BANKING / INVESTMENTS \ ADVISORY

ABLV

ABLV Bank, AS

Consolidated and Separate Annual Report for the year ended 31 December 2016

and the independent auditors' report

Contents

Bank's Management Report

Ladies and gentlemen, dear shareholders of ABLV Bank, AS!

In 2016, development of the bank and other companies of ABLV Group was continued. We managed to achieve and surpass major financial indicators planned, and the bank's profit reached EUR 79.3 million.

Last year, economic growth slowed down globally, also on the bank's target markets. In 2016, financial markets were marked by several surprises, price fluctuations that were hard to explain, and historic turns. Latvian economy demonstrated relatively weak economic indicators and grew just by 2.0% last year. New Global Financial Centres Index brought some positive news for Latvian financial market. The capital of Latvia – Riga – was mentioned in it over again, this time ranked 52nd in the index. Compared with the previous index, Riga was ranked 19 places higher. Luxembourg, where our subsidiary bank is located, also demonstrates improving results – it was ranked 12th in the Global Financial Centres Index.

In the reporting period, regulatory requirements in banking sector became even more stringent. Their implementation required a lot of time and resources, and therefore business development was hindered. At the end of May, ABLV Bank and the Financial and Capital Market Commission (FCMC) made an administrative agreement to settle the differences and agree upon further measures to be taken by the bank to improve the bank's internal control system and strengthen its efficiency. Since the position regarding acceptable risk level had changed, the bank refused cooperation with some clients and continues thorough assessment of its client base. Therefore, the amount of deposits decreased by 23.5% over the year, which conforms to the planned values. The importance of settlement business is gradually declining, and even higher value is placed on business project financing, including structured financing involving raising of risk capital, operating capital and trade financing, as well as arrangement of securities issues. The bank possesses high competence in this area, has necessary expert resources, cooperation partner network, and accumulated significant experience. In the field of lending to business in Latvia, ABLV Bank currently is one of the most important banks. Following the initiative of the FCMC, Latvian banks that mostly render services to foreign clients, including ABLV Bank, underwent independent audit performed by the US advisory firms regarding the compliance with the US regulatory requirements; the audit was started in April 2016 and was intended for strengthening the internal control systems and processes in the banks. In our bank, the audit was performed by Navigant Consulting, Inc. This was one of the largest projects in our bank lately, which required considerable efforts and financial investments. In general, we are satisfied with the audit results: bank's strengths were evaluated, and the recommendations given can be implemented without substantial investments in technologies and process modifications. During the audit, we acquired new experience in terms of differing compliance requirements in the European Union and the US.

To improve capital adequacy and ensure funds required for development, another issue of ABLV Bank shares was performed at the beginning of 2016 for the sake of share capital increase. Under the issue, there were 2 700 000 registered voting shares issued and 300 000 personnel shares. Following the increase, ABLV Bank, AS share capital amounts to EUR 38.3 million and consists of 34 470 000 registered voting shares and 3 830 000 personnel shares. Continuing the bond issue programme, we performed 7 bond issues in 2016: six issues of ordinary bonds and one issue of subordinated bonds. The total amount of issues performed last year constituted USD 225 million and EUR 80 million. As at the end of 2016, there were 21 bonds issues included in the Nasdaq Riga Baltic Bond List.

In 2016, the number of jobs grew in both the bank and the group: by 11 in the bank and by 30 – in the group in total. As at 31 December, the number of the bank's employees reached 665, and the total number of employees of ABLV Group companies – 827.

Legal address of ABLV Bank, AS (reg. No. 50003149401) is at 23 Elizabetes Street, Riga, LV-1010, Latvia. The bank's license was issued on 9 September 1993 and is registered with the FCMC licence register under No. 06.01.05.001/313.

During the reporting period no changes in the board were made, yet the council was appointed repeatedly, setting a new term of office. Bank's council consists of Chairman of the Council Oļegs Fiļs, Deputy Chairman of the Council Jānis Krīgers, Member of the Council Igors Rapoports. Bank's board consists of Chairman of the Board Ernests Bernis, Deputy Chairman of the Board Vadims Reinfelds, Board Members — Aleksandrs Pāže, Edgars Pavlovičs, Māris Kannenieks, Rolands Citajevs, Romans Surnačovs.

Financial results

ABLV Bank, AS remains the largest bank in Latvia with local capital and is ranked second in terms of the amount of assets.

- The bank's profit for 2016 amounted to EUR 79.3 million, which is historically the highest one so far and exceeds the profit for 2015 by EUR 10.3 million.
- The bank's operating income[1] totalled EUR 141.9 million. Compared with 2015, operating income has increased by 12.3%.
- The amount of the clients' deposits equalled EUR 2.90 billion as at the end of the reporting period.
- The amount of issued debt securities reached EUR 528.3 million.
- As at 31 December 2016, the amount of the bank's assets was EUR 3.85 billion.
- The bank's loan portfolio equalled EUR 1.00 billion, as at the end of December.
- The bank's capital and reserves amounted to EUR 321.8 million.
- As at 31 December 2016, common equity Tier 1 capital adequacy ratio was equal to 12.90%, bank's capital adequacy ratio was 19.58%, and liquidity – 78.40%.
- ROE reached 27.26%, and ROA – 1.85%, as at 31 December 2016[2].
- Taxes paid by the group to the state budget amounted to EUR 22.0 million.

Upon their operation, the group and the bank are exposed to various risks, the most important of them being credit risk, concentration risk, market risk, liquidity risk, operational risk, risk of money laundering and terrorism financing and other quantitatively undefinable operational risks, including reputation risk, compliance risk, strategy and business risk, commission fee income and expenses uncertainty risk. More information on ABLV group's risk management is set out in notes 34 through 37 of this year's annual report.

ABLV maintains conservative strategy regarding investments in securities. Investments in elevated credit risk securities should not exceed 30% of the total amount of securities portfolio, thus limiting the credit risk and liquidity risk.

The total amount of the securities portfolio was equal to EUR 1.98 billion, as at 31 December 2016. A part of securities in the amount of EUR 10.2 million are classified as loans and receivables. The bank's securities portfolio is mostly composed of fixed-income debt securities, and 88.9% of the portfolio is constituted by securities having investment level credit rating. In terms of major countries, the securities are allocated as follows: US – 16.4%, Germany – 15.2%, Latvia – 13.7%, Russia – 11.3%, Canada – 11.1%, Sweden – 6.8%, Netherlands – 3.7%, Finland – 2.6%, Norway – 2.2% and Austria – 2.1%. Whereas 4.8% is constituted by securities issued by international institutions. In the reporting period, average annual yield[3] of the securities portfolio amounted to 2.68%.
ABLV Bank is limiting exposure of its available-for-sale portfolio to the interest rates' risk, controlling its weighted average modified duration[4], which cannot exceed 3.

