bank	2015 '000 EUR Group	2015 '000 EUR Bank
Current tax expense				
Current tax expense	6,901	5,810	10,449	9,598
Deferred tax	(490)	399	684	163
Total income tax expense in the profit and loss	**6,411**	**6,209**	**11,133**	**9,761**

The tax rate applicable in countries in which group entities operate:	**2016**	**2015**
Latvia	15.00%	15.00%
Belarus	18.00%	18.00%
Cyprus	12.50%	12.50%
Russia	20.00%	20.00%

(b) Reconciliation of effective tax rate:

The Group	**2016 '000 EUR**	**%**	**2015 '000 EUR**	**%**
Profit before tax	88,748		81,176	
Income tax at the applicable tax rate	13,312	15.00%	12,176	15.00%
Non-deductible expenses	1,049	1.17%	1,940	2.39%
Tax exempt income	(7,237)	(8.15%)	(2,146)	(2.65%)
Tax paid abroad	757	0.84%	459	0.57%
Tax relief on donations	(1,470)	(1.64%)	(1,919)	(2.37%)
Tax loss carried forward	-	-	-	-
Change in unrecognised deferred tax asset	-	-	353	0.44%
Under provided in prior years	-	-	193	0.24%
Effect of different tax rate in other countries	-	-	77	0.10%
	6,411	**7.22%**	**11,133**	**13.72%**

The Bank	**2016 '000 EUR**	**%**	**2015 '000 EUR**	**%**
Profit before tax	86,509		81,940	
Income tax at the applicable tax rate	12,976	15.00%	12,291	15.00%
Non-deductible expenses	1,223	1.41%	910	1.11%
Tax exempt income	(7,277)	(8.41%)	(2,146)	(2.62%)
Tax relief on donations	(1,470)	(1.70%)	(1,859)	(2.27%)
Change in unrecognised deferred tax asset	-	-	106	0.13%
Tax paid abroad	757	0.88%	459	0.56%
	6,209	**7.18%**	**9,761**	**11.91%**

15 Income tax expense, continued

(c) Income tax recognised in other comprehensive income and directly in equity

Group	**2016 ’000 EUR**		**2015 ’000 EUR**	
Income tax expense	**Tax Base**	**Income tax**	**Tax Base**	**Income tax**
Change in fair value reserve	2,288	(343)	711	(107)
Change in fair value reserve on which deferred tax asset is not recognized	3,883	-	-	-
Under provided in previous years	-	-	-	(49)
Total income tax recognised in other comprehensive income	**6,171**	**(343)**	**711**	**(156)**

Bank	**2016 ’000 EUR**		**2015 ’000 EUR**	
Income tax expense	**Tax Base**	**Income tax**	**Tax Base**	**Income tax**
Change in fair value reserve	2,288	(343)	711	(107)
Change in fair value reserve on which deferred tax asset is not recognized	4,687	-	(205)	-
Under provided in previous years	-	-	-	(49)
Total income tax recognised in other comprehensive income	**6,975**	**(343)**	**506**	**(156)**

Change in the fair value reserve in the amount of EUR 27,275 thousand (2015: 27,733) for the Group and of EUR 27,275 thousand (2015: 27,685) for the Bank is exempt from income tax.

16 Cash and balances with the Bank of Latvia

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

	31 Dec 2016 ’000 EUR Group	**31 Dec 2016 ’000 EUR Bank**	**31 Dec 2015 ’000 EUR Group**	**31 Dec 2015 ’000 EUR Bank**
Cash	2,850	2,809	4,671	4,619
Balances due from the Bank of Latvia	834,111	834,111	877,197	877,197
	836,961	**836,920**	**881,868**	**881,816**

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

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

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

17 Financial instruments at fair value through profit or loss

	31 December		31 December	
	2016 ’000 EUR Group	2016 ’000 EUR Bank	2015 ’000 EUR Group	2015 ’000 EUR Bank
Bonds				
- with rating from AAA to A	2,081	-	1,552	-
- with rating from BBB+ to BBB-	12,687	-	8,048	-
- non-investment grade	194	-	5,233	-
- not rated	437	-	74	-
Equity investments	529	209	574	183
Derivative financial instruments	1,124	1,124	958	983
Financial assets at fair value through profit or loss	**17,052**	**1,333**	**16,439**	**1,166**
Derivative financial instruments	(442)	(442)	(19)	(19)
Financial liabilities at fair value through profit or loss	**(442)**	**(442)**	**(19)**	**(19)**

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

Derivative financial assets and liabilities

The Group	**31 Dec 2016 ’000 EUR**		**31 Dec 2015 ’000 EUR**	
	Carrying amount	**Notional amount**	**Carrying amount**	**Notional amount**
Assets				
Forward contracts	-	-	675	5,636
Fair value of options	276	n/a	283	n/a
Currency swap contracts	848	6,745	-	-
Total derivative financial assets	**1,124**		**958**	
Liabilities				
Currency swap contracts	442	6,823	-	-
Forward contracts	-	-	19	1,038
Total derivative liabilities	**442**		**19**	

The Bank	**31 Dec 2016 ’000 EUR**		**31 Dec 2015 ’000 EUR**	
	Carrying amount	**Notional amount**	**Carrying amount**	**Notional amount**
Assets				
Forward contracts	-	-	700	6,686
Fair value of options	276	n/a	283	n/a
Currency swap contracts	848	6,745	-	-
Total derivative financial assets	**1,124**		**983**	
Liabilities				
Currency swap contracts	442	6,823	-	-
Forward contracts	-	-	19	1,038
Total derivative liabilities	**442**		**19**	

18 Loans and receivables due from banks

	31 Dec 2016 ’000 EUR Group	31 Dec 2016 ’000 EUR Bank	31 Dec 2015 ’000 EUR Group	31 Dec 2015 ’000 EUR Bank
Demand accounts				
Latvian commercial banks	2,554	2,302	3,144	2,996
OECD banks	460,932	460,923	779,148	779,148
Other non-OECD banks	39,492	39,050	37,285	37,026
Total Demand accounts	**502,978**	**502,275**	**819,577**	**819,170**
Deposit accounts				
OECD banks	5,195	5,195	15,000	15,000
Other non-OECD banks	14,251	14,251	6,633	6,633
Total loans and deposits	**19,446**	**19,446**	**21,633**	**21,633**
	522,424	**521,721**	**841,210**	**840,803**

Concentration of placements with banks

As at 31 December 2016 the Bank and the Group had 4 balances (2015: 3), which exceeded 10% of total loans and receivables from banks.

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

	31 Dec 2016 ‘000 EUR	%
KBC Bank N.V.	79,998	15.33
NORD/LB (London)	66,407	12.73
UniCredito Italiano SpA	66,407	12.73
Raiffeisenbank SCHWEIZ GENOSSENSCHAFT (Zurich)	66,407	12.73
LBBW STUTTGART	46,719	8.95
Deutsche Bank Trust Company	39,761	7.62
Raiffeisen Zentralbank Österreich AG (Austria, Vienna)	26,519	5.08
Deutsche Bank AG	21,524	4.13
BELGAZPROMBANK	14,119	2.71
Total	**427,861**	**82.01**

18 Loans and receivables due from banks, continued

The largest balances due from credit institutions as of 31 December 2015 in the Bank were as follows:

	31 Dec 2015 '000 EUR	%
Deutsche Bank Trust Company	112,650	13.40
Erste Group Bank AG	91,853	10.92
HSH Nordbank AG	91,853	10.92
KBC Bank N.V.	65,037	7.74
Raiffeisen Zentralbank Österreich AG (Austria, Vienna)	64,297	7.65
NORD/LB (London)	64,297	7.65
The Bank of Tokyo – Mitsubishi UFJ, Ltd	64,297	7.65
Lloyd TSB Bank plc	62,459	7.43
UniCredito Italiano SpA	41,181	4.90
Total	**657,924**	**78.26**

19 Loans and receivables due from customers

	31 Dec 2016 '000 EUR Group	31 Dec 2016 '000 EUR Bank	31 Dec 2015 '000 EUR Group	31 Dec 2015 '000 EUR Bank
Companies				
Finance leases	20,567	-	17,609	-
Loans	912,413	1,054,381	1,034,907	1,133,827
Individuals				
Finance leases	36,240	-	33,939	-
Loans	170,031	170,031	111,075	109,610
Specific impairment allowance	(92,562)	(107,539)	(93,285)	(91,648)
Collective impairment allowance	(1,769)	-	(2,473)	-
Net Loans and receivables from customers	**1,044,920**	**1,116,873**	**1,101,772**	**1,151,789**

(a) Finance leases

Loans and receivables from customers include the following finance lease receivables for leases of certain property and equipment where the Group is the lessor:

	31 Dec 2016 '000 EUR Group	31 Dec 2015 '000 EUR Group
Gross investment in finance leases, receivable		
Less than one year	23,758	26,598
Between one and five years	38,201	39,168
Total gross investment in finance leases	61,959	65,766
Unearned finance income	(5,152)	(14,218)
Net investment in finance lease before allowance	56,807	51,548
Impairment allowance	(1,799)	(2,706)
Net investment in finance lease	**55,008**	**48,842**

19 Loans and receivables due from customers, continued

	31 Dec 2016 ’000 EUR Group	31 Dec 2015 ’000 EUR Group
The net investment in finance leases comprises:		
Less than one year	20,048	20,721
Between one and five years	34,960	28,121
Net investment in finance lease	**55,008**	**48,842**

(b) Credit quality of loan portfolio

(i) Ageing structure of loan portfolio

The Group			**Of which past due by the following terms**				
As at 31 Dec 2016	**Total EUR’000**	**Of which not past due on the reporting date**	**Less than 30 days**	**31-90 days**	**91-180 days**	**More than 180 days**	**Net carrying amount of overdue loans**
Net carrying amount	**1,044,920**	824,440	44,522	21,240	64,047	90,671	220,480
Out of which impaired	**199,066**	88,606	1,319	1,182	36,151	71,808	110,460
Assessed fair value of collateral	**1,460,167**	1,165,588	64,841	23,333	100,727	105,678	294,579
As at 31 Dec 2015							
Net carrying amount	**1,101,772**	894,322	57,477	45,796	42,451	61,726	207,450
Out of which impaired	**189,829**	72,898	4,641	42,775	17,883	51,632	116,931
Assessed fair value of collateral	**1,541,860**	1,274,016	96,094	31,308	46,183	94,259	267,844

