M2M BANK EUROPE

Annual report

for the year ended
31 December 2016

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Bank M2M Europe AS
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Unified registration number: 40003076407

MANAGEMENT REPORT ON THE GROUP AND THE BANK'S OPERATIONS DURING 2016

Bank M2M Europe AS is a joint–stock company founded in 1992 and entered into the Register of Enterprises of the Republic of Latvia under uniform registration No. 40003076407. The Bank's address is 3 Antonijas street, Riga LV-1010, Republic of Latvia. On 23 July 2013, the Bank re-registered license No. 06.01.05.006/352 for rendering all the financial services specified in the Law on Credit Institutions.

2016 was an important year for the Latvian banking sector as well as for Bank M2M Europe AS (the Bank).

First of all, the macro environment in which the Bank operates continued to improve. Once again, the Latvian economy grew by moderate 2.0%, with all major macro indicators at stable levels (see Table 1). The Russian economy, where many of our clients are based, showed signs of stabilisation as oil prices and local currency somewhat recovered and subsequently stabilised. The global economy, in turn, demonstrated another year of moderate growth with the European Union's GDP growing by 1.9%. Since a substantial portion of the Bank's liabilities are dollar-denominated, the increase of interest rates by the FED provided additional opportunities for the Bank to earn risk-free interest income.

Latvian Economic Indicators:

Indicator	2012	2013	2014	2015	2016F
GDP growth (%)	4.0	2.6	2.1	2.7	2.0
Budget balance (% GDP)	(0.8)	(0.9)	(1.6)	(1.3)	(0.9)
Current account balance (% GDP)	(3.5)	(2.1)	(2.0)	(0.8)	(0.2)
Government debt / (% GDP)	40.7	39.0	40.7	36.3	40.0
YTM of government 10-year bonds (%, at end of the year)	3.4	3.6	1.0	1.0	0.9
Inflation (%)	2.3	0.0	0.7	0.2	0.0

For the Latvian banking community, last year was the year of significant de-risking that was the result of increased costs of compliance, introduction of new regulations, recommendations of the audits conducted by the specialized US consultants, as well as pressure from the correspondent banks. This de-risking resulted in 20 % decrease in the volume of deposits placed by the international clients with Latvian banks, which facilitated review of their strategies by some players. At the same time Latvia experiences a substantial ongoing improvement of its banking sector's international reputation which provides additional opportunities for niche banks to increase business volume while paying due attention to risks.

At Bank M2M Europe we are aware of the changing banking industry landscape. Following three successful years of the Group's development, at the end of 2016 we reviewed the Group's strategy. As a result, an up-to-date strategy was approved for the next three years reflecting the current state of the Group's development and evolving regulatory requirements. The Group's business model, target clients and the range of products offered have not been changed. Our target clients are wealthy individuals with investable assets exceeding EUR 1 million, and we strive to provide the best personal service to each of our clients.

We remain a boutique bank addressing each client's needs to the highest industry standards. We will continue to focus on generating fee income predominantly derived from servicing client capital, maintaining a conservative balance sheet – the Group's capital adequacy ratio at the end of 2016 was 26.54% while the liquidity ratio was 78%.

We envisage that in the coming years our client base will complete the migration of personal asset ownership structures to fully eliminate the structures domiciled in non-transparent jurisdictions thus decreasing compliance risks.

During 2016, we increased fee income of the Group by 4%. Fee income was predominantly derived from revenues from servicing client capital, and we see a big growth potential in this area. Our net interest income decreased from EUR 4.7 mln. to EUR 3.5 mln., which was partly compensated by the increase in FX profit. The ratio of net fee income to total operating income of the Group increased from 33% to 37%. Administrative expenses increased by 23% to a large extent due to the increase in the compliance costs. The Group's basic loss per share of EUR 1.79 (2015: EUR 2.33 profit), diluted earnings per share of EUR 0.75 (2015: EUR 4.80 profit). The net comprehensive result of the Group was EUR 881 thousand (2015: EUR 2 290 thousand).

Fee and commission income structure:

'000 EUR	Group 2016
Asset management and fiduciary services	1,497
Servicing current accounts	804
Brokerage operations	490
Structured products	300
Credit card maintenance and other	175
Total	**3,266**

During 2016, the Bank experienced a negative effect from revaluation of certain positions in high-yield bonds in the proprietary investment portfolio. As a result, the Bank took a more conservative approach to placing excess liquidity in financial markets. At the end of 2016, about 84% of the total investment portfolio had credit rating above "BBB-", the average duration of the total portfolio was 1 year. Going forward, we do not plan to take additional risks and will maintain similar investment portfolio characteristics. The Bank's risk management policy and the impact from market, credit and liquidity risks are disclosed in Note 4 of the financial statements.

At the end of 2016, the Bank faced the reputation risk event caused by the revocation of license of M2M Private Bank (Moscow) on 9 December 2016, which has a similar name and was partially indirectly owned by the Bank's major shareholder.

Affected by such negative news, some clients decided to reduce the volume of their deposits with the Bank. As a result the volume of client deposits decreased from 189 to 141 million EUR (-25%) in the last quarter while the volume of assets under management and administration (AUMA) and custody decreased from 509 to 466 million EUR (-8%). These developments did not have adverse effect on the Group's capital adequacy and liquidity ratios, which at the end of 2016 were well above regulatory requirements (26.54% and 78% respectively).

At present, there is an ongoing transaction as a result of which the Bank's controlling shareholding will be sold. The Bank's management expects that clients' concerns following completion of the transaction will dissipate and the Bank will be able to relatively quickly regain client deposits and assets under management and administration that were lost in recent months.

Management of Bank M2M Europe looks forward to future development of the Bank with confidence. We plan to continue to expand the range of investment solutions offered to our clients and maintain the highest industry standards in the quality of service while paying close attention to compliance with the EU and international regulatory standards. We will focus on growing the clients' assets under management and administration volume aiming to become the leading provider of tailor-made investment solutions to high net worth clients in the Baltics.

The Bank and the Group's current year profit will be added to accumulated losses from previous years.

On behalf of management, we would like to thank all employees of Bank M2M Europe for their dedicated work that regularly exceeds expectations. We would also like to thank our shareholders for their continuous support and strategic guidance. And, as always, we are grateful to our clients – you inspire us to restlessly search for innovative solutions every single day.

On behalf of the management:	**Andrey Vdovin**	**Roberts Idelsons**
28 March 2017	Chairman of the Council	Chairman of the Board

2016

THE COUNCIL AND MANAGEMENT OF THE BANK

SUPERVISORY COUNCIL OF THE BANK

Andrey Vdovin
Chairman of the Supervisory Council
Election date 31.05.2013.
Date of re-election 16.06.2016.

Peter Charles Percival Hambro
Deputy Chairman of the Supervisory Council
Election date 31.05.2013.
Date of re-election 16.06.2016.

Thomas Roland Evert Neckmar
Member of the Supervisory Council
Election date 31.05.2013.
Date of re-election 16.06.2016.

MANAGEMENT BOARD OF THE BANK

Roberts Idelsons
Chairman of the Management Board
Election date 15.06.2013.
Date of re-election 09.03.2016.

Tatjana Drobina
Member of the Management Board
Election date 20.06.2013.
Date of re-election 09.03.2016.

Sergejs Zaicevs
Member of the Management Board
Election date 20.06.2013.
Date of re-election 09.03.2016.

There were no changes in the Management of the Bank during the reporting period.

STATEMENT OF MANAGEMENT RESPONSIBILITY

The management of Bank M2M Europe AS (the Bank) is responsible for the preparation of the financial statements of the Bank and its subsidiaries (the Group) that reflect the Bank and the Group's financial position at the end of the reporting period in a clear and actual manner, as well as for the financial results and the movement of monetary assets and liabilities during the reporting period.

The Bank's management confirms that throughout the preparation of pages 11 to 78 of the financial statements of the Bank and the Group for 2016 the corresponding bookkeeping methods have been used consistently, and that the decisions and evaluations of the Bank's management during the preparation of the financial statements have been in all respects sufficient, well-considered and balanced.

The aforementioned financial statements are prepared on a going concern basis in conformity with International Financial Reporting Standards as adopted by the European Union. Prudent and reasonable judgments and estimates have been made by the management in the preparation of the financial statements.

The Bank's management is responsible for the maintenance of proper accounting records, the safeguarding of the Group's assets, and the prevention and detection of fraud or any other irregularities in the Group.

The Bank's management is also responsible for operating the Group and the Bank in compliance with the Law on Credit Institutions of the Republic of Latvia, Regulations of the Bank of Latvia and the Financial and Capital Market Commission of the Republic of Latvia, and other laws of the Republic of Latvia as well as European Union Regulations applicable to credit institutions.

On behalf of the management:	**Andrey Vdovin**	**Roberts Idelsons**
28 March 2017	Chairman of the Council	Chairman of the Board

2016

INDEPENDENT AUDITORS' REPORT

KPMG

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To the shareholders of Bank M2M Europe AS

Our Opinion on the Consolidated and Separate Financial Statements

We have audited the accompanying separate financial statements of AS "Bank M2M Europe" ("the Bank") and accompanying consolidated financial statements of the Bank and its subsidiary ("the Group") set out on pages 11 to 78 of the accompanying Annual Report, which comprise:

- the consolidated and separate statement of financial position as at 3'1 December 2016,
- the consolidated and separate statement of comprehensive income for the year then ended,
- the consolidated and separate statement of changes in shareholders' equity for the year then ended,
- the consolidated and separate statement of cash flows for the year then ended, and
- the notes to the consolidated and separate financial statements, which include a summary of significant accounting policies and other explanatory notes.

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

Basis for Opinion

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

Reporting on Other Information

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

- the Management Report on the Group and the Bank's operations during 2016, as set out on pages 3 and 4 of the accompanying Annual Report,
- the Council and Management of the Bank, as set out on page 5 of the accompanying Annual Report,

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– the Statement on Management Responsibility, as set out on page 6 of the accompanying Annual Report,

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

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate 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, or the 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 on the Group and the Bank's operations during 2016, our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of the Financial and Capital Market Commission of the Republic of Latvia.

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 consolidated and separate financial statements are prepared, is consistent with the consolidated and separate financial statements; and

– the Management Report has been prepared in accordance with the requirements of the Financial and Capital Market Commission of the Republic of Latvia.

Furthermore, in light of the knowledge and understanding of the Bank, Group and their environment obtained in the course of the audit. we are required to report if we have identified material misstatements in the Management Report. We have nothing to report in this respect.

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

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

In preparing the consolidated and separate financial statements, 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.

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

Our objectives are to obtain reasonable assurance about whether the consolidated and separate 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 consolidated and separate financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated and separate 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 consolidated and separate 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 consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate 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.

KPMG Baltics SIA
Licence No 55

Ondrej Fikrie
Partner, pp KPMG Baltics SIA
Riga, Latvia
28 March 2017

Rainers Vilāns
Sworn Auditor
Certificate No 200

GROUP`S CONSOLIDATED AND BANK'S SEPARATE STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

'000 EUR	Note	Group		Bank	
		2016	2015	2016	2015
Interest income	7	6,729	6,416	6,729	6,415
Interest expense	7	(3,173)	(1,711)	(3,185)	(1,727)
Net interest income		**3,556**	**4,705**	**3,544**	**4,688**
Fee and commission income	8	3,266	3,673	3,017	3,345
Fee and commission expense	9	(501)	(1,004)	(501)	(987)
Net fee and commission income		**2,765**	**2,669**	**2,516**	**2,358**
Net gain/ (loss) on financial assets at fair value through profit or loss		584	(389)	584	(389)
Net foreign exchange income		1,660	901	1,658	888
Net realised gain/(loss) on Available-for-sale financial assets		(1,246)	34	(1,246)	34
Other income		215	187	215	149
Total operating income		**7,534**	**8,107**	**7,271**	**7,728**
General administrative expenses	10	(7,259)	(5,879)	(7,026)	(5,638)
Impairment loss	11	(1,074)	(1,189)	(1,074)	(1,189)
Profit/(loss) before income tax		**(799)**	**1,039**	**(829)**	**901**
Income tax benefit	12	1,135	1,106	1,140	1,127
Profit for the period		**336**	**2,145**	**311**	**2,028**
Other comprehensive income					
Items that are or may be reclassified to profit or loss					
Available-for-sale financial assets – net change in fair value		101	718	101	718
Available-for-sale financial assets – reclassified to profit or loss, net of tax		444	(573)	444	(573)
Other comprehensive income for the period		**545**	**145**	**545**	**145**
Total comprehensive income for the period		**881**	**2,290**	**856**	**2,173**

The accompanying notes on pages 18 to 78 are an integral part of the Group consolidated and Bank separate financial statements.

The Group consolidated and Bank`s separate financial statements as set out on pages 11 to 78 were approved by management of the Bank on 28 March 2017.

On behalf of the management:	**Andrey Vdovin**	**Roberts Idelsons**
28 March 2017	Chairman of the Council	Chairman of the Board

GROUP'S CONSOLIDATED AND BANK'S SEPARATE STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

'000 EUR	Note	Group		Bank	
		2016	2015	2016	2015
ASSETS					
Cash and due from central banks	13	18,195	23,322	18,195	23,322
Financial assets at fair value through profit or loss	14	2,887	5,573	2,887	5,573
Balances due from financial institutions	15	42,491	94,134	42,321	93,797
Loans and advances due from customers	16	61,402	50,231	61,402	50,231
Available-for-sale financial assets	17	24,197	32,794	24,197	32,794
Held-to-maturity investments	18	18,843	26,455	18,843	26,455
Investment in subsidiary	19	–	–	1,874	1,874
Property and equipment	20	2,167	2,350	2,164	2,344
Goodwill and other intangible assets	21	1,135	1,179	346	391
Deferred tax asset	26	2,354	1,219	2,267	1,127
Non-current assets and disposal groups classified as held for sale	22	544	–	544	–
Other assets	23	1,849	698	1,795	635
Total Assets		**176,064**	**237,955**	**176,835**	**238,543**

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The Group consolidated and Bank`s separate financial statements as set out on pages 11 to 78 were approved by management of the Bank on 28 March 2017

On behalf of the management:
28 March 2017

Andrey Vdovin
Chairman of the Council

Roberts Idelsons
Chairman of the Board

GROUP'S CONSOLIDATED AND BANK'S SEPARATE STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

'000 EUR	Note	Group		Bank	
		2016	2015	2016	2015
LIABILITIES AND SHAREHOLDERS' EQUITY					
Financial liabilities at fair value through profit or loss	14	1,522	653	1,522	653
Deposits due to central bank	33	12,500	10,001	12,500	10,001
Liabilities to financial institutions		37	–	37	–
Deposits	24	119,646	192,880	120,844	193,877
Subordinated liabilities	25	21,034	18,304	21,034	18,304
Other liabilities	28	1,890	913	1,864	880
Total Liabilities		**156,629**	**222,751**	**157,801**	**223,715**
Share capital	29	32,171	28,821	32,171	28,821
Share premium		28	28	28	28
Other reserves		312	312	312	312
Revaluation reserve of available-for-sale financial assets		(286)	(831)	(286)	(831)
Accumulated losses		(12,790)	(13,126)	(13,191)	(13,502)
Total Shareholders' Equity		**19,435**	**15,204**	**19,034**	**14,828**
Total Liabilities and Shareholders' Equity		**176,064**	**237,955**	**176,835**	**238,543**
Assets under management	**31**	**161,090**	**181,149**	**101,273**	**126,129**

The accompanying notes on pages 18 to 78 are an integral part of the Group consolidated and Bank separate financial statements.