In Q2 2016, VISA Europe Ltd. share buyback transaction was completed, under which the stake owned by the bank was sold to VISA Inc. Following the transaction, the income gained by ABLV Bank from selling the said stake amounted to approximately EUR 16.4 million. The transaction also affected the profit for 2016. Additionally, 4 750 class C preferred shares of Visa Inc. were allocated to the bank, and their fair value amounted to EUR 2.7 million.

Various improvements to the bank's services have been performed. From 1 October 2016, individuals and Latvian legal entities are provided with free of charge outgoing standard and urgent payments in euro within the European Economic Area, provided those are made via Internetbank and their amount does not exceed EUR 1 000. We have also cancelled express payments in the US dollars and simplified the rates and charges on USD payments for foreign legal entities. From June 2016, we offer the clients to perform payments in three new currencies: United Arab Emirates dirham (AED), New Zealand dollar (NZD), and South African rand (ZAR). Following this innovation, our clients can now perform payments in 27 different currencies.

From June 2016, all the client's Forward transactions are combined in one portfolio, to which multicurrency security account is linked. The funds held in this account and the total revaluation result of all concluded Forward transactions serve as single collateral of all Forward transactions in the portfolio. In the reporting period, we introduced payment cards enabling contactless authorization. To promote the financial literacy of youngsters, we started offering our clients to

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1 Operating income is calculated as the total of net interest income, net commission and fee income, net gain from transactions with financial instruments and foreign exchange, dividend income, net other income and expense, minus expenses of impairment of financial assets.

2 The indicators are calculated in accordance with the principles set out in FCMC Regulations No 145 "Regulations for the Preparation of Public Quarterly Reports for Credit Institutions.

3 Yield of the securities portfolio is calculated as the ratio of income gained from the securities to the average securities balance in the reporting period. The result is annualized and expressed as a percentage. The income gained from the securities is constituted by coupon income, securities revaluation reserve, securities trading result, and changes in the allowances.

4 Weighted average modified duration expresses changes in value of security upon change of interest rates. The modified duration is calculated only against interest rate risk sensitive debt securities, setting the sensitivity of debt security value against the interest rate changes per 100 bp (1%). It is assumed that the interest rates and prices of debt securities change in opposite directions.

opening card accounts and obtaining payment cards for their children from seven years of age. Thus, children can acquire experience in financial matters, and their parents are able to manage the children's spending.

Given the bank's long-term experience and knowledge of debt securities issuance, in the reporting period we launched a new service – arrangement of bond issues on behalf of the clients. Bond issues enable companies to raise additional financing both with the collateral and without collateral, as well as for longer term than is possible in case of loans. The costs of raising such type of funding are relatively lower, and diversification of investor base is possible as well. Using the new service, our client – real estate holding company AS Baltic RE Group – performed the issue of straight bonds amounting to EUR 4 million. ABLV Bank arranged the initial offering and ensured complete underwriting. ABLV Bank provided advice to AS Citadele banka on subordinated bond issue program, ensuring the underwriting to EUR 20 million within the initial placement.

Investments

In 2016, intense turbulence was still observed at global financial markets, regularly causing strong price fluctuations. Nevertheless, open-end mutual funds managed by ABLV Asset Management, IPAS demonstrated good results. As at the end of 2016, their total asset value amounted to EUR 125.6 million.

The year 2016 was also successful for ABLV Capital Markets, IBAS, which executes clients' instructions for purchasing and selling all types of financial instruments. Profit of ABLV Capital Markets, IBAS amounted to EUR 3.1 million. As at 31 December 2016, total assets of the company's clients invested in financial instruments were equal to EUR 1.27 billion.

Developing the investment services, we offer the clients financing secured by pledge of investment portfolio in two new currencies. In addition to USD, EUR and RUB currencies, now clients can obtain financing in the British pounds (GBP) and Swiss francs (CHF). The obtained financing secured by pledge of investment portfolio can be used by the clients to acquire new financial instruments or for other activities, without the need to sell the securities held in the portfolio. As at 31 December 2016, the total amount of loans granted by the bank against the pledge of financial instruments constituted EUR 88.9 million.

Last year we began offering new trading platform QTrader to the clients wishing to independently explore the trading opportunities provided by futures exchanges. This platform ensures direct access to major futures exchanges — Chicago Mercantile Exchange (CME), Chicago Board of Trade (CBOT), New York Mercantile Exchange (NYMEX), Commodity Exchange, Inc. (COMEX), ICE Futures Europe Commodities.

Real estate

In 2016, real estate group Pillar continued selling its property portfolio. In uniform buildings, 106 apartments were sold: 77 of those in Riga and 29 outside Riga, as well as 13 apartments in new and renovated projects were sold. Good results were also achieved under selling private houses and land plots – there were 38 private houses and 37 land plots sold. During 2016, Pillar sold 6 commercial properties of different size. Overall, Pillar made more than 200 sale transactions in 2016, their total amount being EUR 12.9 million.

Due to decreasing the property portfolio, resources become available, and Pillar is able to allocate those to the large-scale future project – construction of New Hanza area. On 4 July 2016, construction of the first stage of New Hanza infrastructure was started. On 9 December 2016, ABLV Bank established a new company – ABLV Building Complex, SIA. Construction of ABLV Bank headquarters group of buildings will be ordered and accepted by this new company.

Advisory

Expanding the offer, in 2016, ABLV Group company ABLV Corporate Services actively developed the accounting services rendered. The accounting services are rendered following the International Financial Reporting Standards (IFRS), ensuring transparent, high-quality, and internationally-comparable financial statements, thus also enabling the companies to raise financial resources from various sources.

Expanding to new regions and building closer relationships with the business partners, in the reporting period ABLV Group company ABLV Advisory Services, SIA opened the representative office in the United States of America. The representative office works on establishing mutually beneficial international business contacts for the companies of ABLV Group and on studying the US regulatory environment.

Currently, ABLV Group is represented in 10 foreign countries – Azerbaijan, Belarus, Kazakhstan, Cyprus, Russia, Ukraine, Uzbekistan, United States of America, Hong Kong and Luxembourg.

Luxembourg

Our subsidiary bank in Luxembourg, ABLV Bank Luxembourg, S.A., renders services to the clients for already more than three years. The bank was established for the sake of ensuring wider range of investment services to the clients. As at 31 December 2016, ABLV Bank Luxembourg assets and assets under management reached EUR 310.2 million.

In the reporting period, ABLV Bank Luxembourg started issuing payment cards to its clients. Currently, the bank issues VISA Gold and VISA Gold Business cards in euros and US dollars.

For society

According to the bank’s policy, ABLV Bank does not make direct donations to particular charity projects. All funds intended for charity are transferred to charitable organizations, which ensure professional and methodical administration of these funds according to their objectives and programmes.

Besides donating its funds, the bank encourages the employees and clients to do so. Under the charitable fund campaign timed to coincide with the 10th anniversary of ABLV Charitable Foundation, the amount of donations exceeded EUR 1 million with considerable share being provided by the bank's foreign clients as well.