The Bank			**Of which past due by the following terms**				
As at 31 Dec 2016	**Total EUR’000**	**Of which not past due on the reporting date**	**Less than 30 days**	**31-90 days**	**91-180 days**	**More than 180 days**	**Net carrying amount of overdue loans**
Net carrying amount	**1,116,873**	896,190	45,093	20,989	63,965	90,636	220,683
Out of which impaired	**210,982**	98,946	2,966	1,157	36,140	71,773	112,036
Assessed fair value of collateral	**1,529,917**	1,235,484	65,064	23,081	100,645	105,643	294,433
As at 31 Dec 2015							
Net carrying amount	**1,151,789**	947,014	56,164	44,617	42,309	61,685	204,775
Out of which impaired	**190,971**	75,157	4,618	41,795	17,810	51,591	115,814
Assessed fair value of collateral	**1,603,155**	1,339,924	92,844	30,129	46,040	94,218	263,231

19 Loans and receivables due from customers, continued

(ii) Analysis of loan portfolio by type of collateral

The following table provides the analysis of the loan portfolio, net of impairment, by types of collateral as at 31 December 2016:

The Group

EUR'000	31 Dec 2016	% of loan portfolio	31 Dec 2015	% of loan portfolio
Commercial buildings	383,461	36.70	379,316	34.42
Commercial assets pledge	317,942	30.43	360,226	32.70
Traded securities	91,311	8.74	92,337	8.38
Mortgage on residential properties	68,438	6.55	35,478	3.22
Land mortgage	58,169	5.57	74,690	6.78
Without collateral	45,523	4.36	40,252	3.65
Other mortgage	35,646	3.41	90,182	8.19
Guarantee	27,405	2.62	26,150	2.37
Deposit	16,139	1.54	2,068	0.19
Non-traded securities	886	0.08	1,073	0.10
Total	**1,044,920**	**100.00**	**1,101,772**	**100.00**

The Bank

EUR'000	31 Dec 2016	% of loan portfolio	31 Dec 2015	% of loan portfolio
Commercial buildings	424,899	38.04	413,042	35.86
Commercial assets pledge	351,846	31.50	380,701	33.05
Traded securities	91,311	8.18	92,336	8.02
Mortgage on residential properties	68,709	6.15	35,478	3.08
Land mortgage	63,019	5.64	74,690	6.48
Without collateral	51,569	4.62	44,602	3.87
Guarantee	27,405	2.45	26,150	2.27
Deposit	16,138	1.44	2,068	0.18
Non-traded securities	886	0.08	1,073	0.10
Other	21,091	1.90	81,649	7.09
Total	**1,116,873**	**100.00**	**1,151,789**	**100.00**

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

19 Loans and receivables due from customers, continued

(iii) Impaired loans

	31 Dec 2016 ’000 EUR Group	31 Dec 2016 ’000 EUR Bank	31 Dec 2015 ’000 EUR Group	31 Dec 2015 ’000 EUR Bank
Impaired loans gross	291,628	318,521	283,114	282,619
Specific impairment allowance	(92,562)	(107,539)	(93,285)	(91,648)
Net loans and receivables from customers	**199,066**	**210,982**	**189,829**	**190,971**
Fair value of collateral related to impaired loans	**213,037**	**224,987**	**189,747**	**191,404**

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

The Group

	31 Dec 2016 ’000 EUR Gross	Specific impairment allowance	Collective impairment allowance	31 Dec 2015 ’000 EUR Gross	Specific impairment allowance	Collective impairment allowance
Standard	883,234	(1,189)	(935)	936,123	(2,240)	(817)
Watch	122,274	(22,439)	(29)	156,186	(23,575)	(22)
Substandard	87,457	(30,945)	(97)	38,571	(15,191)	(85)
Doubtful	33,911	(26,214)	(107)	52,641	(39,713)	(106)
Lost	12,375	(11,775)	(601)	14,009	(12,566)	(1,443)
Total	**1,139,251**	**(92,562)**	**(1,769)**	**1,197,530**	**(93,285)**	**(2,473)**

The Bank

	31 Dec 2016 ’000 EUR Gross	Specific impairment allowance	31 Dec 2015 ’000 EUR Gross	Specific impairment allowance
Standard	946,458	(1,545)	984,643	(2,240)
Watch	125,061	(22,747)	158,392	(23,815)
Substandard	89,288	(31,999)	38,254	(15,192)
Doubtful	53,069	(40,712)	50,830	(39,083)
Lost	10,536	(10,536)	11,318	(11,318)
Total	**1,224,412**	**(107,539)**	**1,243,437**	**(91,648)**

19 Loans and receivables due from customers, continued

(iv) Movements in the impairment allowance

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

EUR'000	2016 '000 EUR Group	2016 '000 EUR Bank	2015 '000 EUR Group	2015 '000 EUR Bank
Allowance for impairment				
Balance at 1 January	95,758	91,648	90,271	86,813
Charge for the year:				
Specific impairment allowance	43,692	44,260	25,610	25,600
Collective impairment allowance	506	-	405	-
Transfer from Other assets impairment	(659)	(659)	-	-
Reversal of impairment allowance loss				
Specific impairment allowance	(12,017)	(11,431)	(4,360)	(4,781)
Collective impairment allowance	-	-	(167)	-
Effect of foreign currency translation	1,987	2,020	2,468	2,415
Write offs	(34,936)	(18,299)	(18,469)	(18,399)
Balance at 31 December	**94,331**	**107,539**	**95,758**	**91,648**

(v) Restructured loans

As at 31 December 2016, the Group held restructured loans of EUR 237,973 thousand (2015: EUR 237,037 thousand) and the Bank held restructured loans of EUR 251,642 thousand (2015: EUR 243,062 thousand). Main forms of restructuring were the reduction of the interest rate, postponing of interest payments or principal payments.

(c) Industry analysis of the loan portfolio

	31 Dec 2016 '000 EUR Group	31 Dec 2016 '000 EUR Bank	31 Dec 2015 '000 EUR Group	31 Dec 2015 '000 EUR Bank
Financial services	238,098	289,096	268,904	311,764
Real estate management	232,552	299,795	258,859	308,229
Individuals	160,424	160,424	99,907	98,941
Transport and communication	150,998	153,788	200,111	203,292
Wholesale and retailing	71,717	71,717	81,021	81,022
Investments in finance lease	55,008	-	48,842	-
Construction	39,611	39,611	41,028	41,028
Manufacturing	22,819	23,498	16,879	17,523
Food industry	6,351	6,351	9,322	9,322
Tourism	3,026	4,674	6,414	6,414
Other	64,316	67,919	70,485	74,254
	1,044,920	**1,116,873**	**1,101,772**	**1,151,789**

19 Loans and receivables due from customers, continued

(d) Geographical analysis of the loan portfolio

	31 Dec 2016 ’000 EUR Group	31 Dec 2016 ’000 EUR Bank	31 Dec 2015 ’000 EUR Group	31 Dec 2015 ’000 EUR Bank
Latvia	201,044	269,632	239,637	293,898
OECD countries	195,347	195,311	149,036	149,000
Other non-OECD countries	648,529	651,930	713,099	708,891
	1,044,920	**1,116,873**	**1,101,772**	**1,151,789**

(e) Significant credit exposures

According to regulatory requirements, the Bank and the Group are not allowed to have a credit exposure to one client or group of related clients more than 25% of its equity. As at December 31, 2016 and 2015 the Bank and the Group were in compliance with this requirement.

20 Available-for-sale assets

	2016 '000 EUR Group	2016 '000 EUR Bank	2015 '000 EUR Group	2015 '000 EUR Bank
Bonds				
- with rating from AAA to A	246,171	246,171	330,731	330,731
- with rating from BBB+ to BBB-	148,176	148,176	54,644	54,644
- non-investment grade	67,647	67,647	68,889	68,889
- without rating	-	-	1,838	1,838
Rietumu Asset Management Funds				
RB Opportunity Fund I	-	28,667	-	32,269
Cash Reserve Fund	-	4,790	-	4,610
Fixed Income High Yield Fund	-	4,879	-	4,153
Fixed Income Investment Grade Fund	-	4,832	-	4,503
Global Equity Fund	-	415	-	381
VISA Europe share	-	-	27,275	27,275
VISA Inc share	4,651	4,651	-	-
Other equity instruments	939	750	687	496
Available for sale assets	**467,584**	**510,978**	**484,064**	**529,789**
Acquisition cost	466,929	514,794	462,305	509,702
Revaluation	2,303	5,711	23,407	26,011
Impairment allowance	(1,648)	(9,527)	(1,648)	(5,924)
Available-for-sale	**467,584**	**510,978**	**484,064**	**529,789**

Of which pledged under sale and repurchase agreements with Bank of Latvia	133,548	133,548	-	-

Analysis of movements in the impairment allowance

	31 Dec 2016 '000 EUR Group	31 Dec 2016 '000 EUR Bank	31 Dec 2015 '000 EUR Group	31 Dec 2015 '000 EUR Bank
Balance at 1 January	1,648	5,924	1,648	5,957
Charge for the year	-	3,603	-	-
Reversal of impairment allowance loss	-	-	-	(33)
Balance at 31 December	**1,648**	**9,527**	**1,648**	**5,924**

21 Held-to-maturity investments

	31 Dec 2016 ’000 EUR Group	31 Dec 2016 ’000 EUR Bank	31 Dec 2015 ’000 EUR Group	31 Dec 2015 ’000 EUR Bank
Debt and other fixed-income instruments				
- Government and municipal bonds				
Latvia	1,904	1,904	1,837	1,837
Russia	13,589	13,589	13,153	13,153
Lithuania	-	-	-	-
Total government and municipal bonds	**15,493**	**15,493**	**14,990**	**14,990**
- Corporate bonds				
Latvia	-	-	-	-
Russia	48,071	48,071	45,888	45,888
USA	108,276	105,243	60,786	59,764
Other European Union countries	39,663	38,970	16,045	15,207
Other non-European Union countries	108,071	108,071	82,801	82,052
Total corporate bonds	**304,081**	**300,355**	**205,520**	**202,911**
	319,574	**315,848**	**220,510**	**217,901**
Of which pledged under sale and repurchase agreements with Bank of Latvia	977	977	-	-

22 Investments in subsidiaries

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

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

22 Investments in subsidiaries, continued

Investment in subsidiaries at 31 December 2015 (‘000 EUR):

