Annual report for year 2017

Expobank

Without change of content, the structure of report might differ from approved statements.

CONTENTS

REPORT OF THE BOARD OF DIRECTORS AND THE MANAGEMENT BOARD

Dear customers and business partners,

During 2017 Latvian economy developed and grew at a significantly higher pace than in previous years. The Ministry of Economics of Latvia expects the country's overall GDP growth rate in 2017 to reach at least 4,5%. For comparison, the average GDP growth rate during the past four years was within 2-3% range.

Latvia took a high 19th place out of 190 countries and 8th place out of European Union member states in a survey, carried out by the World Bank (Doing Business 2018) - the assessment of "business-friendly" environment and ease of doing business index.

Latvia's economic stability has also been confirmed by various international rating agencies. During 2017 Latvia was assigned the following investment grade credit rating scores: Fitch (A-), Standard & Poor's (A-) and Moody's (A3).

Over the past 26 years AS Expobank (hereinafter referred to as the "Bank") has been a stable, reliable and professional partner, operating on the Latvian market and on international financial markets, trusted by its customers both during the times of growth and in changing, unstable environments. The Bank seeks to deliver high-quality and personalized banking services to its customers by enhancing the quality of existing services as well as constantly innovating and introducing new services. AS Expobank is a medium-sized financial institution, specializing in servicing corporate customers, conducting business on a global scale.

The Bank opened a branch in Cyprus in 2010, a representative office in Hong Kong in 2014 and a branch in Luxembourg in the beginning of 2017. In the second half of 2015 the Bank acquired Walbrook Capital Markets Limited (registered under the laws of England and Wales), which rendered a full range of investments services to its customers. Since 2012 the Bank had two subsidiaries in Latvia (SIA Axi Invest and SIA Kappa Capital), whose primary activities were in the area of real estate development.

After reviewing the Bank's business strategy at the end of 2017, the Bank decided to close its branch in Luxembourg and the representative office in Hong Kong and to focus on rendering high-quality services to its existing customers.

In 2017 the Bank decided to separate its banking activities from its real estate business and to terminate any participation in Latvian subsidiaries (SIA Axi Invest and SIA Kappa Capital) by selling all shares in these subsidiaries.

Additionally, in 2017 the Bank sold all shares in its wholly-owned subsidiary Walbrook Capital Markets Limited and its subsidiary Walbrook Capital Markets Nominees Limited. As a result of this transaction, the Bank incurred a one-time loss in the amount of 6,908 thousands EUR.

In 2017 the Bank undertook and implemented 11 substantial projects in compliance with legislative and regulatory requirements of the European Union and the Republic of Latvia, which included an introduction and testing of new IT systems and updating and upgrading the existing IT systems - a process, which required significant input and resources at all organizational levels.

According to its long-term strategy, the Bank continues to implement a precautionary and conservative risk management profile, which is in line with the best international banking standards and practices.

During 2017 the Bank's primary risks were assessed and identified to be money laundering and terrorist financing (hereinafter referred to as the "ML/TF") risk, sanctions risk, strategy and business risk (on-going regulatory changes in the banking industry related to rendering services to non-resident customers, carrying out payments and settlements) and also reputational risk (international resonance regarding the levels of compliance of ML/TF and sanctions risks management processes in Latvia with the best international standards and practices).

In order to manage the ML/TF and sanctions risks more effectively, risk mitigation measures, aimed at strengthening the Bank's operational compliance, enhancing the functionality of internal control systems and ensuring and committing to zero-tolerance policy concerning violation of ML/TF prevention laws and regulations, and of international and national sanctions, were implemented in 2017. During 2017 the Bank has maintained a steady course of continuous development of IT solutions for ML/TF and sanctions risk management in order to improve the monitoring processes of customers' commercial activities as well as to optimize and to ensure effective utilization of the Bank's personnel, time, finances and IT resources. In addition, one of the priorities of the Bank was ensuring adequate employee resources for managing the ML/TF and sanctions risks and raising the personnel's qualifications, including obtaining an internationally recognized certification in the area of prevention of ML/TF.

REPORT OF THE BOARD OF DIRECTORS AND THE MANAGEMENT BOARD

For the 2017 financial year the Bank sustained a net loss of 3,429 thousands EUR, which occurred due to a one-time total loss of 6,903 thousands EUR as a result of the sale of its subsidiaries. The Bank's operating net profit for the 2017 financial year amounted to 3,474 thousands EUR. The Bank's daily operational stability remains a top priority, as confirmed by the Bank's capital adequacy ratio, which as of December 31st, 2017 was 38,3% (compared to the minimum ratio of 14,1%, set out by the regulatory authority), high liquidity ratio of 117,9% (compared to the minimum ratio of 60%, set out by the regulatory authority), as well as high liquidity coverage ratio (LCR) of 290% (compared to the minimum requirement of 100%, set out by the regulatory authority).

In 2017 the average number of employees of the Bank was 85.

In 2018 the Bank will continue to implement its long-term development strategy offering its customers individualized and high-level service standards. In addition, the Bank will continue to invest in its IT systems and new technologies.

On behalf of the entire Management team of the Bank, we would like to express our most sincere gratitude to all of our customers and business partners for their ever-increasing trust and loyalty to the Bank, as well as to all of our employees for their ongoing dedication and daily contribution to the Bank's growth!

Chairman of the Board of Directors
Ilya Mitelman

Chairman of the Management Board
Gints Čakāns

5 March 2018

MEMBERS OF THE BOARD OF DIRECTORS AND THE MANAGEMENT BOARD

As at 31 December 2017, the Members of the Board of Directors of the Bank were as follows:

Name	Position	Date of election
Ilya Mitelman	Chairman of the Board of Directors	01/11/2017
Kirill Nifontov	Deputy Chairman of the Board of Directors	09/02/2012
Igor Kim	Member of the Board of Directors	09/02/2012
Ingrīda Blūma	Member of the Board of Directors	01/11/2014

During 2017 the following Members of the Board of the Directors resigned :

Name	Position	Date of election	Date of resignation
Andrew Sergio Gazitua	Chairman of the Board of Directors	11/04/2013	31/10/2017

As at 31 December 2017, the Members of the Management Board of the Bank were as follows:

Name	Position	Date of election
Gints Čakāns	Chairman of the Management Board	01/09/2011
Evija Sloka	Deputy Chairperson of the Management Board	02/11/2012
Rolands Legzdiņš	Member of the Management Board	05/04/2017

As at 31 December 2017, the Members of the Management Board of the Bank were as follows:

Name	Position	Date of election	Date of resignation
Ilya Mitelman	Chairman of the Management Board	01/08/2014	04/04/2017

STATEMENT OF MANAGEMENT RESPONSIBILITY

Management of AS Expobank is responsible for the preparation of the consolidated financial statements of the Bank and its subsidiaries ("the Group") as well as for the preparation of the separate financial statements of the Bank. The consolidated and separate financial statements have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union, and comply with legislative requirements of the Republic of Latvia.

The financial statements on pages 15 to 86 are prepared in accordance with source data and present fairly the financial position of the Bank as at 31 December 2017 and the results of operations and cash flows of the Group and the Bank for the year ended 31 December 2017.

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

The management of AS Expobank is responsible for maintenance of proper accounting system, safeguarding of the Group's and the Bank's assets, and prevention and detection of fraud and other irregularities. The management is also responsible for operating the Group and the Bank in compliance with the Law on Credit Institutions, regulations of the Financial and Capital Market Commission of the Republic of Latvia, Bank of Latvia, and other laws of the Republic of Latvia applicable to credit institutions.

On behalf of the Bank's management,

Chairman of the Management Board Gints Čakāns	Deputy Chairperson of the Management Board Evija Sloka	Member of the Management Board Rolands Legzdiņš

5 March 2018

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Translation from Latvian original*

INDEPENDENT AUDITOR'S REPORT

To the shareholder of AS Expobank

Report on the audit of the consolidated and separate financial statements

Our opinion

In our opinion, the separate financial statements of AS Expobank (the "Bank") and the consolidated financial statements of the Bank and its subsidiaries (the "Group") set out on pages 15 to 86 of the accompanying annual report, give a true and fair view of the financial position of the Bank as at 31 December 2017, and of the financial performance and the cash flows of the Group and the Bank for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union (IFRSs).

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

What we have audited

The Group's consolidated and the Bank's separate financial statements comprise:

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Consolidated and Separate financial statements* section of our report.

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

Independence

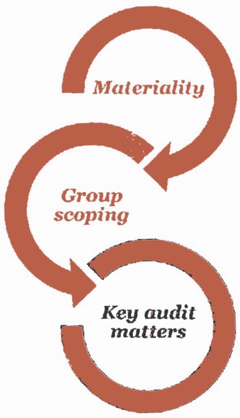
We are independent of the Group and the Bank in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) and with the ethical requirements and auditor's independence rules that are relevant to our audit of the consolidated and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

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

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

Our audit approach

Overview



Overall Group and Bank materiality is 276 thousand EUR, which represents approximately 5% of average profit before tax from continuing operations for 2016 and 2017..

We conducted audit work in relation to stand alone financial information of the Bank, including its Cyprus branch.

We also conducted audit work in relation to discontinued operations, including three subsidiaries disposed, a branch and permanent establishment closed during the year.

As all subsidiaries of the Bank were disposed during the year, there were no other reporting units to be audited as at 31 December 2017.

Fee and commission income.

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

Materiality

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

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

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Overall Group and Bank materiality	Overall materiality applied to the Group and the Bank was EUR 276 thousand.
How we determined it	5% of average annual profit before tax from continuing operations over past two years (2017 and 2016).
Rationale for the materiality benchmark applied	We chose profit before tax from continuing operations as the base benchmark because, in our view, it is the benchmark against which the performance of the Group and the Bank is most commonly measured by users of the financial statements, and it is a generally accepted benchmark. We used average profit before tax over the past two years as the profit of the Group and the Bank fluctuates significantly mainly due to result of realized gains on financial instruments transactions. We chose 5%, which is within the range of acceptable quantitative materiality thresholds for this benchmark.

We agreed with the Audit Committee that we would report to them the misstatements identified during our audit above EUR 27 thousand, as well as the misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

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

Key audit matter	*How our audit addressed the key audit matter*
Fee and commission income Refer to Note 6 '*Fee and commission income*' of the financial statements. Fee and commission income is the main source of external revenue for the Group and the Bank, therefore verification of the occurrence and accuracy of fee and commission income was the main focus area of our audit. Although the commissions are based on the approved price lists, transactions also include some level of manual input.	We assessed whether the accounting policies of the Group and the Bank in relation to the fee and commission income are in compliance with IFRSs. We assessed the design and operating effectiveness of IT general controls and determined that we could rely on these controls for the purposes of our audit. We selected a sample of the transactions and verified that the commission fee was correctly applied based on the approved price list or the agreement with the customer. We also verified supporting documents to confirm the occurrence of the transaction or event which is subject to commission fee and that the commission was recorded in the correct service period. We found no material misstatements from our testing. We verified the disclosures in the financial statements in respect of fee and commission income and found them appropriate.

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How we tailored our Group audit scope

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

Audit work in relation to the consolidated and separate financial statements was performed by the Group engagement team, no component auditors were involved.

Reporting on other information including the Report of the Board of Directors and the Management Board

Management is responsible for the other information. The other information comprises the Report of the Board of Directors and the Management Board, the list of Members of the Board of Directors of the Bank and the Management Board of the Bank, and the Statement of Management's Responsibility, as set out on pages 3 to 7 of the accompanying Annual Report, which we obtained prior to the date of this auditor's report.

Our opinion on the consolidated and separate financial statements does not cover the other information, including the Report of the Board of Directors and the Management Board, the list of Members of the Board of Directors of the Bank and the Management Board of the Bank, and the Statement of Management's Responsibility.

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

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

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

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

In addition, in light of the knowledge and understanding of the Group and the Bank and their environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Report of the Board of Directors and the Management Board of the Bank, the List of Members of the Board of Directors and the

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Management Board, and the Statement of Management's Responsibility, that we obtained prior to the date of this auditor's report. We have nothing to report in this respect.

Responsibilities of management and those charged with governance for the 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 International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of 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 Group's and the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group and the Bank or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the separate and consolidated 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these 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 Group's and the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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- 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 Group's and the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in 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 auditor's report. However, future events or conditions may cause the Group and the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

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Report on other legal and regulatory requirements

Appointment

We were first appointed as auditors of the Group and the Bank on 6 October 2016. Our appointment has been renewed by shareholder resolution on 12 October 2017 representing a total period of uninterrupted engagement appointment of 2 years.

PricewaterhouseCoopers SIA
Certified audit company
License No. 5

Ilandra Lejiņa
Certified auditor in charge
Certificate No.168

Member of the Board

Riga, Latvia
5 March 2018

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CONSOLIDATED AND SEPARATE STATEMENT OF COMPREHENSIVE INCOME

	Note	Group 2017 EUR'000	Bank 2017 EUR'000	Group 2016 EUR'000	Bank 2016 EUR'000
Continuing operations					
Interest income	5	2,968	3,291	4,103	4,571
Interest expense	5	(857)	(857)	(1,740)	(1,740)
Net interest income		**2,111**	**2,434**	**2,363**	**2,831**
Fee and commission income	6	5,740	5,740	8,136	8,146
Fee and commission expense	7	(359)	(359)	(441)	(442)
Net fee and commission income		**5,381**	**5,381**	**7,695**	**7,704**
Net income from transactions with financial instruments	8	2,836	2,836	6,113	6,112
Other income		636	636	104	103
Other expenses	9	(1,375)	(1,375)	(925)	(1,147)
General administrative expenses	10	(6,093)	(6,093)	(8,855)	(8,633)
Profit before income tax		**3,496**	**3,819**	**6,496**	**6,970**
Income tax expense	11	(345)	(345)	(672)	(672)
Profit from continuing operations		**3,151**	**3,474**	**5,824**	**6,298**
Losses from sale of subsidiaries	18	-	(6,903)	-	-
Discontinuing operations	19	(3,762)	-	(1,668)	-
(Loss)/profit for the year		**(611)**	**(3,429)**	**4,156**	**6,298**
Items that may be reclassified subsequently to profit or loss					
Available-for-sale financial assets – net change in fair value		(207)	(207)	1,294	1,294
Available for sale financial assets – reclassified to profit or loss		(247)	(247)	(1,299)	(1,299)
Foreign currency translation differences on foreign operations		824	-	(603)	-
Other comprehensive income/(expenses) for the year		**370**	**(454)**	**(608)**	**(5)**
Total comprehensive (expenses)/ income for the year		**(241)**	**(3,883)**	**3,548**	**6,293**

The accompanying notes on pages 22 to 84 form an integral part of these financial statements.

The financial statements as set out on pages 14 to 84 were approved for issue by the Management Board on 5 March 2018.

Chairman of the Management Board Gints Čakāns	Deputy Chairperson of the Management Board Evija Sloka	Member of the Management Board Rolands Legzdiņš

SEPARATE STATEMENT OF FINANCIAL POSITION

	Note	Bank 31.12.2017 EUR'000	Group 31.12.2016 EUR'000	Bank 31.12.2016 EUR'000
ASSETS				
Cash and demand deposits with the Central banks	12	73,724	66,872	66,872
Due from financial institutions	14	122,620	246,124	174,224
Loans and advances due from customers	16	8	6,337	12,273
Available-for-sale instruments	17	28,223	35,778	35,778
Investment property	15	-	3,761	-
Investments in subsidiaries	18	-	-	6,158
Property and equipment	20	492	821	755
Intangible assets	21	456	496	492
Overpaid current income tax		269	838	838
Other assets	22	1,461	17,510	2,978
Total Assets		**227,253**	**378,537**	**300,368**

SEPARATE STATEMENT OF FINANCIAL POSITION

	Note	Bank 31.12.2017 EUR'000	Group 31.12.2016 EUR'000	Bank 31.12.2016 EUR'000
LIABILITIES AND SHAREHOLDER'S EQUITY				
Deposits and balances due to financial institutions	23	3,191	5,534	5,534
Current accounts and deposits due to customers	24	186,321	311,424	230,117
Accrued liabilities	25	97	457	457
Deferred income		68	2	2
Deferred tax liabilities	11	-	12	12
Current income tax liabilities		-	175	-
Other tax payable		88	2,029	2,029
Other liabilities	26	634	1,809	1,479
Total Liabilities		**190,399**	**321,442**	**239,630**
Share capital		11,644	11,644	11,644
Share premium		6,360	6,360	6,360
Available for sale financial assets revaluation reserve		216	670	670
Foreign currency translation reserve		-	(824)	-
Other reserves		25	25	25
Retained earnings		18,609	39,220	42,039
Total Shareholder's Equity	**27**	**36,854**	**57,095**	**60,738**
Total Liabilities and Shareholder's Equity		**227,253**	**378,537**	**300,368**
Contingent liabilities and commitments	28	207	274	1,227
Funds under trust management	**30**	**120,913**	**107,704**	**107,704**

The accompanying notes on pages 22 to 84 form an integral part of these financial statements.