The social commitment of the bank’s and the group’s employees goes beyond monetary donations to the charitable programmes of ABLV Charitable Foundation. On 3 June 2016, Blood Donation Day was held in the bank for the first time in the history of ABLV Group. 86 employees donated blood, and this means we helped about 250 people.

On 10 November 2016, export support movement Red Jackets, together with Minister of Culture Dace Melbārde and the representatives of the prominent Latvian export brands, including ABLV Bank, presented the book “Treasures of Latvia – Outstanding Export Brands and Inspiring Talents“. The book publishing was supported by ABLV Bank, and the book presents the information on the prominent Latvian export brands that won The Red Jackets title in 2015, as well as The Rising Stars.

ABLV Bank provides support to the social organizations that strive to improve banking sector and overall business environment in Latvia, as well as engage in their operations. Among those, it is worth mentioning the Association of Commercial Banks of Latvia, the Latvian Chamber of Commerce and Industry, the Employers' Confederation of Latvia, and other organizations. We supported the activity of Certus think tank and plan to continue this project, since we believe that such authoritative high potential research centre is vital for Latvian development.

Plans for 2017

To ensure stable growth in the future, the focus on different lines of business will be gradually changed. The share of settlement business is decreased, since this area is associated with higher risks, and we will pay increasingly more attention to professional wealth management services with high added value, such as arrangement of securities issuance, lending to companies, support under complex trade transactions, and investment services. Our employees possess necessary expert qualification and experience, and this is our advantage.

Due to client base assessment and refusal to cooperate with the clients associated with high risk level, the fee income from account opening and maintenance, as well as performance of payments, especially in the US dollars, is expected to decrease for a short term. The profit is also planned to be lower than in 2016. Nevertheless, we intend to implement all development projects as planned. Stable increase in the amount of deposits and number of clients of the bank is expected to be resume approximately in three years.

We express our gratitude to our shareholders and clients for their loyalty and to all employees for their contribution to the bank’s and the group’s growth!

Chairman of the Council
Oļegs Fiļs

Chairman of the Board
Ernests Bernis

Riga, 16 March 2017

Corporate management report is published on our website www.ablv.com.

The council and the board

The council of the bank:	**Term of office:**
Chairman of the Council:	
Oļegs Fiļs	02.05.2016. – 01.05.2019.
Deputy Chairman of the Council:	
Jānis Krīgers	02.05.2016. – 01.05.2019.
Council Member:	
Igors Rapoports	02.05.2016. – 01.05.2019.

The board of the bank:	**Term of office:**
Deputy Chairman of the Board:	
Ernests Bernis - Chief Executive Officer (CEO)	01.05.2014 – 01.05.2017.
Deputy Chairman of the Board:	
Vadims Reinfelds – Deputy Chief Executive Officer (dCEO)	01.05.2014. – 01.05.2017.
Board Members:	
Aleksandrs Pāže – Chief Compliance Officer (CCO)	01.05.2014. – 01.05.2017.
Edgars Pavlovičs – Chief Risk Officer (CRO)	01.05.2014. – 01.05.2017.
Māris Kannenieks – Chief Financial Officer (CFO)	01.05.2014. – 01.05.2017.
Rolands Citajevs – Chief IT Officer (CIO)	01.05.2014. – 01.05.2017.
Romans Surnačovs – Chief Operating Officer (COO)	01.05.2014. – 01.05.2017.

There have been no changes in the board of the bank during the reporting period, but the council was re-appointed in the above structure, with a new term of office.

Statement of management's responsibility

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

The financial statements and notes thereto set out on pages 9 to 82 are prepared in accordance with the source documents and present truly and fairly the financial position of the bank and the group as at 31 December 2016 and 2015, and the results of their operations, changes in the shareholders' equity and cash flows for the years then ended.

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

The council and the board of the bank (hereinafter – the management) are responsible for the maintenance of proper accounting records, the safeguarding of the group's assets, and the prevention and detection of fraud and other irregularities in the group. The management of the bank are also responsible for operating the group and the bank in compliance with the Law of the Republic of Latvia on Credit Institutions, Regulations of the Bank of Latvia and the Financial and Capital Market Commission, and other laws of the Republic of Latvia as well as European Union Regulations applicable to credit institutions.

Chairman of the Council
Oļegs Fiļs

Chairman of the Board
Ernests Bernis

Riga, 16 March 2017

Statements of comprehensive income

					EUR'000
		Group	Group	Bank	Bank
	Notes	01.01.2016-31.12.2016.	01.01.2015-31.12.2015.	01.01.2016-31.12.2016.	01.01.2015-31.12.2015.
Interest income	3	86,019	85,548	84,208	83,547
Interest expense	3	(21,442)	(20,589)	(21,493)	(20,508)
Net interest income		**64,577**	**64,959**	**62,715**	**63,039**
Commision and fee income	4	53,082	65,564	45,403	55,778
Commision and fee expense	4	(8,475)	(10,431)	(14,115)	(15,543)
Net commision and fee income		**44,607**	**55,133**	**31,288**	**40,235**
Net gain on transactions with financial instruments and foreign exchange	5	45,397	21,499	45,190	21,304
Net result on transactions with repossessed real estate	6	(2,423)	(2,272)	-	-
Other income	7	5,861	9,581	4,078	3,646
Other expense	7	(2,833)	(6,522)	(1,449)	(1,264)
Income from dividends		169	259	6,274	9,352
Impairment allowance for loans	8	332	(5,888)	57	(5,483)
Allowances for impairment of investments in subsidiaries	18	-	-	(6,225)	(2,840)
Allowances for impairment of financial instruments		(53)	(1,670)	(53)	(1,670)
Operating income		**155,634**	**135,079**	**141,875**	**126,319**
Personnel expense	9	(45,917)	(43,099)	(36,865)	(33,955)
Other administrative expense	9	(24,355)	(18,952)	(19,907)	(14,661)
Amortisation and depreciation		(4,059)	(5,019)	(3,142)	(3,377)
Impairment reversal		-	237	-	237
Profit before corporate income tax		**81,303**	**68,246**	**81,961**	**74,563**
Corporate income tax	10	(2,487)	(6,372)	(2,624)	(5,524)
Net profit for the year		**78,816**	**61,874**	**79,337**	**69,039**
Attributable to:					
Equity holders of the bank		78,594	61,277		
Non-controlling interests		222	597		
Other comprehensive income which has been or is to be reclassified to profit or loss					
Changes in fair value revaluation reserve of available-for-sale financial assets		13,489	11,921	13,384	11,828
Change to income statement as a result of sale of available-for-sale securities		(22,031)	(1,763)	(21,950)	(1,711)
Change to income statement due to recognised impairment of available-for-sale securities		286	1,111	286	1,111
Changes in deferred corporate income tax		(78)	(304)	(78)	(304)
Other comprehensive income, total		**(8,334)**	**10,965**	**(8,358)**	**10,924**
Total comprehensive income		**70,482**	**72,839**	**70,979**	**79,963**
Attributable to:					
Equity holders of the bank		70,260	72,242		
Non-controlling interests		222	597		