The Group consolidated and Bank`s separate financial statements as set out on pages 11 to 78 were approved by management of the Bank on 28 March 2017

On behalf of the management:
28 March 2017

Andrey Vdovin
Chairman of the Council

Roberts Idelsons
Chairman of the Board

GROUP'S CONSOLIDATED AND BANK'S SEPARATE STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

'000 EUR	Note	Group		Bank	
		2016	2015	2016	2015
Cash flows from operating activities					
Profit/(loss) before income tax		(799)	1,039	(829)	901
Increase/(release) provisions		–	88	–	82
Amortisation and depreciation	20, 21	486	361	483	356
Impairment loss	11	1,074	1,189	1,074	1,189
Net interest income		(3,556)	(4 705)	(3,544)	(4 688)
Dividends on available-for-sale financial assets		(51)	(37)	(51)	(37)
Decrease in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations		**(2,846)**	**(2,065)**	**(2,867)**	**(2,197)**
Increase/(decrease) in financial assets at fair value through profit or loss		3,555	(4,494)	3,555	(4,494)
(Increase)/decrease in balances due from financial institutions		30,295	(7,163)	30,285	(7,463)
Increase in loans and advances due from customers		(11,415)	(16,731)	(11,415)	(16,731)
(Increase)/decrease in available-for-sale financial assets		8,500	(10,957)	8,500	(10,957)
(Increase)/decrease in other assets		(1,186)	392	(1,196)	423
Increase/(decrease) in deposits and balances due to financial institutions		(73,561)	72,584	(73,360)	72,799
Increase/(decrease) in other liabilities		977	(403)	985	(402)
		(45,681)	**31,163**	**(45,513)**	**30,978**
Interest received		6,563	6,289	6,550	6,288
Dividends received		51	37	51	37
Interest paid		(2,760)	(1,419)	(2,749)	(1,435)
Net cash flow from/(used in) operating activities		**(41,827)**	**36,070**	**(41,661)**	**35,868**
CASH FLOW FROM INVESTING ACTIVITIES					
Purchase of property and equipment		(259)	(993)	(258)	(991)
Settlement of held-to-maturity investments		10,855	1,316	10,855	1,316
Purchase of held-to-maturity investments		(3,243)	(11,057)	(3,243)	(11,057)
Disposal of Loans to customers		–	2,902	–	2,902
Assets held for sale (purchase)		(544)	–	(544)	–
Net cash flow from (used in) investing activities		**6,809**	**(7,832)**	**6,810**	**(7,830)**

GROUP'S CONSOLIDATED AND BANK'S SEPARATE STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

'000 EUR	Note	Group		Bank	
		2016	2015	2016	2015
CASH FLOW FROM FINANCING ACTIVITIES					
Increase in share capital		3,350	901	3,350	901
Increase in Subordinated liabilities		2,662	8,756	2,662	8,756
Net cash flow from financing activities		**6,012**	**9,657**	**6,012**	**9,657**
Net increase in cash and cash equivalents		**(29,006)**	**37,895**	**(28,839)**	**37,695**
Cash and cash equivalents at the beginning of the year		**75,753**	**37,858**	**75,416**	**37,721**
Cash and cash equivalents at the end of the year	**13**	**46,747**	**75,753**	**46,577**	**75,416**

The accompanying notes on pages 18 to 78 are an integral part of the Group consolidated and Bank separate financial statements.

The Group consolidated and Bank`s separate financial statements as set out on pages 11 to 78 were approved by management of the Bank on 28 March 2017

On behalf of the management:
28 March 2017

Andrey Vdovin
Chairman of the Council

Roberts Idelsons
Chairman of the Board

GROUP'S CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

'000 EUR	Note	Share capital	Share premium	Revaluation reserve of available-for-sale financial assets	Other reserves	Accumulated losses	Total
Balance at 1 January 2015		**27,920**	**28**	**(976)**	**312**	**(15,271)**	**12,013**
Total comprehensive income							
Profit for the year		–	–	–	–	2,145	2,145
Other comprehensive income		–	–	145	–	–	145
Transactions with shareholder recorded directly in equity							
Increase of share capital	29	901	–	–	–	–	901
Balance at 31 December 2015		**28,821**	**28**	**(831)**	**312**	**(13,126)**	**15,204**
Total comprehensive income							
Profit for the year		–	–	–	–	336	336
Other comprehensive income		–	–	545	–	–	545
Transactions with shareholder recorded directly in equity							
Increase of share capital	29	3,350	–	–	–	–	3,350
Balance at 31 December 2016		**32,171**	**28**	**(286)**	**312**	**(12,790)**	**19,435**

The accompanying notes on pages 18 to 78 are an integral part of the Group consolidated and Bank separate financial statements.

The Group consolidated and Bank`s separate financial statements as set out on pages 11 to 78 were approved by management of the Bank on 28 March 2017.

On behalf of the management:
28 March 2017

Andrey Vdovin
Chairman of the Council

Roberts Idelsons
Chairman of the Board

BANK'S SEPARATE STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

'000 EUR	Note	Share capital	Share premium	Revaluation reserve of available-for-sale financial assets	Other reserves	Accumulated losses	Total
Balance at 1 January 2015							
Total comprehensive income		**27,920**	**28**	**(976)**	**312**	**(15,530)**	**11,754**
Loss for the year		–	–	–	–	2,028	2,028
Other comprehensive income		–	–	145	–	–	145
Transactions with shareholder recorded directly in equity							
Increase of share capital	29	901	–	–	–	–	901
Balance at 31 December 2015		**28,821**	**28**	**(831)**	**312**	**(13,502)**	**14,828**
Total comprehensive income							
Profit for the year		–	–	–	–	311	311
Other comprehensive income		–	–	545	–	–	545
Transactions with shareholder recorded directly in equity							
Increase of share capital	29	3,350	–	–	–	–	3,350
Balance at 31 December 2016		**32,171**	**28**	**(286)**	**312**	**(13,191)**	**19,034**

The accompanying notes on pages 18 to 78 are an integral part of the Group consolidated and Bank separate financial statements.

The Group consolidated and Bank`s separate financial statements as set out on pages 11 to 78 were approved by management of the Bank on 28 March 2017

On behalf of the management:
28 March 2017

Andrey Vdovin
Chairman of the Council

Roberts Idelsons
Chairman of the Board

GROUP'S CONSOLIDATED AND BANK'S SEPARATE NOTE TO THE FINANCIAL STATEMENTS

1. BACKGROUND

Principal activities

These consolidated financial statements include the financial statements of Bank M2M Europe AS (the "Bank") and its subsidiary M2M Asset Management IPAS (together referred to as the "Group"). Bank M2M Europe AS was founded in 1992 under the name Latvian Business Bank. In 2013, after acquiring the Bank by Andrey Vdovin, the new Bank development strategy was introduced.

Bank M2M Europe AS is a private banking boutique committed to providing top quality financial solutions to the high net worth clients and companies owned by such clients. Main products offered to the clients are servicing day to day banking transactions of private and business clients, wealth management solutions including portfolio management and investment advisory, premium level payment cards, deposits, servicing fiduciary transactions and escrow accounts, lombard loans. Bank M2M Europe clients are predominantly residents of the Russian Federation and other Commonwealth Independent States ('CIS') countries. The Bank strives to become the most reliable private banking institution in the Baltics.

At the end of 2016, the Group faced reputational risks related revocation of licence of M2M Private Bank (Moscow), as entity partly owned and indirectly by Mr Andrey Vdovin. Some of the Bank's clients decided to reduce the amount of their deposits with the Bank, which resulted in decreased client activity.

Currently work is under way on a transaction which is planned to result in change of the Bank's majority shareholding. The Bank's management believes that clients' concerns with regard to the future development of the Bank will dissipate upon completion of this transaction and the Bank will be able to increase client deposits and assets under management volumes which decreased in recent months.

The Group's capital adequacy and liquidity ratios have improved reaching 26.54% and 78% respectively as at 31 December 2016. The Group's Return on Equity (ROE) and Return on Assets (ROA) were 1.88% and 0.16% respectively (15.9% and 1.12% in 2015).

The Bank operates in accordance with the laws and regulations of the Republic of Latvia and the licence No Nr.06.01.05.006/352, issued 23 June 2013 by the Bank of Latvia that allows the Bank to render all the financial services specified in the Law on Credit Institutions.

The activities of the Group are supervised by the Financial and Capital Market Commission of the Republic of Latvia ("FCMC"). The registered address of the Bank's head office is 3 Antonijas street, Riga LV-1010, Latvia. The majority of the Group's assets and liabilities are located in Latvia, Europe and the CIS countries.

The subsidiary of the Group is as follows:

Name	Country of incorporation	Principal Activities	Address	Ownership %	
				2016	2015
„M2M Asset Management" IPAS	Latvia	Financial services	3 Antonijas street, Riga LV-1010, Latvia	100	100

2. BASIS OF PREPARATION

Statement of compliance

The accompanying Group consolidated and Bank separate 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 in force as at the reporting date.

The financial statements were authorized for issue by the management of the Bank on 28 March 2017. The shareholders have the right to have the financial statements amended.

Basis of measurement

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

- financial assets at fair value through profit or loss are stated at fair value;
- available-for-sale assets are stated at fair value.

Functional and Presentation Currency

The Group's consolidated and Bank's separate financial statements are presented in thousand of euro ('000 EUR), unless stated otherwise. Functional currency of the Bank and its subsidiary is the euro (EUR).

3. SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been applied in the preparation of the Group's consolidated and the Bank's separate financial statements. The accounting policies have been consistently applied except for the changes in accounting policies described in this Note.

Basis of consolidation

Subsidiaries

Subsidiaries are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. 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.

Assets under management

The Group provides assets management services to individuals and institutions. The assets under management are not included neither in the consolidated and nor in the separate statement of financial position.

Transactions eliminated on consolidation

M2M Asset Management investment management entity (the 'Subsidiary') was acquired by the Bank on 11 November 2013, with Subsidiary's shareholder changes registered on the same date. Bank M2M Europe AS became the sole shareholder of the entity which is now a fully integrated subsidiary of the Bank. Detailed information of the entity is available in Note 19.

The Bank and its Subsidiary's financial statements are consolidated in the Group financial statements, merging the respective assets, liabilities, income and expense captions. Intra-group balances and transactions, and any unrealized gains arising from intra-group transactions, have been eliminated in the preparation of the consolidated financial statements.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets.

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

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

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

Foreign currency

Transactions in foreign currencies are translated into the respective functional currency of Group companies at the exchange rate at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the European Central Bank spot exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value in foreign currency are retranslated into the functional currency at the European Central Bank spot exchange rate at the date that the fair value was determined. 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 or a financial liability designated as the hedging instrument in a hedge of the net investment in a foreign operation or in a qualifying cash flow hedge, which are recognised in other comprehensive income.

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 companies in the management of short-term commitments.

Financial instruments

(i) Classification

Financial assets at fair value through profit or loss are financial assets or liabilities that 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 a derivative (except for a derivative that is a designated and effective hedging instrument); or that are upon initial recognition, designated by the entity as at fair value through the profit or loss.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, and which are not designated at fair value through profit or loss, or available for sale.

Available-for-sale financial 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 assets at fair value through profit or loss.

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. For the purposes of these financial statements, loans and advances include regular loans, credit card balances, and are accounted for at amortised cost using the effective interest method. Certain expenses, such as legal fees or sales commissions for employees acting as agents or other expenses that are incurred in securing a loan are treated as part of the cost of the transaction.

(ii) Recognition

Financial assets and liabilities are recognised in the statement of financial position when the Group or the Bank becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

(iii) Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- Held-to-maturity investments and loans and receivables that are measured at amortised cost using the effective interest method; and
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss 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 rate 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.

(iv) Fair value measurement principles

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 applicable, the Group measures the fair value of an instrument using quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

To measure the fair value of FX swap and forward deals the Group uses market rates for the similar maturity and currencies. Quotes of certain brokers have been used to determine fair value of bonds which do not have active market.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that used only data from observable inputs, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk, are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred. For further analysis of basis for fair value see Note 35.

(v) 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 the profit or loss;
- a gain or loss on an available-for-sale financial asset is recognised in other comprehensive income (except for impairment losses and foreign exchange gains and losses on debt financial instruments) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in the profit or loss. Interest in relation to an available-for-sale financial asset is recognised as earned in the 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 the profit or loss when the financial asset or liability is derecognised or impaired, and through the amortisation process.

(vi) Derecognition

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or when the Group transfers substantially all of the risks and rewards of ownership of the financial asset. Any rights or obligations created or retained in the transfer are recognised separately as assets or liabilities. A financial liability is derecognised when it is extinguished.

The Group also derecognises certain assets when it writes off balances pertaining to the assets deemed to be uncollectible.

(vii) 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 liability towards counterparty included in amounts payable under repo transactions. The difference between the sale and repurchase price represents interest expense and is recognised in the profit or loss over the term of the repo agreement using the effective interest rate 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.

(viii) Derivative financial instruments

Derivative financial instruments include OTC interest rate swaps, exchange-traded interest rate futures and interest rate options, currency forwards and swaps, options on precious metals, and stock options and any combinations of these financial instruments.

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

Changes in the fair value of derivatives are recognised immediately in the profit or loss.

Derivatives may be embedded in another contractual arrangement (a “host contract”). An embedded derivative is separated from the host contract and it is accounted for as a derivative if, and only if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, and a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the combined instrument is not measured at fair value with changes in fair value recognised in the profit or loss. Derivatives embedded in financial assets or financial liabilities at fair value through profit or loss are not separated.

Although the Group/Bank trade in derivative instruments for risk hedging purposes, the Group/Bank do not adopt hedge accounting.

(ix) Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position 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.

Property and equipment

Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

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.

Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Equipment acquired by way of finance lease is stated 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, less accumulated depreciation and impairment losses.

Leasehold improvements are capitalized, and their depreciation is calculated on a straight-line basis over the remaining lease term. Leasehold renovation costs in relation to improving quality of the building are capitalized. Leasehold maintenance and current repair costs are recognized in the profit or loss statement when incurred.

Depreciation

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

Leasehold improvements	Over the lease term
Equipment	3 years
Fixtures and fittings	5 years

Intangible assets

Intangible assets, which are acquired by 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.

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.

Costs associated with maintaining computer software programs are recognised as an expense as incurred.

Amortisation is charged to the profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are as follows:

Intangible assets	5 years

Impairment

Financial assets

At each reporting date the Group assesses 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 Group on terms that 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 a group, or economic conditions that correlate with defaults in a 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.

All held-to-maturity and available for sale investment securities are assessed for specific impairment.

The Group considers evidence of impairment for loans at both specific asset level and collective level. For the purpose of collective impairment assessment, financial assets are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms.

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 advances. 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.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income to profit or loss. The cumulative loss that is removed from equity and recognised in profit or 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 statement of comprehensive income. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security 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.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than 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.

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 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.

Provisions

A provision is recognised in the statement of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits 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.

Unrecognised loan commitments

In the normal course of business, the Group enters into unrecognised loan commitments, comprising undrawn loan commitments and provides guarantees and letters of credit.

Financial guarantees are contracts that require 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 is recognised initially at fair value, 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 unrecognised loan commitments are recognised when losses are considered probable and can be measured reliably.