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Chairman of the Management Board
Gints Čakāns

Deputy Chairperson of the Management Board
Evija Sloka

Member of the Management Board
Rolands Legzdiņš

5 March 2018

CONSOLIDATED AND SEPARATE STATEMENT OF FINANCIAL POSITION

LIABILITIES AND SHAREHOLDER'S EQUITY				
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Chairman of the Management Board Gints Čakāns	Deputy Chairperson of the Management Board Evija Sloka	Member of the Management Board Rolands Legzdiņš

5 March 2018

CONSOLIDATED AND SEPARATE STATEMENT OF CASH FLOWS

	Group 2017 EUR'000	Bank 2017 EUR'000	Group 2016 EUR'000	Bank 2016 EUR'000
CASH FLOWS FROM OPERATING ACTIVITIES				
(Loss)/ profit before income tax (*/**)	(266)	(3,084)	5,004	6,970
Amortisation and depreciation	415	415	415	335
Interest income	(2,968)	(3,291)	(4,171)	(4,571)
Interest expense	857	857	1,818	1,740
Disposal of fixed assets	184	184	9	9
Loss from disposal of subsidiaries	-	6,903	-	-
Net (decrease)/ increase in provisions	(360)	(360)	(111)	(109)
Increase in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations	**(2,138)**	**(1,624)**	**2,964**	**4,374**
Decrease/ (increase) in available-for-sale financial assets	6,888	6,888	2,293	2,293
(Increase)/ decrease in due from financial institutions	(5)	(5)	(8,860)	(215)
Decrease/ (increase) in loans	4,827	10,763	17,512	20,755
Decrease/ (increase) in other assets	19,810	1,517	6,695	(208)
Decrease in current accounts and deposits due to customers	(125,095)	(43,788)	(130,651)	(163,915)
Increase/ (decrease) in other liabilities	(2,342)	(2,720)	(1,541)	(828)
Increase / (decrease) in cash and cash equivalents from operating activities before corporate income tax	**(98,055)**	**(25,721)**	**(111,588)**	**(137,744)**
Interest received	4,688	5,011	4,403	4,803
Interest paid	(865)	(865)	(1,829)	(1,751)
Corporate income tax paid	211	211	(1,967)	(1,967)
Net cash and cash equivalents from operating activities	**(94,021)**	**(21,364)**	**(110,981)**	**(136,659)**
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property and equipment and intangible assets	(300)	(300)	(918)	(843)
Investment in subsidiary	9	(745)	-	(886)
Purchase of/additions to investment property	-	-	(154)	-
(Decrease) / increase in cash and cash equivalents from investing activities	**(291)**	**(1,043)**	**(1,072)**	**(1,729)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Dividends paid	(20,000)	(20,000)	(20,000)	(20,000)
Decrease in cash and cash equivalents from financing activities	**(20,000)**	**(20,000)**	**(20,000)**	**(20,000)**
Net cash flows for the period	**(114,312)**	**(42,409)**	**(132,053)**	**(158,388)**
Cash and cash equivalents at the beginning of the year	**307,465**	**235,559**	**439,512**	**393,947**
Cash and cash equivalents at the end of the year	**193,153**	**193,153**	**307,459**	**235,559**

CONSOLIDATED AND SEPARATE STATEMENT OF CASH FLOWS

	Group 2017 EUR'000	Bank 2017 EUR'000	Group 2016 EUR'000	Bank 2016 EUR'000
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property and equipment and intangible assets	(300)	(300)	(918)	(843)
Investment in subsidiary	9	(745)	-	(886)
Purchase of/additions to investment property	-	-	(154)	-
(Decrease) / increase in cash and cash equivalents from investing activities	**(291)**	**(1,043)**	**(1,072)**	**(1,729)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Dividends paid	(20,000)	(20,000)	(20,000)	(20,000)
Decrease in cash and cash equivalents from financing activities	**(20,000)**	**(20,000)**	**(20,000)**	**(20,000)**
Net cash flows for the period	**(114,312)**	**(42,409)**	**(132,053)**	**(158,388)**
Cash and cash equivalents at the beginning of the year	**307,465**	**235,559**	**439,512**	**393,947**
Cash and cash equivalents at the end of the year	**193,153**	**193,153**	**307,459**	**235,559**

* Loss before income tax and including discontinued operations.

** Loss before income tax and including losses from sale of subsidiary

The accompanying notes on pages 22 to 84 form an integral part of these financial statements.

The financial statements as set out on pages 14 to 84 were approved for issue by the Management Board on 5 March 2018.

Chairman of the
Management Board
Gints Čakāns

Deputy Chairperson of the
Management Board
Evija Sloka

Member of the
Management Board
Rolands Legzdiņš

5 March 2018

CONSOLIDATED AND SEPARATE STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

Group

EUR'000	Note	Share capital	Share premium	Available for sale financial assets revaluation reserve	Foreign currency translation reserve	Other reserves	Retained earnings	Total
Balance at 1 January 2016		**11,668**	**6,360**	**675**	**(221)**	**1**	**55,064**	**73,547**
Total comprehensive income								
Profit for the year		-	-	-	-	-	4,156	4,156
Other comprehensive income		-	-	(5)	(603)	-	-	(608)
Share capital registration in EUR		(24)	-	-	-	24	-	-
Transactions with shareholders recorded directly in equity								
Dividends paid		-	-	-	-	-	(20,000)	(20,000)
Balance at 31 December 2016		**11,644**	**6,360**	**670**	**(824)**	**25**	**39,220**	**57,095**
Total comprehensive income								
Profit for the year		-	-	-	-	-	(611)	(611)
Other comprehensive income		-	-	(454)	824	-	-	370
Transactions with shareholders recorded directly in equity								
Dividends paid	27	-	-	-	-	-	(20,000)	(20,000)
Balance at 31 December 2017		**11,644**	**6,360**	**216**	**-**	**25**	**18,609**	**36,854**

The accompanying notes on pages 22 to 84 form an integral part of these financial statements.

The financial statements as set out on pages 14 to 84 were approved for issue by the Management Board on 5 March 2018.

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Rolands Legzdiņš

5 March 2018

CONSOLIDATED AND SEPARATE STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

Bank

EUR'000	Note	Share capital	Share premium	Available for sale financial assets revaluation reserve	Other reserves	Retained earnings	Total
Balance at 1 January 2016		**11,668**	**6,360**	**675**	**1**	**55,740**	**74,444**
Total comprehensive income							
Profit for the year		-	-	-	-	6,298	6,298
Share capital registration in EUR		(24)	-	-	24	-	-
Other comprehensive income		-	-	(5)	-	-	(5)
Transactions with shareholders recorded directly in equity							
Dividends paid	27	-	-	-	-	(20,000)	(20,000)
Balance at 31 December 2016		**11,644**	**6,360**	**670**	**25**	**42,038**	**60,737**
Total comprehensive income							
Profit for the year		-	-	-	-	(3,429)	(3,429)
Other comprehensive income		-	-	(454)	-	-	(454)
Transactions with shareholders recorded directly in equity							
Dividends paid	27	-	-	-	-	(20,000)	(20,000)
Balance at 31 December 2017		**11,644**	**6,360**	**216**	**25**	**18,609**	**36,854**

The accompanying notes on pages 22 to 84 form an integral part of these financial statements.

The financial statements as set out on pages 14 to 84 were approved for issue by the Management Board on 5 March 2018.

Chairman of the Management Board Gints Čakāns	Deputy Chairperson of the Management Board Evija Sloka	Member of the Management Board Rolands Legzdiņš

5 March 2018

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

1 Background

Information on the Bank

AS Expobank (hereinafter the "Bank") was established in the Republic of Latvia on 6 December 1991 as a closed joint stock company. The Bank operates under a banking license issued by the Financial and Capital Market Commission of the Republic of Latvia ("FCMC") according to which the Bank is allowed to conduct financial services. The principal activities of the Bank involve deposit taking and customer accounts maintenance, local and international money transfers, foreign exchange transactions on behalf of customers, brokerage and investment services, trust, documentary operations and operations with securities and foreign exchange.

The activities of the Bank are regulated by the FCMC.

In 2016 the Bank received a permission to open a branch in Luxembourg (the Grand Duchy of Luxembourg) from supervisory authorities in Latvia and Grand Duchy of Luxembourg. The Bank's branch in Luxembourg started its operations on 9 January 2017. In the end of year 2017, the Bank decided to close its branch in Luxembourg. Starting from 15 December 2017 the branch does not provide financial service.

The Bank's branch in Cyprus is operating since 8 October 2010.

Information about the Bank and its branches:

Information about the Bank: Address:	AS Expobank Valdemāra iela 19, Rīga, LV-1010, Latvia
Information about the branch: Address:	AS Expobank Cyprus Branch, Agiou Athanasiou, 46, INTERLINK HERMES PLAZA, 1st floor, Flat/Office 101B, 4102, Limassol, Cyprus
Information about the branch: Address:	AS Expobank Luxembourg Branch L-1855 Luxembourg, 35F, avenue J.F. Kennedy

Since 2015, the Bank has a representative office in Hong Kong (China). In the end of year 2017 the Bank decided and closed the Bank' s representative office in Hong Kong (China).

On 10 August 2017 the Bank sold all the shares (100 %) of the subsidiary company Walbrook Capital Markets Limited (reg. No. 2926252, United Kingdom) which is an investment broker company owned by the Bank, including its subsidiary company's Walbrook Capital Markets Nominees Limited (reg. No. 4027520, United Kingdom).

On 9 August 2017 the Bank's subsidiary company SIA "Kappa Capital" sold all the shares (100 %) owned in its subsidiary company SIA BLLV (reg. No 40203074729, Latvia).

On 29 September 2017, the Bank sold all the shares (100 %) of the subsidiary company SIA "Axi Invest" (reģ. Nr. 40103360551, Latvia) owned by the Bank.

On 5 October 2017, the Bank sold all the shares (100 %) of the subsidiary company SIA "SIA "Kappa Capital" (reģ. Nr. 40103360547, Latvia) owned by the Bank.

As result of the sale transaction of the first and second level of subsidiaries, there is no consolidation group as at 31 December 2017.

Shareholders

On 9 February 2012, Mr. Igor Kim became the sole owner of the Bank.

Related party transactions are disclosed in Note 31.

2 Basis of preparation

(1) Statement of compliance

The accompanying financial statements of the Group and the Bank 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 approved for issue by the Management Board on 5 March 2018.

The shareholder has the right to reject these financial statements and request that new financial statements are prepared.

(2) Basis of measurement

The accounting system of the Group and the Bank is organised in accordance with the legislation of the Republic of Latvia, including requirements applicable to credit institutions operating in Latvia. The financial year of the Group and the Bank coincide with the calendar year. The consolidated financial statements include financial information of the Group and the separate financial statements include financial information of the Bank including its branch in Cyprus and Luxembourg Grand Duchy.

The financial statements have been prepared on a historical cost basis, except for available-for-sale assets which are valued at fair value.

(3) Functional and Presentation Currency

The financial statements are presented in thousands of euro ('000 EUR), unless stated otherwise, being the functional currency of the Group and the Bank. The functional currency of Walbrook entities are GBP and for other subsidiaries and the Bank's branch in Cyprus is euro.

(4) Basis of consolidation

(i) Business combinations

The Group accounts for business combinations using the acquisition method of accounting. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

(ii) Subsidiaries

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

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

3 Significant accounting policies

The following significant accounting policies have been consistently applied in the preparation of the financial statements.

(1) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency of the operation at exchange rates published by the European Central Bank at the dates of the transactions, except for Walbrook entities where market rates are used. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period.

Monetary assets and liabilities, including funds under trust management, contingent liabilities and commitments, denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. Foreign currency differences arising on translation are recognized in profit and loss, except for differences arising on the translation of available-for-sale equity instruments which are recognized in other comprehensive income.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into the functional currency at the spot exchange rate at the date when the fair value was determined.

Exchange rates as of 31 December 2017 and 31 December 2016 were as follows:

	31 December 2017	**31 December 2016**
EUR/USD	0.8338	0.9487
EUR/RUB	0.0144	0.0156
EUR/GBP	1.1271	1.1680

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into EUR at exchange rates set by the European Central Bank at the reporting date. The income and expenses of foreign operations are translated into EUR at the exchange dates of the transactions.

Foreign currency differences are recognised in Other comprehensive income and accumulated in the translation reserve, except to the extent that the translation difference is allocated to non-controlling interests.

When a foreign operation is disposed of in its entirely or partially such that control, significant influence or join control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes of part of its interest in subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of an associate or joint venture while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognised in Other comprehensive income and accumulated in the translation reserve.

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

3 Significant accounting policies, continued

(2) 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 in the management of their short-term commitments, and deposits and balances due to financial institutions with original maturity less than 3 months.

(3) Financial instruments

Classification

Upon initial recognition, all financial instruments are classified into one of the following categories:

Financial assets and liabilities designated at fair value through profit or loss are:

- held-for-trading financial instruments;
- financial assets and liabilities designated at fair value through profit or loss upon initial recognition.

A financial instrument is classified as held for trading if it is acquired or incurred principally for the purposes of selling or repurchasing in the near term or it is 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. Derivatives are also categorised as held for trading.

The financial instrument may be designated at fair value through profit or loss when:

- doing so significantly reduces measurement inconsistencies;
- certain assets are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis;
- financial instruments containing one or more embedded derivatives that significantly modify the cash flows are designated at fair value through profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the Group and the Bank intends to sell immediately or in the short-term;
- those that the Group and the Bank upon initial recognition designates as at fair value through profit or loss or as available-for-sale;
- those for which the holder may not recover substantially all of its initial investments, other than because of credit deterioration.

Loans and receivables include term deposits due from credit institutions, loans and receivables due from customers, and other financial assets which meet these classification criteria.

Loans and receivables are accounted for at amortized cost using the effective interest rate method.

The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability. When calculating the effective interest rate, the Bank estimate future cash flows considering all contractual terms of the financial instruments, but not future credit losses.

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.

An impairment loss allowance for credit losses is established. For the policy see Note 3.9.

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

3 Significant accounting policies, continued

Within other financial assets the Group and the Bank has included balances due from brokerage accounts. These represent the Group's and the Bank's placements with its brokerage partners that are placed with brokers

to support the trading activity of the Group and the Bank. These balances are of short term nature and are accounted for at amortised cost.

Available-for-sale financial assets are financial assets classified at inception as available-for-sale or assets other than classified as held-for-trading, held-to-maturity, or loans and receivables. Available-for-sale assets include short-term investments and certain debt and equity securities. Generally, this category is assigned by the Group and the Bank to financial assets that are held for an indeterminate period of time and may be sold based on liquidity or interest rate needs, or as a result of changes in exchange rates and share prices.

Financial liabilities carried at amortized cost represent financial liabilities of the Group and the Bank other than financial liabilities designated at fair value through profit or loss. This category includes term balances due to credit institutions, customer deposits, and other financial liabilities corresponding to such a classification.

Recognition

Financial assets and liabilities are recognized in the statement of financial position when the Group and the Bank become a party to the contractual provisions of the instrument.

All regular way purchases and sales of financial assets are recognized in the statement of financial position on the settlement date representing the date when the financial asset is delivered. In the period between the dates of transaction and settlement, the Bank accounts for the changes in the fair value of the received or transferred asset based on the same principles as used for any other acquired asset of the respective category.