Chairman of the Council
Oļegs Fiļs

Chairman of the Board
Ernests Bernis

Riga, 16 March 2017

Statements of financial position

EUR'000

Assets	Notes	Group 31.12.2016	Group 31.12.2015	Bank 31.12.2016	Bank 31.12.2015
Cash and deposits with central banks	11	414,431	449,136	413,047	448,187
Balances due from credit institutions	12	272,520	669,980	281,504	671,772
Derivatives	16	624	121	80	121
Financial assets at fair value through profit or loss	13	28,416	26,121	21,010	22,286
Available-for-sale financial assets	14	1,042,574	1,833,073	957,094	1,780,554
Loans and receivables	17	1,029,944	874,003	1,012,146	873,499
Held-to-maturity investments	15	1,053,987	1,015,047	989,710	965,253
Investments in subsidiaries	18	-	-	119,945	111,266
Investments in associates	18	9,117	9,068	8,635	8,770
Investment properties	19	34,690	22,976	25,058	25,069
Property and equipment	20	27,267	23,867	9,461	9,529
Intangible assets	20	6,060	6,365	5,826	6,036
Current corporate income tax receivables		3,134	3,148	2,360	3,042
Deferred corporate income tax	10	1,401	379	-	-
Repossessed real estate	6	41,276	52,312	-	-
Other assets	21	7,882	5,992	3,710	2,737
Total assets		**3,973,323**	**4,991,588**	**3,849,586**	**4,928,121**
Liabilities					
Derivatives	16	42	365	42	365
Balances held with Bank of Latvia	22	50,000	180,072	50,000	180,072
Demand deposits from credit institutions	22	16,463	49,154	20,375	63,294
Deposits	23	3,027,772	3,875,455	2,901,824	3,793,192
Current corporate income tax liabilities		334	322	-	-
Other liabilities	27	22,922	41,737	11,083	35,072
Deferred corporate income tax	10	1,366	1,016	1,346	1,001
Issued securities	24	521,281	550,877	528,304	558,411
Subordinated deposits	25	14,810	15,261	14,810	15,261
Total liabilities		**3,654,990**	**4,714,259**	**3,527,784**	**4,646,668**
Shareholders' equity					
Paid-in share capital	26	38,300	35,300	38,300	35,300
Share premium		132,423	96,918	132,423	96,918
Reserve capital and other reserves		2,217	2,238	2,134	2,134
Fair value revaluation reserve of available-for-sale financial assets		1,127	9,461	1,139	9,497
Retained earnings brought forward		63,401	71,259	68,469	68,565
Retained earnings for the period		78,594	61,277	79,337	69,039
Attributable to the equity holders of the bank		**316,062**	**276,453**	**321,802**	**281,453**
Non-controlling interests		**2,271**	**876**	**-**	**-**
Total shareholders' equity		**318,333**	**277,329**	**321,802**	**281,453**
Total liabilities and shareholders' equity		**3,973,323**	**4,991,588**	**3,849,586**	**4,928,121**
Memorandum items					
Contingent liabilities	28	10,015	9,949	9,928	9,516
Financial commitments	28	132,405	75,610	126,632	68,907

Chairman of the Council
Oļegs Fiļs

Chairman of the Board
Ernests Bernis

The accompanying notes on pages 14 to 82 form an integral part of these financial statements.

Riga, 16 March 2017

Statement of changes in shareholder's equity of the group

EUR'000

	Paid-in share capital	Share premium	Reserve capital and other reserves	Fair value revaluation reserve of available-for-sale financial assets	Retained earnings	Attributable to the equity holders of the bank	Non-controlling interests	Total shareholders' equity
01.01.2015.	**32,650**	**66,270**	**2,174**	**(1,504)**	**130,115**	**229,705**	**12,337**	**242,042**
Net profit for the year	-	-	-	-	61,277	61,277	597	61,874
Other comprehensive income/(expense) for the year	-	-	-	10,965	-	10,965	-	10,965
Total comprehensive income	**-**	**-**	**-**	**10,965**	**61,277**	**72,242**	**597**	**72,839**
Increase in reserves	-	-	64	-	-	64	-	64
Dividends paid	-	-	-	-	(58,555)	(58,555)	(292)	(58,847)
Issue of personnel shares (see Note 26)	265	-	-	-	(301)	(36)	36	-
Issue of shares (see Note 26)	2,385	30,648	-	-	-	33,033	126	33,159
Decrease in non-controlling interests (see Note 18)	-	-	-	-	-	-	(11,928)	(11,928)
31.12.2015.	**35,300**	**96,918**	**2,238**	**9,461**	**132,536**	**276,453**	**876**	**277,329**

	Paid-in share capital	Share premium	Reserve capital and other reserves	Fair value revaluation reserve of available-for-sale financial assets	Retained earnings	Attributable to the equity holders of the bank	Non-controlling interests	Total shareholders' equity
01.01.2016.	**35,300**	**96,918**	**2,238**	**9,461**	**132,536**	**276,453**	**876**	**277,329**
Net profit for the year	-	-	-	-	78,594	78,594	222	78,816
Other comprehensive income/(expense) for the year	-	-	-	(8,334)	-	(8,334)	-	(8,334)
Total comprehensive income	**-**	**-**	**-**	**(8,334)**	**78,594**	**70,260**	**222**	**70,482**
Decrease in reserves	-	-	(21)	-	-	(21)	-	(21)
Dividends paid	-	-	-	-	(68,835)	(68,835)	(550)	(69,385)
Issue of personnel shares (see Note 26)	300	-	-	-	(300)	-	-	-
Issue of shares (see Note 26)	2,700	35,505	-	-	-	38,205	1,674	39,879
Increase in non-controlling interests (see Note 18)	-	-	-	-	-	-	49	49
31.12.2016.	**38,300**	**132,423**	**2,217**	**1,127**	**141,995**	**316,062**	**2,271**	**318,333**

The accompanying notes on pages 14 to 82 form an integral part of these financial statements.