Financial guarantee liabilities and provisions for other credit related commitment are included within provisions.

Taxation

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

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.

Income and expense recognition

With the exception of financial instruments held for trading and other financial assets at fair value through profit or loss, interest income and expense are recognised in the consolidated statement of income using the effective interest rate method. Interest income on financial instruments held for trading and on other financial assets at fair value through profit or loss comprises coupon interest only.

Accrued discounts and premiums on financial assets at fair value through profit or loss are recognised in gains less losses from financial assets at fair value through profit or loss, respectively.

Loan origination fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related direct costs, are deferred and amortised to interest income over the estimated life of the financial instrument using the effective interest rate method.

Other fees, commissions and other income and expense items are recognised when the corresponding service has been provided.

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 the Group's and the 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.

New standards and interpretations

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these 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 are in the process of 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.

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.

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 is planning to establish 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.
- In addition, a significant increase in credit risk is assumed to have taken place if the borrower falls more than 30 days past due in making its contractual payments, if the Bank expects to grant the borrower forbearance, or the facility is place on the Bank's watch list.
- *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. Both the Risk and Finance management teams will need to approve the forward-looking assumptions before they are applied for different scenarios.

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.

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.

IFRS 9 implementation plan

As of issuance of these financial statements, the Group is in the process of developing the necessary processes, systems, models and capabilities solutions for the implementation of IFRS 9, and it is expected that there still will be some changes until the initial application of IFRS 9. The implementation team, which includes both the management of the Bank and experts of the Bank in the field of risks and accounting, is dealing with direct accounting and presentation aspects of the new standard as well as and the related aspects like, for example, development of necessary procedures and instructions, as well as development of relevant expected credit loss models.

(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.

(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.

Initial evaluation results indicate that application of IFRS 16 will impact leases accounting significantly. The Group and the Bank is carrying out a detailed impact assessment currently.

(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.

(viii) 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.

(ix) 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 Group has exposure to the following risks:

- market risks
- interest rate risk
- currency risk
- price risk
- credit risk
- liquidity risk
- operational risk
- other risks: ML/TF (money laundering and terrorism financing) risk, compliance and reputation risk, strategic risk.

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

Risk management policies and procedures

The Group's risk management policies aim to identify, analyse and manage the risks faced by 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 regulation, market conditions, products and services offered and emerging risk management best practice.

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

The Management Board is responsible for monitoring and implementation of risk mitigation measures and making sure that the Group operates within the established risk parameters. The Head of Financial Risk Management Department (further – FRMD) is responsible for the overall financial risk management functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting financial risks. The Head of FRMD has the same responsibilities in the field of non-financial risks and compliance issues.

Credit, market and liquidity risks both at portfolio and transactional levels are managed and controlled through a system of Credit Committee and Assets and liabilities committee (further - ALCO) for limits over predefined level additional approval from the Council is needed. In order to facilitate efficient decision-making, the Group has established a hierarchy of authorities depending on the type and amount of the exposure.

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 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 fixed income or other 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 optimizing the return on risk.

Overall authority for market risk is vested in the ALCO, chaired by the CEO. Market risk limits are approved by ALCO based on recommendations of the FRMD.

The Group manages its market risk by setting open position limits in relation to financial instrument, interest rate maturity and currency positions and stop-loss limits which are monitored on a regular basis and reviewed and approved by the ALCO. Additional restrictions are set for financial instrument portfolios, such as duration limits, concentration limits etc.

In addition, the Group uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual portfolios 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 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 rates risk by monitoring interest rate gap is supplemented by monitoring the sensitivity of the Group's net interest margin to various standard and non-standard interest rate scenarios. Sensitivity of net present value of Bank's assets and liabilities is also evaluated.

Interest rate risk

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

The Group is 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.

A change of 200 basis points would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign exchange rates, remain constant. Available for sale and tradable fixed-income financial instruments were evaluated (not including investments in fixed-income funds). Results are the same for the Bank and for the Group because the subsidiary did not have investments in financial instruments.

The impact of income taxes is not reflected in this analysis:

'000 EUR	31 December 2016		31 December 2015	
	Profit or loss	Equity	Profit or loss	Equity
200 bp parallel increase	–*	(563)	(124)	(665)
200 bp parallel decrease	–*	579	131	702

* In 2016 no debt securities in the trading portfolio

In addition to the impact on securities prices, possible changes in the interest rates may impact the interest income that the Bank receives on the assets with variable interest rates and pays on the liabilities with variable interest rates thus impacting the Bank's net interest income. Below a possible impact on the Bank's net interest income within a period of the next 12 months is provided:

'000 EUR	31 December 2016	31 December 2015
200 bp parallel increase	1,293	1,741
200 bp parallel decrease	(1,293)	(1,741)

Taking into account the fact that central bank policy rates remain low (EUR -0.4%, USD 0.75%), the Bank believes that there is an insubstantial probability of the rates being reduced by 2% (200bp).

Currency risk

The Group has 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 Group's exposure to currency risk at year end refer to Currency analysis table in this Note.

A change in exchange rates as indicated below, as at 31 December would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

The impact of income taxes is not reflected in this analysis:

'000 EUR	31 December 2016		31 December 2015	
	Profit or loss, Group	Profit or loss, Bank	Profit or loss, Group	Profit or loss, Bank
5% appreciation of USD against EUR	(50)	(53)	(40)	(40)
5% depreciation of USD against EUR	50	53	40	40
5% appreciation of GBP against EUR	4	4	(3)	(3)
5% depreciation of GBP against EUR	(4)	(4)	3	3
20% appreciation of RUB against EUR	16	23	(28)	(28)
20% depreciation of RUB against EUR	(16)	(23)	28	28

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 Group takes a long or short position in a financial instrument.

An analysis of sensitivity of 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 simplified scenario of a 5% change in all securities prices is as follows:

'000 EUR	31 December 2016		31 December 2015	
	Profit or loss	OCI	Profit or loss	OCI
5% increase in securities prices	26	1,243	242	1,859
5% decrease in securities prices	(26)	(1,243)	(242)	(1,859)

Results are the same for the Bank and for the Group because the subsidiary did not have investments in securities.

Credit risk

Credit risk means possible losses to the Group (or reduction of profit), if the Group's customer, counterparty, or issuer of financial instruments owned by the Bank fully or partially fails to fulfil its financial obligations towards the Group, as well as losses (or reduction in profit) due to price decrease of the financial instruments owned by the Group due to worsening of creditworthiness of the issuer.

The Group's credit risk management guidelines are defined by the Bank's internal regulatory document „Credit Risk Management Policy" and „Credit Policy" approved by the Council of the Bank, as well as the Bank's internal regulatory document „Country Risk Management Procedure"; but credit risk management procedure is determined by the Bank's internal regulatory document „Credit Risk Management Procedure".

According to the Bank's internal regulatory document „Credit Risk Management Policy", fundamental elements of credit risk management are:

- credit risk identification;
- credit risk assessment in normal and stress conditions;

- limiting the credit risk by applying limits;
- mitigation of the credit risk.

According to the Bank's internal regulatory document „Credit Risk Management Policy", the Group separately manages credit risk related to the Group's loans to the customers (except reverse repo loans), and credit risk related to interbank claims and the Group's investments in financial instruments (as well as reverse repo loans).

The Groups guidelines in relation to customer financing transactions (loans to customers) are set out in the Bank's internal regulatory document „Credit Policy" that stipulates:

- desirable creditworthiness and reputation profile of the customer;
- preferred loan term;
- requirements for loan security and restrictions/ conditions for LTV (loan to value) ratio;
- procedure of crediting process;
- credit portfolio management and supervision procedure;
- limits to the total proportion of the loans, proportion of unsecured loans, and proportion of loans secured by real estate in the Bank's assets.

Decision on issue of loans at the Bank is made by the Credit Committee according to regulations on its operations. The Bank's Board accepts decisions of the Credit Committee on crediting transactions with one customer or group of customers that exceed 5% of the Group's equity. The Bank's Council accepts decisions of the Credit Committee of crediting transactions exceeding 15% of the Group's equity.

Creditworthiness of each borrower and credit risk of the planned transaction is assessed by FRMD according to the procedure prescribed by the Bank's internal regulatory document „Procedure for Credit Risk Assessment of Crediting Transaction". Legal Department of the Bank assesses each planned transaction and provides its opinion on legal aspects of the transaction. Security Department of the Bank performs inspection of the customer, persons associated with the customer, information and documents submitted by the customer, by using information sources and resources available to the Bank including the inspection of customer's reputation, existence of negative information on customer and associated persons, and the department provides an opinion on the customer.

In addition to the abovementioned, in order to ensure a credit risk level acceptable to the Group at the portfolio level, ALCO sets limits for the concentration of loan portfolio by countries/ regions, industries, and other factors.

The Group's credit risk that stems from keeping of funds in correspondent accounts in other banks, as well as transactions concluded by the Financial Market Division of the Bank (interbank loans, reverse repo transactions, financial instruments transactions, and other transactions), is restricted by the Group with a help of limits for maximum amount of claim against each counterparty, financial instruments portfolios limits, and other limits.

Limits are set by ALCO that operates according to the regulations on its operation. Monitoring of the set limits is performed every day by FRMD and Accounting and Reporting Department of the Bank, and management of Financial Market Division of the Bank is informed about detected limit violations, as well as the situation regarding compliance with the set limits is reviewed every week by ALCO.

Every quarter FRMD prepares a credit risk report reflecting detailed information regarding credit risk undertaken by the Group in relation to all transactions/ transaction types concluded by the Group. Report is reviewed by ALCO.

Past due loan is defined as the loan for which interest, commissions or principal payments are overdue.

Impaired loan is defined as the loan for which impairment allowance has been made as a result of an individual assessment of the loan. The Bank makes an assessment if the loan has been impaired if a loss event has occurred in relation to the loan:

- material financial difficulties of the borrower;
- violation of the terms of the loan agreement (including a failure to make a timely payment according to the loan agreement);
- a relief granted to the borrower due to economic or legal reasons related to the borrowers' financial difficulties that would otherwise not have been granted;
- a fair chance that the borrower will initiate the bankruptcy procedure or a reorganization;
- prerequisites of the loan project failing to materialize;
- a failure to fulfill obligations by a person that impacts the borrowers' ability to make timely payments to the Bank;
- a failure to utilize the borrowed funds according to the loan purpose;
- a drop in the value of the loan collateral;
- other events that increase the credit risk.

Credit quality analysis for the Group and Bank:

'000 EUR	Business	Consumer	Reverse repo	Mortgage	Other	Total
31.12.2016						
Total gross loans	**32,766**	**12,309**	**6,078**	**6,013**	**5,061**	**62,227**
– Neither past due nor impaired loans	32,766	12,305	6,078	6,013	4,599	61,761
– Past due but not impaired loans, less than 30 days	–	4	–	–	–	4
– Past due but not impaired loans, more than 90 days	–	–	–	–	462	462
Total impairment allowance	**(284)**	**(74)**	**–**	**(67)**	**(400)**	**(825)**
Specific impairment allowance – loans are past due more than 90 days	–	–	–	–	386	386
Total collective impairment allowance	–	(74)	–	(67)	(14)	(439)
– Neither past due nor impaired loans		(70)	–	67	14	14
– Past due but not impaired loans, less than 30 days		(4)	–	–	–	–
Total net loans	**32,482**	**12,235**	**6,078**	**5,946**	**4,661**	**61,402**
– Neither past due nor impaired loans	32,482	12,235	6,078	5,946	4,585	61,326
– Past due but not impaired loans, less than 30 days	–	–	–	–	–	–
– Past due but not impaired loans, more than 90 days	–	–	–	–	76	76
31.12.2015						
Neither past due nor impaired loans, gross	**12,492**	**3,496**	**8,465**	**24,270**	**1,775**	**50,498**
Specific impairment allowance – loans are past due more than 90 days	–	–	–	–	16	16
collective impairment allowance – Neither past due nor impaired loans	(79)	(13)	–	(159)	–	(251)
Total net loans	**12,413**	**3,483**	**8,465**	**24,111**	**1,759**	**50,231**

As at 31 December 2016, the gross amount of loans which were granted the status 'restructured' totalled EUR 13 403 thousand (2015: EUR 2 249 thousand). These changes were made on the basis of the agreements between the Group or the Bank and customers amending respective loan conditions, as otherwise the loans might be past due. A loan is considered to be restructured from the date of the above mutual agreement to the date when at least two years have passed without delays of contractual payments by more than 30 days or any of the loss events has taken place.

The Group's maximum exposure to statement of financial position credit risk is generally reflected in the carrying amounts of financial assets on the statement of financial position.

All the Bank's loans are assessed individually and in respect of each loan it is evaluated whether one or more credit loss events have occurred. In addition, if the Bank's assets have similar risk characteristics, the Bank combines the loans in the group and carries out an assessment at the collective level.

In 2015 as a result of collective impairment assessment provisions for those loans, where both source of repayment and value of the collateral is associated to the Russian Federation risk, were made; in 2016 as a result of collective impairment assessment additional provisions were made, taking into account loan-to-value ratio. In both cases the amount of provisions was determined as a percentage of the related loans balance and consequently in accounting it was allocated to the each exposure. In 2016 as a result of collective impairment assessment general provisions were also made for those credit card limits which are not secured by deposits. The amount of provisions is recognized to the whole group, not allocating to the each card exposure.

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 advances to customers refer to Note 16 "Loans and advances due from customers".

Liquidity risk

Liquidity risk means possible losses to the Group or decrease in profit from the sale of the assets or attraction of resources at unfavourable interest rates in order for the Group to meet its financial liabilities towards depositors, counterparties and other creditors.

Since the Group's operations are related to servicing of customers – non-residents, the FCMC has set increased requirements for the Bank's liquidity ratio – minimum liquidity ratio equals to 60%.

The Group's guidelines for liquidity risk management are defined in the Bank's internal regulatory documents „Liquidity Risk Management Policy" and „Assets and Liabilities Management Policy" approved by the Bank's Council, and liquidity risk management procedure is defined in the Bank's internal regulatory document „Liquidity Risk Management Procedure".

The Group's liquidity risk management system consists of several elements: liquidity risk ratio system, limits set in order to restrict the liquidity risk undertaken by the Group, liquidity risk stress testing, the Group's balance sheet planning, and the „Liquidity Assurance Plan in Crisis Conditions".

The purpose of liquidity risk ratios is to indicate the liquidity risk level undertaken by the Group from various angles and promptly indicate the increase in liquidity risk level. Liquidity risk ratios are calculated and monitored every day, and the Bank's internal regulatory document „Liquidity Risk Management Procedure" sets out actions to be taken when ratios have reached certain levels.

The Group's liquidity risk stress testing is conducted every quarter within the framework of internal capital adequacy assessment process (further – ICAAP), and the surplus or deficit of liquid assets in stress scenarios is determined. Liquidity risk stress test results are assessed by ALCO.

In order to limit the liquidity risk, limits are set on the Bank's liquidity net positions, as well as on investments in low liquidity assets – loans to customers. The control of liquidity net positions is conducted once a month, but the control of the limit of loans to customers is carried out every week.

Group performs liquidity planning within the framework of budget planning. Liquidity ratio and LCR (liquidity coverage ratio) are planned.