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:

- loans and receivables that are measured at amortized cost using the effective interest rate method;
- 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 amortized cost. Amortized 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 amortized based on the effective interest rate of the instrument.

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. The fair value of a liability reflects its non-performance risk.

When available, the Group and the Bank measure the fair value of a financial instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

3 Significant accounting policies, continued

If a market for a financial instrument is not active, the Group and the Bank establish fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models.

The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Group and the Bank calibrate valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

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

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Group and the Bank have positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties; to the extent that the Group and the Bank believe a third-party market participant would take them into account in pricing a transaction.

A number of the Group's and the Bank's accounting policies and disclosures require the determination of fair value of financial assets and liabilities. The methods described below have been used for the determination of fair values. When applicable, further information about the assumptions made in determining fair values is disclosed in the respective notes.

(a) Loans and receivables

The estimated fair value of loans and receivables represents the expected discounted amount of estimated future cash flows. The interest rates used to discount estimated cash flows are based on the prevailing money-market interest rates curve plus an adequate credit spread.

(b) Shares and other non-fixed income securities

The fair value of shares (S.W.I.F.T) and other non-fixed income securities is determined by reference to their quoted bid price at the reporting date, if available. For a non-material amount of non-listed shares, where disposal opportunities are limited, the assumption has been made that the reliable estimate of fair value is not possible.

The fair value of S.W.I.F.T shares was determined based on the "transfer amount" approved for the respective year by the shareholder's meeting, that represents the price for new share allocation and participants quit price.

3 Significant accounting policies, continued

(c) Derivative financial instruments

Derivative financial instruments include swaps and futures in foreign exchange and stock markets. The Group and the Bank classify all derivative financial instruments as financial instruments at fair value through profit and loss.

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

(d) Balances due to other credit institutions and customers

The estimated fair value of deposits with no stated maturities, which include also non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of overnight deposits is their carrying amount. The estimated fair value of fixed interest-bearing deposits not quoted in the active market is based on discounted cash flows using interest rates for new debts with a similar remaining maturity.

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 recognized as follows:

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

For financial assets and liabilities carried at amortized cost, a gain or loss is recognized in the profit or loss when the financial asset or liability is derecognized or impaired, and through the amortisation process.

Derecognition

The Group and the Bank derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group and the Bank has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

The Group and the Bank also derecognize certain assets when they write off balances pertaining to the assets deemed to be uncollectible.

Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase ("repo") agreements are accounted for as secured financing transactions, with the securities retained in the statement of financial position and the counterparty liability included in amounts payable under repo transactions. The difference between the sale and repurchase price represents interest expense and is recognized in the statement of comprehensive income 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.

3 Significant accounting policies, continued

Derivative financial instruments

Derivative financial instruments include currency swaps and forward contracts.

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

Changes in the fair value of derivatives are recognized immediately in the statement of comprehensive income.

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, 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 recognized in the statement of comprehensive income. Derivatives embedded in financial assets or financial liabilities at fair value through profit or loss are not separated.

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

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 recognized amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(4) Property and equipment

Items of property and equipment are stated at cost, net of accumulated depreciation and impairment losses, if any.

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

Depreciation is charged to the income statement 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:

Furniture and equipment	**2 to 10 years**
Computers and equipment	4 years
Software inseparable from equipment (OEM software)	4 years

Leasehold improvements are capitalised and depreciated over the remaining lease period on a straight-line basis. Leasehold improvements are not depreciated as long as the respective assets are not completed.

An item of property and equipment is derecognized upon disposal or when the asset is no longer in use and no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset calculated as the difference between the net disposal proceeds and the carrying amount of the item upon disposal is included in the statement of comprehensive income.

Depreciation methods, useful lives, and residual values are reviewed annually.

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

3 Significant accounting policies, continued

(5) Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance (licences and software that are separately identifiable from electronic devices, etc.) held for rendering of services or other purposes if it is expected that an economic benefit attributable to these assets will flow to the Bank.

Intangible assets are stated at cost less accumulated amortisation and impairment losses and are amortized over the useful life of the asset. The useful life of each class of intangible assets is estimated, considering the

contractual conditions, and/or based on the estimated period over which the asset is expected to generate economic benefits.

The estimated useful lives are as follows:

Software	5 years
Mastercard licence	10 years
Other licences	5 years

Licences acquired by the Group and the Bank for a period up to one year are expensed as acquired.

Amortisation methods and useful lives are reviewed annually.

(6) Investments in subsidiaries

Investments in subsidiaries are initially recognized at cost in the Bank's separate financial statements. If the recoverable value of such investments at the balance sheet date is lower than the acquisition cost or valuation in the previous year's balance sheet, impairment loss is recognized and investments are reduced to the recoverable value.

(7) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost less impairment. The annual depreciation rate applied to investment properties, except for land which is not depreciated, is 2%.

(8) Leased assets and lease payments

Financial lease

Where the Group and the Bank is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments. Finance lease receivables are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from leases is recorded within in profit or loss for the year.

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

3 Significant accounting policies, continued

Operating lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any financial incentives received from the lessor) are charged to the profit and loss account on a straight-line basis over the period of the lease.

(9) Impairment and calculation of the recoverable amount

Financial assets carried at amortized cost

The Group and the Bank assess at each reporting date whether there is any objective evidence that financial assets are impaired. Financial assets are impaired when objective evidence exists 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.

The criteria that the Group and the Bank use to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal and/or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of the loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral;
- Downgrading below investment grade level.

The Group and the Bank first assess whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for those that are not individually significant. If no objective evidence of impairment is determined for individual assets, whether significant or not, the impairment is tested collectively for groups of assets with similar credit characteristics, excluding assets for which an impairment loss is or continues to be recognized on an individual basis.

The amount of the loss is measured as a difference between the asset's carrying amount and its recoverable amount. The carrying amount of the asset is reduced through the use of the allowance account and the amount of the loss is recognized in the income statement.

When an asset is uncollectible, it is written off against the related allowances. Recovered amounts are disclosed in the income statement as a reduction in the allowance for bad debts.

The recoverable amount of financial assets carried at amortized cost and at cost is calculated as the present value of future cash flows including amounts that may be recovered from guarantees and loan securities, discounted at the original effective interest rate.

Available-for-sale financial assets

The Group and the Bank assess at each reporting date whether there is any objective evidence that a financial assets are impaired. In the case of debts investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. The Group and the Bank consider more than 10% decline below previous fair value "significant". If any such evidence exists, The Group and the Bank consider different criteria, such as significant financial obstacles of the issuer, decrease of credit rating below investment grade etc.

If any such evidence exists, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss previously recognized in income statement – is reclassified from equity and recognized in the income statement.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to the event occurring after the impairment loss was recognized in income statement, the impairment loss is reversed through the income statement.

3 Significant accounting policies, continued

Other assets

The carrying value of the Group's and the Bank's other assets is reviewed for impairment indications on each reporting date. If impairment indications exist, the recoverable amount of the asset is calculated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. All impairment losses are recognized in the statement of comprehensive income.

The recoverable amount is the higherof the fair value less cost to sell and value in use. In assessing the 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.

The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(10) Credit related commitments

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

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

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

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

(11) Dividends

The Bank and its subsidiaries declare and pay dividends according to the rules and regulations of the Latvian legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

(12) Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the income statement except to the extent that it relates to items recognized 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.

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

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

3 Significant accounting policies, continued

(12) Taxation, continued

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

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

In accordance with Cyprus and Luxembourg tax regulations, income tax is applied at the rate of 12.5% and 17% respectively (2016: 12.5% and 17%) on taxable income generated by the AS Expobank Cyprus Branch and Luxembourg Branch respectively during the taxation period.

A deferred tax asset is recognized 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.

(13) Income and expense recognition

All income and expense categories, including interest income and expense, are recognized on the accrual basis. Income is recognized only to the extent that an inflow of economic benefits to the Group and the Bank is possible and such income can be reasonably estimated. Impairment loss is recognized if the receipt of income becomes doubtful.

Interest income and expense are recognized in the income statement using the effective interest rate method. Payments made by the Group and the Bank to the deposit guarantee fund are disclosed under other interest expense.

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 amortized to interest income over the estimated life of the financial instrument using the effective interest rate method.

Commission and fee income and expense on non-recurring services are recognized on the transaction date on an accrual basis. Commission and fee income and expense on services provided or received in a certain period of time are accrued and charged to the income statement over the period of the services received/rendered.

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

Dividend income is recognized in the statement of comprehensive income on the date that the dividend is declared.

3 Significant accounting policies, continued

(14) Employee benefits

Short-term employee benefits, including salaries and social security contributions, bonuses and paid vacation benefits are included in Administrative expenses on an accrual basis.
The Group and the Bank pay social security contributions to state pension insurance and to the state funded pension scheme in accordance with Latvian legislation. In accordance with the Rules of the Cabinet of Ministers of Latvia Republic 72% (2014: 70%) of the social security contributions are used to fund the state defined contribution pension system. State funded pension scheme is a defined contribution plan under which the Group and the Bank pay fixed contributions determined by law and will have no legal or constructive obligation to pay further contributions if the state pension insurance system or state funded pension scheme are not able to settle their liabilities to employees. The social security contributions are accrued in the year in which the associated services are rendered by the employees of the Group and the Bank.

The Group and the Bank make discretionary contributions under defined contribution retirement plans for eligible employees who have worked in the Group an the Bank for a specified minimum number of years. The contributions payable to the plans are recognised as an expense and included in Administrative expenses.

(15) Use of significant accounting estimates and judgments

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates.

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

Key sources of estimation uncertainty:

Impairment of available for sale financial assets

The determination of impairment indication is based on comparison of the financial instrument's carrying value and fair value.

For the purposes of impairment loss measurement, the Group's and 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.

(16) Trust operations

The trust operations policy of the Group and the Bank set forth the general guidelines on organisation and execution of trust operations, their control and monitoring. The Group's and the Bank's policy for trust operations is reviewed annually. The Group and the Bank provide trust services only to customers of the Group and the Bank.

Trust operations are accounted for separately from the Group's and the Bank's own operations thus ensuring separate accounting in a separate trust sheet for assets of each customer, by customer and by type of assets under management. The Group and the Bank accept no risk for its trust operations; all risk is retained by its customers. The Group and the Bank earn fee income for administration of trust operations.

3 Significant accounting policies, continued

(17) New Standards and Interpretations

(a) Changes in accounting policies

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

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

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

Amendments to IAS 12 "Income taxes" – recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017).

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

(b) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017, 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.

IFRS 9 "Financial instruments" (effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

3 Significant accounting policies, continued

The Group and the Bank expect the new standard to have an immaterial impact on its financial statements. The Group and the Bank have assessed the estimated impact that the initial application of IFRS9 will have on its financial statements. The actual impact of adopting IFRS9 at 1 January 2018 may change because the Group and the Bank have not finalised the testing and assessment of controls over its new IT systems and the new accounting policies are subject to change until the Group and the Bank presents its first full financial statements that include the date of initial application.

Total estimated adjustment (net of tax) to the opening balance of the Bank's equity at 1 January 2018 is a decrease of EUR 7 thousand.

For financial instruments, no changes in the measurement principles are expected. Some instruments were reclassified from available-for-sale category under IAS 39 to Financial assets measured at fair value through other comprehensive income with no change in measurement principles.

IFRS 9 will require extensive new disclosures, in particular about credit risk and expected credit losses. The Bank is in the process of assessment of changes that it believes will be necessary to capture the required data. The Bank chose the option of not restating the comparative information for prior periods. Differences in the carrying amounts of financial assets resulting from adoption of IFRS9 will be recognised in retained earnings and reserves as at 1 January 2018.

Adoption of IFRS 9 did not result in breaches of any prudential requirements.

IFRS 15 "Revenue from Contracts with Customers" (effective for annual periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be

recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The new standard is not expected to have a material impact on the Bank's and the Group's financial statements as the accounting principles for the absolute majority of Group's revenues are the same under the new IFRS 15 regulations.

Amendments to IFRS 10 "Consolidated financial statements", IAS 28 "Investments in associates and joint ventures" – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective date to be determined by the IASB, not yet endorsed in the EU).

IFRS 16 "Leases" (effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The management has assessed the impact of new standard and concluded that for rent of premises contracts an asset and lease liability will be recognised upon implementation of the standard. Please refer to Note 28 for details of respective lease commitments.

Amendments to IFRS 15 "Revenue from Contracts with Customers" (effective for annual periods beginning on or after 1 January 2018);

Amendments to IFRS 2 "Share-based Payment" (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU);

Amendments to IFRS 4 "Insurance Contracts" – Applying IFRS 9 "Financial statements" with IFRS 4 "Insurance contracts" (effective for annual periods beginning on or after 1 January 2018);

Annual improvements to IFRS's 2016. The amendments include changes that affect 3 standards:

- IFRS 12 "Disclosure of Interests in Other Entities" (effective for annual periods beginning on or after 1 January 2017, not yet endorsed in the EU),
- IFRS 1 "First-time Adoption of International Financial Reporting Standards" (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU), and
- IAS 28 "Investments in Associates and Joint Ventures" (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU).

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

3 Significant accounting policies, continued

IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU).

IFRS 17 "Insurance contracts" (effective for annual periods beginning on or after 1 January 2021, not yet endorsed in the EU).

IFRIC 23 "Uncertainty over Income Tax Treatments" (effective for annual periods beginning on or after 1 January 2019, not yet endorsed in the EU).

Amendments to IAS 40 "Investment Property" – Transfers of investment property (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU).

Amendments to IFRS 9 "Financial instruments" – Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019, not yet endorsed in the EU).

Amendments to IAS 28 "Investments in Associates and Joint Ventures" – Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019, not yet endorsed in the EU).

Annual improvements to IFRS's 2017 (effective for annual periods beginning on or after 1 January 2019, not yet endorsed in the EU). The amendments include changes that affect 4 standards:

- IFRS 3 - "Business Combinations",
- IFRS 11 - "Joint Arrangements"
- IAS 12 - "Income taxes"
- IAS 23 - "Borrowing costs".

The Bank anticipates that the adoption of all other standards, revisions and interpretations will have no material impact on the financial statements of the Bank in the period of initial application.

4 Risk and capital management

The Bank's activities results in exposure to a variety of financial and non-financial risks. The Bank's strategic aim is to achieve an appropriate balance between risks assumed by the Bank and returns and minimize the potential adverse effect on the Bank's financial performance and operations.

The risk management system is integrated in the framework of the Bank's internal control based on the effective bank supervision requirements laid down by the Financial and Capital Market Commission and the Basel Committee on Banking Supervision to provide for a risk control function and operational compliance control function independent from business units. Risk measurement, assessment and control functions are separated from the business unit (risk acceptance) functions.

The Bank identifies all inherent significant risks and develop documents and implement appropriate policies for risk management, including measurement, assessment, control, mitigation, and risk reporting and disclosures. Policies are reviewed at least on an annual basis in line with changes in the Bank's operations and external factors impacting the Bank's activities.

In order to identify risks in due time and completely and assess the acceptable levels of risks prior to launching new products and services the Bank assess the potential inherent risks and approves internal normative documents related to risk management that include appropriate procedures, restrictions and limits, and hedging methods. The most important types of risk are credit risk, concentration risk, liquidity risk, interest rate risk, foreign currency and market prices risk, operational risk, money laundering and terrorism financing (further – AML) risk and strategic and business risk. Concentration risk is closely related to different risks of the Bank and assessments are carried out as part of risk management of these risks. The Bank identifies and assesses strategy and business risk, reputational risk and compliance risk. The impact of these risks has been taken into account during strategic planning.

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

4 Risk and capital management, continued

(1) Credit risk

Credit risk represents the Bank's exposure to potential loss in case a borrower (debtor) or a business partner fails or refuses to fulfil its contractual liabilities towards the Bank. The Bank is exposed to credit risk which is a significant inherent risk for the Bank. Therefore, credit risk management is performed with particular care.

Sources of credit risk

The key source for credit risk of the Bank is amounts due from credit institutions, which represent a material asset for the Bank. Credit risk exists also in connection with lending operations, investments in securities, letters of credit and warranties/guarantees.