Company	**Address**	**Share Capital**	**Equity**	**Bank’s share of total share capital, %**	**Carrying amount**
RB Investments SIA	Vesetas str.7, Riga, Latvia	14,228	10,614	100%	14,228
RB Securities Ltd	Stasinou str.1, Mitsi Building 1, 2nd floor, Flat/office 5, Plateia Eleftherias, P.C.1060, Nicosia, Cyprus	12,557	7,388	99.99%	10,956
Overseas Estates SIA	Vesetas str.7, Riga, Latvia	9,480	349	100%	7,346
Rietumu Asset Management IPS	Vesetas str.7, Riga, Latvia	500	581	100%	500
Rietumu Leasing Ltd	Odoevskogo str.117, 6th floor, office 9, Minsk, Belarus	275	3,547	99.5%	2,362
KI Invest SIA	Naucnij pr.19, 8th Floor, Office 12, Moscow, Russia	43	27	100%	48
InCREDIT GROUP SIA	Krisjana Barona Str.130, Riga, Latvia	500	4,547	51%	255
RB Drosiba SIA	Vesetas str.7, Riga, Latvia	71	112	100%	71
RB Namu Serviss SIA	Vesetas str.7, Riga, Latvia	3	24	100%	3
RB Baki Ltd	Atartuk prospekt 2-9, Baku, AZ1110, Azerbaijan	-	-	90%	4
Langervaldes 2 SIA	Vesetas str.7, Riga, Latvia	462	313	100%	463
SBD SIA	Vesetas str.7, Riga, Latvia	460	60	66.89%	1
Vesetas 7 SIA	Vesetas str.7, Riga, Latvia	142	4,804	100%	3,263
Rietumu Bankas Labdaribas Fonds	Vesetas str.7, Riga, Latvia	-	2,686	100%	-
Euro Textile Group SIA	Ganibu dambis str. 30, Riga, Latvia	887	(490)	100%	1,000
Impairment allowance					*(11,618)*
Total Bank’s investment in subsidiaries, net					**28,882**

22 Investments in subsidiaries, continued

Movements in the impairment allowance

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

	2016 '000 EUR Bank	2015 '000 EUR Bank
Allowance for impairment		
Balance at 1 January	11,618	11,666
Charge for the year	1,640	20
Write off	-	(68)
Balance at 31 December	**13,258**	**11,618**

In 2016, the Bank established the following subsidiaries all domiciled in the Republic of Latvia: “Rietumu IT Services” SIA (5 May 2016), “Rietumu Jazz” SIA (26 May 2016) and SIA “Rietumu Transport and Logistic” SIA on 14 December 2016.

23 Equity accounted investees

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

Name	Country of incorpora-tion	Principal activities	Ownership %	Amount of investment	Ownership %	Amount of investment
			31 December 2016		**31 December 2015**	
AED Rail Service SIA	Latvia	Railway information services	43.00%	7	43.00%	21
Dzelzcelu Tranzits SIA	Latvia	Railway information services	49.12%	-	49.12%	-
Total				**7**		**21**

24 Property and equipment

The Group

Cost/Revalued amount ’000 EUR	**Land and buildings**	**Construction in progress**	**Vehicles**	**Office equipment and machinery**	**Advances**	**Total**
At 1 January 2016	**38,480**	**1,999**	**2,594**	**23,419**	**64**	**66,556**
Additions	545	237	573	838	139	**2,332**
Disposals	-	-	(264)	(966)	(26)	**(1,256)**
Transfer from other assets (advances)	-	-	16	47	(63)	-
Sale of subsidiary	-	-	-	(6)	-	**(6)**
Transfer (investment in share capital)	-	-	-	(167)	-	**(167)**
Revaluation	-	-	-	44	-	**44**
Acquisition of subsidiary	-	-	-	41	-	**41**
FX translation effect	(161)	-	(2)	(6)	-	**(169)**
At 31 December 2016	**38,864**	**2,236**	**2,917**	**23,244**	**114**	**67,375**
Depreciation						
At 1 January 2016	**4,478**	**-**	**1,400**	**14,186**	**-**	**20,064**
Depreciation charge	781	-	424	1,865	-	**3,070**
Disposals	-	-	(256)	(972)	-	**(1,228)**
Sale of subsidiary	-	-	-	(4)	-	**(4)**
FX translation effect	(11)	-	-	(4)	-	**(15)**
At 31 December 2016	**5,248**	**-**	**1,568**	**15,071**	**-**	**21,887**
Net carrying amount						
At 31 December 2016	**33,616**	**2,236**	**1,349**	**8,173**	**114**	**45,488**
At 31 December 2015	**34,002**	**1,999**	**1,194**	**9,233**	**64**	**46,492**

24 Property and equipment, continued

The Group, continued

Cost/Revalued amount ’000 EUR	**Land and buildings**	**Construction in progress**	**Vehicles**	**Office equipment and machinery**	**Advances**	**Total**
At 1 January 2015	**38,467**	**32**	**2,868**	**22,668**	**-**	**64,035**
Additions	-	236	399	1,426	-	**2,061**
Disposals	-	-	(665)	(1,403)	-	**(2,068)**
Transfer from other assets	-	1,737	-	-	64	**1,801**
Sale of subsidiary	-	-	-	(11)	-	**(11)**
Reclassification to investment property	-	(6)	-	-	-	**(6)**
Acquisition of subsidiary	-	-	-	767	-	**767**
FX translation effect	13	-	(8)	(28)	-	**(23)**
At 31 December 2015	**38,480**	**1,999**	**2,594**	**23,419**	**64**	**66,556**
Depreciation						
At 1 January 2015	**3,712**	**-**	**1,597**	**13,681**	**-**	**18,990**
Depreciation charge	778	-	393	1,826	-	**2,997**
Disposals	-	-	(589)	(1,296)	-	**(1,885)**
Transfer	-	-	1	(1)	-	**-**
Sale of subsidiary	-	-	-	(4)	-	**(4)**
FX translation effect	(12)	-	(2)	(20)	-	**(34)**
At 31 December 2015	**4,478**	**-**	**1,400**	**14,186**	**-**	**20,064**
Net carrying amount						
At 31 December 2015	**34,002**	**1,999**	**1,194**	**9,233**	**64**	**46,492**
At 31 December 2014	**34,755**	**32**	**1,271**	**8,987**	**-**	**45,045**

24 Property and equipment, continued

Revalued assets

As at 31 December 2016 and 2015, properties consisting of office buildings and land were revalued based on report by external independent and qualified property appraisers with recent experience in the location and category of the property being valued. The independent appraisers provide the fair value of the property portfolio every year.

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

The following table shows the valuation techniques used in measuring the fair value of the significant items of property, as well as the significant unobservable inputs used:

Type	Valuation technique	Significant unobservable inputs	Inter-relation between significant unobservable inputs and fair value measurement
Office premises in administrative building in the net carrying amount of EUR 678 thousand (2015: EUR 839 thousand) located in Minsk, Belarus	Market comparison technique: The fair value was based on results of comparable sales of similar buildings	Price per m^2 – EUR 1,059 (2015: EUR 1,312)	The fair value would increase (decreased) if the price per m^2 was higher (lower).
Office building (17,071 m2) and land in the amount of EUR 31,842 thousand (2015: EUR 32,503 thousand) located in Riga, Latvia	Discounted cash flows technique: The model is based on discounted cash flows from rental income.	Rental income per m^2 of EUR 14-16 (2015: EUR 13-16) Discount rate of 7% (2015: 7%)	The estimated fair value would increase (decrease) if: - Rental income per m^2 was higher (lower) - The discount rate was lower (higher) - Annual capital expense are lower (higher) - The occupancy rate was higher (lower)

24 Property and equipment, continued

The Bank

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

’000 EUR	Construction in progress	Vehicles	Office equipment	Advances	Total
1 January 2015	**-**	**2,809**	**14,684**	**-**	**17,493**
Additions	236	391	583	**-**	**1,210**
Disposals	-	(658)	(1,105)	**-**	**(1,763)**
Transfer from other assets	1,737	-	-	64	**1,801**
At 31 December 2015	**1,973**	**2,542**	**14,162**	**64**	**18,741**
Depreciation and impairment losses					
At 1 January 2015	**-**	**1,561**	**9,462**	**-**	**11,023**
Depreciation charge	-	385	872	**-**	**1,257**
Disposals	-	(588)	(1,101)	**-**	**(1,689)**
At 31 December 2015	**-**	**1,358**	**9,233**	**-**	**10,591**
Net carrying amount					
At 31 December 2015	**1,973**	**1,184**	**4,929**	**64**	**8,150**
At 31 December 2014	**-**	**1,248**	**5,222**	**-**	**6,470**

25 Intangible assets

The Group

'000 EUR	**Goodwill**	**Software**	**Other**	**Advances**	**Total**
Cost amount					
At 1 January 2016	**1,069**	**12,229**	**1,984**	**504**	**15,786**
Additions	699	925	3	488	**2,115**
Disposals	-	(2)	(16)	-	**(18)**
Goodwill write off	(699)	-	-	-	**(699)**
Reclassification from other assets	67	-	-	(67)	**-**
FX translation effect	-	58	-	-	**58**
At 31 December 2016	**1,136**	**13,210**	**1,971**	**925**	**17,242**
Amortisation and impairment losses					
At 1 January 2016	**-**	**10,909**	**872**	**-**	**11,781**
Amortisation charge	-	742	135	-	**877**
Disposals	-	(2)	(16)	-	**(18)**
Impairment of goodwill write off	(699)	-	-	-	**(699)**
Impairment loss	699	-	-	-	**699**
At 31 December 2016	**-**	**11,649**	**991**	**-**	**12,640**
Net carrying amount					
At 31 December 2016	**1,136**	**1,561**	**980**	**925**	**4,602**
At 31 December 2015	**1,069**	**1,320**	**1,112**	**504**	**4,005**

'000 EUR	**Goodwill**	**Software**	**Other**	**Advances**	**Total**
Cost amount					
At 1 January 2015	**2,512**	**11,658**	**2,056**	**-**	**16,226**
Additions	-	493	34	-	**527**
Disposals	-	-	(28)	-	**(28)**
Goodwill write off	(1,443)	-	-	-	**(1,443)**
Reclassification	-	78	(78)	-	**-**
Transfer from other assets	-	-	-	504	**504**
At 31 December 2015	**1,069**	**12,229**	**1,984**	**504**	**15,786**
Amortisation and impairment losses					
At 1 January 2015	**1,443**	**10,350**	**774**	**-**	**12,567**
Amortisation charge	-	559	125	-	**684**
Disposals	-	-	(27)	-	**(27)**
Impairment of goodwill write off	(1,443)	-	-	-	**(1,443)**
At 31 December 2015	**-**	**10,909**	**872**	**-**	**11,781**
Net carrying amount					
At 31 December 2015	**1,069**	**1,320**	**1,112**	**504**	**4,005**
At 31 December 2014	**1,069**	**1,308**	**1,282**	**-**	**3,659**

Goodwill in amount of EUR 699 thousand that arose from acquisition of subsidiaries was impaired and written off.