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 FRMD. Under the normal market conditions, liquidity reports covering the liquidity position of the Group are presented to ALCO on a weekly basis. Decisions on the Group's liquidity management are made by the ALCO and implemented by the Financial Market Department.

The Group also calculates mandatory liquidity ratios on a daily basis in accordance with the requirement of the Financial and Capital Markets Commission. The Bank was in compliance with these ratios during the twelve-month period ended 31 December 2016 and 31 December 2015.

The table below analyses the Group's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows.

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

'000 EUR	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities								
Deposits due to central bank	–	12,500	–	–	–	–	12,500	12,500
Current accounts and deposits due to customers	94,538	6,015	215	6,219	12,998	55	120,040	119,646
Subordinated liabilities	443	40	46	93	20,216	5,774	26,612	21,034
Unrecognised loan commitments	6,779	–	–	–	–	–	6,779	–
Derivative liabilities								
– Inflow	(15,554)	(9,659)	(19,298)	(34,329)	(50)	–	(78,890)	(76,529)
– Outflow	15,685	10,486	18,011	32,833	13	–	77,028	75,506
Total	**101,891**	**19,382**	**(1,026)**	**4,816**	**33,177**	**5,829**	**164,069**	**152,157**

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

'000 EUR	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities								
Deposits due to central bank	10,001	–	–	–	–	–	10,001	10,001
Current accounts and deposits due to customers	148,136	5,123	6,518	16,221	19,264	42	195,304	192,880
Subordinated liabilities	26	172	221	65	19,241	2,874	22,598	18,304
Unrecognised loan commitments	6,994	–	–	–	–	–	6,994	–
Derivative liabilities								
– Inflow	(17,197)	(22,129)	(15,591)	(3,896)	–	–	(58,813)	(58,086)
– Outflow	17,165	22,992	15,470	3,113	–	–	58,740	58,088
Total	**165,125**	**6,158**	**6,618**	**15,503**	**38,505**	**2,916**	**234,824**	**221,187**

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

'000 EUR	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities								
Deposits due to central bank	–	12,500	–	–	–	–	12,500	12,500
Current accounts and deposits due to customers	94,700	6,245	219	6,427	13,616	55	121,262	120,844
Subordinated liabilities	443	40	46	93	20,216	5,774	26,612	21,034
Unrecognised loan commitments	6,779	–	–	–	–	–	6,779	–
Derivative liabilities								
– Inflow	(15,554)	(9,659)	(19,298)	(34,329)	(50)	–	(78,890)	(76,529)
– Outflow	15,685	10,486	18,011	32,833	13	–	77,028	75,506
Total	**102,053**	**19 612**	**(1,022)**	**5,024**	**33,795**	**5,829**	**165,291**	**153,355**

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

'000 EUR	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities								
Deposits due to central bank	10,001	–	–	–	–	–	10,001	10,001
Current accounts and deposits due to customers	148,881	5,379	6,518	16,221	19,264	42	196,305	193,877
Subordinated liabilities	26	172	221	65	19,241	2,874	22,599	18,304
Unrecognised loan commitments	6,994	–	–	–	–	–	6,994	–
Derivative liabilities								
– Inflow	(17,197)	(22,129)	(15,591)	(3,896)	–	–	(58,813)	(58,086)
– Outflow	17,165	22,992	15,470	3,113	–	–	58,740	58,088
Total	**165,870**	**6,414**	**6,618**	**15,503**	**38,505**	**2,916**	**235,826**	**222,184**

The Group are keeping different financial assets to provide liquidity. The Group's Analysis of expected maturities of financial assets and liabilities and equity as at 31 December 2016 is presented below:

GROUP '000 EUR	1 month	1–3 months	3–6 months	6–12 months	More than 1 year	No maturity	Total
Financial assets							
Cash and due from central banks	18,195	–	–	–	–	–	**18,195**
Financial assets at fair value through profit or loss	656	215	835	1,068	113	–	**2,887**
Balances due from financial institutions	41,945	–	–	–	–	546	**42,491**
Loans and advances due from customers	16,382	5,089	3,651	8,386	27,346	548	**61,402**
Available-for-sale financial assets	18,695	3,217	114	–	2,171		**24,197**
Held-to-maturity investments	6,294	10,695	474	937	443	–	**18,843**
Other financial assets	1,037	–	–	–	–	–	**1,037**
Total financial assets	**103,204**	**19,216**	**5,074**	**10,391**	**30,073**	**1,094**	**169,052**
Financial liabilities							
Financial liabilities at fair value through profit or loss	412	625	164	308	13	–	**1,522**
Deposits due to central bank	–	12,500	–	–	–	–	**12,500**
Balances due from financial institutions	37	–	–	–	–	–	**37**
Current accounts and deposits due to customers	95,257	5,990	195	5,983	12,221	–	**119,646**
Subordinated liabilities	73	10	–	–	20 951	–	**21,034**
Unrecognised loan commitments	9,625	–	–	–	–	–	**9,625**
Total financial liabilities	**105,404**	**19,125**	**359**	**6,291**	**33,185**	**–**	**164,364**
Total Equity	–	–	–	–	–	19,435	**19,435**
Total Liabilities and Equity	**105,404**	**19,125**	**359**	**6,291**	**33,185**	**19,435**	**183,799**
Net liquidity position as at 31 December 2016	**(2,200)**	**91**	**4,715**	**4,100**	**(3,112)**	**(18,341)**	**–**
Net liquidity position as at 31 December 2015	12,430	(249)	2,842	(9,924)	(1,987)	(14,431)	–

The Bank's Analysis of expected maturities of financial assets and liabilities and equity as at 31 December 2016 is presented below:

BANK '000 EUR	1 month	1–3 months	3–6 months	6–12 months	More than 1 year	No maturity	Total
Financial assets							
Cash and due from central banks	18,195	–	–	–	–	–	**18,195**
Financial assets at fair value through profit or loss	656	215	835	1 068	113	–	**2,887**
Balances due from financial institutions	41,775	–	–	–	–	546	**42,321**
Loans and advances due from customers	16,382	5,089	3,651	8,386	27,346	548	**61,402**
Available-for-sale financial assets	18,695	3,217	114	–	2,171	–	**24,197**
Held-to-maturity investments	6,294	10,695	474	937	443	–	**18,843**
Investment in subsidiary	–	–	–	–	–	1 874	**1 874**
Other financial assets	1,037	–	–	–	–	–	**1,037**
Total financial assets	**103,034**	**19,216**	**5,074**	**10,391**	**30,073**	**2,968**	**170,756**
Financial liabilities							
Financial liabilities at fair value through profit or loss	412	625	164	308	13	–	**1,522**
Deposits due to central bank	–	12,500	–	–	–	–	**12,500**
Balances due from financial institutions	37	–	–	–	–	–	**37**
Current accounts and deposits due to customers	95,019	6,224	206	6,284	13,111	–	**120,844**
Subordinated liabilities	73	10	–	–	20,951	–	**21,034**
Unrecognised loan commitments	9,625	–	–	–	–	–	**9,625**
Total financial liabilities	**105,166**	**19,359**	**370**	**6,592**	**34,075**	**–**	**165,562**
Total Equity	–	–	–	–	–	19,034	**19,034**
Total Liabilities and Equity	**105,166**	**19,359**	**370**	**6,592**	**34,075**	**19,034**	**184,596**
Net liquidity position as at 31 December 2016	**(2,132)**	**(143)**	**4,704**	**3,799**	**(4,002)**	**(16,066)**	**–**
Net liquidity position as at 31 December 2015	11,351	(504)	2,842	(9,924)	(1,987)	(12,181)	**–**

Interest rate re-pricing analysis

The following table shows the Group's interest rate gap position as at 31 December 2016.

'000 EUR	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Non-interest bearing financial instruments	Total
Financial assets								
Cash and due from central banks	17,818	–	–	–	–	–	377	**18,195**
Financial assets at fair value through profit or loss	193	215	835	1,068	50	–	526	**2,887**
Balances due from financial institutions	12,700	–	–	–	–	–	29,791	**42,491**
Loans and advances due from customers	35,640	4,563	342	6,748	10,480	-	3,629	**61,402**
Available-for-sale financial assets	–	8,299	113	2,844	11,883	1,058	–	**24,197**
Held-to-maturity investments	–	3,824	474	7,851	6,694	–	–	**18,843**
Other financial assets	–	–	–	–	–	–	1,037	**1,037**
Long positions of interest rates risk sensitive off-balance items	15,351	9,444	18,463	33,261	–	–	–	**76,519**
Total assets and long off-balance-sheet positions sensitive to changes in interest rates	**81,702**	**26,345**	**20,227**	**51,772**	**29,107**	**1,058**	**35,360**	**245,571**
Financial liabilities								
Financial liabilities at fair value through profit or loss	412	625	164	308	13	–	–	**1,522**
Deposits due to central bank	–	12,500	–	–	–	–	–	**12,500**
Balances due from financial institutions	37	–	–	–	–	–	–	**37**
Current accounts and deposits due to customers	680	6,169	206	6,510	12,021	55	94,005	**119,646**
Subordinated liabilities	–	–	–	–	15,537	5,497	–	**21,034**
Short positions of interest rates risk sensitive off-balance items	25,078	9,861	17,847	32,525	–	–	659	**85,970**
Total liabilities and short off-balance-sheet positions sensitive to changes in interest rates	**26,207**	**29,155**	**18,217**	**39,343**	**27,571**	**5,552**	**94,664**	**240,709**
Net position as at 31 December 2016	**55,495**	**(2,810)**	**2,010**	**12,4293**	**1,536**	**(4,494)**	**(59,304)**	**4,862**
Net position as at 31 December 2015	78,828	14,142	6,662	(5,882)	3,071	(1,938)	(93,207)	**1,676**

The amounts in the tables above represent carrying amounts of the financial assets and liabilities as at the reporting date and do not include future interest payments.

The following table shows the Bank's interest rate gap position as at 31 December 2016.

'000 EUR	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Non-interest bearing financial instruments	Total
Financial assets								
Cash and due from central banks	17,818	–	–	–	–	–	377	**18,195**
Financial assets at fair value through profit or loss	193	215	835	1,068	50	–	526	**2,887**
Balances due from financial institutions	12,530	–	–	–	–	–	29 791	**42,321**
Loans and advances due from customers	35,640	4,563	342	6,748	10,480	–	3,629	**61,402**
Available-for-sale financial assets	–	8,299	113	2,844	11,883	1,058	–	**24,197**
Held-to-maturity investments	–	3,824	474	7,851	6,694	–	–	**18,843**
Investment in subsidiary	–	–	–	–	–	–	1,874	**1,874**
Other financial assets	–	–	–	–	–	–	1,037	**1,037**
Long positions of interest rates risk sensitive off-balance items	15,351	9,444	18,463	33,261	–	–	–	**76,519**
Total assets and long off-balance-sheet positions sensitive to changes in interest rates	**81,532**	**26,345**	**20,227**	**51,772**	**29,107**	**1,058**	**37,234**	**247,275**
Financial liabilities								
Financial liabilities at fair value through profit or loss	412	625	164	308	13	–	–	**1,522**
Deposits due to central bank	–	12,500	–	–	–	–	–	**12,500**
Current accounts and deposits due to customers	37	–	–	–	–	–	–	**37**
Balances due from financial institutions	838	6,402	206	6,710	12,628	55	94,005	**120,844**
Subordinated liabilities	–	–	–	–	15,537	5,497	–	**21,034**
Short positions of interest rates risk sensitive off-balance items	25,078	9,861	17,847	32,525	–	–	659	**85,970**
Total liabilities and short off-balance-sheet positions sensitive to changes in interest rates	**26,365**	**29,388**	**18,217**	**39,543**	**28,178**	**5,552**	**94,664**	**241,907**
Net position as at 31 December 2016	**55,167**	**(3,043)**	**2,010**	**12,229**	**929**	**(4,494)**	**(57,430)**	**5,368**
Net position as at 31 December 2015	78,017	13,887	6,662	(5,882)	3,071	(1,938)	(91,601)	**2,216**

The amounts in the tables above represent carrying amounts of the financial assets and liabilities as at the reporting date and do not include future interest payments.

Currency analysis

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

'000 EUR	EUR	USD	GBP	RUB	Other	Total
Financial assets						
Cash and due from central banks	18,109	40	17	–	29	**18,195**
Financial assets at fair value through profit or loss	2,360	472	–	–	55	**2,887**
Balances due from financial institutions	12,715	23,692	5,090	802	192	**42,491**
Loans and advances due from customers	32,364	27,697	1,025	246	70	**61,402**
Available-for-sale financial assets	6,076	18,121	–	–	–	**24,197**
Held-to-maturity investments	6,403	12,440	–	–	–	**18,843**
Other assets	538	499	–	–	–	**1,037**
Total financial assets	**78,565**	**82,961**	**6,132**	**1,048**	**346**	**169,052**
Off-balance (SWAP)	**37,645**	**10,708**	**20,432**	**4,816**	**2,919**	**76,520**
Financial liabilities						
Financial liabilities at fair value through profit or loss	1,342	179	–	–	–	**1,521**
Deposits due to central bank	12,500	–	–	–	–	**12,500**
Balances due from financial institutions	–	–	–	37	–	**37**
Current accounts and deposits due to customers	57,002	58,113	3,248	1,173	110	**119,646**
Subordinated liabilities	8,916	12,118	–	–	–	**21,034**
Total financial liabilities	**79,760**	**70,410**	**3,248**	**1,210**	**110**	**154,738**
Total Equity and reserves	19,435	–	–	–	–	**19,435**
Total Liabilities and Equity	**99,195**	**70,410**	**3,248**	**1,210**	**110**	**174,173**
Off-balance (SWAP)	**20,629**	**24,808**	**23,234**	**4,576**	**2,918**	**76,165**
Net currency balance position as at 31 December 2016	**(20,630)**	**12,551**	**2,884**	**(162)**	**236**	**(5,121)**
Net currency position as at 31 December 2016 (balance & off-balance)	**(3,614)**	**(1,549)**	**82**	**78**	**237**	**(4,766)**
Net currency balance position as at 31 December 2015	(15,071)	10,073	7,196	(6,853)	330	**(4,325)**
Net currency position as at 31 December 2015 (balance & off-balance)	(3,689)	(773)	(54)	(141)	330	**(4,327)**

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

'000 EUR	EUR	USD	GBP	RUB	Other	Total
Financial assets						
Cash and due from central banks	18,109	40	17	–	29	**18,195**
Financial assets at fair value through profit or loss	2,360	472	–	–	55	**2,887**
Balances due from financial institutions	12,599	23,658	5,090	802	172	**42,321**
Loans and advances due from customers	32,364	27,697	1,025	246	70	**61,402**
Available-for-sale financial assets	6,076	18,121	–	–	–	**24,197**
Held-to-maturity investments	6,403	12,440	–	–	–	**18,843**
Other financial assets	1,874	–	–	–	–	**1,874**
Investments in subsidiaries	538	499	–	–	–	**1,037**
Total financial assets	**80,323**	**82,927**	**6,132**	**1,048**	**326**	**170,756**
Off-balance (SWAP)	**37,645**	**10,708**	**20,432**	**4,816**	**2,919**	**76,520**
Financial liabilities						
Financial liabilities at fair value through profit or loss	1,342	180	–	–	–	**1,522**
Deposits due to central bank	12,500	–	–	–	–	**12,500**
Balances due from financial institutions	–	–	–	37	–	**37**
Current accounts and deposits due to customers	58,177	58,136	3,248	1,172	111	**120,844**
Subordinated liabilities	8,916	12,118	–	–	–	**21,034**
Total financial liabilities	80,935	70,434	3,248	1,209	111	**155,937**
Total Equity and reserves	19,034	–	–	–	–	**19,034**
Total Liabilities and Equity	**99,969**	**70,434**	**3,248**	**1,209**	**111**	**174,971**
Off-balance (SWAP)	**20,629**	**24,808**	**23,234**	**4,576**	**2,918**	**76,165**
Net currency balance position as at 31 December 2016	**(19,646)**	**12,493**	**2,884**	**(161)**	**215**	**(4,215)**
Net currency position as at 31 December 2016	**(2,630)**	**(1,607)**	**82**	**79**	**216**	**(3,860)**
Net currency balance position as at 31 December 2015	(14,102)	10,040	7,196	(6,853)	310	**(3,409)**
Net currency position as at 31 December 2015 (balance & off-balance)	(2,720)	(806)	(54)	(141)	310	**(3,411)**

Operational Risk

Operational risk is the risk of incurring losses resulting from inadequate or failed internal processes, which do not comply with the requirements of the external and internal legal regulations, the Bank's employees' and system activities, defects of internal processes, third parties' activities or from other external events as well, including legal risk, but excluding strategic and reputation risk. The aim of the management of the operational risk is to keep the operational risk on the economic reasonable minimum level, to stimulate stability of the Bank's activities and commercial profit in the long term.