For the Bank mostly as a payment bank, exposure to credit risk may interfere with liquidity management activities as the Bank should maintain sufficient funds on accounts with several principal correspondents to provide necessary customers' payments in relevant currencies, which sometimes causes also significant concentrations with particular counterparties.

Management and control of credit exposures

The Bank ensures ongoing monitoring of concentrations of credit risk especially to individual counterparties or groups of counterparties, and to industries and countries.

The Bank structures the levels of credit risk they undertake by placing limits on the amount of risk accepted in relation to one counterparty, or a group of counterparties, and to geographical and industry segments, and for a specific type of transaction. Such limits are subject to an annual or more frequent review, taking into account changes in the Bank's operations or external circumstances that can affect the Bank's operations.

The credit risk monitoring system applied by the Bank comprises of regular review of the borrower's/ counterparty's credit standing as well as monitoring of the credit ratings granted by the international credit rating agencies, compliance with the contractual terms and conditions, fulfilment of the obligations, collateral control, as well as ongoing limit control.

Limits on exposures to operations with credit institutions and products are considered by the Assets and Liabilities Management Committee and approved by the Management Board. Limits on exposures to non-banks are considered by the Credit Committee and approved by the Management Board or the Board of Directors depending on the authorisation scope.

The Bank performs regular monitoring of the counterparty credit risk and in case a transaction is to be made with a member of a group of counterparties, the Bank would also assess the overall credit risk exposure of the group.

The Bank ensures regular monitoring of the quality of receivables from counterparties/borrowers and the assessment of credit risk is performed by reference to expected loss and the amount of capital required for addressing credit risk.

Exposures to related groups of counterparties and counterparties related to the Bank is also subject to regulatory requirements.

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

4 Risk and capital management, continued

Credit risk mitigation policies

The Bank employs a range of credit risk mitigation methods.

Credit risk arising from issued warranties/guarantees and credit limits attached to payment cards is primarily covered by a pledge of cash on the accounts opened with the Bank.

The required amount of collateral may differ depending on the level of credit risk but it is usually set to cover at least the outstanding principal. The Bank grants credit limits on payment cards that in general are not higher than 75% of the security deposit.

The funds derived from the sales of the collateral should generally cover the Bank's expenses incurred in the sale of the collaterals (legal expenses, auctions etc.) and the entire amount of the client's debt towards the Bank, including calculated interest (for the entire period of the loan in the event that the term of the loan is shorter than 12 months or for a period of 12 months in the event that the term of the loan exceeds 12 months). Credit risk arising from loans can be mitigated by mortgage. The Bank's exposures to credit institutions and investment firms are usually unsecured.

Quantitative disclosures

Further quantitative disclosures in respect of credit risk are presented in Note 33.

(2) Foreign exchange risk

Foreign exchange risk represents potential loss from revaluation of items of financial position and contingent liabilities and commitments denominated in foreign currencies due to movements in foreign exchange rates.

Foreign exchange risk management process

The foreign exchange risk management policy determines and regulates the tasks to be performed by the Bank's management and structural units and their responsibilities in managing foreign exchange risk, and foreign exchange risk control regulations and mitigation measures relevant for the Bank's transactions in foreign currencies, as well as measurement, reporting and disclosure procedures.

Limits on the foreign exchange open position in a single currency and the total open position in foreign currencies are set both on open currency positions to be maintained during the business day and open positions at the end of the day which are monitored and controlled.

Quantitative disclosures

Further quantitative disclosures in respect of foreign exchange risk are presented in Note 34.

(3) Position (market price) risk

Position risk is the risk of losses of financial instrument position due to changes in the security's price.

Position risk management process

The Bank by creation of securities portfolios is exposed to securities price fluctuations. Position risk management is addressed in Trading and Investment policies, as well as in the procedures and methodologies that set the limits and limitations. The Bank uses Value at Risk (Value-at-Risk) calculation to estimate maximal loss due to fair value change and assess risks by market stress scenarios. See Note 36.

(4) Liquidity risk

Liquidity risk represents the Bank's exposure to significant loss in the event that Bank does not have a sufficient amount of liquid assets to meet legally substantiated claims or overcome unplanned changes in the Bank's assets and/or market conditions on a timely basis.

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

4 Risk and capital management, continued

Liquidity risk management process

The Bank's liquidity risk management policy sets the key principles and processes of liquidity risk management, tasks of management and structural units and their responsibilities in liquidity management and maintenance, methods and conditions, asset and liability management procedure, measures for preventing and managing liquidity crisis, and reporting and disclosure procedure.

Liquidity risk management is performed by the Bank on the basis of the asset and liability management method ensuring a balanced asset and liability term structure and analysing funding concentration.. The Bank manages liquidity risk as an aggregate of market liquidity risk and financing liquidity risk. Where required, the Bank performs operational liquidity management by attracting funds on the interbank market and by entering into foreign exchange swaps (FX SWAP).

The following techniques are used to manage liquidity:

- Assessment and regular analysis of early warning indicators that help identify adverse trends that may impact the Bank's liquidity;
- Cash flow planning;
- Maintenance of a sufficient amount of liquid assets representing at least level set by regulator (60% of the total amount the Bank's liabilities;
- Monitoring of Liquidity Coverage requirement (LCR) set by European Parliament and Council Regulation (EU) No. 575/2013;
- Liquidity risk limits, restrictions (including finance concentration) and liquidity ratios monitoring;
- The Bank creates a liquidity reserve by maintaining a portfolio of available financial assets - financial assets acquired for the purpose of holding indefinitely and gaining interest income and / or profits from the increase in the price of a financial asset and may be sold for liquidity purposes;
- Balancing asset and liability (including contingent liability) term structure.

Once a year, the Bank submits to the regulator a report on the liquidity adequacy assessment process, which involves identifying, assessing, managing of the liquidity risk and assessing the adequacy of the amount of liquidity needed to ensure the Bank's operations.

The Bank calculates the capital requirement for liquidity risk by assessing possible expenses that may arise if additional financing is required to secure the Bank's liabilities.

Quantitative disclosures

Further quantitative disclosures in respect of liquidity risk are presented in Note 35.

(5) Interest rate risk

Interest rate risk represents the Bank's exposure in the event that changes in interest rates have an adverse impact on the Bank's income and expenses and result in a decrease of the Bank's equity.

Interest rate risk arises from:

- repricing risk;
- yield curve risk;
- basis risk;
- optionality risk - the possibility of incurring losses if a financial instrument directly (options) or indirectly (demand deposits, etc.) provides an option to choose.

When assessing interest rate risk, repricing risk and yield curve risk are assessed together as a single element – the maturity mismatch. The maturity mismatch is used as joint element for assessing repricing risk and yield curve risk as part of interest rate risk.

Interest rate risk management process

The interest rate risk management policy states risk management principles, tasks and responsibilities of the Bank's management and structural units in interest rate risk management, interest rate risk measurement, setting of limits, and control processes, stress testing, as well as reporting and disclosure procedures.

4 Risk and capital management, continued

The Bank assesses the impact produced by changes in interest rates on the entire Bank's business, as well as transactions belonging to the Bank's trading and non-trading portfolios, and interest rate risk in each currency for which assets or liabilities exceed 5% of the total balance, and all currencies in total.

Interest rate risk control and mitigation are performed through:

- Interest rate risk limits are determined: net annual interest income, interest rates changing in parallel by 1% (or 100 base points), decrease of economic value assuming that unexpected changes in interest rates represent 200 base points.
- Ensuring the structure of interest rate sensitive assets and liabilities is maintained within levels of interest rate risk that are acceptable to the Bank;
- Control of optionality in clients agreements;
- Constant monitoring of changes in the interest rates on the financial instrument and money markets;
- If necessary an interest rate hedge is applied and interest rate options of the Bank's products are limited.

Quantitative disclosures

Further quantitative disclosures in respect of interest rate risk are presented in Note 36.

(6) Operational risk

Operational risk is the risk that the Bank may suffer loss as a result of noncompliant, unsuccessful or incomplete internal processes or due to staff activities and system operations, or due to external impacts, including risks connected with information technologies and legal risks but excluding reputational risk and strategy and business risk.

In order to identify operational risk events promptly and to take appropriate and timely measures to minimize operational risk the Bank has developed and implemented a statistical data base for registering operational risk events on a regular basis. The Bank has implemented a procedure that all employees regardless of their position immediately make entries of operational risk events in the Event Database upon identifying any circumstances that have caused or may cause losses (irrespective of the type) to the Bank or may inflict damage to the Bank's reputation. If required, all operational risk events entered in the Event Database are checked according to the procedures specified in internal documents, and risk mitigation measures are developed and assigned to improve the internal controls.

Operational risk management process

The Operational Risk Management Policy details the tasks to be performed by the Bank's management and structural units and their responsibilities in the operational risk management, the basic principles of the operational risk management system and operational risk management processes, reporting and disclosures. Besides the above policy, operational risk management connected with the Bank's information systems is regulated by Information System Management Policy and Information System Security Management Policy and internal documents that govern the application thereof.

Operational risk management is performed in the Bank as a complex of systemic measures and it includes:

- identification and assessment of operational risks,
- control of operational risks,
- measures to mitigate operational risks,
- set duties, authorities and responsibilities,
- procedure for reporting and disclosures.

The operational risk management system is integrated in the Bank's internal control system and is aimed at effective management of operational risk. The Bank reviews and improves the operational risk management system on a regular basis to reflect changes in the Bank's operations and external circumstances that impact operations.

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

4 Risk and capital management, continued

The control over operational risks in the Bank is performed using the following control procedures:

- systematic assessment of the operational risk management system, including efficiency assessment;
- compliance reviews against normative documents regulating operational risk management;
- assessment of the results of operational risk assessment and stress testing and, if applicable, implementation of corrective measures in the risk management system;
- consistent control over restrictions and limits imposed by internal documents regulating the respective area;
- regular testing of business continuity plans;
- assessment of changes in the Bank's operations and external environment in order to determine the potential impact on the Bank and its business processes;
- providing the Bank's management with reports of various detail and information on operational risk management and non-compliance with procedures, restrictions and limits and key risk indicators (KRI).
- control over the development of new banking products or services and related internal documents in order to identify operational risks on a timely and complete basis, assess the acceptable level of operational risk and make a decision on risk management. Control over compliance with the Bank's procedures during implementation of new products and services.

(7) AML risk

Money Laundering and Terrorist Financing (hereinafter – ML/TF risk) – the potential impact on the Bank and the likelihood that the Bank could be manipulated for the purposes of money laundering and terrorist financing.

ML/TF Risk Management

The Bank's focal priorities concerning ML/TF risk management are to ensure that the Bank's operations are in compliance with the regulatory enactments of the Bank and in accordance with the international standards and best practice guidelines in the area of Money Laundering and Terrorist Financing prevention, to maintain an effective, independent and complex internal control systems while verifying its operational integrity and functionality on a regular basis, as well as to raise the qualification and core competencies of the Bank's employees in charge of ML/TF risk management.

The Bank's ML/TF Risk Management strategy regulates an acceptable ML/TF risk level, defines qualitative and quantitative ML/TF risk exposure indicators - and their maximum upper threshold limits – which are based on their ability to tolerate the permissible ML/TF risk which is pre-determined according to the Bank's business strategy and the resources allocated for the ML/TF risk management purposes.

The Bank monitors and controls the ML/TF risk level on a regular basis and consistently evaluates the effectiveness of ML/TF risk management processes, and when necessary, promptly and immediately implements appropriate risk-mitigating measures in order to prevent the Bank's involvement in money laundering and terrorist financing activities and avert losses resulting from our loyal clients and business partners quickly losing trust and confidence in the soundness of the Bank's operations.

ML/TF Risk Management Policy defines and outlines the tasks and responsibilities of the Bank's Management team and its structural units and departments, core internal control systems principles regarding ML/TF risk management - its elements and measures, risk identification and assessment as well as the control processes and appropriate risk mitigation actions, basic employee training guidelines, and general instructions on submission of various Bank reports and documents.

The Bank's internal control systems relating to ML/TF Risk Management have been established according to the Bank's business model and its economic activity and also considering the inherent customer ML/TF risk level - its magnitude and scope, ML/TF risk inherent to financial services provided and geographic location of business operations as well as the delivery channels, Bank's structural units' involvement in the ML/TF risk management, the interaction of ML/TF risk with other risks inherent to the Bank's daily operations along with other factors that may significantly impact the overall ML/TF risk for the Bank.

4 Risk and capital management, continued

The Bank has established a specific set of criteria according to which a business relationship with a client would not be initiated (or discontinued, if necessary) declaring a client undesirable to the Bank in terms of "unacceptable risk". The Bank will not render banking services to clients whose industry and type or form of business has been recognized by the Bank as causing excessive risk levels considering the Bank does not possess adequate resources and competencies in order to handle disproportionate risk levels. The Bank also refrains from engaging in business transactions and banking services that would pose high ML/TF risk in nature. In efforts to minimize the inherent risk for rendering such services the only permissible exceptions would be the types of transactions for which the Bank has carried out and implemented multiple levels of control. The Bank abstains (or discontinues its business activities altogether) with businesses or customer segments in which the ML/TF risk has been deemed as "high" unless specific risk mitigation measures have been performed in order to downgrade the residual risk level to "moderate".

For the purposes of ML/TF risk mitigation the Bank applies various automated control systems for its customers and their transactions including the control of lists consisting with clients and countries "undesirable" to the Bank, clients' cash flow control, as well as automated client ML/TF risk scoring and transaction monitoring systems.

(8) Sanctions Risk

"Sanctions risks" reflects likelihood of a situation in which the Bank's daily operations can be compromised and even halted if the requirements of the national or international sanctions are not implemented or complied with.

Sanctions Risk Management

The Bank ensures the application of the requirements of specific sanctions imposed by international organizations. The Bank also strictly follows and fulfils the requirements of applicable laws and regulations of certain jurisdictions regarding implementation of enforced international sanctions in the Bank's daily activities. In addition, the Bank applies best operating practices as it relates to efficient execution of its appropriate control measures in both - when it comes to carrying out transactions on behalf of the Bank or when rendering financial services to its clients while refraining from activities where the goal or the resulting consequences were intentional violation of sanctions imposed by the Council of United Nations, European Union, Organization for Security and Cooperation in Europe, United States Department of the Treasury, or the Office of Foreign Assets Control.

The Bank refrains from rendering financial services to clients against whom specific financial sanctions have been imposed upon. Also, the Bank ensures that those individuals have no access to financial assets and instruments and performs the freezing of assets and instruments belonging to such persons. Moreover, if there have been introduced laws and regulations regarding civil law restrictions to specific State, the Bank does not take part in transactions encompassing civil law dealings of any kind involving economic or financial resources or any other assets thereof which are owned by such State or its associated parties/persons, which are under their jurisdiction and governance or over which they have effective controls given that the relevant State .

Instability in Latvian financial market

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

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

4 Risk and capital management, continued

(9) Capital management

The strategic objective of the Bank's capital management is to maintain the adequate capital base that would promote attaining the strategic business goals set by the Bank, that is:

- comply with the regulatory requirements;
- be sufficient and optimal to support and further development of the Bank's business in terms of both volume and structure;
- ensure that the Bank's capital, which, based on the internal calculations, is required to cover risks and to establish the capital reserve, both existing and potential, inherent in the current and future business of the Bank, is sufficient to cover significant inherent risks and establish the capital reserve in terms of amount, components and proportion.

The Law on Credit Institutions and the regulations developed by the Financial and Capital Market Commission to apply the provisions of this Law require that the Bank maintain equity that at all times is equal to or exceeds the minimum regulatory capital requirement.

In order to calculate the statutory capital and capital requirement in 2017 and 2016 the Bank applied the rules laid down by REGULATION (EU) No 575/2013 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on prudential requirements for credit institutions and investment firms.

The following table summarises the regulatory capital, capital requirements, and capital adequacy ratios of the Bank as at 31 December 2017 and as at 31 December 2016.