25 Intangible assets, continued

The Bank

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

’000 EUR	Goodwill	Software	Other	Advances	Total
Cost amount					
At 1 January 2015	**1,069**	**11,645**	**115**	**-**	**12,829**
Additions	-	493	19	**-**	**512**
Disposals	-	-	(14)	**-**	**(14)**
Reclassification	-	78	(78)	**-**	**-**
Advances	-	-	-	504	**504**
At 31 December 2015	**1,069**	**12,216**	**42**	**504**	**13,831**
Amortisation and impairment losses					
At 1 January 2015	**-**	**10,336**	**35**	**-**	**10,371**
Amortisation charge	-	562	1	**-**	**563**
Disposals	-	-	(13)	**-**	**(13)**
At 31 December 2015	**-**	**10,898**	**23**	**-**	**10,921**
Net carrying amount					
At 31 December 2015	**1,069**	**1,318**	**19**	**504**	**2,910**
At 31 December 2014	**1,069**	**1,309**	**80**	**-**	**2,458**

26 Investment property

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

	31 Dec 2016 ’000 EUR Group	31 Dec 2016 ’000 EUR Bank	31 Dec 2015 ’000 EUR Group	31 Dec 2015 ’000 EUR Bank
Balance at 1 January	82,968	8,447	76,399	5,406
Collateral from loans assumed	-	-	-	-
Transferred from advances	-	-	17	-
Purchase of subsidiary	10,259	-	4,028	-
Transferred from property	-	-	6	-
Transferred from other assets	1,822	1,822	-	-
Additions	3,807	273	4,567	1,451
Disposals	(1,189)	(72)	(2,129)	(36)
Revaluations	(6,124)	217	744	1,626
Currency revaluation	(197)	-	(664)	-
Written off	(47)	-	-	-
Balance at 31 December	**91,299**	**10,687**	**82,968**	**8,447**

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

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

Rental income and operating expense for the year ended 31 December 2015, the Group:

	Carrying amount ’000 EUR	Rental income ‘000 EUR	Operating expenses ‘000 EUR
Investment property rented out	55,245	2,566	1,709
Investment property held for value appreciation	27,723	-	327
Total	**82,968**	**2,566**	**2,036**

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

All investment properties represent Level 3 fair value hierarchy.

26 Investment property, continued

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

Type	Valuation technique	Significant unobservable inputs	Carrying amount
Residential property	Market comparison technique: The fair value was based on results of comparable sales of similar properties	Average price per m^2	
- Riga		EUR 1,120 – 1,247	9,422
- Jurmala		EUR 2,795 – 3,288	6,916
- Other areas in Latvia		EUR 1,008 – 1,152	6,811
Land	Market comparison technique: The fair value was based on results of comparable sales of similar land plots	Average price per m^2	
- Riga		EUR 37 – 53	12,246
- Jurmala		EUR 62 – 72	2,989
- Other areas in Latvia		EUR 7 – 10	12,729
Commercial property	Market comparison technique: The fair value was based on results of comparable sales of similar properties	Average price per m^2	
- Riga		EUR 1,502 – 1,980	16,566
- Other areas in Latvia		EUR 177 – 329	1,773
- Belarus		EUR 350 - 742	1,478
- Riga region	Discounted cash flows technique: The model is based on discounted cash flows from rental income	Rental income per m^2 EUR 5.74 Annual discount rate of 7%	2,497
Commercial property - Hotels (Jurmala)	Discounted cash flows technique: The model is based on discounted cash flows from rental income	Annual discount rate of 7% EUR 50 – 225 income per hotel room The occupancy rate increasing over time from 40% to 55%	3,863
- Industrial production premises for rent (Riga region)	Market comparison technique: The fair value was based on results of comparable sales of similar properties	Average price per m^2 EUR 230 – 347	3,258
- Terminal (Ventspils)	Discounted cash flows technique: The model is based on discounted cash flows from transhipment, storage and blending of molasses	Income from molasses transhipment 11 – 13 EUR / t. Transhipment volumes 100 – 150 thousand tons per year. Annual discount rate of EBITDA 14%. Capitalization rate 14%.	3,910
- Shop (Riga)	Discounted cash flows technique: The model is based on discounted cash flows from rental income	Annual discount rate of 8.5% Occupancy rate 95% Rental income EUR 5.16 per m^2	3,303
- Commercial premises (Riga)	Discounted cash flows technique: The model is based on discounted cash flows from sales income after property reconstruction	Annual discount rate 5-15% Sales price for m2 EUR 3,300 Sales price for a car parking lot EUR 10,000	1,618
- Residential, office and shop premises (Riga)	Market comparison technique: The fair value was based on results of comparable sales of similar properties	Average price per m^2 EUR 681	1,920
Total			**91,299**

26 Investment property, continued

The following table shows the valuation technique used in measuring fair value of investment property of the Group and significant unobservable inputs used as at December 31, 2015:

Type	Valuation technique	Significant unobservable inputs	Carrying amount
Residential property	Market comparison technique: The fair value was based on results of comparable sales of similar properties	Average price per m^2	
- Riga		EUR 270-2,743	11,266
- Jurmala		EUR 895-4,463	6,347
- Other areas in Latvia		EUR 224-1,440	6,600
Land	Market comparison technique: The fair value was based on results of comparable sales of similar land plots	Average price per m^2	
- Riga		EUR 3-126	7,921
- Jurmala		EUR 40-61	2,313
- Other areas in Latvia		EUR 0.1-50	11,770
Commercial property	Market comparison technique: The fair value was based on results of comparable sales of similar properties	Average price per m^2	
- Riga		EUR 205-1,500	13,845
- Other areas in Latvia		EUR 295	541
- Belarus		EUR 329-806	1,667
- Riga region	Discounted cash flows technique: The model is based on discounted cash flows from rental income	Rental income per m^2 EUR 4.5-5.0 Annual discount rate of 7%	1,308
Commercial property - Hotels (Jurmala)	Discounted cash flows technique: The model is based on discounted cash flows from rental income	Annual discount rate of 7% EUR 65 – 365 income per hotel room The occupancy rate increasing over time from 40% to 50%	4,659
- Industrial production premises for rent (Riga region)	Market comparison technique: The fair value was based on results of comparable sales of similar properties	Average price per m^2 EUR 309	3,520
- Terminal (Ventspils)	Discounted cash flows technique: The model is based on discounted cash flows from transhipment, storage and blending of molasses	Income from molasses transhipment 11-13 EUR/t. Transhipment volumes 100 – 150 thousand tons per year. Annual discount rate of EBITDA 11%. Capitalization rate 9%.	3,880
- Shop (Riga)	Discounted cash flows technique: The model is based on discounted cash flows from rental income	Annual discount rate of 8.5% Occupancy rate 98% Rental income EUR 5.53 per m^2	3,254
- Commercial premises (Riga)	Discounted cash flows technique: The model is based on discounted cash flows from sales income after property reconstruction	Annual discount rate 5-15% Sales price for m2 EUR 2,800-3,300 Sales price for a car parking lot EUR 10,000	2,028
- Residential, office and shop premises (Riga)	Market comparison technique: The fair value was based on results of comparable sales of similar properties	Average price per m^2 EUR 727	2,049
Total			**82,968**

27 Other assets

	31 Dec 2016 ’000 EUR Group	31 Dec 2016 ’000 EUR Bank	31 Dec 2015 ’000 EUR Group	31 Dec 2015 ’000 EUR Bank
Other financial assets				
Cash in transit	9,813	7,061	6,058	4,669
Guarantee receivable from borrower	-	-	1,432	1,432
Other	24	-	380	357
Impairment allowance on guarantee receivable	-	-	(354)	(354)
Other non-financial assets				
Collateral assumed on non-performing loans	4,939	4,494	6,812	6,812
Prepayments	1,574	411	598	483
Guarantee receivable from borrower	-	-	3,568	3,568
Recoverable VAT	1,568	44	459	94
Tax prepayments	68	-	3	-
Other debtors	4,957	1,201	3,711	6,437
Other	4,128	2,695	3,308	2,283
Impairment allowance	(3,274)	(2,942)	(3,788)	(3,451)
	23,797	**12,964**	**22,187**	**22,330**

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

	2016 ’000 EUR Group	2016 ’000 EUR Bank	2015 ’000 EUR Group	2015 ’000 EUR Bank
Balance at 1 January	6,812	6,812	8,918	8,918
Addition	445	-	-	-
Sale of collateral completed	-	-	(103)	(103)
Reclassified to investment property	(1,822)	(1,822)	-	-
Reclassifies to property and equipment	-	-	(1,737)	(1,737)
Write-offs	-	-	(266)	(266)
Reclassified to Guarantee receivable	(496)	(496)	-	-
Balance at 31 December	**4,939**	**4,494**	**6,812**	**6,812**

Collateral assumed on non-performing loans by type of property

	31 Dec 2016 ’000 EUR Group	31 Dec 2016 ’000 EUR Bank	31 Dec 2015 ’000 EUR Group	31 Dec 2015 ’000 EUR Bank
Residential property	3,856	3,856	6,174	6,174
Land	565	565	565	565
Commercial property	73	73	73	73
Vehicles and equipment	445	-	-	-
	4,939	**4,494**	**6,812**	**6,812**

27 Other assets, continued

Analysis of movements in the impairment allowance

	2016 '000 EUR Group	2016 '000 EUR Bank	2015 '000 EUR Group	2015 '000 EUR Bank
Balance at 1 January	4,142	3,805	2,245	1,933
Charge for the year	62	63	2,310	2,181
Recovery	(214)	(216)	(7)	(7)
Acquisition of subsidiaries	1	-	-	-
Transfers to loans and advances	(659)	(659)	-	-
Written off	(8)	(3)	(406)	(302)
Currency revaluation	(50)	(48)	-	-
Balance at 31 December	**3,274**	**2,942**	**4,142**	**3,805**

28 Deposits and balances due to banks

	31 Dec 2016 '000 EUR Group	31 Dec 2016 '000 EUR Bank	31 Dec 2015 '000 EUR Group	31 Dec 2015 '000 EUR Bank
Vostro accounts	33,111	33,111	49,710	49,710
Term deposits	985	846	680	-
	34,096	**33,957**	**50,390**	**49,710**

Concentration of deposits and balances due to banks

As at 31 December 2016 the Bank and the Group had balances with two clients (two as at 31 December 2015), which exceeded 10 % of total deposits and balances from banks. The gross value of these balances as of 31 December 2016 was EUR 14,804 thousand and EUR 4,149 thousand accordingly (2015: EUR 15,609 thousand and EUR 15,229 thousand).