The management of the operational risk goes through all the Bank's organizational structure and is realized in each unit of the Bank, that is why the management of the risk is based on overall comprehension of each employee of the Bank on processes he conducts and the risks inherent in these processes (high risk awareness), and on sound risk culture as well. The Bank does not accept operational risks, which exceed the Bank's risk appetite or if the impact of such risks cannot be evaluated in money terms and these risks at the same time are uncontrollable – it is impossible to prevent them or to insure against their consequences irrespective of economic benefit, which could arise from acceptance of such operational risks. In order to mitigate operational risk, the Bank uses the expert assessment method and self-assessment; risk assessment prior launch of new products/

process; implementation of quantitative indicators of operational risk; usage of database of risk events; stress – testing and scenario analysis.

Money Laundering and Terrorism Financing (further - MLTF) Risk

Money laundering and terrorism financing risk is the risk that the Bank can be involved into money laundering or terrorism financing. The Bank operates internal control system in the field of the ML/TF, observing requirements of the binding regulatory enactments and taking into account the best international practice, in order to prevent the use of financial services of the Bank for the ML/TF, dedicating the respective resources for that purpose and training employees. The Bank identifies each Client and applies due diligence procedures in accordance with a degree of the ML/TF risk of the Client. Depending on the degree of the ML/TF risk, the Bank investigates the nature of personal or economic activity of the Client, origin of funds in accounts held with the Bank and nature of transactions. The special client supervision structural units are established in the Bank that ensure due diligence of the Clients of the Bank prior to establishing business relations, supervision of transactions during business relations as well as exactly and timely performs duties of the Bank stipulated in the law in relations with competent state bodies. The Bank has the modest quantity of clients and it has deep knowledge of each of them which allows minimizing ML/TF risk.

Compliance and Reputation Risk

Compliance and reputation risk is the risk that the Bank is not subject to or in violation of the compliance legislation, losses may occur or may be imposed on the legal obligations or penalties may be applied or may degrade the reputation. The Bank has developed and implemented the "compliance policy" with the aim, of subject to compliance with the requirements in the legislation, to improve the Bank's capabilities and competitive position in the market; to strengthen confidence in the Bank; to protect the Bank's reputation, to lower the cost of capital; to reduce litigation and sanctions enforcement risks. To manage the compliance risk the Bank:

- Has established Compliance committee that has a central role in compliance risk management. Compliance committee evaluates and assesses identified compliance risks, decides on appropriate risks mitigation actions to be taken, monitors efficiency of compliance risks management.
- Keeps track of changes of compliance legislation and implements appropriate changes to internal normative documents of the Bank;
- Actively participates in the Committee of the Association of Latvian commercial banks and FCMC held discussions/workshops on issues that affect the function of the competence of conformity;
- Evaluates the Bank internal normative documents and the lack of practical application;
- Analyses and compares the performance data to ensure their compliance with certain requirements proactively;
- Analyses the Bank customers' complaints.

Strategy Risk

Strategy risk is the risk that the changes in the business environment and the Bank's failure to respond to these changes timely, or false/unsubstantiated activities of the Bank's long-term strategy, or the Bank's inability to provide the necessary resources for the implementation of the strategy could adversely affect the Bank's income/expense (and the amount of equity capital). The Bank has developed operational development strategies, the implementation of which is regularly monitored and updated as necessary. The Bank plans its work with a variety of scenarios, including the negative scenarios that reflect the possible impact of adverse external conditions on the Bank's results.

Planning activities within the framework of development, the Bank carries out analysis of the external environment, competitiveness of the Bank, its position in the financial market, Bank's internal business environment, including macroeconomic circumstances, with the purpose to determine the likelihood that an event in a business environment, in which the Bank carries out its activities and/or intends to take action in the future, will have a negative impact on the Bank's ability to achieve its strategic objectives (to implement the strategy) and/or threaten the Bank's future operations. Evaluating and planning the Bank's asset and liability structure is based on results of analysis of selected indicators of development activities and the business environment.

5. CAPITAL MANAGEMENT

The Financial and Capital Market Commission sets and monitors capital requirements for the Bank and the Group.

The Bank and the Group defines as capital those items defined by statutory regulation as capital.

The Bank's and the Group's capital position are 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 . As at 31 December 2016, the individual minimum level for the Bank is set at 18.71% (31 December 2015: 20%). The Bank was in compliance with the FCMC determined individual capital ratio as at 31 December 2016 and 2015.

The Group's risk based capital adequacy ratio as at 31 December 2016 was 26.54% (2015: 23.62%).

The Bank's risk based capital adequacy ratio as at 31 December 2016 was 26.69% (31 December 2015: 23.75%).

The Group monitors its capital adequacy levels calculated in accordance with the requirements of the regulations, commonly known as Basel III agreement and its implementing act in Europe, commonly known as CRD IV package.

The following table shows the composition of the Group and the Bank's capital position as at 31 December 2016:

'000 EUR	Group		Bank	
	2016	2015	2016	2015
Tier 1 capital				
Share capital	32,171	28,821	32,171	28,821
Additional paid-in capital	28	28	28	28
Reserves	26	(519)	26	(519)
Accumulated losses	(12,790)	(13,126)	(13,191)	(13,502)
Reductions of tier 1 capital	(1,818)	(1,179)	(906)	(391)
Total tier 1 capital	**17,617**	**14,025**	**18,128**	**14,437**
Tier 2 capital				
Subordinated liabilities (unamortised portion)	15,713	15,594	15,713	15,594
Total tier 2 capital	**15,713**	**15,594**	**15,713**	**15,594**
Deductions from Tier 1 and Tier 2 capital prescribed by legislation*	**(2,533)**	**–**	**(2,533)**	**–**
Total capital	**30,797**	**29,619**	**31,308**	**30,031**
Capital requirements				
Credit risk requirements	7,753	8,565	7,903	8,688
Market risk requirements	438	802	446	804
Operational risk requirements	1,091	666	1,037	622
Total capital requirements	**9,282**	**10,033**	**9,386**	**10,114**
Capital adequacy ratio	**26.54%**	**23.62%**	**26.69%**	**23.75%**
Tier 1 Capital adequacy ratio	**14.09%**	**11.18%**	**14.37%**	**11.42%**

* Additional deductions from own funds to reflect possible losses related to the credit portfolio according to the Article 3 of Common Equity Tier1 Capital (CRR).

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of assets 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 off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The Group is subject to minimum capital adequacy requirements calculated in accordance with the Basel Accord established by covenants under liabilities incurred by the Group. The Group has complied with all externally imposed capital requirements during the years ended 31 December 2016 and 31 December 2015.

6. USE OF ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with IFRSs as adopted by the European Union requires management to make judgments, estimates and assumptions that affect the application of policies and the 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 prospectively.

Judgements:

(i) Deferred tax asset

The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term financial forecast prepared by management and extrapolated results thereafter. The aforementioned forecasts indicate that the Bank will have sufficient taxable profits in the future periods to realise the recognised deferred tax asset. See Note 26.

Key sources of estimation uncertainty:

(i) Allowances for credit losses

Financial assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy, Note 3.

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon the Bank's management 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 a 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 Credit Risk function.

The Bank assesses collective impairment allowance for loans and advances due from customers. For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms.

(ii) Impairment of financial instruments

Impairment allowance of financial assets other than loans is described in this section.

The determination of impairment indication is based on comparison of the financial instrument's initial acquisition cost and fair value. The Group uses valuation models based on quoted market prices and prices of similar products or other available information.

For the purposes of impairment loss measurement, the Bank's management makes 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 and changes in the fair value of the financial instrument. See Note 17 and 18.

(iii) 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 forecasts adjusted for expected changes in the business. See Note 21.

(iv) Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values.

Where third-party information, such as broker quotes or pricing services, are used to measure fair value, the Bank assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS as adopted by EU. This includes:

- Verifying the that broker or pricing service is approved by the Group for use in pricing the relevant type of financial instrument;
- Understanding how the fair value has been arrived at and the extent to which it represents actual market transactions;
- When prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement;

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

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

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

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

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions and judgments made in measuring fair values is included in Note 35 Fair value of financial instruments.

7. NET INTEREST INCOME

'000 EUR	Group		Bank	
	2016	2015	2016	2015
Interest income				
Interest income arising from financial assets not at fair value through profit or loss	41	–	41	–
Interest income arising from financial assets not at fair value through profit or loss				
Balances due from financial institutions	289	362	289	361
Loans and advances due from customers	5,165	4,294	5,165	4,294
Available-for-sale financial assets	824	1,375	824	1,375
Held-to-maturity investments	399	374	399	374
Other interest income	11	11	11	11
Total	**6,729**	**6,416**	**6,729**	**6,415**
Interest expense				
Interest expense recognised on liabilities measured at amortised cost				
Balances due to financial institutions	(30)	(11)	(30)	(11)
Current accounts and deposits due to customers	(2,180)	(882)	(2,192)	(898)
Subordinated liabilities	(890)	(663)	(890)	(663)
Payments to the deposit guarantee fund and other expenses	(73)	(155)	(73)	(155)
Total	**(3,173)**	**(1,711)**	**(3,185)**	**(1,727)**

In the current economic environment the overall effective interest rate on some high quality liquid assets has turned negative. The Group and the Bank are mainly affected by negative interest rates applied on certain balances due from central banks. As the interest resulting from a negative effective interest rate on financial assets reflects an outflow of economic benefits, this is presented as interest expense.

Interest recognized on impaired loans and advances due from customers during the year ended 31 December 2016 amounts to EUR 51 thousand (2015: EUR 17 thousand).

The increase in deposit interest expense was affected by placing of deposits in RUB currency by some clients.

8. FEE AND COMMISSION INCOME

'000 EUR	Group		Bank	
	2016	2015	2016	2015
Asset management and fiduciary services	1,497	1,564	1,248	1,236
Servicing current accounts	804	1,038	804	1,038
Brokerage operations	490	456	490	456
Structured products	300	404	300	404
Credit card maintenance	127	153	127	153
Other	48	58	48	58
Total	**3,266**	**3,673**	**3,017**	**3,345**

9. FEE AND COMMISSION EXPENSE

'000 EUR	Group		Bank	
	2016	2015	2016	2015
Asset management and brokerage services	202	171	202	154
Customer attraction	171	618	171	618
Settlements	69	167	69	167
Credit service	58	48	58	48
Other	1	–	1	–
Total	**501**	**1,004**	**501**	**987**

10. GENERAL ADMINISTRATIVE EXPENSES

'000 EUR	Group		Bank	
	2016	2015	2016	2015
Employee compensation and payroll taxes	4,435	3,538	4,227	3,336
Depreciation and amortisation	486	361	483	356
Professional services	466	152	466	148
Communications and information services	240	188	236	187
Payment cards expenses	218	228	218	228
Rent	208	139	208	139
IT service costs	175	157	175	157
Advertising and marketing	99	135	95	135
Other employee expenses	92	98	90	98
Repairs and maintenance	37	117	37	117
Sworn auditor statutory audit	36	20	32	16
Sworn auditor other audits	4	4	4	4
Sworn auditor tax consultation	4	4	4	4
Other	759	738	751	713
Total	**7,259**	**5,879**	**7,026**	**5,638**

In 2016 and 2015, the Group employed an average of 85 (2015: 77) persons, whereas the Bank employed an average of 80 (2015: 71).

Number of employees of the Group and the Bank at the year end:

	31 Dec 2016 Group number	31 Dec 2015 Group number	31 Dec 2016 Bank number	31 Dec 2015 Bank number
Management	6	5	3	3
Heads of divisions and departments	19	20	19	20
Other personnel	57	57	55	53
Total at the end of the year	**82**	**82**	**77**	**76**

11. IMPAIRMENT LOSS

'000 EUR	Group		Bank	
	2016	2015	2016	2015
Impairment loss				
Loans – individually assessed impairment	209	157	209	157
Increase	*255*	*157*	*255*	*157*
(Decrease)	*(46)*	–	*(46)*	–
Loans – collectively assessed impairment	188	251	188	251
Increase	*272*	*251*	*272*	*251*
(Decrease)	*(84)*	–	*(84)*	–
Available for sale securities	642	607	642	607
Increase	*1,108*	*607*	*1,108*	*607*
(Decrease)	*(466)*	–	*(466)*	–
Held-to-maturity securities - individually assessed impairment	–	173	–	173
Increase	–	*171*	–	*171*
Due to currency fluctuations	–	*2*	–	*2*
Other non-financial assets	35	1	35	1
Impairment loss	**1,074**	**1,189**	**1,074**	**1,189**

12. INCOME TAX BENEFIT

a) Income tax recognised in the profit or loss

'000 EUR	Group		Bank	
	2016	2015	2016	2015
Deferred tax benefit				
Recognition of unrecognized tax losses carried forward	1,135	1,106	1,140	1,127
Total income tax benefit recognised in profit or loss	**1,135**	**1,106**	**1,140**	**1,127**

b) Reconciliation of effective tax rate:

'000 EUR	Group		Bank	
	2016	2015	2016	2015
Profit/(loss) before income tax	**(799)**	**1,039**	**(829)**	**901**
Theoretically calculated tax at tax rate of 15%	(120)	156	(124)	135
Tax effect of:				
Non-deductible costs	129	184	129	184
Non-taxable income	(165)	(315)	(166)	(294)
Change in unrecognised deferred tax assets	(979)	(1,131)	(979)	(1,152)
Income tax benefit	**(1,135)**	**(1,106)**	**(1,140)**	**(1,127)**

13. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at the end of the financial year as shown in the statement of cash flows are composed of the following items:

'000 EUR	Group		Bank	
	31.12.2016.	31.12.2015.	31.12.2016.	31.12.2015.
Cash	377	375	377	375
Balances due from central banks	17,818	22,947	17,818	22,947
Subtotal	**18,195**	**23,322**	**18,195**	**23,322**
Demand deposit due from financial institutions	28,552	52,431	28,382	52,094
Total	**46,747**	**75,753**	**46,577**	**75,416**

Deposits with the Bank of Latvia represent the balance outstanding on correspondent account in EUR. The decline in demand deposits with financial institutions was a result of the decline in customers' deposits with the Bank. The Bank is compliant with the requirement to hold the minimum reserves in amount of EUR 1 381 thousand with the Bank of Latvia.

14. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

'000 EUR	Group		Bank	
	31.12.2016.	31.12.2015.	31.12.2016.	31.12.2015.
Debt fixed-income investments				
Government bonds *	–	688	–	688
Corporate bonds *	–	3,017	–	3,017
Equity investments				
Financial institutions shares*	453	–	453	–
Corporate shares*	73	1,141	73	1,141
Derivative financial instruments				
Foreign currency contracts and forward agreements	2,360	727	2,360	727
Purchased opportunity contracts	1	–	1	–
	2,887	**5,573**	**2,887**	**5,573**
Liabilities				
Derivative financial instruments				
Foreign currency contracts and forward agreements	1,343	653	1,343	653
Margin-share contracts (CFD)	179	–	179	–
	1,522	**653**	**1,522**	**653**

* held for trading

Included in financial assets and financial liabilities at fair value through profit or loss at 31 December 2016 are EUR 2 886 thousand (2015: EUR 5 573 thousand) and EUR 1 521 thousand (2015: EUR 653 thousand) respectively which are classified as held for trading.

15. BALANCES DUE FROM FINANCIAL INSTITUTIONS

'000 EUR	Group		Bank	
	31.12.2016.	31.12.2015.	31.12.2016.	31.12.2015.
Not impaired or past due				
Nostro accounts				
Latvian commercial banks	10,682	19,888	10,512	19,551
OECD banks[1]	17,416	29,087	17,416	29,087
Non-OECD banks	454	3,456	454	3,456
Credit ratings[2]				
Rated A- and above	16,206	13,456	16,206	13,456
Rated from BBB- to BBB+	1, 210	15,631	1,210	15,631
Rated from BB- to BB+	299	3,355	299	3,355
Rated not below B+	875	2,645	875	2,645
Another lower rating	23	–	23	–
Not rated	9, 939	17,344	9,769	17,007
Credit ratings of parent entities[3]				
Rated A- and above	26,122	29,479	25,952	29,142
Rated from BBB- to BBB+	1,210	15,631	1,210	15,631
Rated from BB- to BB+	299	3,355	299	3,355
Rated B+ and below	875	2,645	875	2,645
Another lower rating	23	–	23	–
Not rated	23	1,321	23	1,321
Total nostro accounts	**28,552**	**52,431**	**28,382**	**52,094**
Loans and deposits[4]				
Latvian commercial banks	190	8,960	190	8,960
OECD banks	12,850	31,574	12,850	31,574
Non-OECD banks	899	1,169	899	1,169
Credit ratings[2]				
Rated A- and above	5,692	15,618	5,692	15,618
Rated from BBB- to BBB+	6,049	14,241	6,049	14,241
Rated from BB- to BB+	545	–	545	–
Rated not below B+	190	933	190	933
Not rated	1,463	10,911	1,463	10,911
Credit ratings of parent entities[2]				
Rated A- and above	5,692	24,578	5,692	24,578
Rated from BBB- to BBB+	6,049	14,241	6,049	14,241
Rated from BB- to BB+	545	–	545	–
Rated not below B+	190	933	190	933
Not rated	1,463	1,951	1,463	1,951
Total loans and deposits not impaired	**13,939**	**41,703**	**13,939**	**41,703**
Total	**42,491**	**94,134**	**42,321**	**93,797**

As at 31 December 2016 and 2015 the Group and Bank no impairment was made for balances due from financial institutions. The decline in demand deposits with financial institutions was a result of the decline in customers' deposits with the Bank.

1 Nostro accounts held with OECD banks include balances with 4 counterparties (31 December 2015: 5) none of which exceed 38% (31 December 2015: 20%) of the total nostro account balance. The respective counterparties do not have credit ratings lower than BBB (31 December 2015: BBB-) as at 31 December 2016.

2 Balances due from financial institutions are classified by average credit rating from three international rating agencies: Moody's Investors Service, Standard & Poor's, Fitch Ratings.

3 Classification is based on credit ratings of parental banks for Latvian commercial bank: "Swedbank" AS.

4 Loans and deposits held with OECD banks include balances with 3 financial institutions (31 December 2015: 4) none of which individually exceeds 14% (31 December 2015: 35%) of the total loans and deposits balance. As at 31 December 2016 the respective financial institutions do not have credit ratings lower than BBB+ (31 December 2015: BBB) The financial institution, whose credit rating is not available, is registered and operates in the EU.

Concentration of placements with banks and other financial institutions

As at 31 December 2016 and 2015 the Group and the Bank had a number of due from balances with banks and financial institutions that individually exceeded 10% of the total balances due from financial institutions. As of 31 December 2016 and 2015 none of these balances individually exceeded 38% and 17% respectively. The gross value of due from balances with banks and financial institutions that individually exceeded 10% of the total balances due from financial institutions as of 31 December 2016 was EUR 37 339 thousand (31 December 2015: EUR 52 305 thousand) and it included four banks (31 December 2015: 4) with the credit rating not lower than BBB+ (31 December 2015: BBB).

16. LOANS AND ADVANCES DUE FROM CUSTOMERS

Breakdown of loans issued by the Group and the Bank by customer type:

'000 EUR	Group		Bank	
	31.12.2016.	31.12.2015.	31.12.2016.	31.12.2015.
Private individuals	39,762	25,139	39,762	25,139
Corporate companies	20,608	23,611	20,608	23,611
Financial auxiliaries and other financial intermediaries	1,857	1,748	1,857	1,748
Loans and advances due from customers	**62,227**	**50,498**	**62,227**	**50,498**
Specific impairment allowance	(386)	(16)	(386)	(16)
Collective impairment allowance	(439)	(251)	(439)	(251)
Impairment allowance total	**(825)**	**(267)**	**(825)**	**(267)**
Loans and advances due from customers, net	**61,402**	**50,231**	**61,402**	**50,231**

Analysis of changes in impairment allowance of the Group and the Bank:

'000 EUR	Allowance
Impairment allowance as of 31 Dec 2015	**267**
Individually assessed impairment increase	255
Individually assessed impairment increase of the financial asset reclassification	171
Individually assessed impairment write-off	(62)
Individually assessed impairment changes for exchange rate fluctuations	6
Collectively assessed impairment increase	292
Collectively assessed impairment write-off	(104)
Impairment allowance as of 31 Dec 2016	**825**

As at 31 December 2016 and 2015 loans and advances due from customers balance included six and one restructured loan in total amount of EUR 13 403 thousand and EUR 2 249 thousand respectively. Collectively assessed impairment in total amount to EUR 79 thousand and EUR 22 thousand respectively.

Breakdown of loans issued by the Group and the Bank by loan category:

'000 EUR	Group		Bank	
	31.12.2016.	31.12.2015.	31.12.2016.	31.12.2015.
Business loans	32,766	12,493	32,766	12,493
Consumer loans	12,309	3,495	12,309	3,495
Reverse repo	6,078	8,465	6,078	8,465
Mortgage loans	6,013	24,270	6,013	24,270
Other	5,061	1,775	5,061	1,775
Loans and advances due from customers	**62,227**	**50,498**	**62,227**	**50,498**
Impairment allowance	**(825)**	**(267)**	**(825)**	**(267)**
Loans and advances due from customers, net	**61,402**	**50,231**	**61,402**	**50,231**

Geographical analysis of the loan portfolio

'000 EUR	Group		Bank	
	31.12.2016.	31.12.2015.	31.12.2016.	31.12.2015.
Loans and advances due from customers				
Russia	38,628	37,620	38,628	37,620
OECD countries	6,499	4,968	6,499	4,968
Latvia	3,623	1,910	3,623	1,910
Other countries	13,477	6,000	13,477	6,000
Total loans and advances due from customers	**62,227**	**50,498**	**62,227**	**50,498**
Impairment allowance				
Russia	(406)	(267)	(406)	(267)
Other countries	(419)	–	(419)	–
Total impairment allowance	**(825)**	**(267)**	**(825)**	**(267)**
Loans and advances due from customers, net	**61,402**	**50,231**	**61,402**	**50,231**

Geographic split of Borrowers' credit risk is based on the country of origin of their projected cash flows used for loan repayment.

Significant credit exposures

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

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

17. AVAILABLE-FOR-SALE FINANCIAL ASSETS

'000 EUR	Group		Bank	
	31.12.2016.	31.12.2015.	31.12.2016.	31.12.2015.
Debt and other fixed-income instruments				
– **Government and municipal bonds**				
Latvia	4,673	4,190	4,673	4,190
European Union	9,606	8,411	9,606	8,411
Other countries	–	761	–	761
Total government and municipal bonds	**14,279**	**13,362**	**14,279**	**13,362**
– **Financial authorities and institutions bonds**				
Latvia	724	–	724	–
European Union	5,774	–	5,774	–
Total Financial authorities and institutions bonds	**6,498**	**–**	**6,498**	**–**
– **Corporate bonds**				
European Union and EEA	1,696	15,769	1,696	15,769
Other countries	1,508	3,019	1,508	3,019
Total corporate bonds	**3,204**	**18,788**	**3,204**	**18,788**
Total debt and other fixed-income instruments	**23,981**	**32,150**	**23,981**	**32,150**
Non-fixed income investments				
Investment funds	216	644	216	644
Total non-fixed income investments	**216**	**644**	**216**	**644**
Total Available-for-sale financial assets	**24,197**	**32,794**	**24,197**	**32,794**

In February 2017 the Bank was informed that for one of its investments in an alternative investment fund calculation of net asset value (further - NAV) has been suspended starting November 30, 2016. Bank has received information that fund started liquidation process therefore NAV as at December 31, 2016 can't be verified. Given the uncertainty about the potential amount of proceeds to be received from the fund liquidation, Bank recognized NAV of the fund as at December 31, 2016 as zero decreasing it by EUR 544 thousand.

Available-for-sale financial assets quality analysis

'000 EUR	Group		Bank	
	31.12.2016.	31.12.2015.	31.12.2016.	31.12.2015.
Debt and other fixed-income instruments				
– **Government and municipal bonds**[5]				
Rated from AAA- to A-	11,281	10,725	11,281	10,725
Rated from BBB- to BBB+	1,885	1,876	1,885	1,876
Rated from BB- to BB+	1,113	761	1,113	761
Total government and municipal bonds	**14,279**	**13,362**	**14,279**	**13,362**
– **Financial authorities and institutions bonds**				
Rated from AAA to AA-	5,774	–	5,774	–
Rated not below B-	724	–	724	–
Total Financial authorities and institutions bonds	**6,498**	**–**	**6,498**	**–**
– **Corporate bonds**				
Rated from A and above	–	1,840	–	1,840
Rated from BBB- to BBB+	–	6,423	–	6,423
Rated from BB- to BB+	542	2,112	542	2,112
Rated from B+ and below	1,705	2,550	1,705	2,550
Not rated	957	5,863	957	5,863
Total corporate bonds	**3 204**	**18,788**	**3 204**	**18,788**
Total debt and other fixed-income instruments	**23,981**	**32,150**	**23,981**	**32,150**
Non-fixed income investments				
Investment funds	216	644	216	644
Total non-fixed income investments	**216**	**644**	**216**	**644**
Total Available-for-sale financial assets	**24,197**	**32,794**	**24,197**	**32,794**

5 Available-for-sale financial assets are classified by average credit rating from three international rating agencies: Moody's Investors Service, Standard & Poor's, Fitch Ratings.

18. HELD-TO-MATURITY INVESTMENTS

'000 EUR	Group		Bank	
	31.12.2016.	31.12.2015.	31.12.2016.	31.12.2015.
Debt and other fixed-income instruments				
– **Government and municipal bonds**				
Latvia	971	972	971	972
European Union	16,017	17,068	16,017	17,068
Total government and municipal bonds	**16,988**	**18,040**	**16,988**	**18,040**
– **Financial institutions and corporate bonds**				
European Union and EEA	513	7,243	513	7,243
Other countries	1,342	1,343	1,342	1,343
Total financial institutions and corporate bonds	**1,855**	**8,586**	**1,855**	**8,586**
Total debt and other fixed-income instruments	**18,843**	**26,626**	**18,843**	**26,626**

Held-to-maturity investments quality analysis

'000 EUR	Group		Bank	
	31.12.2016.	31.12.2015.	31.12.2016.	31.12.2015.
Debt and other fixed-income instruments				
– **Government and municipal bonds**[6]				
Rated from AAA- to AAA+	6,657	6,446	6,657	6,446
Rated A- and above	5,492	6,048	5,492	6,048
Rated from BBB- to BBB+	4,839	5,139	4,839	5,139
Rated from BB- to BB+	–	407	–	407
Total government and municipal bonds	**16,988**	**18,040**	**16,988**	**18,040**
– Financial institutions and corporate bonds				
Rated from AAA- to A-	–	5,241	–	5,241
Rated from BBB- to BBB+	–	520	–	520
Rated from BB- to BB+	474	1,488	474	1,488
Rated B+ and below	868	413	868	413
Not rated	513	924	513	924
Total financial institutions and corporate bonds	**1,855**	**8,586**	**1,855**	**8,586**
Total debt and other fixed-income instruments	**18,843**	**26,626**	**18,843**	**26,626**
Impairment allowance	–	(171)	–	(171)
Total debt and other fixed-income instruments, net	**18,843**	**26,455**	**18,843**	**26,455**

Geographical allocation is based on countries of principal entities.

Analysis of changes in impairment allowances of the Group and the Bank:

'000 EUR	Allowances
Allowance as of 31 Dec 2015[7]	**171**
Individually assessed impairment charge	(177)
Individually assessed impairment changes for exchange rate fluctuations	6
Allowances as of 31 Dec 2016	**–**

6 Held-to-maturity investments are classified by average credit rating from three international rating agencies: Moody's Investors Service, Standard & Poor's, Fitch Ratings.

7 In 2016 the Bank and the Group did not create any impairment allowance for held to maturity financial instruments.

19. INVESTMENT IN SUBSIDIARY

'000 EUR	31 Dec 2016	31 Dec 2015
Investments in „M2M Asset Management" IPAS	1,874	1,874

	„M2M Asset Management" IPAS
Main activity	Financial services
Country of incorporation	Latvia
Address	3 Antonijas street, Riga LV-1010, Latvia
Ownership interest	
31 December 2016	100 %
31 December 2015	100 %

'000 EUR	As at 31 Dec 2016	As at 31 Dec 2015
Non-current assets	2	6
Current assets	1,510	1,483
Current liabilities	(26)	(28)
Net assets	**1,486**	**1,461**
Group share in net assets	**100 %**	**100 %**
	2016	**2015**
Income	266	381
Expenses	(236)	(244)
Income tax	(5)	(21)
Profit or loss	**25**	**116**
Group share in profit or loss	**100%**	**100%**
Carrying amount	**1,874**	**1,874**

During the year ended 31 December 2016 and 2015 the Group did not receive dividends from investment in subsidiary. Impairment assessment estimate of the investment in the Subsidiary is disclosed in Note 21.