	Bank 31.12.2017 EUR'000	Group 31.12.2016 EUR'000	Bank 31.12.2016 EUR'000
Tier 1 capital			
Paid-in share capital	11,644	11,644	11,644
Share premium	6,360	6,360	6,360
Reserve capital	25	25	25
Retained earnings	22,039	35,752	35,746
AFS revaluation reserve	173	400	400
Foreign currency revaluation reserve	-	(805)	-
(Loss)/profit for the reporting year	(3,429)	3,214	6,293
Less: investments in non-financial subsidiaries	-	(1)	(796)
Less: intangible assets	(456)	(496)	(496)
Total Tier 1 capital	**36,356**	**56,093**	**59,176**
Subordinated capital	84	144	144
Equity used for capital adequacy calculation	**36,440**	**56,237**	**59,320**
Summary of calculations			
Capital requirement for credit risk in the banking book:	(5,435)	(9,913)	(10,745)
Due from central governments and central banks	-	(69)	(69)
Due from and contingent liabilities to credit institutions	(1,730)	(2,099)	(2,107)
Due from and contingent liabilities to companies	(3,567)	(6,749)	(6,645)
Due from and contingent liabilities to retail	-	(87)	(2)
Other items of financial position and contingent liabilities	(138)	(909)	(1,922)
Total capital requirements for market risks, including:	-	-	-
Capital requirement for currency risk	-	-	-
Capital requirement traded debt instruments	-	-	-
Capital requirement for operational risk	(2,178)	(1,887)	(1,887)
Total capital requirement	**(7,613)**	**(11,800)**	**(12,632)**
Surplus of available equity over capital requirement	**28,827**	**44,437**	**46,688**
Capital adequacy ratio	**38,29%**	**38,13%**	**37,57%**

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

4 Risk and capital management, continued

The Bank's Capital Management Policy lays down the principles of capital management, elements and definition of capital, tasks to be performed by the Bank's management and structural units and their responsibilities, the procedure of determining the amount of internal capital, capital management process and its control, reporting and disclosure requirements and actions to be taken by the Bank in emergency situations. The policy requires that the internal capital should always be larger than the capital prescribed by law and it must adhere to the TSCR (the amount of capital needed to cover the risks inherent in the Bank's current and planned operations) ratio. The methods used for its assessment of internal capital should be more prudent than those used for the calculation of capital as prescribed by law.

Under the current capital requirements provided by the FCMC banks have to maintain a ratio of capital to risk weighted assets ("statutory capital ratio") above the prescribed minimum level. Although the minimum requirement as at 31 December 2017 was 8%, in accordance with a special requirement of the FCMC the Bank had to ensure the capital adequacy above the minimum, i.e., since 1 October 2016 FCMC has set minimal capital adequacy ratio for the Bank – 13.3%, 14.1% starting from 1 December 2017.

The Bank manages capital by setting the target range for the capital adequacy and OCR (TSCR amount of total capital requirement calculated according Chapter IV of the Law on Credit Institutions and total recommended capital reserve) ratios, which is treated as a measure of whether the strategic objectives set in capital management have been attained.

The goal of capital management control is to maintain the adequate capital to cover significant risks and keep the reserve on an ongoing basis as well as to comply with the capital adequacy targets set by the Bank. The Bank performs control of the capital management process as a set of systematic measures, defining the relevant control procedures.

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

5 Net interest income

	Group 2017 EUR'000	Bank 2017 EUR'000	Group 2016 EUR'000	Bank 2016 EUR'000
Interest income				
Due from financial institutions	1,575	1,575	1,687	1,688
Loans and advances due from customers	140	463	842	1,309
Held for trading instruments	-	-	21	21
Available-for-sale instruments	1,253	1,253	1,553	1,553
	2,968	3,291	4,103	4,571
Interest expense				
Current accounts and deposits due to customers	398	398	692	692
Deposits due to financial institutions	315	315	414	414
Other interest expense	144	144	634	634
	857	**857**	**1,740**	**1,740**

6 Fee and commission income

	Group 2017 EUR'000	Bank 2017 EUR'000	Group 2016 EUR'000	Bank 2016 EUR'000
Money transfers	2,364	2,364	3,682	3,682
Trust account servicing	1,193	1,193	1,732	1,732
Current account servicing	1,330	1,330	2,014	2,014
Payment cards	391	391	454	454
Brokerage fees	437	437	206	215
Other	25	25	48	49
	5,740	**5,740**	**8,136**	**8,146**

7 Fee and commission expense

	Group 2017 EUR'000	Bank 2017 EUR'000	Group 2016 EUR'000	Bank 2016 EUR'000
Money transfers	197	197	308	308
Payment cards	113	113	97	97
Brokerage	39	39	26	26
Other	10	10	10	11
	359	**359**	**441**	**442**

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

8 Net income from transactions with financial instruments

	Group 2017 EUR'000	Bank 2017 EUR'000	Group 2016 EUR'000	Bank 2016 EUR'000
Gain on currency exchange transactions	2,683	2,683	4,273	4,273
Gain/ (loss) on translation of balances denominated in foreign currencies	2	2	2	1
Unrealized (loss)/ gain on currency exchange transactions	(109)	(109)	130	130
Gain/ (loss) on available for sale instruments trading	258	258	1,712	1,712
Gain/ (loss) on held for trading securities trading	2	2	(4)	(4)
	2,836	**2,836**	**6,113**	**6,112**

9 Other expenses

	Group 2017 EUR'000	Bank 2017 EUR'000	Group 2016 EUR'000	Bank 2016 EUR'000
Association membership fees	255	255	240	240
Information services fees	674	674	602	602
Professional services	425	425	283	284
Other expense	21	21	200	21
	1,375	**1,375**	**925**	**1,147**

10 General administrative expenses

	Group 2017 EUR'000	Bank 2017 EUR'000	Group 2016 EUR'000	Bank 2016 EUR'000
Remuneration to staff	2,502	2,502	3,317	3,433
Remuneration to the Management Board and Board of Directors members	844	844	1,127	1,127
Statutory social insurance contributions	718	718	1,020	894
Taxes	41	41	298	113
Professional services	359	359	1,604	1,592
Depreciation and amortisation	596	596	335	335
Rent expenses	283	283	355	356
Security	51	51	55	55
Telecommunications	80	80	93	93
Transport	11	11	-	-
Repairs and maintenance of premises	76	76	86	86
Business trips	120	120	304	286
Representations	2	2	-	-
Sponsorship	30	30	40	40
Other expense	380	380	221	223
	6,093	**6,093**	**8,855**	**8,633**

The average number of the Bank's employees in 2017 was 85 (2016 - 104). Fee to sworn auditor EUR 36 thousand (2016: 44).

During the reporting year the sworn auditor's company provided the following non-audit services to the Bank: limited assurance engagements on compliance with the requirements of the Financial Instruments Market Law on the separate maintenance of financial instruments and monetary resources of the Bank and its clients and the requirements of the Deposit Guarantee Law on preparation of the report on guaranteed deposits and payments into deposit guarantee fund.

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

11 Income tax expense

(a) Income tax charge

The components of income tax expense for the years ended 31 December 2017 and 2016 were as follows:

	Group 2017 EUR'000	Bank 2017 EUR'000	Group 2016 EUR'000	Bank 2016 EUR'000
Current income tax expense	357	357	610	610
Deferred tax expense	(12)	(12)	62	62
Total	**345**	**345**	**672**	**672**

(b) Reconciliation of effective tax rate

	Bank 2017 EUR'000	Bank 2016 EUR'000
Profit before income tax	(3,084)	6,970
Theoretically calculated tax at tax rate of 15%	463	1,046
Net tax effect of expenses not deductible in determining taxable profit	-	-
Net tax effect of exempt income in determining taxable profit	-	(428)
Tax relief on donations	(26)	(34)
Other reconciling items	(92)	88
Income tax expense	**345**	**672**

(c) Movement in deferred tax balances

The following table presents deferred tax included in the statement of financial position and changes recorded in the income statement for the years ended 31 December 2017 and 2016:

	Bank 2017 EUR'000	Group 2016 EUR'000	Bank 2016 EUR'000
Deferred tax (asset)/ liability at the beginning of the year	**12**	**(51)**	**(51)**
Increase/ (decrease) of deferred charge for the year	(12)	63	63
Deferred tax liability/ (asset) at the end of the year	**-**	**12**	**12**

The temporary differences that form the deferred tax liability/ (asset) as at 31 December 2017 and 2016 are presented in the following statement of financial position captions:

	Bank 31.12.2017 EUR'000	Bank 31.12.2016 EUR'000
Accelerated depreciation of property and equipment	-	60
Provisions	-	(48)
Deferred tax liability/ (asset) at the end of the year	**-**	**12**

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

12 Cash and deposits with the Central banks

	Bank 31.12.2017 EUR'000	Group 31.12.2016 EUR'000	Bank 31.12.2016 EUR'000
Cash	134	110	110
Demand deposits with the Central Banks	73,590	66,762	66,762
Total cash and deposits with the Central banks	**73,724**	**66,872**	**66,872**

Since the beginning of 2014 Latvia is a member of European Monetary Union (EMU) and Latvian commercial banks should fulfil all the requirements set by the European Central Bank (ECB). In particular ECB set reserve requirement ratio meaning that financial institutions should maintain certain amount of cash with its local Central Bank - in case of AS Expobank with the Bank of Latvia. The Bank's average correspondent account balance should exceed the minimum reserve requirement. The Bank was in compliance with reserve requirement ratio during the reporting year.

13 Cash and cash equivalents

	Group 31.12.2017 EUR'000	Bank 31.12.2017 EUR'000	Group 31.12.2016 EUR'000
Cash and demand deposits with the Central banks	73,724	73,724	66,872
Due from financial institutions with original maturity less than 3 months	122,582	122,582	246,121
Deposits and balances due to financial institutions with original maturity less than 3 months	(3,188)	(3,188)	(5,534)
	193,118	**193,118**	**307,459**

14 Due from financial institutions

	Bank 31.12.2017 EUR'000	Group 31.12.2016 EUR'000	Bank 31.12.2016 EUR'000
Nostro accounts			
Latvian commercial banks	5,285	1,488	1,488
OECD banks	12,463	87,212	15,312
Non-OECD banks	51,262	46,924	46,924
Total nostro accounts	**69,010**	**135,624**	**63,724**
Deposits			
Latvian commercial banks	-	-	-
OECD banks	50,274	98,095	98,095
Non-OECD banks	3,336	12,405	12,405
Total deposits	**53,610**	**110,500**	**110,500**
Total due from financial institutions	**122,620**	**246,124**	**174,224**

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

15 Investment property

Group EUR'000	**Investment property**
Historical cost	
As at 1 January 2016	3,773
Additions	154
As at 31 December 2016	**3,927**
Accumulated depreciation	
As at 1 January 2016	91
Depreciation charge	75
As at 31 December 2016	**166**
Net carrying amount	
As at 1 January 2016	**3,682**
As at 31 December 2016	**3,761**

Group EUR'000	**Investment property**
Historical cost	
As at 1 January 2017	3,927
Disposals	- (3,927)
As at 31 December 2017	**-**
Accumulated depreciation	
As at 1 January 2016	166
For disposals	(166)
As at 31 December 2016	**-**
Net carrying amount	
As at 1 January 2017	**3,761**
As at 31 December 2017	**-**

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

16 Loans and advances due from customers

The breakdown of loans due from customers is as follows:

a) by borrower

	Bank 31.12.2017 EUR'000	Group 31.12.2016 EUR'000	Bank 31.12.2016 EUR'000
Commercial loans			
Loans to small and medium size companies	-	6,327	12,263
Credit cards	1	1	1
Reverse repo loans	-	-	-
Total commercial loans	**1**	**6,328**	**12,264**
Credit cards	7	9	9
Total loans to individuals	**7**	**9**	**9**
Gross loans and advances due from customers	**8**	**6,337**	**12,273**
Net loans and advances due from customers	**8**	**6,337**	**12,273**

(b) by the term of agreement

	Bank 31.12.2017 EUR'000	Group 31.12.2016 EUR'000	Bank 31.12.2016 EUR'000
Up to one year	8	1,591	10
More than one year	-	4,746	12,263
Gross loans and advances due from customers	**8**	**6,337**	**12,273**
Net loans and advances due from customers	**8**	**6,337**	**12,273**

(c) by industry

	Bank 31.12.2017 EUR'000	Group 31.12.2016 EUR'000	Bank 31.12.2016 EUR'000
Financial intermediation	-	-	2,816
Loans to small and medium entities	1	6,328	9,448
Loans to individuals	7	9	9
Gross loans and advances due from customers	**8**	**6,337**	**12,273**
Net loans and advances due from customers	**8**	**6,337**	**12,273**

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

16 Loans and advances due from customers, continued

(d) by geographical region

	Bank 31.12.2017 EUR'000	Group 31.12.2016 EUR'000	Bank 31.12.2016 EUR'000
Latvia	7	8	4,710
Non-OECD	1	4,748	4,747
OECD	-	1,581	2,816
Gross loans and advances due from customers	**8**	**6,337**	**12,273**
Net loans and advances due from customers	**8**	**6,337**	**12,273**

Credit quality of commercial loan portfolio and loans to individuals

In the Bank's separate financial statements no impairment loss has been recognized for commercial loans and loans to individuals as at 31 December 2017 and 31 December 2016. None of the loans were overdue as at 31 December 2017 and 31 December 2016.

(e) by type of collateral

	Bank 31.12.2017 EUR'000	Group 31.12.2016 EUR'000	Bank 31.12.2016 EUR'000
Traded securities	-	-	-
Mortgage	-	-	70
Deposit	1	4,747	4,747
Without collateral	7	1,590	7,456
Gross loans and advances due from customers	**8**	**6,337**	**12,273**
Net loans and advances due from customers	**8**	**6,337**	**12,273**

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

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

17 Financial instruments

	Bank 31.12.2017 EUR'000	Group 31.12.2016 EUR'000	Bank 31.12.2016 EUR'000
Available-for-sale investments			
Government bonds	-	3,402	3,402
Corporate bonds	28,223	32,335	32,335
Shares and other non-fixed income securities	-	41	41
Total available-for-sale financial assets	**28,223**	**35,778**	**35,778**

Shares and other non-fixed income securities represent an immaterial amount of un-listed and non-liquid shares of a Latvian private company, as well as S.W.I.F.T shares. S.W.I.F.T membership is required for ensuring payment services of the Bank. For more information on credit quality and fair value of bonds please refer to Notes 32 and 33.

18 Investments in subsidiaries

Name	Country of incorporation	Principal Activities	Ownership %		Net assets EUR'000		Carrying Value EUR'000	
			2017	2016	2017	2016	2017	2016
SIA „Axi Invest"	Latvia	Development of investment property	0%	100%	-	(763)	-	-
SIA „Kappa Capital"	Latvia	Development of investment property	0%	100%	-	996	-	-
Walbrook Capital Markets Limited	UK	Brokerage	0%	100%	-	2,825	-	6,158
Walbrook Capital Markets nominees Limited	UK	Dormant	0%	100%	-	-	-	-
Total							**-**	**6,158**

On 10 August 2017 the Bank sold all shares (100 %) of the subsidiary company Walbrook Capital Markets Limited (reg. No. 2926252, United Kingdom) which is an investment broker company owned by the Bank, including its subsidiary company's Walbrook Capital Markets Nominees Limited (reg. No. 4027520, United Kingdom).

On 29 September 2017, the Bank sold all shares (100 %) of the subsidiary company SIA "Axi Invest" (reģ. Nr. 40103360551, Latvia) owned by the Bank.

On 5 October 2017, the Bank sold all shares (100 %) of the subsidiary company SIA "SIA "Kappa Capital" (reģ. Nr. 40103360547, Latvia) owned by the Bank.

Due to sale of its subsidiaries the Bank has recognised a one-off loss of 6,903 thousand EUR.