29 Current accounts and deposits due to customers

	31 Dec 2016 ’000 EUR Group	31 Dec 2016 ’000 EUR Bank	31 Dec 2015 ’000 EUR Group	31 Dec 2015 ’000 EUR Bank
Private companies				
- current accounts	1,840,334	1,866,633	2,211,610	2,242,376
- term deposits	143,086	143,568	155,232	153,090
Total private companies	**1,983,420**	**2,010,201**	**2,366,842**	**2,395,466**
Government				
- current accounts	42	42	40	40
- term deposits	39	-	47	-
Total government	**81**	**42**	**87**	**40**
Private individuals				
- current accounts	558,428	558,428	616,140	616,218
- term deposits	200,797	199,068	220,923	219,834
Total private individuals	**759,225**	**757,496**	**837,063**	**836,052**
Total current accounts and deposits due to customers	**2,742,726**	**2,767,739**	**3,203,992**	**3,231,558**

(a) Blocked accounts

As of 31 December 2016, the Bank maintained customer deposit balances of EUR 18,013 thousand (2015: EUR 6,028 thousand) which were blocked by the Bank as collateral for loans and financial guarantees and letters of credit granted by the Bank.

(b) Concentrations of current accounts and customer deposits

As of 31 December 2016 and 2015, the Bank and the Group had no customers, whose balances exceeded 10% of total customer accounts.

(c) Subordinated deposits

As of 31 December 2016 the Bank and the Group had subordinated deposits of EUR 111,110 thousand (2015: EUR 123,126 thousand).

30 Issued debt securities

Subordinated bonds and ordinary bonds have a fixed term at their origination. Subordinated bonds are repayable before maturity only on winding up or bankruptcy of the Bank. Subordinated bonds rank before shareholders' claims. All bonds are listed on the Nasdaq OMX Riga exchange with the following maturities and carrying amounts:

ISIN	Currency	Number of initially issued securities	Par value	Date of issue	Date of maturity	Discount /coupon rate, %	Group 31/12/2016	Bank 31/12/2016	Group 31/12/2015	Bank 31/12/2015
Subordinated bonds										
LV0000800993	EUR	200	50 000	07.09.2012	07.09.2019	7.0	10,222	10,222	10,222	10,222
LV0000801009	USD	80	75 000	07.09.2012	07.09.2019	7.0	5,818	5,818	5,633	5,633
LV0000801025	USD	67	75 000	14.09.2012	14.09.2019	7.0	4,866	4,866	4,712	4,712
Subordinated bonds, total							**20,906**	**20,906**	**20,567**	**20,567**
Ordinary bonds										
LV0000801918	USD	280	75 000	10.12.2015	10.12.2017	2.25	19,948	19,948	19,314	19,314
LV0000801900	EUR	200	50 000	10.12.2015	10.12.2017	2.00	9,912	10,012	10,012	10,012
LV0000801975	USD	100	75 000	22.12.2015	22.12.2017	2.25	7,043	7,119	5,891	6,892
Ordinary bonds, total							**36,903**	**37,079**	**35,217**	**36,218**
Issued debt securities, total (‘000 EUR)							**57,809**	**57,985**	**55,784**	**56,785**

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

31 Other liabilities and accruals

	31 Dec 2016 ’000 EUR Group	31 Dec 2016 ’000 EUR Bank	31 Dec 2015 ’000 EUR Group	31 Dec 2015 ’000 EUR Bank
Other financial liabilities				
Cash in transit	49	-	2,152	-
Other	888	882	101	101
Other non-financial liabilities				
Management bonus accrual	5,803	5,803	4,303	4,230
Deferred income	1,715	1,154	3,570	1,355
Annual leave accrual	2,147	1,860	1,986	1,753
Deposits guarantee fund	1,169	450	1,705	1,232
VAT payable	68	-	928	-
Prepayments	1,062	20	156	9
Dividends payable	47	6	24	6
Accounts payable to suppliers	4,371	267	4,028	1,677
Other	3,992	2,560	4,798	4,300
	21,311	**13,002**	**23,751**	**14,663**

32 Deferred tax asset and liability

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

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

The Group

	Assets		**Liabilities**		**Net**	
’000 EUR	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Financial instruments at fair value through profit or loss	127	87	-	-	127	87
Loans and advances to customers	275	489	-	(500)	275	(11)
Available-for-sale financial assets	619	825	(499)	(156)	120	669
Investment in subsidiaries	1,743	-	-	-	1,743	-
Property and equipment	24	16	(1,650)	(1,640)	(1,626)	(1,624)
Intangible assets	-	-	(144)	(162)	(144)	(162)
Investment property	89	-	(1,995)	(2,260)	(1,906)	(2,260)
Other assets	431	462	(49)	(50)	382	412
Tax loss carried forward	254	344	-	-	254	344
Other liabilities	1,285	1,173	(403)	-	882	1,173
Total recognised deferred tax assets/(liabilities)	**4,847**	**3,396**	**(4,740)**	**(4,768)**	**107**	**(1,372)**
Unrecognised deferred tax assets					**(2,958)**	**(1,498)**
Recognised deferred tax liabilities					**(2,851)**	**(2,870)**

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

Movement in temporary differences during the year ended 31 December 2016

	2016 ’000 EUR	**2015 ’000 EUR**
Balance at 1 January – deferred tax liability	(3,246)	(2,571)
Balance at 1 January – deferred tax asset	376	485
Purchase of subsidiaries	(181)	-
Charge/Release to profit for the year	490	(684)
Charge/Release in other comprehensive income	(343)	(156)
Currency revaluation	53	56
Balance at 31 December	**(2,851)**	**(2,870)**
Deferred tax asset	**259**	**376**
Deferred tax liability	**(3,110)**	**(3,246)**

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

32 Deferred tax asset and liability, continued

The Bank

	Assets		Liabilities		Net	
’000 EUR	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Financial instruments at fair value through profit or loss	127	87	-	-	127	87
Loans and advances to customers	-	154	-	-	-	154
Available-for-sale financial assets	1,551	1,714	(978)	(635)	573	1,079
Investments in subsidiaries	1,743	1,743	-	-	1,743	1,743
Property and equipment	-	-	(1,295)	(1,280)	(1,295)	(1,280)
Investment property	66	-	(400)	(302)	(334)	(302)
Other assets	395	425	-	-	395	425
Other liabilities	1,261	1,136	-	-	1,261	1,136
Total recognised deferred tax assets/(liabilities)	**5,143**	**5,259**	**(2,673)**	**(2,217)**	**2,470**	**3,042**
Unrecognised deferred tax assets					**(3,403)**	**(3,233)**
Recognised deferred tax liabilities					**(933)**	**(191)**

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

Movement in temporary differences during the year ended 31 December 2016

	2016 ’000 EUR	**2015 ’000 EUR**
Balance at 1 January – deferred tax liability	(191)	-
Balance at 1 January – deferred tax asset	-	128
Charge/Release to profit for the year	(399)	(163)
Charge/Release in other comprehensive income	(343)	(156)
Balance at 31 December	**(933)**	**(191)**
Deferred tax asset	**-**	**-**
Deferred tax liability	**(933)**	**(191)**

33 Share capital and reserves

(a) Issued capital and share premium

The largest shareholders of the Bank as of December 31, 2016 and December 31, 2015 are as follows:

	2016 '000 EUR	%	2015 '000 EUR	%
Ordinary shares				
Companies non-residents				
Boswell (International) Consulting Limited	47,111	33.11%	47,111	33.11%
Companies residents				
Esterkin Family Investments Ltd	47,125	33.12%	47,125	33.12%
Suharenko Family Investments Ltd	24,665	17.34%	24,665	17.34%
Other	1,579	1.1%	1,579	1.1%
Private persons				
Others	21,807	15.33%	21,807	15.33%
Ordinary shares, total	**142,287**	**100%**	**142,287**	**100%**
Preference shares				
Companies	10,956		11,637	
Private persons	15,673		14,992	
Preference shares, total	**26,629**		**26,629**	
Issued capital	**168,916**		**168,916**	
Share premium	**52,543**		**52,543**	

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

Preference shares

Preference shares are shares which have preference over ordinary shares for payment of dividend. The dividend is defined as percentage of issuance price and if not paid, it is accumulated. It is upon Bank's discretion to delay the dividend payments indefinitely. Preference share shareholders do have voting rights if dividends are not received or are partly received for two consecutive years.

(b) Dividends

During reporting period dividends for the previous period were paid in amount of EUR 20,952 thousand. As at reporting date dividends in the amount of EUR 29,006 thousand were proposed. Paid and proposed dividends are proportionately divided between ordinary and preference shares.

(c) Other reserves

Out of all Other reserves those amounting to EUR 23 thousand at the Bank (2015: EUR 23 thousand) represent contributions made by shareholders in previous years.