20. PROPERTY AND EQUIPMENT

Group '000 EUR	Leasehold improvements	Other	Total
Cost			
At 1 January 2016	2,330	1,181	3,511
Additions	–	180	180
At 31 December 2016	**2,330**	**1,361**	**3,691**
Depreciation			
At 1 January 2016	571	590	1,161
Depreciation charge	143	220	363
At 31 December 2016	**714**	**810**	**1,524**
Carrying value			
At 31 December 2016	**1,616**	**551**	**2,167**
Cost			
At 1 January 2015	1,892	680	2,572
Additions	438	501	939
At 31 December 2015	**2,330**	**1,181**	**3,511**
Depreciation			
At 1 January 2015	451	456	907
Depreciation charge	120	134	254
At 31 December 2015	**571**	**590**	**1,161**
Carrying value			
At 31 December 2015	**1,759**	**591**	**2,350**
At 31 December 2014	1,441	224	1,665

Bank '000 EUR	Leasehold improvements	Other	Total
Cost			
At 1 January 2016	2,330	1,148	3,478
Additions	–	180	180
At 31 December 2016	**2,330**	**1,328**	**3,658**
Depreciation			
At 1 January 2016	571	563	1,134
Depreciation charge	143	217	360
At 31 December 2016	**714**	**780**	**1,494**
Carrying value			
At 31 December 2016	**1,616**	**548**	**2,164**
Cost			
At 1 January 2015	1,892	649	2,541
Additions	438	499	937
At 31 December 2015	**2,330**	**1,148**	**3,478**
Depreciation			
At 1 January 2015	451	434	885
Depreciation charge	120	129	249
At 31 December 2015	**571**	**563**	**1,134**
Carrying value			
At 31 December 2015	**1,759**	**585**	**2,344**
At 31 December 2014	1,441	215	1,656

21. GOODWILL AND OTHER INTANGIBLE ASSETS

Group '000 EUR	Goodwill	Software	Other	Total
Cost				
At 1 January 2016	788	488	170	1,446
Additions	–	52	27	79
At 31 December 2016	**788**	**540**	**197**	**1,525**
Amortisation				
At 1 January 2016	–	199	68	267
Amortisation charge	–	106	17	123
At 31 December 2016	**–**	**305**	**85**	**390**
Carrying value				
At 31 December 2016	**788**	**235**	**112**	**1,135**
At 31 December 2015	788	289	102	1,179
Cost				
At 1 January 2015	788	450	154	1,392
Additions	–	38	16	54
At 31 December 2015	**788**	**488**	**170**	**1,446**
Amortisation				
At 1 January 2015	–	108	52	160
Amortisation charge	–	91	16	107
At 31 December 2015	**–**	**199**	**68**	**267**
Carrying value				
At 31 December 2015	**788**	**289**	**102**	**1,179**
At 31 December 2014	788	342	102	1,232

Bank '000 EUR	Software	Other	Total
Cost			
At 1 January 2016	488	170	658
Additions	52	26	78
At 31 December 2016	**540**	**196**	**736**
Amortisation			
At 1 January 2016	199	68	267
Amortisation charge	106	17	123
At 31 December 2016	**305**	**85**	**390**
Carrying value			
At 31 December 2016	**235**	**111**	**346**
At 31 December 2015	289	102	391
Cost			
At 1 January 2015	450	154	604
Additions	38	16	54
At 31 December 2015	**488**	**170**	**658**
Amortisation			
At 1 January 2015	108	52	160
Amortisation charge	91	16	107
At 31 December 2015	**199**	**68**	**267**
Carrying value			
At 31 December 2015	**289**	**102**	**391**
At 31 December 2014	342	102	444

21. GOODWILL AND OTHER INTANGIBLE ASSETS (CONTINUED)

In 2016 the Bank did not adjust the goodwill amount that was recognized at the acquisition date.

Goodwill was recognized as a result of the acquisition of a subsidiary in 2013. At the end of each reporting year, the Bank's management assesses goodwill for impairment by comparing the carrying amounts of the underlying cash generating units, including the allocated goodwill, with their recoverable amounts. The subsidiary is considered to be CGU (Cash generating unit). As at 31 December 2016 no impairment of the CGU was identified.

The valuation was based on a Discounted Dividend Model. The profit after tax is assumed to be a proxy for free cash flows available for distribution to owners that is assumed to be paid out as dividends.

The discount rate, Cost o Equity, is calculated to be 10.24% (2015.: 12.04%) based on the following: CoE[1] = Rf[2] + Rp[3] x Beta[4] + α[5], where

- [1] CoE: cost of equity Risk
- [2] Rf: Risk free rate – Latvian government bonds with the maturity approximately 10 years – 0.598% (2015: Latvian government bonds with the maturity approximately 10 years – 1.08%)
- [3] Rp premium of risk = 6.00% (2015: 5.75%).
- [4] Beta of 0.65 assumed (2015: 0.86).
- [5] α – percentage represents approximate actual return increase relatively to return rate forecasted using capital asset pricing model - 5,74% (2015: 6,01%).

The NPV (Net Present Value) consists of two components:

- The NPV of the dividends in the explicit period 2017E-2021E.
- The terminal value from 2021E and onwards (based on 2% terminal growth assumption (2015: 2%)).

Sensitivity analysis has been performed to test impact on each of the tree scenarios from change in cumulative aggregate growth rate (CAGR) and discount rate:

- Base case scenario is based on income growth rate assumption in 2017 and 2021 amounting to 33%-57% annually (CAGR: 34%) because of a low starting base. The highest growth (57%) planned during 2018 when the Group plans to launch all investment products which are foreseen in the subsidiary's strategy and when sale channels will be established. Then income growth rate is going to stabilize (40% per year) in 2021. Based on this assumption the forecast of future free cash inflow is EUR 1.7 min. over the next 5 years.
- Negative scenario is based on zero income growth rate and assumption that income remains at the level of 2016. Based on this assumption the forecast of future free cash inflow is EUR 0.01 min. over the next 5 years.
- Positive scenario is based on an assumption that income grows at an annual rate of 67% during 2017-2018, 40% during 2019-2021 (CAGR: 45%). Based on this assumption free cash inflow would be EUR 1.8 min. over the next 5 years.

Sensitivity analysis shows that the cost of capital assumptions and CAGR (cumulative average growth ratio) assumptions are the most critical factors in determining the need for impairment of goodwill. The table below presents sensitivity of free cash inflows to cost of capital changes using relevant CAGR in each of the tree scenarios. This sensitivity analysis demonstrates that no impairment is required at reporting date.

Sensitivity	Scenario	CAGR	The discount rate		
			10.24%	15%	20%
Net present value, 000 EUR	Base case	35%	8,019	5,148	3,820
Net present value, 000 EUR	Negative	0%	1,349	1,345	1,342
Net present value, 000 EUR	Positive	37%	11,811	7,119	4,991

22. ASSETS HELD FOR SALE

In 2016, the Bank invested in a newly established investment company's SIA "LS Medical Properties" share capital of EUR 544 thousand with the participation of 32% with the intention to sell it within one year, respectively, the investment is classified as held for sale.

23. OTHER ASSETS

'000 EUR	Group		Bank	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Other financial assets				
Settlement of payment cards	1,037	208	1,037	208
Other financial assets	**1,037**	**208**	**1,037**	**208**
Other non-financial assets				
Prepayments	574	170	553	170
Accrued income	170	257	139	220
Settlement of tax	43	18	43	16
Other	31	46	29	22
Impairment allowance	(6)	(1)	(6)	(1)
Other non-financial assets	**812**	**490**	**758**	**427**
Total other assets	**1,849**	**698**	**1,795**	**635**

24. CURRENT ACCOUNTS AND DEPOSITS DUE TO CUSTOMERS

'000 EUR	Group		Bank	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Current accounts and demand deposits	**92,893**	**146,295**	**93,051**	**146,564**
– Private individuals	31,662	62,774	31,662	62,774
– Corporates	61,231	83,521	61,389	83,790
Term deposits	**26,753**	**46,585**	**27,793**	**47,313**
– Private individuals	11,629	15,638	11,629	15,638
– Corporates	15,124	30,947	16,164	31,675
Total current accounts and demand deposits	**119,646**	**192,880**	**120,844**	**193,877**

The decline in deposits was due to the negative reputational event with the Bank's associated person. See Note 1.

Concentrations of current accounts and customer deposits

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

As of 31 December 2015, the Group had one customer, whose balances exceeded 10% of total customer accounts. The value of this balance was EUR 29 050 thousand.

25. SUBORDINATED LIABILITIES

'000 EUR	Group		Bank	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Subordinated borrowings				
– Private individuals	16,012	13,304	16,012	13,304
– Corporates	5,022	5,000	5,022	5,000
Total Subordinated borrowings	**21,034**	**18,304**	**21,034**	**18,304**

Subordinated borrowings have a fixed term of at least five years at their origination, and are repayable before maturity only on winding up of the Bank. In the event of the winding-up of the Bank these borrowings will be subordinated to the claims of depositors and all other creditors of the Bank.

Concentrations of subordinated borrowings

As of 31 December 2016 and 2015, the Group and Bank had two subordinated borrowing agreements, whose balance exceeded 10% of the total subordinated borrowings and which are indicated in the table below.

Customer	Currency	Issue size '000	Interest rate	Original agreement date	Maturity date	Carrying amount '000 EUR	
						31.12.2016	31.12.2015
Private individual - non-resident	USD	6,000	5 %	09.12.2014	09.12.2019	5,692	5,511
Corporates - non-resident	EUR	5,000	5.2635 %	24.08.2015	24.08.2020	5,022	5,000

26. 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 assets and liabilities as of 31 December 2016 and 2015. These deferred tax assets have been recognised in these financial statements.

Movement in temporary differences during the year ended 31 December 2016 of the Group:

'000 EUR	Net balance 1 January 2016	Recognised in profit or loss	Net balance 31 December 2016	31 December 2016	
				Deferred tax asset	Deferred tax liability
Deferred Holiday Pay and bonuses	46	(46)	–	–	–
Property and equipment and intangible assets	(79)	10	(69)	–	(69)
Impairment of non-financial assets	–	1	1	1	–
Tax loss carry-forwards	1,252	1,170	2,422	2,422	–
Deferred tax assets/ (liabilities) before set-off	**1,219**	**1,135**	**2,354**	**2,423**	**(69)**
			Set off of tax	(69)	69
			Net deferred tax assets	**2,354**	**–**

Movement in temporary differences during the year ended 31 December 2015 of the Group:

'000 EUR	Net balance 1 January 2015	Recognised in profit or loss	Net balance 31 December 2015	31 December 2015	
				Deferred tax asset	Deferred tax liability
Deferred Holiday Pay and bonuses	23	23	46	46	–
Property and equipment and intangible assets	(143)	64	(79)	–	(79)
Impairment of non-financial assets	10	(10)	–	–	–
Tax loss carry-forwards	223	1,029	1,252	1,252	–
Deferred tax assets/ (liabilities) before set-off	**113**	**1,106**	**1,219**	**1,298**	**(79)**
			Set off of tax	(79)	79
			Net deferred tax assets	**1,219**	**–**

Movement in temporary differences during the year ended 31 December 2016 of the Bank:

'000 EUR	Net balance 1 January 2016	Recognised in profit or loss	Net balance 31 December 2016	31 December 2016	
				Deferred tax asset	Deferred tax liability
Deferred Holiday Pay and bonuses	43	(43)	–	–	–
Property and equipment and intangible assets	(77)	10	(67)	–	(67)
Impairment of non-financial assets	–	1	1	1	–
Tax loss carry-forwards	1,161	1,172	2,333	2,333	–
Deferred tax assets/ (liabilities) before set-off	**1,127**	**1,140**	**2,267**	**2,334**	**(67)**
			Set off of tax	(67)	67
			Net deferred tax assets	**2,267**	**–**

Movement in temporary differences during the year ended 31 December 2015 of the Bank:

'000 EUR	Net balance 1 January 2015	Recognised in profit or loss	Net balance 31 December 2015	31 December 2015	
				Deferred tax asset	Deferred tax liability
Deferred Holiday Pay and bonuses	20	23	43	43	–
Property and equipment and intangible assets	(140)	63	(77)	–	(77)
Impairment of non-financial assets	10	(10)	–	–	–
Tax loss carry-forwards	110	1,051	1,161	1,161	–
Deferred tax assets/ (liabilities) before set-off	**–**	**1,127**	**1,127**	**1,204**	**(77)**
			Set off of tax	(77)	77
			Net deferred tax assets	**1,127**	**–**

Unrecognised deferred tax asset

Deferred tax assets of the Group and the Bank are recognized in respect of tax loss carried forward to the extent of predicting safely the availability of future taxable profits to which the Group and the Bank can use the loss to be carried forward.

The recognised deferred tax asset of the Group and the Bank asset amounts to EUR 2,354 thousand and EUR 2,267 thousand (EUR 1,219 and 1,127 thousand in 2015, respectively).

The Bank closed 2016 with a EUR 829 thousand loss before income tax (referred to hereinafter as the CIT (corporate income tax)). This was the first full year closed with a loss before CIT, with the Bank acting according to its current strategic plan. Although the Bank was planning to close 2016 with a profit, the result was affected negatively by certain unexpected events.

At the end of 2016, the Bank experienced the negative effect of revaluation of certain positions in high-yield bonds in the proprietary investment portfolio. Going forward the Bank took a more conservative approach to placing excess liquidity in financial markets.

In 2016 the Bank's costs associated with compliance significantly exceeded the planned amount of expenses because the Bank had an external AML audit.

At the end of 2016, the Bank faced reputational risks related to the 9 December 2016 revocation of the licence of M2M Private Bank (Moscow), owned partly and indirectly by Mr Andrey Vdovin, the major shareholder of the Bank. Some Bank's clients decided to reduce the amount of their deposits held at the Bank, which resulted in decreased client activity.

Currently work is under way on a transaction which will result in change of the Bank's controlling shareholding. The Bank's management believes that clients' concerns with regard to the future development of the Bank will dissipate upon completion of this transaction and the Bank will relatively quickly recover client deposits and assets under management that were lost in recent months.

The Bank's strategy was reviewed at the end of 2016, taking into account the current stage of development of the Bank and evolving regulatory requirements. No changes have been made to the business model, target clients or the range of products offered by the Bank.

As of 31 December 2016, the Bank's accumulated tax loss amounted to EUR 18,450 thousand (EUR 20,166 thousand as of 31 December 2015), of which EUR 15,555 thousand (EUR 7,740 thousand as of 31 December 2015) were fully included in the deferred tax calculation in the light of the Bank's projected profits for a 5-year-period according to the Bank's strategic plan. The tax loss carried forward can be used over an unlimited period in the future.

Deferred tax assets of the subsidiary are recognized in respect of the tax loss carried forward at EUR 87 thousand (EUR 92 thousand in 2015) because the availability of future taxable profits can be predicted safely, so that the subsidiary can use the loss to be carried forward.

27. PROVISIONS AND CONTINGENT LIABILITIES

In the ordinary course of business, the Group and the Bank are subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints, will not have a material adverse effect on the financial statements.