19 Discontinued operations

In 2017, the Bank sold it's shares in subsidiaries as described in Note 18. The financial results of disposed subsidiaries up to disposal date are included in the discontinued operations and are further disclosed in the table below:

	Koncerns 2017 EUR'000	**Koncerns 2016 EUR'000**
Net interest income/ (expense)	(101)	(10)
Net fee and commission income	745	1,690
Other income	492	4,742
Expenses	(3,824)	(7,914)
Loss before income tax	**(2,689)**	**(1,492)**
Income tax expense	-	(176)
Loss after income tax of discontinued operations	**(2,689)**	**(1,668)**
Loss from sale of subsidiaries	(1,189)	
Result of foreign currency translation of discontinued operations	116	-
Loss from discontinued operations	**(3,762)**	

Loss from sale of subsidiaries:		
Income from sale	5	-
Carrying amount of net assets sold	(370)	-
Loss on sale before income tax and foreign currency translation reserve reclassification	**(365)**	**-**
Reclassification of foreign currency translation reserve	(824)	-
Income tax from sale	-	-
Loss from sale of subsidiaries	**(1,189)**	**-**

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

20 Property and equipment

The Group

EUR'000	Leasehold improvements	Other assets	Total
Historical cost			
As at 1 January 2017	194	1,323	1,517
Additions	27	2	29
Disposals	(68)	(133)	(201)
As at 31 December 2017	**153**	**1,192**	**1,345**
Accumulated depreciation			
As at 1 January 2017	102	594	696
Depreciation charge	54	185	239
Disposals	(25)	(57)	(82)
As at 31 December 2017	**131**	**722**	**853**
Net carrying amount			
As at 1 January 2017	**92**	**729**	**821**
As at 31 December 2017	**22**	**470**	**492**

The Bank

EUR'000	Leasehold improvements	Other assets	Total
Historical cost			
As at 1 January 2017	194	1,253	1,447
Additions	27	2	29
Disposals	(68)	(63)	(131)
As at 31 December 2017	**153**	**1,192**	**1,345**
Accumulated depreciation			
As at 1 January 2017	102	590	692
Depreciation charge	54	185	239
Disposals	(25)	(53)	(78)
As at 31 December 2017	**131**	**722**	**853**
Net carrying amount			
As at 1 January 2017	**92**	**663**	**755**
As at 31 December 2017	**22**	**470**	**492**

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

20 Property and equipment, continued

The Group

EUR'000	Leasehold improvements	Other assets	Total
Historical cost			
As at 1 January 2016	145	746	891
Additions	58	612	670
Disposals	(9)	(35)	(44)
As at 31 December 2016	**194**	**1,323**	**1,517**
Accumulated depreciation			
As at 1 January 2016	73	492	565
Depreciation charge	30	136	161
Disposals	(1)	(34)	(35)
As at 31 December 2016	**102**	**594**	**696**
Net carrying amount			
As at 1 January 2016	**72**	**254**	**326**
As at 31 December 2016	**92**	**729**	**821**

The Bank

EUR'000	Leasehold improvements	Other assets	Total
Historical cost			
As at 1 January 2016	145	746	891
Additions	58	542	600
Disposals	(9)	(35)	(44)
As at 31 December 2016	**194**	**1,253**	**1,447**
Accumulated depreciation			
As at 1 January 2016	73	492	565
Depreciation charge	30	132	162
Disposals	(1)	(34)	(35)
As at 31 December 2016	**102**	**590**	**692**
Net carrying amount			
As at 1 January 2016	**72**	**254**	**326**
As at 31 December 2016	**92**	**663**	**755**

All items of property and equipment are used in the operating activities of the Bank.

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

21 Intangible assets

EUR'000	Software and licences Bank 2017	Software and licences Group 2016	Software and licences Bank 2016
Historical cost			
As at 1 January	1,558	1,316	1,316
Additions	271	248	243
Disposals	(147)	(1)	(1)
As at 31 December	**1,682**	**1,563**	**1,558**
Accumulated amortisation			
As at 1 January	1,066	894	894
Amortisation charge	176	174	173
Disposals	(16)	(1)	(1)
As at 31 December	**1,226**	**1,067**	**1,066**
Net carrying amount			
As at 1 January	**492**	**422**	**422**
As at 31 December	**456**	**496**	**492**

All intangible assets including software are used in the operating activities of the Bank.

22 Other assets

	Bank 31.12.2017 EUR'000	Group 31.12.2016 EUR'000	Bank 31.12.2016 EUR'000
Other financial assets			
Currency exchange transactions in progress	1	102	102
Credit cards guarantee deposit	168	191	191
Due from broker accounts	878	13,082	2,224
Other financial assets	73	2,259	-
Impairment allowance	-	-	-
	1,120	**15,634**	**2,517**
Other non-financial assets			
Prepaid expense	181	359	201
Real estate inventory	-	1,098	-
Accrued income	117	110	110
Other non-financial assets	42	309	150
	338	**1,876**	**461**
	1,461	**17,510**	**2,978**

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

23 Deposits and balances due to financial institutions

	Bank 31.12.2017 EUR'000	Group 31.12.2016 EUR'000	Bank 31.12.2016 EUR'000
Vostro accounts	3,182	5,527	5,527
Term deposits	-	-	-
Broker accounts	9	7	7
	3,191	**5,534**	**5,534**

Concentration of deposits and balances from banks and other financial institutions

As at 31 December 2017, the largest amounts due on demand to Expobank LLC (Russia) and Expobank CZ a.s. amounted to EUR 418 thousand and EUR 2,741 thousand respectively (2016: EUR 3,638 thousand and EUR 1,819) or 99% of total deposits and balances due to financial institutions (2016: 98%).

24 Current accounts and deposits due to customers

As at 31 December 2017, the largest deposit from one customer with the Bank amounted to EUR 23,348 thousand or 13% of the total deposits respectively (2016: EUR 15,187 thousand or 10%), while the deposit from one group of related customers with the Bank amounted to EUR 24,447 thousand or 13% respectively of the total deposits (2016: EUR 18,755 thousand or 6%).

The breakdown of current accounts and deposits due to customers is as follows:

(a) by the term of the agreement

	Bank 31.12.2017 EUR'000	Group 31.12.2016 EUR'000	Bank 31.12.2016 EUR'000
Current accounts, including accrued interest	185,712	304,150	222,842
Deposits:			
up to six months	-	471	471
from six months to one year	-	129	129
more than one year	607	6,674	6,675
Accrued interest	2	-	-
Total current accounts and deposits due to customers	**186,321**	**311,424**	**230,117**

(b) by geographical region

	Bank 31.12.2017 EUR'000	Group 31.12.2016 EUR'000	Bank 31.12.2016 EUR'000
Residents of Latvia	1,825	1,831	1,867
Non-residents:			
Residents of OECD countries	23,742	154,219	72,877
Residents of other countries	160,754	155,374	155,373
Total current accounts and deposits due to customers	**186,321**	**311,424**	**230,117**

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

24 Current accounts and deposits due to customers, continued

(c) by depositor

	Bank 31.12.2017 EUR'000	Group 31.12.2016 EUR'000	Bank 31.12.2016 EUR'000
Current accounts			
Residents:			
Private enterprises	1,263	998	1,033
Private individuals	525	322	322
Public organisations	-	-	-
Bank employees	37	25	25
	1,825	**1,345**	**1,380**
Non-residents:			
Financial institutions	22,180	33,537	33,585
Private enterprises	155,357	193,739	177,190
Private individuals	6,314	72,560	7,718
Bank employees	36	2,969	2,969
	183,887	**302,805**	**221,462**
Total current accounts	**185,712**	**304,150**	**222,842**
Deposits			
Residents:			
Private enterprises	1	4	4
Private individuals	-	12	12
Bank employees	-	471	471
	1	**487**	**487**
Non-residents:			
Private enterprises	157	6,227	6,227
Private individuals	430	538	538
Financial institutions	21	22	23
	608	**6,787**	**6,788**
Total deposits	**609**	**7,274**	**7,275**
Total current accounts and deposits due to customers	**186,321**	**311,424**	**230,117**

Interest rates applied to deposits of the Bank's employees do not differ from interest rates on deposits from other customers.

Subordinated liabilities

As at 31 December 2017 the Bank's subordinated liabilities of 302 thousand EUR (2016: 302 thousand EUR) comprised subordinated loan from Eduard Taran amounting to 300 thousand EUR concluded on 30 May 2014 with interest rate 1% per annum maturing on 29 May 2019. Subordinated loan is included in the second tier of equity calculation and stated at amortised cost. According to the provisions of the subordinated loan agreement, the lender have no right to demand anticipatory repayment of the loans and capitalise the subordinated loans into the Bank's share capital.

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

25 Accrued liabilities

The Bank

EUR'000	Bonuses	Employee unused holiday pay	Total
As at 31 December 2016	**320**	**137**	**457**
Increase in provisions	-	-	-
As at 31 December 2016	**320**	**137**	**457**
Decrease in provisions	(320)	(40)	(360)
As at 31 December 2017	**-**	**97**	**97**

Management is unaware of any significant actual, pending or threatened claims against the Bank.

26 Other liabilities

	Bank 31.12.2017 EUR'000	Group 31.12.2016 EUR'000	Bank 31.12.2016 EUR'000
Financial liabilities			
Cash in transit	222	405	405
Currency exchange transactions in progress	16	20	20
Creditors	-	117	-
Other	-	661	661
	238	**1,203**	**1,086**
Non-financial liabilities			
Accrued expense	396	606	393
	396	**606**	**393**
Total other liabilities	**634**	**1,809**	**1,479**

27 Shareholder's equity

Share capital

As at 31 December 2015, the fully paid-in share capital of the Bank was LVL 8,200 thousand and consisted of 820,000 voting ordinary registered shares with the nominal value of LVL 10 each.

Denominations of paid-in share capital and nominal value of shares from LVL to EUR took place in 2016. As a result paid-in share capital of the Bank is EUR 11 644 thousand, consisted of 820,000 voting ordinary registered shares with nominal value of EUR 14,20 each. The residual value from denomination was reclassified to reserves.

All the shares rank equally with regard to the Bank's residual assets, to the right to dividends and to vote at meetings of the Bank. The sole shareholder owning 100% of paid-in share capital is Mr Igor Kim.

Share premium

In 2004, the Bank executed a share capital increase of EUR 4,240 (LVL 2,980) thousand with a share premium of EUR 6,360 (LVL 4,470) thousand.

Other reserves

Other reserves comprise the remaining portion of the statutory reserves made from the previous years' profits and residual value from paid-in share capital denomination in 2016. As at 31 December 2017 and 2016 there was no legislative requirement for creation of such a reserve.

Retained earnings

Dividends paid in amount of EUR 20,000 thousand in 2017 (2016: 20,000) represent gross amount payable to the shareholder. 10% income tax was withheld at the time of dividend payment.

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

28 Contingent liabilities and commitments

	Bank 31.12.2017 EUR'000	Group 31.12.2016 EUR'000	Bank 31.12.2016 EUR'000
Contingent liabilities			
Guarantees	15	15	15
Letters of credit	-	-	-
	15	**15**	**15**
Commitments			
Credit cards commitments	192	259	259
Unutilised credit lines and overdraft facilities	-	-	953
	192	**259**	**1,212**
Total contingent liabilities and commitments	**207**	**274**	**1,227**

To meet the financial needs of customers, the Bank enters into various transactions resulting in contingent liabilities and commitments. Even though these financial liabilities are not recognized in the statement of financial position, they do contain credit risk and are therefore part of the overall risk assessment of the Bank.

Nevertheless, the potential credit loss is less than the total unused part of the liability since these are contingent upon customers maintaining specific standards. The Bank employs collateral mainly in the form of term deposits for mitigation of related credit risk.

Issued guarantees commit the Bank to make payments on behalf of the customers in the event of a specific act. Other commitments represent contractual obligations on payment cards' overdraft facilities. Since contingent liabilities and commitments may expire without being drawn on, the total contract amount do not necessarily represents future cash requirements.

29 Operating leases

a) The Bank is a lessee

Where the Group and the Bank are lessees, the breakdown of the future minimum lease payments by periods until the maturity of operating leases effective as at 31 December 2017 are as follows:

EUR'000	Less than one year	Between one and five years	Total
Rent of premises	195	349	544

Where the Group and the Bank as lessees, the breakdown of the future minimum lease payments by periods until the maturity of operating leases effective as at 31 December 2016 are as follows:

EUR'000	Less than one year	Between one and five years	Total
Rent of premises	415	648	1,063

The leases typically run for an initial period of three to five years, with an option to renew the lease after that date. Lease payments are fixed for the whole lease period. None of the leases includes contingent rentals.

During the current year EUR 283 thousand was recognized as an expense in the income statement in respect of operating leases (2016: EUR 356 thousand).

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

30 Funds under trust management

The Bank provide Assets under management services to individuals and institutions, where by it holds and manages assets or invests funds received in various financial instruments at the direction of the customer. The Bank receive fee income for providing these services. Assets under management are neither assets of the Bank and are not recognised in the consolidated and separate statement of financial position. The Bank are not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

	Bank 31.12.2017 EUR'000	Group 31.12.2016 EUR'000	Bank 31.12.2016 EUR'000
Assets under management			
Residents:			
Loans	-	-	-
Non-residents:			
Loans	120,913	93,000	93,000
Placement of resources in financial institutions	-	14,704	14,704
	120,913	**107,704**	**107,704**

	Bank 31.12.2017 EUR'000	Group 31.12.2016 EUR'000	Bank 31.12.2016 EUR'000
Liabilities under management			
Residents:			
Private individuals	684	-	-
Non-residents:			
Private enterprises	120,229	106,926	106,926
Private individuals	-	778	778
	120,913	**107,704**	**107,704**

31 Related party transactions

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

The Law on Credit Institutions defines significant investment as a shareholding of 10 or more per cent of the company's capital or voting shares, obtained directly or indirectly, or providing an opportunity to exercise significant influence over the company's activities.

The definition of related parties of the Law on Credit Institutions generally complies with the requirements of IAS 24 as applicable to the Bank which also specifies the requirements for disclosure of related party transactions in the financial statements.

The Bank enters into transactions with related parties in the ordinary course of business. All the loans, advances and financing activities arranged with related parties are at market rates. For the year ended 31 December 2017, all assets are performing and free of any impairment for credit losses (2016: nil).

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

31 Related party transactions, continued

The Bank's financial statements comprise the following outstanding balances, contingent liabilities and commitments, and statement of comprehensive income items as a result of transactions with related parties:

The Group statement of financial position

	Key management personnel		Other related parties	
	31.12.2017 EUR'000	**31.12.2016 EUR'000**	**31.12.2017 EUR'000**	**31.12.2016 EUR'000**
Assets				
Due from financial institutions	-	-	3,535	5,692
Loans and advances due from customers	-	-	-	-
Other assets	-	-	-	-
	-	**-**	**3,535**	**5,692**
Liabilities				
Deposits and balances due to financial institutions	-	-	2,738	5,457
Current accounts and deposits due to customers	39	497	844	827
	39	**497**	**3,582**	**6,284**

The Bank's statement of financial position

	Key management personnel		Other related parties	
	31.12.2017 EUR'000	**31.12.2016 EUR'000**	**31.12.2017 EUR'000**	**31.12.2016 EUR'000**
Assets				
Due from financial institutions	-	-	3,535	5,692
Loans and advances due from customers	-	-	-	7,517
Other assets	-	-	-	-
	-	**-**	**3,535**	**13,209**
Liabilities				
Deposits and balances due to financial institutions	-	-	2,738	5,457
Current accounts and deposits due to customers	39	497	844	947
	39	**497**	**3,582**	**6,404**

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

31 Related party transactions, continued

The Group's contingent liabilities and commitments

	Key management personnel		Other related parties	
	31.12.2017 EUR'000	31.12.2016 EUR'000	31.12.2017 EUR'000	31.12.2016 EUR'000
Assets under management	-	-	684	5,996
Liabilities under management	684	778	-	-
Other commitments	22	22	-	-

The Bank's contingent liabilities and commitments

	Key management personnel		Other related parties	
	31.12.2017 EUR'000	31.12.2016 EUR'000	31.12.2017 EUR'000	31.12.2016 EUR'000
Assets under management	-	-	684	5,996
Liabilities under management	684	778	-	-
Other commitments	22	22	-	954

The Group's statement of comprehensive income

	Key management personnel		Other related parties	
	2017 EUR'000	2016 EUR'000	2017 EUR'000	2016 EUR'000
Interest income	-	-	265	10
Fee and commission income	1	1	109	107
Gain on currency exchange transactions	-	-	-	(253)
Other expenses	-	(1)	-	(16)
	1	**-**	**374**	**(152)**

The Bank's statement of comprehensive income

	Key management personnel		Other related parties	
	2017 EUR'000	2016 EUR'000	2017 EUR'000	2016 EUR'000
Interest income	-	-	265	478
Fee and commission income	1	1	109	116
Gain on currency exchange transactions	-	-	-	(253)
Other expenses	-	(1)	-	(16)
	1	**-**	**374**	**325**

Detailed information about remuneration to the Management Board and Board of Directors members disclosed in Note 10.