(d) Fair value reserve

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

33 Share capital and reserves, continued

Movements in fair value reserve

Movements in the fair value reserve net of tax for the year ended 31 December 2016 and 2015 are as follows:

	2016 ’000 EUR Group	2016 ’000 EUR Bank	2015 ’000 EUR Group	2015 ’000 EUR Bank
Balance at 1 January	23,252	25,377	(5,036)	(2,658)
Visa Europe revaluation	(27,275)	(27,275)	27,275	27,275
Revaluation of other available for sale assets	5,828	6,632	1,013	760
Balance at 31 December	**1,805**	**4,734**	**23,252**	**25,377**

(e) Revaluation reserve

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

	2016 ’000 EUR Group	2016 ’000 EUR Bank	2015 ’000 EUR Group	2015 ’000 EUR Bank
Revaluation reserve as at 1 January	1,364	-	1,387	-
Transfer to retained earnings	(24)	-	(24)	-
Transfer from other reserves	-	-	1	-
Revaluation reserve as at 31 December	**1,340**	**-**	**1,364**	**-**

34 Cash and cash equivalents

Cash and cash equivalents consist of the following:

	31 Dec 2016 ’000 EUR Group	31 Dec 2016 ’000 EUR Bank	31 Dec 2015 ’000 EUR Group	31 Dec 2015 ’000 EUR Bank
Cash	2,850	2,809	4,671	4,619
Balances due from the Bank of Latvia	834,111	834,111	877,197	877,197
	836,961	**836,920**	**881,868**	**881,816**
Demand loans and receivables from banks	502,978	502,275	819,577	819,170
Demand deposits and balances due to banks	(33,111)	(33,111)	(49,710)	(49,710)
Total	**1,306,828**	**1,306,084**	**1,651,735**	**1,651,276**

35 Commitments and guarantees

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

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

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

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

	31 Dec 2016 '000 EUR Group	31 Dec 2016 '000 EUR Bank	31 Dec 2015 '000 EUR Group	31 Dec 2015 '000 EUR Bank
Contracted amount				
Loan and credit line commitments	4,063	8,407	14,396	18,515
Credit card commitments	6,210	6,216	9,027	9,028
Undrawn overdraft facilities	14,035	14,035	11,435	11,435
Guarantees and letters of credit	7,521	7,521	9,779	9,779
Total	**31,829**	**36,179**	**44,637**	**48,757**

36 Litigations

In the ordinary course of business, the Bank is subject to legal actions and complaints. As at 31 December 2016 there were 11 legal proceedings outstanding against the Bank. Total amount disputed in these proceedings is EUR 376 thousand (2015: EUR 3,329 thousand). No provisions were recognised as at 31 December 2016 and 2015, as the management based on the professional advice to the Bank considers that the loss is not likely to eventuate.

In addition, the Bank is subject to investigation for alleged involvement in tax evasion by others. The management of the Bank is confident that there are no grounds for the case. As a result, no provisions for possible losses have been recognized.

37 Reverse repo

	31 Dec 2016 '000 EUR Group	31 Dec 2016 '000 EUR Bank	31 Dec 2015 '000 EUR Group	31 Dec 2015 '000 EUR Bank
Nomura International plc	93,419	93,419	88,554	88,554
Brissard International	16	16	12	12
Total	**93,435**	**93,435**	**88,566**	**88,566**

38 Trust and custody activities

(a) Trust activities

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

The Bank and the Group are not subject to interest, credit, liquidity, price and currency risk with respect of these securities in accordance with the agreements concluded with the customers. As at 31 December 2016 the total assets held by the Group on behalf of customers and assets under management were EUR 729,710 thousand (2015: EUR 520,462 thousand) and by the Bank EUR 561,889 thousand (2015: EUR 519,036 thousand) accordingly.

39 Related party transactions

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

’000 EUR	31 Dec 2016			31 Dec 2015		
	Subsidiaries and associates	Key management	Other related parties	Subsidiaries and associates	Key management	Other related parties
Loans and receivables due from customers (gross)	145,125	433	17,086	102,611	319	18,357
Specific impairment allowance	(16,376)	-	-	(396)	-	-
Current accounts and deposits due to customers	28,072	21,289	59,723	22,055	22,998	31,632
Issued debt securities	176	307	-	1,001	153	-
Commitments and guarantees	4,350	873	130	4,119	819	136
Interest income	5,720	10	882	6,064	13	969
Interest expense	-	1,121	1,040	4	1,550	1,162

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

	31 Dec 2016 ’000 EUR Group	31 Dec 2016 ’000 EUR Bank	31 Dec 2015 ’000 EUR Group	31 Dec 2015 ’000 EUR Bank
Members of the Council	329	289	243	203
Members of the Board of Directors	2,017	1,528	4,315	3,370
Total	**2,346**	**1,817**	**4,558**	**3,573**

During the year 2016, the Bank paid rent and maintenance expenses to its subsidiary Vesetas 7 SIA in the amount of EUR 2,395 thousand (2015: EUR 2,306 thousand).

During the year 2016, the Bank received dividends from its subsidiary InCredit GROUP SIA in the amount of EUR 867 thousand (2015: EUR 612 thousand) and from Rietumu Leasing Ltd in the amount of EUR 1,268 thousand (2015: EUR 1,718 thousand).

40 Fair value of financial instruments

(a) Financial instruments measured at fair value

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

The Group

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

31 Dec 2015	**Level (1)**	**Level (2)**	**Level (3)**	**Total**
Financial assets				
Available for sale assets	456,380	191	27,493	484,064
Financial assets at fair value through profit or loss	15,481	958	-	16,439
Financial liabilities				
Financial investments at fair value through profit or loss	-	19	-	19

The Bank

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

31 Dec 2015	**Level (1)**	**Level (2)**	**Level (3)**	**Total**
Financial assets				
Available for sale assets	470,027	-	59,762	529,789
Financial assets at fair value through profit or loss	183	983	-	1,166
Financial liabilities				
Financial investments at fair value through profit or loss	-	19	-	19

40 Fair value of financial instruments, continued

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

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

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

Financial instruments not measured at fair value

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

The Group

31 December 2016	**Level 1 ’000 EUR**	**Level 2 ’000 EUR**	**Level 3 ’000 EUR**	**Total fair values ’000 EUR**	**Total carrying amount ‘000 EUR**
Financial assets					
Cash and balances with Bank of Latvia	-	-	836,961	836,961	836,961
Loans and receivables due from banks	-	-	522,424	522,424	522,424
Loans and receivables due from customers	-	-	1,044,920	1,044,920	1,044,920
Reverse repo	-	-	93,435	93,435	93,435
Held-to-maturity instruments	319,773	-	-	319,773	319,574
Other financial assets	-	-	9,837	9,837	9,837
Financial liabilities					
Deposits and balances due to banks	-	-	34,096	34,096	34,096
Deposits and balances due to customers	-	-	2,742,726	2,742,726	2,742,726
Due to Bank of Latvia	-	-	120,000	120,000	120,000
Issued debt securities	-	-	57,809	57,809	57,809
Other financial liabilities	-	-	937	937	937
31 December 2015					
Financial assets					
Cash and balances with Bank of Latvia	-	-	881,868	881,868	881,868
Loans and receivables due from banks	-	-	841,210	841,210	841,210
Loans and receivables due from customers	-	-	1,101,772	1,101,772	1,101,772
Reverse repo	-	-	88,566	88,566	88,566
Held-to-maturity instruments	222,111	-	-	222,111	220,510
Other financial assets	-	-	7,516	7,516	7,516
Financial liabilities					
Deposits and balances due to banks	-	-	50,390	50,390	50,390
Deposits and balances due to customers	-	-	3,203,992	3,203,992	3,203,992
Issued debt securities	-	-	55,784	55,784	55,784
Other financial liabilities	-	-	2,253	2,253	2,253

40 Fair value of financial instruments, continued

The Bank

31 December 2016	**Level 1 ’000 EUR**	**Level 2 ’000 EUR**	**Level 3 ’000 EUR**	**Total fair values ’000 EUR**	**Total carrying amount ‘000 EUR**
Financial assets					
Cash and balances with Bank of Latvia	-	-	836,920	836,920	836,920
Loans and receivables due from banks	-	-	521,721	521,721	521,721
Loans and receivables due from customers	-	-	1,116,873	1,116,873	1,116,873
Reverse repo			93,435	93,435	93,435
Held-to-maturity instruments	319,227	-	-	319,227	315,848
Other financial assets	-	-	7,061	7,061	7,061
Financial liabilities					
Deposits and balances due to banks	-	-	33,957	33,957	33,957
Due to Bank of Latvia			120,000	120,000	120,000
Deposits and balances due to customers	-	-	2,767,739	2,767,739	2,767,739
Issued debt securities	-	-	57,985	57,985	57,985
Other financial liabilities	-	-	882	882	882
31 December 2015					
Financial assets					
Cash and balances with Bank of Latvia	-	-	881,816	881,816	881,816
Loans and receivables due from banks	-	-	840,803	840,803	840,803
Loans and receivables due from customers	-	-	1,151,789	1,151,789	1,151,789
Reverse repo	-	-	88,566	88,566	88,566
Held-to-maturity instruments	219,507	-	-	219,507	217,901
Other financial assets	-	-	6,104	6,104	6,104
Financial liabilities					
Deposits and balances due to banks	-	-	49,710	49,710	49,710
Deposits and balances due to customers	-	-	3,231,558	3,231,558	3,231,558
Issued debt securities	-	-	56,785	56,785	56,785
Other financial liabilities	-	-	101	101	101

41 Currency analysis

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

The Group

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

41 Currency analysis, continued

The following table shows the currency structure of financial assets and liabilities of the Group as at 31 December 2015:

The Group

	EUR ’000 EUR	USD ’000 EUR	Other currencies ’000 EUR	Total ’000 EUR
Financial assets				
Cash and balances with Bank of Latvia	879,447	1,579	842	**881,868**
Financial instruments at fair value through profit or loss	898	15,460	81	**16,439**
Loans and receivables due from banks	45,433	677,716	118,061	**841,210**
Loans and receivables due from customers	373,275	720,366	8,131	**1,101,772**
Reverse repo	-	88,566	-	**88,566**
Available-for-sale assets	48,196	433,083	2,785	**484,064**
Held-to-maturity investments	4,626	215,884	-	**220,510**
Total financial assets	**1,351,875**	**2,152,654**	**129,900**	**3,634,429**
Financial liabilities				
Financial instruments at fair value through profit or loss	19	-	-	**19**
Deposits and balances due to banks	16,999	26,777	6,614	**50,390**
Current accounts and deposits due to customers	1,001,672	2,070,547	131,773	**3,203,992**
Issued debt securities	19,232	36,552	-	**55,784**
Total financial liabilities	**1,037,922**	**2,133,876**	**138,387**	**3,310,185**
Net position as of 31 December 2015	**313,953**	**18,778**	**(8,487)**	
Net off balance sheet position as of 31 December 2015	**(2,628)**	**(1,980)**	**4,608**	
Net total positions as of 31 December 2015	**311,325**	**16,798**	**(3,879)**	
Net total positions as of 31 December 2014	**221,448**	**(920)**	**(6,869)**	