Statement of changes in shareholders' equity of the bank

EUR'000

	Paid-in share capital	Share premium	Reserve capital and other reserves	Fair value revaluation reserve	Retained earnings	Total shareholders' equity
01.01.2015.	**32,650**	**66,270**	**2,134**	**(1,427)**	**127,274**	**226,901**
Net profit for the year	-	-	-	-	69,039	69,039
Other comprehensive income/(expense) for the year	-	-	-	10,924	-	10,924
Total comprehensive income for the year	**-**	**-**	**-**	**10,924**	**69,039**	**79,963**
Dividends paid (see Note 26)	-	-	-	-	(58,444)	(58,444)
Issue of personnel shares (see Note 26)	265	-	-	-	(265)	-
Issue of shares (see Note 26)	2,385	30,648	-	-	-	33,033
31.12.2015.	**35,300**	**96,918**	**2,134**	**9,497**	**137,604**	**281,453**
01.01.2016.	**35,300**	**96,918**	**2,134**	**9,497**	**137,604**	**281,453**
Net profit for the year	-	-	-	-	79,337	79,337
Other comprehensive income/(expense) for the year	-	-	-	(8,358)	-	(8,358)
Total comprehensive income for the year	**-**	**-**	**-**	**(8,358)**	**79,337**	**70,979**
Dividends paid (see Note 26)	-	-	-	-	(68,835)	(68,835)
Issue of personnel shares (see Note 26)	300	-	-	-	(300)	-
Issue of shares (see Note 26)	2,700	35,505	-	-	-	38,205
31.12.2016.	**38,300**	**132,423**	**2,134**	**1,139**	**147,806**	**321,802**

The accompanying notes on pages 14 to 82 form an integral part of these financial statements.

Statement of cash flows

EUR'000

Cash flows from operating activities	Group 01.01.2016.– 31.12.2016.	Group 01.01.2015.– 31.12.2015.	Bank 01.01.2016.– 31.12.2016.	Bank 01.01.2015.– 31.12.2015.
Profit before corporate income tax	81,303	68,246	81,961	74,563
Dividend income	(169)	(259)	(6,274)	(9,352)
Amortisation and depreciation of fixed assets and investment properties	4,059	5,019	3,142	3,377
Impairment allowance for loans	(332)	5,888	(57)	5,483
Impairment of financial instruments	53	1,670	53	1,670
Interest (income)	(86,019)	(85,548)	(84,208)	(83,547)
Interest expense	21,442	20,589	21,493	20,508
Other non-cash items*	(20,294)	(1,737)	(13,850)	1,546
Net cash flows from operating activities before changes in assets and liabilities	**43**	**13,868**	**2,260**	**14,248**
(Increase) in balances due from credit institutions	(19,292)	(7,878)	(19,292)	(12,831)
(Increase) in loans	(147,145)	(70,698)	(131,823)	(69,656)
(Increase)/decrease in financial assets at fair value through profit or loss	314	(4,901)	3,885	(7,063)
Decrease/(increase) in other assets	8,988	9,879	(971)	2,902
Increase/(decrease) in balances due to credit institutions	(130,001)	156,890	(130,000)	160,238
(Decrease)/increase in deposits	(902,677)	175,238	(946,362)	175,459
(Decrease) in derivatives	(826)	(1,307)	(282)	(1,307)
(Decrease)/increase in other liabilities	(19,115)	11,837	(24,269)	21,747
Net cash flows from operating activities before corporate income tax	**(1,209,711)**	**282,928**	**(1,246,854)**	**283,737**
Interest received in the reporting year	87,408	87,170	87,295	85,170
Interest (paid) in the reporting year	(21,921)	(19,937)	(21,973)	(19,857)
Corporate income tax (paid)	(2,987)	(3,237)	(1,612)	(2,952)
Net cash flows from operating activities	**(1,147,211)**	**346,924**	**(1,183,144)**	**346,098**
Cash flows from investing activities				
(Purchase) of held-to-maturity investments	(97,680)	(118,729)	(81,925)	(97,391)
Redemption of held-to-maturity investments	83,890	141,209	80,990	140,009
(Purchase) of available-for-sale financial assets	(313,809)	(1,373,698)	(266,403)	(1,288,302)
Sale of available-for-sale financial assets	1,143,893	957,295	1,128,577	859,890
(Purchase) of intangible and tangible fixed assets and investment properties	(19,448)	(4,435)	(2,926)	(3,718)
Sale of intangible and tangible fixed assets and investment properties	580	122	73	1,046
Dividends received	169	259	6,274	9,352
Decrease in investments in subsidiaries and associates	135	-	10,234	3,321
(Decrease) in cash and cash quivalents due to loss of control	-	(282)	-	-
(Increase) in investments in subsidiaries and associates	-	-	(25,003)	(11,098)
Net cash flows from investing activities	**797,730**	**(398,259)**	**849,891**	**(386,891)**
Cash flows from financing activities				
Proceeds from subordinated loans	600	1,560	600	1,560
(Repayment) of subordinated loans	(1,345)	(1,600)	(1,345)	(1,600)
Proceeds from issued securities	239,533	239,691	241,533	239,691
(Repurchase) of issued securities	(281,654)	(168,522)	(284,163)	(173,972)
Dividends (paid)	(69,385)	(58,847)	(68,840)	(58,443)
Increase in non-controlling interest	1,674	126	-	-
Issue of shares	38,205	33,033	38,205	33,033
Net cash flows from financing activities	**(72,372)**	**45,441**	**(74,010)**	**40,269**
(Decrease)/increase in cash and cash equivalents	**(421,853)**	**(5,894)**	**(407,263)**	**(524)**
Cash and cash equivalents at the beginning of the year	**1,014,984**	**1,009,756**	**1,002,126**	**987,436**
Result from revaluation of foreign currency positions	1,506	11,122	3,899	15,214
Cash and cash equivalents at the end of the year	**594,637**	**1,014,984**	**598,762**	**1,002,126**

* - Significant part of other non-cash items that do not affect the cash flows in the reporting period consist of VISA Europe Ltd. share buyback transaction with VISA Inc. amounting to EUR 16.4 million.

EUR'000

Cash and cash equivalents	Group 31.12.2016.	Group 31.12.2015.	Bank 31.12.2016.	Bank 31.12.2015.
Cash and deposits with central banks	414,431	449,136	413,047	448,187
Balances due from credit institutions	196,669	615,002	206,090	617,233
Balances due to credit institutions	(16,463)	(49,154)	(20,375)	(63,294)
Total cash and cash equivalents	**594,637**	**1,014,984**	**598,762**	**1,002,126**

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

Notes to the financial statements

Note 1

General information

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

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

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

The group's and bank's main scope of activity is financial and investment services, asset management, financial consultations and real estate management.

The bank operates the central office and one lending centre in Riga.
The most important subsidiaries of the bank are: ABLV Bank, Luxembourg S.A. (Luxembourg), ABLV Asset Management, IPAS, ABLV Capital Markets, IBAS, Pillar Holding Company, KS.
The list of all group's subsidiaries is presented in Note 18.
The Group operates foreign representation offices/ territorial structural units in Azerbaijan (Baku), in Belarus (Minsk), in Kazakhstan (Almaty), in Cyprus (Limassol), in Russia (Moscow, St. Petersburg and Vladivostok), in Ukraine (representative office in Kyiv and a separate representative office in Odessa), in Uzbekistan (Tashkent), United States of America (New York) and Hong Kong.

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

The consolidated financial statements of the group and the separate financial statements of the bank for the year ended 31 December 2016 are approved by the Bank's Board and Council on 16 March 2017 (see paragraph v)).