32 Fair value of financial assets and financial liabilities

Set out below is the comparison of the carrying amounts and fair values of the Group's and the Bank's financial instruments that are recognized in the financial statements.

(a) Financial instruments measured at fair value

The table below analyses financial instruments of the Group's and the Bank's 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.

2017	Level 1 EUR'000	Level 2 EUR'000	Level 3 EUR'000	Total EUR'000
Financial assets				
Available for sale instruments	28,182	-	41	28,223
	28,182	**-**	**41**	**28,223**
2016				
Financial assets				
Available for sale instruments	35,737	-	41	35,778
	35,737	**-**	**41**	**35,778**

During 2017 there were no reclassification between fair value hierarchy levels.

(b) Financial instruments not measured at fair value

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

31 December 2017	Level 1 EUR'000	Level 2 EUR'000	Level 3 EUR'000	Total fair values EUR'000	Total carrying amount EUR'000
Financial assets					
Cash and demand deposits with the Central banks	-	-	73,724	73,724	73,724
Due from financial institutions	-	-	122,600	122,600	122,620
Loans and advances due from customers	-	-	8	8	8
Other financial assets	-	-	1,120	1,120	1,120
Financial liabilities					
Deposits and balances due to financial institutions	-	-	3,191	3,191	3,191
Current accounts and deposits due to customers	-	-	186,320	186,320	186,321
Other financial liabilities	-	-	238	238	238

Cash and demand deposits with the Central banks are various currency cash and deposits with the Bank of Latvia, Central Bank of Luxembourg and Central Bank of Cyprus whose carrying amount represents the fair value.

Other financial assets consist of cash on broker and escrow accounts, credit card guarantee deposits and currency exchange transactions in progress; thus the carrying amount is equal to their fair value.

Other financial liabilities consist of cash on suspense account and currency exchange transactions in progress; thus the carrying amount is equal to their fair value.

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

32 Fair value of financial assets and financial liabilities, continued

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

31 December 2016	Level 1 EUR'000	Level 2 EUR'000	Level 3 EUR'000	Total fair values EUR'000	Total carrying amount EUR'000
Financial assets					
Cash and demand deposits with the Central banks	-	-	66,872	66,872	66,872
Due from financial institutions	-	-	174,219	174,219	174,224
Loans and advances due from customers	-	-	12,734	12,734	12,273
Other financial assets	-	-	2,517	2,517	2,517
Financial liabilities					
Deposits and balances due to financial institutions	-	-	5,534	5,534	5,534
Current accounts and deposits due to customers	-	-	230,281	230,281	230,117
Other financial liabilities	-	-	1,086	1,086	1,086

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

31 December 2016	Level 1 EUR'000	Level 2 EUR'000	Level 3 EUR'000	Total fair values EUR'000	Total carrying amount EUR'000
Financial assets					
Cash and demand deposits with the Central banks	-	-	66,872	66,872	66,872
Due from financial institutions	-	-	246,119	246,119	246,124
Loans and advances due from customers	-	-	6,089	6,089	6,337
Other financial assets	-	-	15,634	15,634	15,634
Financial liabilities					
Deposits and balances due to financial institutions	-	-	5,542	5,542	5,534
Current accounts and deposits due to customers	-	-	311,580	311,580	311,424
Other financial liabilities	-	-	1,203	1,203	1,203

32 Fair value of financial assets and financial liabilities, continued

The methodology for determining the fair value is disclosed in Note 3.

The following table presents interest rates used to discount estimated cash flows, where applicable, by the classes of financial assets and financial liabilities.

	31.12.2017	31.12.2016
Due from and due to financial institutions	-0.186-2,106%	-0.08-1.68%
Loans and advances due from customers	3.41%-4.10%	2.40%-6.53%
Current accounts and deposits due to customers	0.15%-3.33%	0.07%-1.49%

For financial instruments whose fair value is estimated using valuation techniques with non-market observable inputs, net unrealized amount due to changes in the inputs was zero during the year 2017 (2016: nil).

33 Credit risk

Maximum credit risk exposure

The table below shows the Group's and the Bank's and maximum exposure to credit risk for the components of the statement of financial position. Exposures are based on net carrying amounts as reported in the statement of financial position, less impairment allowances.

The maximum credit exposures are shown both gross, i.e. without taking into account any collateral and other credit enhancements, and net, i.e. after taking into account any collateral and other credit enhancements.

The table below shows the Bank's maximum exposure to credit risk.

	Note	Gross maximum credit exposure		Net maximum credit exposure	
		31.12.2017 EUR'000	31.12.2016 EUR'000	31.12.2017 EUR'000	31.12.2016 EUR'000
Cash and demand deposits with the Central banks	12	73,724	66,872	73,724	66,872
Due from financial institutions	14	122,620	174,224	122,620	174,224
Loans and advances due from customers	16	8	12,273	8	12,273
Available-for-sale assets	17	28,223	35,778	28,223	35,778
Other financial assets	22	1,120	2,517	1,120	2,517
Total financial assets		**225,695**	**291,664**	**225,695**	**291,664**
Guarantees	28	15	15	15	15
Credit cards commitments	28	192	259	192	259
Unutilised credit lines and overdraft facilities	28	-	953	-	953
Total contingent liabilities and commitments		**207**	**1,227**	**207**	**1,227**
Total maximum credit risk exposure		**225,902**	**292,891**	**225,902**	**292,891**

As it is shown above, 54% of the total gross maximum credit exposure is derived from balances due from credit institutions (2016: 60%).

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

33 Credit risk, continued

The table below shows the Group's maximum exposure to credit risk.

	Note	Gross maximum credit exposure	Net maximum credit exposure
		31.12.2016. EUR'000	31.12.2016. EUR'000
Cash and demand deposits with the Central banks	12	66,872	66,872
Due from financial institutions	14	246,124	246,124
Loans and advances due from customers	16	6,337	6,337
Available-for-sale assets	17	35,778	35,778
Other financial assets	22	15,634	15,634
Total financial assets		**370,745**	**370,745**
Guarantees	28	15	15
Credit cards commitments	28	259	259
Total contingent liabilities and commitments		**274**	**274**
Total maximum credit risk exposure		**371,019**	**371,019**

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

33 Credit risk, continued

Concentrations of the maximum credit risk exposure

The following table breaks down the gross exposure related to the Group's and the Bank's balances due from credit institutions by geographical regions and major counterparties or groups of related counterparties.

		Bank 31.12.2017 EUR'000	Group 31.12.2016 EUR'000	Bank 31.12.2016 EUR'000
Latvia				
AS „Swedbank"		49	1,011	1,011
AS „SEB banka"		475	477	477
Rietumu Bank		4,760		
Total Latvia		**5,284**	**1,488**	**1,488**
OECD countries				
Banque et Caisse Depargne	Luxembourg	47	-	-
Deutsche Bank Group	USA, Germany, UK	-	-	-
Sumitomo Mitsui Banking Corporation	UK, USA, Canada	25,018	-	-
UBS AG	Switzerland	-	5,312	5,312
Raiffeisen Zentralbank International AG	Austria	11,183	8,832	8,832
VTB Bank (Austria) AG	Austria	-	-	-
Norddeutsche Landesbank Luxembourg SA	Luxembourg	25,018	47,439	47,439
DNB Nor Bank ASA	Norway	-	14,231	14,231
Belfius Bank SA	Belgium	-	33,205	33,205
Sumitomo Mitsui Banking Corporation	Japan	243	3,855	3,855
UBI Banka (Unione Di Banche Italiane) S.C.P.A	Italy	447	-	-
BANK OF CYPRUS	Cyprus	1	-	-
Euroclear Bank S.A.	Belgium	515	-	-
Westpac Banking Corporation	USA, UK	36	-	-
Expobank CZ a.s.	Czech Republic	229	-	-
Bank of America	USA	-	8,702	-
Lloyds Bank	UK	-	62,000	-
Other credit institutions		-	1,731	533
Total OECD countries		**62,737**	**185,307**	**113,407**

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

33 Credit risk, continued

		Bank 31.12.2017 EUR'000	Group 31.12.2016 EUR'000	Bank 31.12.2016 EUR'000
Other countries				
OAO „Alfa-Bank"	Russia	4,618	10,439	10,439
Expobank LLC	Russia	3,361	5,923	5,923
OAO „Sberbank of Russia"	Russia	6,930	10,823	10,823
OAO „Promsvjazbank"	Russia	-	10,396	10,396
AO "GPB"	Russia	3,346	5,635	5,635
Orient Express Bank	Russia	-	6,461	6,461
OAO Raiffeisenbank	Russia	290	-	-
Industrial and Commercial Bank of China (ASIA)	Hong Kong	35,921	8,807	8,807
Industrial and Commercial Bank of China	China	43	-	-
Bank of China (Russia)	China	90	-	-
Other credit institutions		-	845	845
Total other countries		**54,599**	**59,329**	**59,329**
Total balances due from credit institutions		**122,620**	**246,124**	**174,224**

For the Bank the gross maximum credit risk exposure to a single counterparty or a group of related counterparties as at 31 December 2017 comprised 20% and 29% of the total gross credit exposure attributable to balances due from credit institutions (2016: 19% and 27%).

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

33 Credit risk, continued

Credit quality per class of financial assets

Credit quality of financial assets is managed by the Bank by employing debtors' (borrowers') financial analysis techniques, analysis of the counterparty's reputation and historical cooperation with the counterparty, as well as using credit ratings granted by international rating agencies.

The transactions subject to credit risk are divided into four credit quality groups depending on the credit ratings published by international rating agencies. There are the following credit quality groups:

Group 1: AAA, AA (Standard& Poor's, Fitch) / Aaa, Aa (Moody's)

This group includes first class transaction partners who are considered to be low-risk investments. The largest exposure included in this group relates to receivables from *Banque et Caisse d Epargne, Westpac BankingCorporation, Euroclear Bank S.A. (2016: Bank Nederlandse Gemeenten).*

Group 2: A, BBB (Standard& Poor's, Fitch) / A, Baa (Moody's)

This group includes transaction partners with a market position ranging from medium to good. The largest exposure included in this group relates to receivables from *UBI BANCA (UNIONE DI BANCHE ITALIANE) S.C.P.A., Industrial and Commercial Bank of China LIMITED, Sumitomo Mitsui Banking Corporation, Industrial and Commercial Bank of China (Asia), Bank of CHINA (RUSSIA) and NORD / LB Luxembourg Covered Bond Bank (2016: Belfius Bank, DNB Bank, Industrial and Commercial Bank of China (Asia), Latvijas Banka, NORD / LB Luxembourg Covered Bond Bank, Raiffeisen Bank International, Sumitomo Mitsui Banking Corporation un UBS Switzerland).*

Group 3: BB, B, CCC, CC, (Standard& Poor's, Fitch) / Ba, B, C (Moody's)

The largest credit risk exposure in this group relates to receivables from transaction partners below medium rating BB (*Standard& Poor's, Fitch)* / Ba (*Moody's*). Out of the above group, the most significant receivables are from *Sberbank, Gazprombank, Bank of Cyprus, АО РАЙФФАЙЗЕНБАНК (2016: Alfa Bank, Gazprombank, Promsvyazbank, Sberbank, Turkiye Vakiflar Bankasi un VTB Bank, Expobank).*

No rating

Transaction partners who have not been assigned an international credit rating are primarily daughter banks of credit institutions operating in the Republic of Latvia. In this group, the largest receivables are from *Rietumu banka, Swedbank, AS SEB Bank.*

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

33 Credit risk, continued

The table below shows the credit quality by class of financial assets for the Group as at 31 December 2016 based on international ratings.

EUR'000	Neither past due nor impaired					
	Group 1	Group 2	Group 3	No rating	Impaired	Total
Cash and Demand deposits with the Central banks	30,013	43,549	29	133	-	73,724
Due from financial institutions	599	97,962	18,546	5,213	-	122,620
Loans and advances due from customers	-	-	-	8	-	8
Available-for-sale assets	4,159	10,194	20,815	41	-	28,223
Other financial assets	-	-	-	1,120	-	1,120
Total financial assets, gross	**34,771**	**145,546**	**38,563**	**6,815**	**-**	**225,695**
Less: impairment allowance	-	-	-	-	-	-
Total financial assets, net	**34,771**	**145,546**	**38,563**	**6,815**	**-**	**225,695**

The table below shows the credit quality by class of financial assets for the Group as at 31 December 2016 based on international ratings.

EUR'000	Neither past due nor impaired					
	Group 1	Group 2	Group 3	Group 1	Impaired	Total
Demand deposits with the Central banks	-	66,762	-	110	-	66,872
Due from financial institutions	52	192,858	50,500	2,714	-	246,124
Loans and advances due from customers	-	-	-	6,337	-	6,337
Available-for-sale assets	4,728	10,194	20,815	41	-	35,778
Other financial assets	-	-	-	15,634	-	15,634
Total financial assets, gross	**4,780**	**269,814**	**71,315**	**24,836**	**-**	**370,745**
Less: impairment allowance	-	-	-	-	-	-
Total financial assets, net	**4,780**	**269,814**	**71,315**	**24,836**	**-**	**370,745**

The table below shows the credit quality by class of financial assets for the Bank as at 31 December 2016 based on international ratings.

EUR'000	Neither past due nor impaired					
	Group 1	Group 2	Group 3	No rating	Impaired	Total
Demand deposits with the Central banks	-	66,762	-	110	-	66,872
Due from financial institutions	52	122,156	50,500	1,516	-	174,224
Loans and advances due from customers	-	-	-	12,273	-	12,273
Available-for-sale assets	4,728	10,194	20,815	41	-	35,778
Other financial assets	-	-	-	2,517	-	2,517
Total financial assets, gross	**4,780**	**199,112**	**71,315**	**16,457**	**-**	**291,664**
Less: impairment allowance	-	-	-	-	-	-
Total financial assets, net	**4,780**	**199,112**	**71,315**	**16,457**	**-**	**291,664**

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

34 Currency risk

Currency risk exposure

The Bank's currency analysis of financial assets and financial liabilities by currency profile as at 31 December 2017 was as follows:

EUR'000	USD	EUR	RUB	GBP	Other currencies	Total
Financial assets						
Cash and demand deposits with Central banks	31	73,686	5	3	1	73,724
Due from financial institutions	110,947	10,137	1,046	23	467	122,620
Loans and advances due from customers	-	7	-	-	1	8
Available-for-sale assets	28,182	41	-	-	-	28,223
Other financial assets	633	419	67	-	-	1,120
Total	**139,793**	**84,290**	**1,118**	**26**	**468**	**225,695**
Financial liabilities						
Deposits and balances due to financial institutions	25	3,116	-	-	50	3,191
Current accounts and deposits due to customers	132,737	45,679	7,438	2	465	186,321
Other financial liabilities	118	84	36	-	-	238
Total	**132,880**	**48,879**	**7,474**	**2**	**515**	**189,750**
Net position - on and off statement of financial position	**6,913**	**35,411**	**8 (6,356)**	**24**	**(47)**	
Spot transaction receivables	575	1,101	6,442	-	28	8,147
Spot transaction liabilities	(7,457)	(604)	(101)	-	-	(8,162)
Net open position	**31**	**35,909**	**(15)**	**-**	**(19)**	

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

34 Currency risk

The Group's currency analysis of financial assets and financial liabilities by currency profile as at 31 December 2016 was as follows:

EUR'000	USD	EUR	RUB	GBP	Other currencies	Total
Financial assets						
Cash and demand deposits with the Central banks	9	66,838	15	10	-	66,872
Due from financial institutions	155,620	48,071	8,872	28,697	4,864	246,124
Loans and advances due from customers	4,747	10	-	1,580	-	6,337
Available-for-sale assets	29,655	6,123	-	-	-	35,778
Other financial assets	12,008	387	136	3,103	-	15,634
Total	**202,039**	**121,429**	**9,023**	**33,390**	**4,864**	**370,745**
Financial liabilities						
Deposits and balances due to financial institutions	43	5,367	-	-	124	5,534
Current accounts and deposits due to customers	184,523	61,816	17,670	43,533	3,882	311,424
Other financial liabilities	1,013	53	39	98	-	1,203
Total	**185,579**	**67,236**	**17,709**	**43,631**	**4,006**	**318,161**
Net position - on and off statement of financial position	**16,460**	**54,193**	**8 (8,686)**	**(10,241)**	**858**	
Spot transaction receivables	5,334	50	9,409	-	-	14,793
Spot transaction liabilities	(9,365)	(3,610)	(692)	(234)	(810)	(14,711)
Net open position	**12,429**	**50,633**	**31**	**(10,475)**	**48**	

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

34 Currency risk, continued

The Bank's currency analysis of financial assets and financial liabilities by currency profile as at 31 December 2016 was as follows:

EUR'000	USD	EUR	RUB	GBP	Other currencies	Total
Financial assets						
Cash and demand deposits with the Central banks	9	66,838	15	10	-	66,872
Due from financial institutions	118,770	41,715	8,872	83	4,784	174,224
Loans and advances due from customers	5,364	4,711	-	2,198	-	12,273
Available-for-sale assets	29,655	6,123	-	-	-	35,778
Other financial assets	1,952	387	136	42	-	2,517
Total	**155,750**	**119,774**	**9,023**	**2,333**	**4,784**	**291,664**
Financial liabilities						
Deposits and balances due to financial institutions	43	5,367	-	-	124	5,534
Current accounts and deposits due to customers	150,625	55,887	17,670	2,073	3,862	230,117
Other financial liabilities	1,013	34	39	-	-	1,086
Total	**151,681**	**61,288**	**17,709**	**2,073**	**3,986**	**236,737**
Net position - on and off statement of financial position	**4,069**	**58,486**	**(8,686)**	**260**	**798**	
Spot transaction receivables	5,334	50	9,409	-	-	14,793
Spot transaction liabilities	(9,365)	(3,610)	(692)	(234)	(810)	(14,711)
Net open position	**38**	**54,926**	**31**	**26**	**(12)**	

Sensitivity analysis

The scenario used for the analysis is based on reasonable volatility of exchange rates equal for all exposures of the Group and the Bank in foreign currencies assuming that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for both years.

13% of the RUB (2016:13%) and a 5% strengthening of the USD and other foreign currencies against the euro as at 31 December 2017 and 31 December 2016 respectively would have increased profit by the amounts shown below:

	2017 EUR'000	2016 EUR'000
RUB	(2)	4
USD	2	2
Other currencies	(1)	1
Total	**(1)**	**7**

13% of the RUB (206:13%) and 5% strengthening of the USD and other foreign currencies against the euro as at 31 December 2016 and 31 December 2015 respectively would have had equal absolute value but opposite effect on the above currencies, i.e. decreased profit by the amounts shown above.

As the sensitivity analysis shows, as at 31 December 2017 and 2016 there was no direct effect on the shareholder's equity from exposures in the financial instruments whose changes in fair value related to movements of the currency rates.

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

35 Liquidity risk

Maturity analysis

The table below reflects the maturity analysis of the Bank's financial assets and financial liabilities based on the term from the reporting date until the maturity dates of the respective assets and liabilities. The maturity analysis of the Bank's financial items of financial position and contingent liabilities and commitments as at 31 December 2017 was as follows:

EUR'000	On demand	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Longer than 5 years	No maturity	Total
Financial assets									
Cash and demand deposits with the Central banks	73,724	-	-	-	-	-	-	-	73,724
Due from financial institutions	94,229	28,353	-	-	-	38	-	-	122,620
Loans and advances due from customers	8	-	-	-	-	-	-	-	8
Available-for-sale assets	28,182	-	-	-	-	-	-	41	28,223
Other financial assets	-	73	-	-	-	-	-	1,047	1,120
Total	**196,143**	**28,426**	**-**	**-**	**-**	**38**	**-**	**1,088**	**225,695**
Financial liabilities									
Deposits and balances due to financial institutions	3,191	-	-	-	-	-	-	-	3,191
Current accounts and deposits due to customers	185,700	-	-	471	100	480	29	12	186,792
Other financial liabilities	-	-	-	-	-	-	-	238	238
Total	**188,891**	**-**	**-**	**471**	**100**	**480**	**29**	**250**	**190,221**
Contingent liabilities and commitments	192	-	-	-	-	-	15	-	207
Net liquidity position	**7,444**	**28,426**	**-**	**(471)**	**(100)**	**(442)**	**(44)**	**838**	

Amounts due from credit institutions repayable, according to contracts, by prior notice of withdrawal are included in the category "On demand". Other financial assets and financial liabilities are disclosed in accordance with their remaining contractual maturities.

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

35 Liquidity risk, continued

The maturity analysis of the Group's financial items of financial position and contingent liabilities and commitments as at 31 December 2016 was as follows:

EUR'000	On demand	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Longer than 5 years	No maturity	Total
Financial assets									
Cash and demand deposits with the Central banks	66,872	-	-	-	-	-	-	-	66,872
Due from financial institutions	236,439	9,685	-	-	-	-	-	-	246,124
Loans and advances due from customers	10	-	-	-	1,581	4,746	-	-	6,337
Available-for-sale assets	35,737	-	-	-	-	-	-	41	35,778
Other financial assets	191	10,858	-	-	2,259	-	-	2,326	15,634
Total	**339,249**	**20,543**	**-**	**-**	**3,840**	**4,746**	**-**	**2,367**	**370,745**
Financial liabilities									
Deposits and balances due to financial institutions	5,534	-	-	-	-	-	-	-	5,534
Current accounts and deposits due to customers	304,142	-	-	471	129	6,638	36	8	311,424
Other financial liabilities	7	-	-	-	-	-	-	1,196	1,203
Total	**309,683**	**-**	**-**	**471**	**129**	**6,638**	**36**	**1,204**	**318,161**
Contingent liabilities and commitments	259	-	-	-	-	-	15	-	274
Net liquidity position	**29,825**	**20,543**	**-**	**(471)**	**3,711**	**(1,892)**	**(21)**	**1,122**	

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

35 Liquidity risk, continued

The maturity analysis of the Bank's financial items of financial position and contingent liabilities and commitments as at 31 December 2016 was as follows:

EUR'000	On demand	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Longer than 5 years	No maturity	Total
Financial assets									
Cash and demand deposits with the Central banks	66,872	-	-	-	-	-	-	-	66,872
Due from financial institutions	164,539	9,685	-	-	-	-	-	-	174,224
Loans and advances due from customers	10	-	-	-	-	12,263	-	-	12,273
Available-for-sale assets	35,737	-	-	-	-	-	-	41	35,778
Other financial assets	191	-	-	-	-	-	-	2,326	2,517
Total	**267,349**	**9,685**	**-**	**-**	**-**	**12,263**	**-**	**2,367**	**291,664**
Financial liabilities									
Deposits and balances due to financial institutions	5,534	-	-	-	-	-	-	-	5,534
Current accounts and deposits due to customers	222,834	-	-	471	129	6,639	36	8	230,117
Other financial liabilities	7	-	-	-	-	-	-	1,079	1,086
Total	**228,375**	**-**	**-**	**471**	**129**	**6,639**	**36**	**1,087**	**236,737**
Contingent liabilities and commitments	259	-	-	-	-	954	14	-	1,227
Net liquidity position	**39,233**	**9,685**	**-**	**(471)**	**(129)**	**6,578**	**(21)**	**1,280**	

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

35 Liquidity risk, continued

Analysis of financial liabilities' contractual undiscounted cash flows

The tables below presents the cash flows payable by the Bank under contractual financial liabilities, including derivative financial liabilities, by remaining contractual maturities as at the reporting date.

The amounts disclosed in the tables are the contractual undiscounted cash flows in comparison with the carrying amounts of financial liabilities, comprising discounted cash flows as at the reporting date.

The analysis of financial liabilities' contractual undiscounted cash flows of the Bank as at 31 December 2017 was as follows:

EUR'000	Carrying amount	Contractual cash flows	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Longer than 5 years
Non-derivative financial instruments							
Deposits and balances due to financial institutions	3,191	(3,191)	-	-	-	-	-
Current accounts and deposits due to customers	186,321	(186,321)	(185,712)	(21)	(181)	(407)	-
Other financial liabilities	238	(238)	(238)	-	-	-	-
Total	**189,750**	**(189,750)**	**(185,950)**	**(21)**	**(181)**	**(407)**	**-**

The analysis of financial liabilities' contractual undiscounted cash flows of the Group as at 31 December 2016 was as follows:

EUR'000	Carrying amount	Contractual cash flows	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Longer than 5 years
Non-derivative financial instruments							
Deposits and balances due to financial institutions	5,534	(5,534)	-	-	-	-	-
Current accounts and deposits due to customers	311,424	(311,432)	(304,712)	(26)	(6,177)	(517)	-
Other financial liabilities	1,203	(1,203)	(1,203)	-	-	-	-
Total	**318,161**	**(318,169)**	**(305,915)**	**(26)**	**(6,177)**	**(517)**	**-**

The analysis of financial liabilities' contractual undiscounted cash flows of the Bank as at 31 December 2016 was as follows:

EUR'000	Carrying amount	Contractual cash flows	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Longer than 5 years
Non-derivative financial instruments							
Deposits and balances due to financial institutions	5,534	(5,534)	-	-	-	-	-
Current accounts and deposits due to customers	230,117	(230,126)	(223,405)	(26)	(6,177)	(518)	-
Other financial liabilities	1,086	(1,086)	(1,086)	-	-	-	-
Total	**236,737**	**(236,746)**	**(224,491)**	**(26)**	**(6,177)**	**(518)**	**-**

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

36 Interest rate risk

Exposure to interest rate risk

The Bank's exposure to interest rate risk is characterised by the maturity of financial assets and financial liabilities subject to interest rate risk based on the shorter of the remaining maturity dates of financial instruments subject to interest rate risk and the interest rate review dates.

The repricing maturity analysis of financial assets and financial liabilities for the Bank as at 31 December 2017 was as follows:

EUR'000	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Longer than 5 years	Interest free	Total
Financial assets								
Cash and demand deposits with the Central banks	73,590	-	-	-	-	-	134	73,724
Due from financial institutions	84,892	-	-	38	-	-	37,690	122,620
Loans and advances due from customers	170	-	2	-	6	-	-	8
Available-for-sale assets	168	91	10,571	9,022	8,369	-	-	28,223
Other financial assets	-	-	-	-	-	-	952	1,120
Total	**158,820**	**91**	**10,573**	**9,060**	**8,375**	**-**	**38,776**	**225,695**
Financial liabilities								
Deposits and balances due to financial institutions	-	-	-	-	-	-	3,191	3,191
Current accounts and deposits due to customers	9,626	21	32	149	105	-	176,388	186,321
Other financial liabilities	-	-	-	-	-	-	1,094	1,094
Total	**9,626**	**21**	**32**	**149**	**105**	**-**	**180,673**	**190,606**
Interest rate risk	**149,194**	**70**	**10,541**	**8,911**	**8,270**	**-**	**(141,897)**	

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

36 Interest rate risk, continued

The repricing maturity analysis of financial assets and financial liabilities for the Group as at 31 December 2016 was as follows:

EUR'000	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Longer than 5 years	Interest free	Total
Financial assets								
Cash and demand deposits with the Central banks	66,762	-	-	-	-	-	110	66,872
Due from financial institutions	153,955	-	-	-	-	-	92,169	246,124
Loans and advances due from customers	193	-	4,744	1,397	3	-	-	6,337
Available-for-sale assets	311	112	162	1,735	31,434	2,024	-	35,778
Other financial assets	-	-	-	-	-	-	15,634	15,634
Total	**221,221**	**112**	**4,906**	**3,132**	**31,437**	**2,024**	**107,913**	**370,745**
Financial liabilities								
Deposits and balances due to financial institutions	-	-	-	-	-	-	5,534	5,534
Current accounts and deposits due to customers	6,060	26	5,957	217	216	-	298,948	311,424
Other financial liabilities	-	-	-	-	-	-	1,203	1,203
Total	**6,060**	**26**	**5,957**	**217**	**216**	**-**	**305,685**	**318,161**
Interest rate risk	**215,161**	**86**	**(1,051)**	**2,915**	**31,221**	**2,024**	**(197,772)**	

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

36 Interest rate risk, continued

The repricing maturity analysis of financial assets and financial liabilities for the Bank as at 31 December 2016 was as follows:

EUR'000	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Longer than 5 years	Interest free	Total
Financial assets								
Cash and demand deposits with the Central banks	66,762	-	-	-	-	-	110	66,872
Due from financial institutions	153,955	-	-	-	-	-	20,269	174,224
Loans and advances due from customers	193	4,446	4,814	2,817	3	-	-	12,273
Available-for-sale assets	311	112	162	1,735	31,434	2,024	-	35,778
Other financial assets	-	-	-	-	-	-	2,517	2,517
Total	**221,221**	**4,558**	**4,976**	**4,552**	**31,437**	**2,024**	**22,896**	**291,664**
Financial liabilities								
Deposits and balances due to financial institutions	-	-	-	-	-	-	5,534	5,534
Current accounts and deposits due to customers	6,060	26	5,957	217	216	-	217,641	230,117
Other financial liabilities	-	-	-	-	-	-	1,094	1,094
Total	**6,060**	**26**	**5,957**	**217**	**216**	**-**	**224,269**	**236,745**
Interest rate risk	**215,161**	**4,532**	**(981)**	**4,335**	**31,221**	**2,024**	**(201,373)**	

36 Interest rate risk, continued

Average weighted effective interest rates

The table below shows the Bank's interest rate sensitive assets and liabilities as at 31 December 2017 and 2016 and the corresponding average weighted effective interest rates in 2017 and 2016.

	Carrying amount 31.12.2017 EUR'000	2017 average weighted effective interest rate	Carrying amount 31.12.2016 EUR'000	2016 average weighted effective interest rate
Interest rate sensitive assets				
Due from financial institutions	158,520	0.58%	220,717	0.39%
Available-for-sale assets	28,223	5.65%	35,778	4.12%
Loans and advances due from customers	8	3.76%	12,273	4.88%
Total	**186,751**		**268,768**	
Interest rate sensitive liabilities				
Deposits and balances due to financial institutions	3,191	0.28%	5,534	1.36%
Current accounts and deposits due to customers	9,933	0.18%	12,476	0.20%
Total	**13,124**		**18,010**	

Sensitivity analysis

The following table demonstrates the sensitivity to reasonably possible changes in interest rates of the Bank's net interest income. The analysis assumes that all other variables remain constant.

The sensitivity of net interest income is the effect of the assumed changes in interest rates on net interest income for one year following the reporting date, based on the interest rate sensitive non-trading financial assets and financial liabilities held as at 31 December 2017 and 2016.

	Increase in basis points	Sensitivity of net interest income EUR'000	Decrease in basis points	Sensitivity of net interest income EUR'000
As at 31 December 2017				
	+100	2,508	-100	(2,508)
Total effect		**2,508**		**(2,508)**
As at 31 December 2016				
	+100	2,508	-100	(2,508)
Total effect		**2,508**		**(2,508)**

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

36 Interest rate risk, continued

To assess risks in securities portfolio Bank uses Value at Risk (Value-at-Risk) calculation to estimate maximal loss due to prices change. Bank defines Value at Risk (VaR) as possible adverse loss that will not be exceeded with a 99% confidence level, over period 1 day.

	31.12.2017	
	Held for trading instruments	**Available-for-sale financial assets**
Value of portfolio (000' EUR)	-	28,182
1 day VaR (000' EUR)	-	32

37 Events subsequent to the reporting date

No other significant subsequent events have occurred in the period from the year-end to the date of these consolidated and separate financial statements that would need to be disclosed in these consolidated and separate financial statements, or would require adjustments to be made to these consolidated and separate financial statements and disclosures added to the notes thereto.

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