41 Currency analysis, continued

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

The Bank

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

41 Currency analysis, continued

The following table shows the currency structure of financial assets and liabilities of the Bank as at 31 December 2015:

The Bank

	EUR ’000 EUR	USD ’000 EUR	Other currencies ’000 EUR	Total ’000 EUR
Financial assets				
Cash and balances with Bank of Latvia	879,395	1,579	842	**881,816**
Financial instruments at fair value through profit or loss	849	317	-	**1,166**
Loans and receivables due from banks	45,129	677,688	117,986	**840,803**
Loans and receivables due from customers	423,476	720,182	8,131	**1,151,789**
Reverse repo	-	88,566	-	**88,566**
Available-for-sale assets	80,274	446,730	2,785	**529,789**
Held-to-maturity investments	4,626	213,275	-	**217,901**
Total financial assets	**1,433,749**	**2,148,337**	**129,744**	**3,711,830**
Financial liabilities				
Financial instruments at fair value through profit or loss	19	-	-	**19**
Deposits and balances due to banks	16,357	26,739	6,614	**49,710**
Current accounts and deposits due to customers	1,015,816	2,083,906	131,836	**3,231,558**
Issued debt securities	20,233	36,552	-	**56,785**
Total financial liabilities	**1,052,425**	**2,147,197**	**138,450**	**3,338,072**
Net position as of 31 December 2015	**381,324**	**1,140**	**(8,706)**	
Net off balance sheet position as of 31 December 2015	**(2,628)**	**(1,980)**	**4,608**	
Net total positions as of 31 December 2015	**378,696**	**(840)**	**(4,098)**	
Net total positions as of 31 December 2014	**282,403**	**(4,576)**	**(7,072)**	

42 Interest rate risk analysis

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

	Less than 1 month ’000 EUR	1 to 3 months ’000 EUR	3 months to 1 year ’000 EUR	1 to 5 years ’000 EUR	More than 5 years ’000 EUR	Non-interest bearing ’000 EUR	Total ’000 EUR
Financial assets							
Cash and balances with Bank of Latvia	-	-	-	-	-	836,961	**836,961**
Financial instruments at fair value through profit or loss	11	17	938	12,219	2,214	1,653	**17,052**
Loans and receivables due from banks	144	5,194	-	-	-	517,086	**522,424**
Loans and receivables due from customers	199,743	320,124	85,401	178,043	587	261,022	**1,044,920**
Reverse repo	898	-	-	-	-	92,537	**93,435**
Available-for-sale assets	-	-	-	-	-	467,584	**467,584**
Held-to-maturity investments	-	5,319	9,100	252,014	5,954	47,187	**319,574**
Total financial assets	**200,796**	**330,654**	**95,439**	**442,276**	**8,755**	**2,224,030**	**3,301,950**
Financial liabilities							
Financial instruments at fair value through profit or loss	-	-	-	-	-	442	**442**
Due to Bank of Latvia	-	-	-	-	-	120,000	**120,000**
Deposits and balances due to banks	-	285	-	500	-	33,311	**34,096**
Current accounts and deposits due to customers	4,050	28,711	128,503	165,623	12,154	2,403,685	**2,742,726**
Issued debt securities	-	-	37,037	20,283	-	489	**57,809**
Total financial liabilities	**4,050**	**28,996**	**165,540**	**186,406**	**12,154**	**2,557,927**	**2,955,073**
Net position as at 31 December 2016	**196,746**	**301,658**	**(70,101)**	**255,870**	**(3,399)**	**(333,897)**	
Net position as at 31 December 2015	**1,012,555**	**333,612**	**41,749**	**345,546**	**5,215**	**(1,414,433)**	

42 Interest rate risk analysis, continued

The following table shows the interest rate contracted re-pricing risk of financial assets and liabilities of the Group as at December 31, 2015, based on the earlier of contractual interest rate repricing or maturity:

	Less than 1 month ’000 EUR	1 to 3 months ’000 EUR	3 months to 1 year ’000 EUR	1 to 5 years ’000 EUR	More than 5 years ’000 EUR	Non-interest bearing ’000 EUR	Total ’000 EUR
Financial assets							
Cash and balances with Bank of Latvia	-	-	-	-	-	881,868	**881,868**
Financial instruments at fair value through profit or loss	-	-	292	5,620	8,995	1,532	**16,439**
Loans and receivables due from banks	590,277	-	-	-	-	250,933	**841,210**
Loans and receivables due from customers	168,738	362,397	88,742	177,845	1,027	303,023	**1,101,772**
Reverse repo	88,554	-	-	-	-	12	**88,566**
Available-for-sale assets	185,404	1,594	48,761	201,317	18,809	28,179	**484,064**
Held-to-maturity investments	1,172	1,641	2,023	205,273	10,401	-	**220,510**
Total financial assets	**1,034,145**	**365,632**	**139,818**	**590,055**	**39,232**	**1,465,547**	**3,634,429**
Financial liabilities							
Financial instruments at fair value through profit or loss	-	-	-	-	-	19	**19**
Deposits and balances due to banks	-	-	-	-	-	50,390	**50,390**
Current accounts and deposits due to customers	21,590	32,020	98,069	188,725	34,017	2,829,571	**3,203,992**
Issued debt securities	-	-	-	55,784	-	-	**55,784**
Total financial liabilities	**21,590**	**32,020**	**98,069**	**244,509**	**34,017**	**2,879,980**	**3,310,185**
Net position as at 31 December 2015	**1,012,555**	**333,612**	**41,749**	**345,546**	**5,215**	**(1,414,433)**	
Net position as at 31 December 2014	**369,735**	**469,232**	**(49,085)**	**(30,142)**	**38,086**	**(584,168)**	

42 Interest rate risk analysis, continued

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

Financial assets	**Less than 1 month ’000 EUR**	**1 to 3 months ’000 EUR**	**3 months to 1 year ’000 EUR**	**1 to 5 years ’000 EUR**	**More than 5 years ’000 EUR**	**Non-interest bearing ’000 EUR**	**Total ’000 EUR**
Cash and balances with Bank of Latvia	-	-	-	-	-	836,920	**836,920**
Financial instruments at fair value through profit or loss	-	-	-	-	-	1,333	**1,333**
Loans and receivables due from banks	144	5,194	-	-	-	516,383	**521,721**
Loans and receivables due from customers	216,106	386,399	80,709	165,965	513	267,181	**1,116,873**
Reverse repo	898	-	-	-	-	92,537	**93,435**
Available-for-sale assets	-	-	-	-	-	510,978	**510,978**
Held-to-maturity investments	-	2,741	7,952	252,014	5,954	47,187	**315,848**
Total financial assets	**217,148**	**394,334**	**88,661**	**417,979**	**6,467**	**2,272,519**	**3,397,108**
Financial liabilities							
Financial instruments at fair value through profit or loss	-	-	-	-	-	442	**442**
Due to Bank of Latvia	-	-	-	-	-	120,000	**120,000**
Deposits and balances due to banks	-	285	-	500	-	33,172	**33,957**
Current accounts and deposits due to customers	4,050	28,711	127,730	165,169	12,153	2,429,926	**2,767,739**
Issued debt securities	-	-	37,037	20,459	-	489	**57,985**
Total financial liabilities	**4,050**	**28,996**	**164,767**	**186,128**	**12,153**	**2,584,029**	**2,980,123**
Net position as at 31 December 2016	**213,098**	**365,338**	**(76,106)**	**231,851**	**(5,686)**	**(311,510)**	
Net position as at 31 December 2015	**1,023,928**	**390,331**	**34,405**	**327,060**	**(3,778)**	**(1,398,188)**	

42 Interest rate risk analysis, continued

The following table shows the interest rate contracted re-pricing risk of financial assets and liabilities of the Bank as at December 31, 2015, based on the earlier of contractual interest rate repricing or maturity:

Financial assets	**Less than 1 month ’000 EUR**	**1 to 3 months ’000 EUR**	**3 months to 1 year ’000 EUR**	**1 to 5 years ’000 EUR**	**More than 5 years ’000 EUR**	**Non-interest bearing ’000 EUR**	**Total ’000 EUR**
Cash and balances with Bank of Latvia	-	-	-	-	-	881,816	**881,816**
Financial instruments at fair value through profit or loss	-	-	-	-	-	1,166	**1,166**
Loans and receivables due from banks	590,277	-	-	-	-	250,526	**840,803**
Loans and receivables due from customers	180,482	419,857	82,176	165,508	1,016	302,750	**1,151,789**
Reverse repo	88,554	-	-	-	-	12	**88,566**
Available-for-sale assets	185,404	1,594	48,761	201,317	18,809	73,904	**529,789**
Held-to-maturity investments	801	893	533	205,273	10,401	-	**217,901**
Total financial assets	**1,045,518**	**422,344**	**131,470**	**572,098**	**30,226**	**1,510,174**	**3,711,830**
Financial liabilities							
Financial instruments at fair value through profit or loss	-	-	-	-	-	19	**19**
Deposits and balances due to banks	-	-	-	-	-	49,710	**49,710**
Current accounts and deposits due to customers	21,590	32,013	97,065	188,253	34,004	2,858,633	**3,231,558**
Issued debt securities	-	-	-	56,785	-	-	**56,785**
Total financial liabilities	**21,590**	**32,013**	**97,065**	**245,038**	**34,004**	**2,908,362**	**3,338,072**
Net position as at 31 December 2015	**1,023,928**	**390,331**	**34,405**	**327,060**	**(3,778)**	**(1,398,188)**	
Net position as at 31 December 2014	**366,656**	**465,775**	**(45,380)**	**22,038**	**38,138**	**(576,472)**	

43 Operating segments

The Group has four reportable segments, as described below, which are the Group`s strategic business units. The strategic business units offer different products and services, and are managed separately based on the Group's management and internal reporting structure.

For each of the strategic business units, the Group upper level management reviews internal management reports on at least monthly basis.

The following summary describes the operations in each of the Group`s reportable segments:

Lending & Investment	Includes commercial loans to customers, trade finance, private mortgages and other financing products and investments.
Customer services	Includes general banking operations, customer payments, credit card transactions and other transactions with all customers.
Financial markets & Treasury	Includes customer asset management products such as funds as well as customer securities brokerage, customer repurchase financing and includes funding of the bank's activities though customer deposits, liquidity management, foreign exchange, issues of debt securities, investing in liquid assets such as short term placements and corporate and government securities.
Investments and non-banking segments	Includes business activities of Group subsidiaries and non-banking income including real estate rental and leasing businesses.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Group upper level management. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is based on resources cost compensation, calculation based on management`s assessment of the level of risk.