Performance indicators of the Bank

Performance indicators		2016	2015	Change, %	2014	2013	2012
Total assets	EUR'000	3,849,586	4,928,121	(21.89)	4,169,844	3,315,366	3,043,830
Loans and receivables	EUR'000	1,012,146	873,499	15.87	790,247	761,268	716,574
Deposits	EUR'000	2,901,824	3,793,192	(23.50)	3,406,032	2,776,457	2,659,191
Total shareholders' equity	EUR'000	321,802	281,453	14.34	226,901	187,037	151,965
Operating income*	EUR'000	141,875	126,319	12.31	108,959	96,688	64,877
Net profit for the year	EUR'000	79,337	69,039	14.92	58,674	43,676	23,412
Return on equity indicator (ROE)**	%	27.26	27.76	(1.77)	28.82	26.29	16.64
Return on assets indicator (ROA)**	%	1.85	1.49	24.17	1.60	1.36	0.82
Liquidity indicator***	%	78.40	82.68	(5.18)	74.74	79.20	62.51
Common equity tier 1 capital ratio (CET 1)	%	12.90	10.79	19.55	11.86	11.73	10.64
Total capital ratio (CAR)	%	19.58	17.27	13.43	18.80	17.53	16.04

* - the indicator is calculated as the sum of net interest income, net commission and fee income, net gain on transactions with financial instruments and foreign exchange, dividend income, other income and expense minus impairment of financial assets.
** - the indicators are calculated according to the principles defined by the FCMC in Regulation No. 145 on the preparation of public quarterly reports of credit institutions.
*** - the indicator is calculated according to the Regulation No.195 on the liquidity requirement, its implementation procedure and liquidity risk management issued by the FCMC.

Note 2

Information on principal accounting policies

a) Basis of preparation

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

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

During the year ended 31 December 2016, the group and the bank consistently applied accounting policies in line with those disclosed in the prior-year financial statements, except for the changes in IFRS that came effective in the reporting period.

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

The functional currency of the bank and its subsidiaries is EUR. The presentation currency of the group and the bank is EUR.

These consolidated and separate financial statements are reported in thousands of the euro (EUR’000), unless otherwise stated. Information given herein in brackets represents comparative figures for the year ended 31 December 2015 or for the twelve-month period ended 31 December 2015.

b) Significant Estimates and Assumptions

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

The significant areas of estimation and assumptions relate to the calculation of deferred corporate income tax (see paragraph i)), determining the impairment allowance for loans (see paragraph o)) and the collateral (pledge) value (see Note 35), estimation of impairment of other assets, including investments in subsidiaries (see paragraph p)) and the fair value of assets and liabilities (see paragraph e) and Note 32), assumptions regarding control and significant influence on subsidiaries and associates respectively (see paragraph c)), as well as evaluation of the group’s ability to exercise significant influence over the operation of open-ended investment funds (see paragraph c)).

c) Basis of Consolidation

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

Investments in subsidiaries are presented in the Bank’s separate financial statements in accordance with the cost method.

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

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

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

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

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

The bank's and its subsidiaries' financial statements are consolidated in the group's financial statements using the full consolidation method, by adding together like items of assets and liabilities at the period end, as well as income and expenses. For the purposes of consolidation, intragroup balances and intragroup transactions, including interest income and expense, and unrealised profit and loss resulting from intragroup transactions are eliminated, unless there exists any indication of impairment. Non-controlling (minority) interests represent the portion of profit or loss and equity not owned, directly or indirectly, by the bank. Non-controlling interests are presented separately in the consolidated statement of comprehensive income and equity interests are presented in the consolidated statement of financial position separately from equity of the parent company. Non-controlling interest is measured according to its proportional interest in net assets. The bank's subsidiaries comply with the bank's policies and risk management methods.

The bank's investments in open-ended investment funds as structured entities are disclosed in the separate financial statements (Note 13) as investments in open-ended investment funds.

Meanwhile, in the consolidated financial statements the investments in open-ended investment funds, which the bank has the power to govern and in which the bank owns the major part (at least 30% or above) of net assets, are consolidated according to the full consolidation method. The shares of funds owned by third parties are recognised in the consolidated financial statements as other liabilities.

d) Recognition and Derecognition of Financial Assets and Liabilities

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

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

The group recognises financial assets and liabilities in its statement of financial position when, and only when, the group or the bank becomes a party to the contractual provisions of the instrument.

All purchases and sales of financial assets, except for loans issued to non-bank customers, are recognised and derecognised on the settlement date. Loans to non-bank customers are recognised in the statement of financial position when cash is transferred to the customer's current account.

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

A financial liability is derecognised only when the obligation under the liability is discharged according to the contract or cancelled or expires.

e) Fair Value of Financial Assets and Liabilities

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

f) Offsetting of Financial Assets and Financial Liabilities

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

g) Income and Expense Recognition

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

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

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

Commission and fee income and expense are included in the statement of comprehensive income over the period or at a specific time, except for commission and fee income/ expense directly attributable to financial assets/ liabilities measured at amortised cost. For these assets/ liabilities the respective commission and fee income/ expense form an integral part of the effective interest rate.

Commission and fee income received once in a year for the whole reporting period is recognised in the statement of comprehensive income systematically on a straight-line basis during the period.

Income and expense other than interest and/ or commission and fee income/ expense represent items associated with the core business of non-banking entities of the group.

h) Foreign currency revaluation

Monetary assets and liabilities denominated in foreign currencies are translated into EUR at the exchange rate set by the ECB, while non-monetary assets in foreign currencies are translated into EUR at the official exchange rate set by the ECB at the transaction date. REUTERS exchange rates are applied to the foreign currencies having no EUR foreign exchange reference rates published by the ECB. Transactions denominated in foreign currencies are recorded in EUR at exchange rates set by the ECB or REUTERS at the date of the transaction. Any gain or loss resulting from a change in exchange rates subsequent to the transaction date is included in the statement of comprehensive income as gain or loss from revaluation of foreign currency positions.
Paragraph a) provides information on functional and presentation currency of the group's and bank's companies.

i) Taxation

Corporate income tax is calculated in accordance with Latvian tax regulations at the rate of 15% and is based on the taxable income reported for the taxation period.
Deferred taxation arising from temporary differences in the timing of the recognition of items in the tax returns and these financial statements is calculated using the liability method. Deferred taxation relates to the future tax consequences of all events that have been recognised in the bank's and group's financial statements or tax returns. The deferred tax liability is determined based on the tax rates that are expected to apply when the temporary differences reverse. The principal temporary differences arise from differing rates of accounting and tax depreciation on fixed assets, accrual for employee vacation pay, and revaluation of items of the statement of financial position, including securities revaluation and fair value revaluation reserve, and tax losses carried forward for the subsequent years. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. Therefore, deferred tax asset is only recognised if it is justifiably expected to be recovered.

j) Financial Instruments

Loans and receivables

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

- those that the group and the bank intend to sell immediately or in the near term and those that the group and the bank upon initial recognition designate as at fair value through profit or loss;
- those that the group and the bank, upon initial recognition, designate as available for sale or
- those for which the group and the bank may not recover substantially all of its initial investment, other than because of credit deterioration.