28. OTHER LIABILITIES

'000 EUR	Group		Bank	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Accrued expenses	727	415	727	412
Suspense liabilities and money in transit	717	30	717	30
Provision for employee vacations	220	220	198	197
Suspense liabilities	158	183	155	183
Other	68	65	67	58
Total other liabilities	**1,890**	**913**	**1,864**	**880**

29. SHARE CAPITAL

Issued capital and share premium

'000 EUR	31 Dec 2016		31 Dec 2015	
	Number of shares	EUR	Number of shares	EUR
Authorised share capital as of 1 January	411,724	28,820,680	470,288	32,920,160
Issued an fully paid share capital as of 1 January	411,724	28,820,680	398,859	27,920,130
Cancelled share placement	–	–	(71,429)	(5,000,030)
Private placement of shares	47,858	3,350,060	12,865	900,550
Authorised share capital as of 31 December	459,582	32,170,740	411,724	28,820,680
Issued an fully paid share capital as of 31 December	**459,582**	**32,170,740**	**411,724**	**28,820,680**

The Bank's share capital consists of ordinary shares with voting rights and a par value of 70 EUR.

The shareholders of the Bank as of 31 December 2016 and 31 December 2015 were as follows:

Name	31 Dec 2016			31 Dec 2015		
	Number of shares	Paid share capital (EUR)	Share capital ownership %	Number of shares	Paid share capital (EUR)	Share capital ownership %
Andrey Vdovin and his family	335,403	23,478,210	72.98%	389,153	27,240,710	94.52 %
Leonīds Kaplans	31,200	2,184,000	6.79%	–	–	–
SIA "DMD HOLDING"	27,080	1,895,600	5.89%	–	–	–
Roberts Idelsons	22,571	1,579,970	4.91%	22,571	1,579,970	5.48 %
Tatjana Rapoporta	21,664	1,516,480	4.71%	–	–	–
Igors Rapoports	21,664	1,516,480	4.71%	–	–	–
Total	**459,582**	**32,170,740**	**100 %**	**411,724**	**28,820,680**	**100 %**

There have been changes in ownership in the reporting period.

In March, 2016 the share capital increase was paid by the major shareholder – Andrey Vdovin, paying for 28 572 shares of new issue with a nominal value EUR 2 000 040.

During the year 2016 the major shareholder Andrey Vdovin has sold 100 179 Bank's shares for the total amount of a nominal value EUR 7 012 530. In December, 2015 Andrey Vdovin sold 22 571 Bank's shares with a nominal value EUR 1 579 970.

Reserves

Other reserves represent residual interest of shareholders and can be distributed.

30. OPERATING LEASES

Operating lease rentals are payable as follows:

'000 EUR	Group		Bank	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Less than one year	139	139	139	139
Between one and five years	555	555	555	555
More than five years	878	1,017	878	1,017
Total operating leases	**1,572**	**1,711**	**1,572**	**1,711**

The Bank leases its headquarters under operating lease. The lease runs for an initial period of fifteen years, with an option to renew the lease after that date. Lease payments are fixed. None of the leases includes contingent rentals.

During the current year EUR 139 thousand was recognised as an expense in the profit or loss statement in respect of operating leases (2015: EUR 139 thousand).

31. ASSETS UNDER MANAGEMENT

Asset management services

The Group through its Subsidiary provides asset management services to individuals and institutions. The Group receives management fee for providing these services. The assets under management of the Subsidiary are not included in neither the consolidated and nor separate statement of financial position.

As of 31 December 2016 the Group had EUR 161 090 thousand (2015: EUR 181 149 thousand) assets under management of which the Bank held EUR 101 273 (2015: EUR 126 129 thousand) thousand and the Subsidiary held EUR 59 817 thousand (2015: EUR 55 020 thousand).

Custody activities

The Group and the Bank provides custody services to its customers, whereby it holds securities on behalf of customers and receives fee income for providing these services. These securities are neither assets of the Group, nor the Bank and are not recognized in the consolidated and separate statements of financial position. As of 31 December 2016 the total amount in custody on behalf of customers was EUR 164 792 thousand (31 December 2015: EUR 148 345 thousand).

32. RELATED PARTY TRANSACTIONS

Transactions with members of the Board of Directors and the Management Board

Total remuneration included in employee compensation (refer Note 10):

'000 EUR	Group		Bank	
	2016	2015	2016	2015
Remuneration to the management	658	611	549	517

The outstanding balances as of 31 December 2016 and 31 December 2015 with members of the Management Board are as follows:

'000 EUR	2016 '000 EUR	2015 '000 EUR
Statement of financial position		
Assets		
Other assets	68	11
Liabilities		
Current accounts	115	46

Transactions with related parties of the Bank

The outstanding balances as of 31 December 2016 and as of 31 December 2015 and related profit or loss amounts of transactions for the year ended 31 December 2016 and 31 December 2015 with other related parties are as follows.

'000 EUR	2016				2015		
	Subsidiary company	Shareholders	Other	Total	Subsidiary company	Other	Total
Statement of financial position							
Assets							
Balances due from financial institutions	–	–	23	23	–	337	337
Financial assets at fair value through profit or loss	–	–	–	–	–	25	25
Credits	–	1,097	36	1,133	–	–	–
Total assets	**–**	**1,097**	**59**	**1,156**	**–**	**362**	**362**
Liabilities							
Current accounts and deposits due to customers	1,198	106	652	1,956	996	1,156	2,152
Payables for services	–	–	–	–	–	51	51
Total liabilities	**1,198**	**106**	**652**	**1,956**	**996**	**1,207**	**2,203**
Income/(expenses)							
Fee and commission income/(expenses)	3	3	10	16	–	(504)	(504)
Interest income/(expenses)	(12)	48	15	51	(16)	7	(9)
Trade and financial instruments revaluation	–	5	–	5	–	470	470

There were 2 unsecured loans issued to two of the Bank's shareholders, one of which in a total nominal amount EUR 150 thousand at the Annual Report signing date was fully repaid. It is expected that repayment of the second loan of EUR 950 thousand nominal value will be received from the proceeds of the transaction mentioned in Note 1. The subsidiary has no other related party transactions than those with the Bank. Therefore, transactions with related parties of the Group are not disclosed separately.

33. FINANCIAL ASSETS PLEDGED

'000 EUR	Group		Bank	
	2016	2015	2016	2015
Short term deposits with credit institutions	546	236	546	236
Other deposits with financial institutions	548	537	548	537
Held-to-maturity investments*	10,695	13,045	10,695	13,045
Financial assets available for sale*	3,217	–	3,217	–
Total financial assets pledged	**15,006**	**13,818**	**15,006**	**13,818**
Total liabilities secured by pledged financial assets*	**12,500**	**10,001**	**12,500**	**10,001**

* Pledged due to central bank

All pledged amounts consist of several placements to secure various Bank's and Group's transactions in the ordinary course of business.

34. COMMITMENTS AND GUARANTEES

As part of lending operations the Bank has outstanding commitments to extend credit. These commitments take the form of approved loans, credit card limits and overdraft facilities. The Bank provides financial guarantees of the performance of customers to third parties. The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for guarantees 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.

'000 EUR	Group		Bank	
	2016	2015	2016	2015
Contracted amount				
Loan commitments	5,000	3,766	5,000	3,766
Outstanding guarantees	2,846	3,521	2,846	3,521
Unutilised credit line	1,343	2,731	1,343	2,731
Undrawn overdraft facilities	616	653	616	653
Total commitments and guarantees	**9,805**	**10,671**	**9,805**	**10,671**

35. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments measured at fair value

The table below analyses the Group's and the Bank's 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.

	'000 EUR			
	Level 1	Level 2	Level 3	Total
2016				
Financial assets				
Financial assets at fair value through profit or loss	526	2,361	–	2,887
Available for sale instruments	22,324	–	1,873	24,197
	22,850	**2,361**	**1,873**	**27,084**
Financial liabilities				
Financial liabilities at fair value through profit or loss	–	1,522	–	1,522
	–	**1,522**	**–**	**1,522**
2015				
Financial assets				
Financial assets at fair value through profit or loss	4,761	727	85	5,573
Available for sale instruments	25,427	1,113	6,254	32,794
	30,188	**1,840**	**6,339**	**38,367**
Financial liabilities				
Financial liabilities at fair value through profit or loss	–	653	–	653
	–	**653**	**–**	**653**

35. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table shows reconciliation from the opening balances to the closing balances for fair value measurements in Level 3 of the fair value hierarchy. The reason of the reclassification of the level in the fair value hierarchy was changes in their level of liquidity.

'000 EUR	Financial assets at fair value through profit or loss	Available for sale instruments	Financial liabilities at fair value through profit or loss	Total
2016				
Balance at 1 Jan 2016	**85**	**6,254**	**–**	**6,339**
Total gains and losses:				
– in profit or loss	(59)	(69)	–	(128)
– in OCI	–	(167)	–	(167)
Reclassification from other levels	–	992	–	992
Purchases	–	5,160	–	5,160
Settlements	(26)	(10, 297)	–	(10,323)
Balance at 31 Dec 2016	**–**	**1,873**	**–**	**1,873**
2015				
Balance at 1 Jan 2015	**–**	**1,621**	**102**	**1,723**
Total gains and losses:				
– in profit or loss	(263)	(695)	32	(926)
– in OCI	–	146	–	146
Purchases	480	8,711	–	9,191
Reclassified form Held to maturity financial instruments	–	(1,591)	–	(1,591)
Settlements	(132)	(1,938)	(134)	(2,204)
Balance at 31 Dec 2015	**85**	**6,254**	**–**	**6,339**

35. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Total gains or losses for the year in the above table are presented in the statement of comprehensive income as follows:

'000 EUR	Financial assets at fair value through profit or loss	Available for sale instruments	Financial liabilities at fair value through profit or loss	Total
2016				
Total gains and losses included in profit or loss:	**(59)**	**(98)**	**–**	**(157)**
Net gain on financial instruments at fair value through profit or loss	(59)	–	–	(59)
Net realised gain on available-for-sale instruments	–	(98)	–	(98)
Total losses recognised in other comprehensive income	**–**	**(167)**	**–**	**(167)**
Available-for-sale financial assets – net change in fair value	–	(167)	–	(167)
2015				
Total gains and losses included in profit or loss:	**(263)**	**(695)**	**32**	**(926)**
Net gain on financial instruments at fair value through profit or loss	(263)	–	–	(263)
Net realised gain on available-for-sale instruments	–	(695)	32	(663)
Total losses recognised in other comprehensive income	**–**	**146**	**–**	**146**
Available-for-sale financial assets – net change in fair value	–	146	–	146

35. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The Group and Bank's available for sale instruments level III portfolio is represented by 5 bond issuers operating in Real estate, Financial, Energy & Offshore Supply Vessel sectors of 5 countries.

Precise discount rate 0,00% – 18,00% (2015: 0,00%– 8,00%) is an unobservable variable due to low liquidity of these instruments. Thus Bank is assuming that alternative valuations may use a discount rate (4.30 % or 10.30 %) different by 300 bps. All investments with 18.00% discount rate have been fully repaid in February 2017.

As of 31 December 2016 change of discount rate by 300 bps will have the following effect on The Group's and Bank's value of Level III portfolio fair value:

'000 EUR	Effect on profit or loss	
Level III portfolio as of 31.12.2016	**Change of discount rate by – 300 bps**	**Change of discount rate by +300 bps**
1,873	(56)	56

As of 31 December 2015 change of discount rate by 300 bps will have the following effect on The Group's and Bank's value of Level III portfolio fair value:

'000 EUR	Effect on profit or loss	
Level III portfolio as of 31.12.2015	**Change of discount rate by – 300 bps**	**Change of discount rate by +300 bps**
6,254	(188)	188

35. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Financial instruments not measured at fair value

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

	'000 EUR				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
31 December 2016					
Financial assets					
Cash and due from central banks[1]	–	–	–	18,195	18,195
Balances due from financial institutions[2]	–	–	–	42,491	42,491
Loans and advances due from customers	–	–	61,693	61,693	61,402
Held to maturity instruments	18,843	–	–	18,843	18,843
Other financial assets[3]	–	–	–	1,037	1,037
Financial liabilities					
Deposits due to central bank	–	–	–	12,500	12,500
Deposits and balances due to customers	–	–	–	37	37
Deposits	–	–	117,688	117,688	119,646
Subordinated liabilities	–	–	21,092	21,092	21,034
31 December 2015					
Financial assets					
Cash and due from central banks[1]	–	–	–	23,322	23,322
Balances due from financial institutions[2]	–	–	–	94,134	94,134
Loans and advances due from customers	–	–	50,399	50,399	50,231
Held to maturity instruments	25,352	823	280	26,455	26, 455
Other financial assets[3]	–	–	–	208	208
Financial liabilities					
Deposits and balances due to customers	–	–	10,001	10,001	10,001
Deposits	–	–	192 542	192,542	192,880
Subordinated liabilities	–	–	18,428	18,428	18,304

1 Cash and due from central banks are various currency cash and deposits with the Bank of Latvia whose carrying amount represents the fair value.

2 Most of the balances due from financial institutions are either deposits on demand or short term deposits; therefore, their carrying amount approximates the fair value.

3 Other financial assets consist of receivables from settlement of payment card; thus the carrying amount is equal to their fair value.

35. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

	'000 EUR				
	Level 1	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
31 December 2016					
Financial assets					
Cash and due from central banks[1]	–	–	–	18,195	18,195
Balances due from financial institutions[2]	–	–	–	42,321	42,321
Loans and advances due from customers	–	–	61,693	61,693	61,02
Held to maturity instruments	18,843	–	–	18,843	18,843
Other financial assets[3]				1,037	1,037
Financial liabilities					
Deposits due to central bank	–	–	–	12,500	12,500
Deposits and balances due to customers	–	–	–	37	37
Deposits	–	–	118,878	118,878	120,844
Subordinated liabilities	–	–	21,092	21,092	21,034
31 December 2015					
Financial assets					
Cash and due from central banks[1]	–	–	–	23,322	23,322
Balances due from financial institutions[2]	–	–	–	93,797	93,797
Loans and advances due from customers	–	–	50,399	50,399	50,231
Held to maturity instruments	25,352	823	280	26,455	26, 455
Other financial assets[3]	–	–	–	208	208
Financial liabilities					
Deposits and balances due to customers	–	–	10,001	10,001	10,001
Deposits	–	–	193,535	193,535	193,877
Subordinated liabilities	–	–	18,428	18,428	18,304

1 Cash and due from central banks consist of various currency cash and deposits with the Bank of Latvia whose carrying amount represents the fair value.

2 Most of the balances due from financial institutions are either deposits on demand or short term deposits; therefore, their carrying amount approximates the fair value.

3 Other financial assets consist of receivables from settlement of payment card; thus the carrying amount is equal to their fair value.

35. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table shows the valuation techniques use in measuring Level 2 and Level 3 fair values, as well as the significant unobservable inputs used:

Financial instruments measured at fair value

Type	Valuation technique	Significant unobservable inputs
Financial assets at fair value through profit or loss	Discounted cash flows, quoted prices for similar instruments	Discount rates, quoted prices or similar instruments in active markets
Financial assets at fair value through profit or loss (3 Level)	Discounted cash flows	Discount rates
Available for sale instruments	Discounted cash flows	Discount rates

Financial instruments not measured at fair value

Type	Valuation technique	Significant unobservable inputs
Balances due from financial institutions	Discounted cash flows	Discount rates
Loans and advances due from customers	Discounted cash flows	Discount rates
Deposits and balances due to customers	Discounted cash flows	Discount rates
Subordinated liabilities	Discounted cash flows	Discount rates

36. EVENTS SUBSEQUENT TO THE REPORTING DATE

As of the last day of the reporting year until the date of signing these consolidated and separate financial statements there have been no events requiring adjustment of or disclosure in these financial statements or notes thereto.