43 Operating segments, continued

The following table shows the operating segment structure of gross revenue and financial assets and liabilities of the Group as at 31 December 2016:

`000 EUR **External revenue**	**Lending & investment**	**Customer services**	**Financial markets & Treasury**	**Investment and non-banking segments**	**Total**
Net interest income	60,761	270	3,472	13,852	**78,355**
Net fee and commission income	10	37,379	3,312	394	**41,095**
Net gain on financial instruments at fair value through profit or loss	-	-	8	1,859	**1,867**
Net foreign exchange income	-	3,964	18,699	73	**22,736**
Net realised gain on available-for-sale assets	-	30,958	1,429	-	**32,387**
Share of profit of equity accounted investees (net of income tax)	-	-	-	(14)	**(14)**
Other income/(expense)	1,986	(1,178)	103	3,644	**4,555**
Inter segment revenue	**(21,002)**	**9,360**	**11,642**	**-**	**-**
Total segment revenue	**41,755**	**80,753**	**38,665**	**19,808**	**180,981**
Impairment losses on financial assets	(29,078)	(964)	(2,269)	(417)	(32,728)
Reportable segment profit before income tax	**(1,020)**	**60,227**	**28,952**	**589**	**88,748**
Reportable segment assets	**870,910**	**68,266**	**2,295,991**	**158,214**	**3,393,381**
Reportable segment liabilities	**-**	**2,226,148**	**725,799**	**3,126**	**2,955,073**

43 Operating segments, continued

The following table shows the operating segment structure of gross revenue and financial assets and liabilities of the Group as at 31 December 2015:

`000 EUR **External revenue**	**Lending & investment**	**Customer services**	**Financial markets & Treasury**	**Investment and non-banking segments**	**Total**
Net interest income	73,793	207	(3,434)	12,592	**83,158**
Net fee and commission income	(255)	40,829	3,242	308	**44,124**
Net loss on financial instruments at fair value through profit or loss	-	-	(187)	(954)	**(1,141)**
Net foreign exchange income	-	4,432	19,954	(646)	**23,740**
Net realised gain on available-for-sale assets	-	-	458	-	**458**
Share of profit of equity accounted investees (net of income tax)	-	-	-	(1)	**(1)**
Other income/(expense)	1,687	(408)	(525)	7,644	**8,398**
Inter segment revenue	**(22,326)**	**10,405**	**11,921**	**-**	**-**
Total segment revenue	**52,899**	**55,465**	**31,429**	**18,943**	**158,736**
Impairment losses on financial assets	(23,206)	(58)	-	(527)	(23,791)
Reportable segment profit before income tax	**34,275**	**31,418**	**14,084**	**1,399**	**81,176**
Reportable segment assets	**926,594**	**67,608**	**2,578,131**	**145,135**	**3,717,468**
Reportable segment liabilities	**-**	**2,695,051**	**612,686**	**2,448**	**3,310,185**

43 Operating segments, continued

	2016 ’000 EUR	2015 ’000 EUR
Revenues		
Total revenue for reportable segments	180,981	158,736
Unallocated amounts	-	-
Consolidated revenue	180,981	158,736
Profit before income tax		
Total profit or loss for reportable segments	88,748	81,176
Unallocated amounts	-	-
Consolidates profit before income tax	88,748	81,176
Assets		
Total assets for reportable segments	3,393,381	3,717,468
Other unallocated amounts	80,209	76,685
Consolidated total amounts	3,473,590	3,794,153

Other unallocated amounts to assets: Property and equipment, Intangible assets, Current tax asset, Deferred tax asset and Other assets (excluding collateral assumed on non -performing loans).

Liabilities		
Total liabilities for reportable segments	2,955,073	3,310,185
Other unallocated amounts	24,643	27,099
Consolidated total amounts	2,979,716	3,337,284

Other unallocated amounts to liabilities: Current tax liability, Deferred tax liability and Other liabilities.

44 Interest in other entities

Non-controlling interest in subsidiaries

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

`000 EUR	InCredit Group SIA	RAM Fund-Fixed income High Yield USD	RAM Fund-Fixed income Investment grade USD	Other subsidiaries	Total
Percentage of Non-controlling interest	**49%**	**32.64%**	**65.63%**		
Financial instruments at fair value through profit or loss	-	4,727	10,673		
Loans and advances due from customers	35,045	-	-		
Loans and receivables due from banks	-	3,226	1,724		
Other assets	936	-	-		
Deposits and balances due to financial institutions	(27,011)	-	-		
Current accounts and deposits due to customers	(1,726)	-	-		
Other liabilities	(2,522)	(17)	(16)		
Net assets	**4,722**	**7,936**	**12,381**		
Carrying amount of Non-controlling interest	**1,824**	**2,590**	**8,126**	**1,689**	**14,229**
Revenue	8,611	1,083	690		
Profit after tax	1,934	1,247	966		
Total comprehensive income	**1,934**	**1,247**	**966**		
Profit/(loss) allocated to Non-controlling interest	**947**	**407**	**634**	**261**	**2,249**
Cash flows from operating activities	502	1,692	352		
Cash flows from investment activities	47	-	-		
Cash flows from financing activities, before dividends to NCI	16,330	(436)	1,146		
Cash flows from financing activities - cash dividends to NCI	(670)	(436)	1,146		
Net increase (decrease) in cash and cash equivalents	**(121)**	**1,256**	**1,498**		

44 Interest in other entities, continued

The following table summarises the information relating to each of the Group`s subsidiaries that has material non-controlling interests (NCI), before any intra-group eliminations as at 31 December 2015 and for the year ended:

`000 EUR	InCredit Group SIA	RAM Fund- Fixed income High Yield USD	RAM Fund- Fixed income Investment grade USD	Other subsidiaries	Total
Percentage of Non-controlling interest	**49%**	**42.10%**	**64.42%**		
Financial instruments at fair value through profit or loss	-	5,404	9,503		
Loans and advances due from customers	35,915	-	-		
Loans and receivables due from banks	-	1,847	3,192		
Other assets	981	-	-		
Deposits and balances due to financial institutions	(24,757)	-	-		
Current accounts and deposits due to customers	(1,004)	-	-		
Other liabilities	(2,588)	(12)	(13)		
Net assets	**8,547**	**7,239**	**12,682**		
Carrying amount of Non controlling interest	**4,188**	**3,048**	**8,170**	**402**	**13,848**
Revenue	8,425	(591)	(260)		
Profit after tax	1,771	(591)	(260)		
Total comprehensive income	**1,771**	**(591)**	**(260)**		
Profit/(loss) allocated to Non-controlling interest	**868**	**(249)**	**(167)**	**176**	**628**
Cash flows from operating activities	(1,837)	(2,391)	(6,041)		
Cash flows from investment activities	(125)	-	-		
Cash flows from financing activities, before dividends to NCI	3,200	2,924	6,097		
Cash flows from financing activities - cash dividends to NCI	(1,200)	-	-		
Net increase (decrease) in cash and cash equivalents	**38**	**533**	**56**		

44 Interest in other entities, continued

The Group is holding units of investment funds for which it acts as asset management company, i.e. has power over individual investment decisions in line with investment strategy published in the prospectus. The Group is obtaining fixed fee for asset management and custodian services. As at 31 December 2016 and 2015, the Group evaluated that it has control over the investment funds and the funds are consolidated. Units of the funds are traded on regular basis.

45 Disposal of subsidiaries

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

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

46 Acquisition of subsidiaries

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

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

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

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

Acquisition of business

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

Acquisition of investment property through purchase of subsidiaries

On 25 October 2016, the Group acquired 100% shares in Ekoagro SIA The investment property consists of commercial premises in Riga that has been acquired for further development.
On 28 January 2016 the Group has acquired 100% shares in Penrox Petroleum SIA The company manages an investment property object in Riga region.
Investment properties are valued at fair value based on independent appraisers report.

46 Acquisition of subsidiaries, continued

In 2015, RB Investments SIA (a subsidiary of the Bank) acquired the following subsidiaries:

	ESP European Steel Production SIA	U-10 SIA	Aleksandra Muiza SIA	KINI LAND SIA
Date of acquisition	06.10.2015	03.03.2015	30.06.2015	28.08.2015
Acquired shares %	100%	67%	100%	100%

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

‘000 EUR	**ESP European Steel Production SIA**	**U-10 SIA**	**Aleksandra Muiza SIA**	**KINI Land SIA**	**Total**
Assets					
Loans and advances due from banks	5	12	3	24	44
Property and equipment	766	1	-	-	767
Investment property	-	2,824	74	1,130	4,028
Other assets	619	51	-	17	687
Liabilities					
Deposits and balances due to banks	(712)	(2,605)	-	-	(3,317)
Current accounts and deposits due to customers	(25)	(396)	-	-	(421)
Other liabilities	(471)	(43)	(74)	(34)	(622)
Net identifiable assets and liabilities	**182**	**(156)**	**3**	**1,137**	**1,166**
Net identifiable assets and liabilities attributable to equity holders of the bank	**182**	**(104)**	**3**	**1,137**	**1,218**
Adjustment to identifiable assets	**-**	**106**	**-**	**-**	**106**
Goodwill	**33**	**-**	**-**	**-**	**33**
Consideration paid	**149**	**2**	**3**	**1,137**	**1,291**

Acquisition of business

On October 6 2015, the Group acquired full control over a business combination ESP European Steel Production SIA the main operating activity of which is production of non-standard steel, stainless steel and aluminium structures. The facility operates in Latvia and is acquired for further development.

Acquisition of investment property through purchase of subsidiaries

The Group acquired subsidiaries that do not constitute business. The consideration paid is allocated to the acquired assets and liabilities.

On 28 August 2015 the Group has reversed the sale of KINI Land SIA executed on 25 September 2013 as the agreed consideration has not been covered in full. The company manages investment property in various regions of Latvia which is valued at fair value by independent external appraisers.

On 3 March 2015, the Group acquired shares in U-10 SIA. The investment property consists of residential and commercial premises in central Riga location that has been acquired for further development. On 30 June 2015, the Group acquired shares in Aleksandra Muiza SIA that manages investment property in Riga region. The investment property is valued at fair value based on independent appraisers report.