This portfolio includes loans and balances due from credit institutions which are carried at amortised cost using the effective interest method less the allowance for credit losses (impairment expense) as presented in Note 8. Gains or losses are recognised in the statement of comprehensive income upon derecognition or impairment of these assets, as well as through

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

Held-to-maturity investments

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

Available-for-sale financial assets

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

Available-for-sale securities are divided into two portfolios:

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

Available-for-sale securities are initially measured at fair value including direct transaction costs. Subsequent to initial measurement, available-for-sale securities are revalued at fair value and the result of revaluation to fair value is charged to capital and reserves as a fair value revaluation reserve of available-for-sale securities. Financial assets having no quoted prices available and whose fair value cannot be determined reliably using other models are stated at cost.

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

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

Financial assets at fair value through profit or loss

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

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

Derivatives

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

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

Securities repo agreements

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

Issued debt securities

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

Other financial liabilities measured at amortised cost

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

k) Repossessed real estate

Repossessed real estate represent real estate taken over by the group/ bank for the purpose of selling as collateral for the outstanding loans or acquired in the ordinary course of business. Such assets are accounted as inventories and are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

l) Finance Leases – Where the Bank is Lessor

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

m) Off-balance Sheet Financial Commitments and Contingent Liabilities

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

n) Provisions

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

o) Impairment of Financial Assets and Financial Commitments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

and the present value of the expected future cash flows discounted at the effective interest rate of a similar financial asset.

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

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

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

Impairment loss recognised in profit or loss is not reversed through profit or loss. If, in a subsequent period, the fair value of a financial instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

p) Impairment of Non-financial Assets

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

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

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

q) Intangible Assets

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

r) Property and equipment

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

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

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

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

s) Investment Properties

Investment properties comprise land and buildings, as well as costs of the investment property development project in progress that are not used by the group and the bank, and are held with the main purpose to earn rentals, as well as gain on value appreciation. Such investments are classified as investment property and are accounted for using the cost model of accounting for investment properties. Investment properties are carried in the statement of financial position at their cost value less accumulated depreciation and accumulated impairment losses. The annual depreciation rate applied to investment properties, except for land which is not depreciated, is from 2% to 5%.

t) Employee Benefits

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

u) Cash and Cash Equivalents

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

v) Adjustments to financial statements after their publication

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

w) Subsequent events

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

x) Adoption of new and/ or changed IFRS and IFRIC interpretations in the reporting year

The group 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 2016.
The application of new standards and amendments did not have any impact on these consolidated financial statements:

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

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

y) Standards issued but not yet effective and not early adopted

Standards that are issued, but not yet effective or not endorsed by the EU, and which are not applied prior to their official date of validity.
The group and the bank has not applied the following IFRS and IFRIC interpretations that have been issued to the date of these financial statements, but which are not yet effective:

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

Implementation of IFRS 9

As the potential impact of IFRS 9 on the group's/bank's financial statements and equity is expected to be material, in July 2016 the management of the group/bank decided to establish an IFRS 9 implementation working group. The working group involves two board members of the bank – CRO and CFO who are charged with supervising the project. The working group also involves employees of the Risk Management Division, Financial Records Management, Operational Accounting Department, Business Technologies Department, which aims to provide for cooperation in the implementation of IFRS 9 from model development to implementation in the accounting system. The conformity of the models to the new standard is assessed by external advisers who were engaged to express their opinion on the interpretation of IFRS 9. The working group holds regular meetings to review the status of development of the methodology, assess the reasonableness of assumptions and to make decisions on further action.

The group/bank has set deadlines for stages in the implementation of the new standard. Currently, the initial business models have been defined and calculation principles have been developed for expected credit loss. The next steps include making changes to internal documents of the group/bank, approve these documents with relevant decision-makers and carry out tests and evaluations of the models. One of the tasks for the nearest future is to specify business requirements for changes in the bank's information system.

The group/ bank has defined what resources are required to implement the new standard. These primarily are human resources required to develop methodologies and make changes to the bank's information system. These activities are expected to require a considerable amount of work from the bank's staff and it has been taken into account when workloads were planned. The amount of services provided by external suppliers of the information system is not expected to be material. There is a dedicated budget for external advisers.

Classification and measurement

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

- Fair value through profit or loss (FVPL);
- fair value through other comprehensive income (FVOCI); and
- amortised cost.

IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortised cost or fair value through OCI as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instrument that is not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement.
The accounting for financial liabilities will largely be the same as the requirements of IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated as FVPL. Such movements will be presented in OCI with no subsequent reclassification to the income statements, unless an accounting mismatch in profit or loss would arise.

Having completed its initial assessment, the group/bank has concluded that:

- Loans and balances due from credit institutions that are classified as loans and receivables under IAS 39 are expected to be measured at amortised cost under IFRS 9;
- Financial assets and liabilities held for trading and financial assets and liabilities designated at FVPL are expected to continue to be measured at FVPL;
- The majority of the debt securities classified as available for sale under IAS 39 are expected to be measured at FVOCI.
- It is expected that the majority of the debt securities classified as held to maturity will remain recognised at amortised cost, while the remaining part will be measured at FVOCI.
- some securities, however, which are classified as available-for-sale or held to maturity under IAS 39, will be classified as FVPL, because of their contractual cash flow characteristics.

Impairment of financial assets

IFRS 9 will also fundamentally change the loan loss impairment methodology. The standard will replace IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. The group/bank will be required to record an allowance for expected loss for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the expected credit loss associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset.
The group/bank is developing a methodology to perform an assessment at the end of each reporting period of whether credit risk has increased significantly since initial recognition by considering the change in the risk of default occurring over the remaining life of the financial instrument.
In comparison to IAS 39, the group/bank expects the impairment charge under IFRS 9 to be more volatile and result in an increase in the total level of current impairment allowances.
The group/bank is planning to group its loans into Stage 1, Stage 2 and Stage 3, based on the applied impairment methodology, as described below:

- Stage 1 – Performing loans: when loans are fist recognized, the group/bank recognizes an allowance based on twelve months expected credit losses. Under IAS 39 the group/bank has been recording an allowance for Incurred But Not Identified (IBNI) impairment losses. The change is expected to increase the impairment allowance compared to the current IBNI approach.

- Stage 2 – Loans with significant increase in credit risk: when a loan shows a significant increase in credit risk since initial recognition, the group/bank records an allowance for the lifetime expected credit loss. Since this is a new concept compared to IAS 39, it will result in an increase in the allowance as most such assets are not considered to be credit-impaired under IAS 39. The group/bank intends to evaluate increase in credit risk by comparing the lifetime probability of default upon initial recognition of the asset against the risk of a default occurring on the asset as at the end of each reporting period. In accordance with IFRS 9, a significant increase in credit risk is assumed to have taken place if the borrower falls more than 30 days past due in making its contractual payments, the loan is restructured or other events have been identified that indicate increased credit risk.
- Stage 3 – Impaired loans. Financial assets are recognized in Stage 3 when there is objective evidence that the loan is impaired or payments have been overdue for more than 90 days. The group/bank recognizes the lifetime expected credit losses for these loans and in addition, the bank accrues interest income on the amortised cost of the loan net of allowances. As the criteria of objective evidence are similar to those under IAS 39 methodology, the group/bank does not expect a significant increase in impairment allowances. The individual impairment allowance will continue to be calculated on the same basis as under IAS 39, and collateral values will be adjusted to reflect the amounts that can be expected to be realized.

The group/bank will record impairment for FVOCI debt securities depending on whether they are classified as Stage 1, 2, or 3, as explained above. The expected credit losses will not reduce the carrying amount of these financial assets in the statements of financial position which remain at fair value. Instead, an amount equal to the allowance that would arise if the asset were measured at amortised cost will be recognized in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss.
For FVOCI debt securities considered to be ‘low risk’, the group/bank intends to apply a policy which assumes that the credit risk on the instrument has not increased significantly since initial recognition and will calculate ECL as explained in Stage 1 above. Such instruments will generally include trade, investment grade securities where the borrower has strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

Transition

According to the conditions of IFRS 9, the group and the bank do not plan to apply full retrospective adjustment when introducing the standard. The adjustments in carrying amount of financial assets as a result from applying the IFRS 9 will be recognized in retained earnings and reserves as at January 1, 2018. The group and the bank expects that it will be possible to disclose the impact stemming from the introduction of IFRS9 and corresponding quantitative information in the interim financial reports of 2017.

IFRS 15 – Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted.)
IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.
IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The group and the bank has completed an initial review of the potential impact of the adoption of IFRS 15 on its consolidated and separate financial statements. This focused on a review of fees and commission income.
The group and the bank earn fee and commission income (other than fees included in the calculation of the effective interest rate) on provision of the following services:

- payment processing;
- account servicing;
- payment card processing;
- brokerage;
- asset management.

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

IFRS 16 Leases – (Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the entity also applies IFRS 15)
IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use (ROU) asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard- i.e. lessors continue to classify leases as finance or operating leases.

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

The group and the bank have started an initial assessment of the potential impact on its consolidated and separate financial statements. So far, the most significant impact identified is that the Group and the Bank will recognise new assets and liabilities for its operating leases of office premises. In addition, the nature of expenses related to those leases will now change because IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for ROU assets and interest expense on lease liabilities. The group and the bank have not yet decided whether it will use the optional exemptions. No significant impact is expected for the group's and the bank's finance leases. The group and the bank are also in the process of assessing the impact on its CET1 ratio, particularly in respect of ROU assets in leases where the group is a lessee.

Transition

The group and the bank currently plan to apply IFRS 16 initially on 1 January 2019. As a lessee, the group and the bank can either apply the standard using a:
- retrospective approach; or
- modified retrospective approach with optional practical expedients.

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

Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively. Earlier application is permitted.)
The amendments clarify share-based payment accounting on the following areas:
- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations; and
- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity settled.

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

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

The Amendments clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that:
- a full gain or loss is recognised when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets which constitute a business (whether it is housed in a subsidiary or not), while
- a partial gain or loss is recognised when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

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

Amendments to IAS 7 (Effective for annual periods beginning on or after 1 January 2017, to be applied prospectively. Earlier application is permitted.)
The amendments require new disclosures that help users to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes (such as the effect of foreign exchange gains or losses, changes arising for obtaining or losing control of subsidiaries, changes in fair value).
It is expected that the amendments, when initially applied, will not have a material impact on the financial statements of the group and bank.

Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses (Effective for annual periods beginning on or after 1 January 2017; to be applied prospectively. Earlier application is permitted.)
The amendments clarify how and when to account for deferred tax assets in certain situations and clarify how future taxable income should be determined for the purposes of assessing the recognition of deferred tax assets.
It is expected that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the group and the bank because the group and the bank already measure future taxable profit in a manner consistent with the Amendments.

Amendments to IAS 40 Transfers of Investment Property (Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively.)
The amendments reinforce the principle for transfers into, or out of, investment property in IAS 40 Investment Property to specify that such a transfer should only be made when there has been a change in use of the property. Based on the amendments a transfer is made when and only when there is an actual change in use – i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer.

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

IFRIC 22 Foreign Currency Transactions and Advance Consideration (Effective for annual periods beginning on or after 1 January 2018).
The Interpretation clarifies how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. In such circumstances, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.
The group / bank do not expect that the Interpretation, when initially applied, will have material impact on the financial statements as the group and the bank uses the exchange rate on the transaction date for the initial recognition of the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

Annual Improvements to IFRSs
Annual improvements to IFRSs 2014-2016 cycle were issued on 8 December 2016 and introduce two amendments to two standards and consequential amendments to other standards and interpretations that result in accounting changes for presentation, recognition or measurement purposes. The amendments on IFRS 12 Disclosure of Interest in Other Entities are effective for annual periods beginning on or after 1 January 2017 and amendments on IAS 28 Investments in Associates and Joint Ventures are effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively. Earlier application is permitted. None of these amendments are expected to have a significant impact on the financial statements of the group and bank.

The group/ bank is currently assessing the impact of these standards to its financial situation and operations. The group/ bank plans to implement these standards and interpretations on the effective date of their adoption by the EU.

Note 3

Interest income and expense

EUR'000

	Group	Group	Bank	Bank
	01.01.2016.– 31.12.2016.	01.01.2015.– 31.12.2015.	01.01.2016.– 31.12.2016.	01.01.2015.– 31.12.2015.
Interest income				
Total interest income of financial assets measured at fair value recognised in profit and loss	**37**	**403**	**37**	**-**
Interest income on available-for-sale securities				
on loans and advances to customers	36,530	34,904	36,447	34,579
on held-to-maturity securities	31,512	31,827	30,127	30,831
on available-for-sale securities	15,229	16,076	14,936	15,820
on balances due from credit institutions and central banks	2,711	2,338	2,661	2,317
Total interest income on available-for-sale financial assets at amortised cost	**85,982**	**85,145**	**84,171**	**83,547**
Total interest income	**86,019**	**85,548**	**84,208**	**83,547**
Interest expense				
on ordinary bonds issued	7,042	7,304	7,141	7,361
on subordinated liabilities	5,716	5,892	5,716	5,892
financial stability fee costs	3,566	425	3,566	425
Single Resolution Fund expense	2,019	1,337	2,019	1,337
on the deposit guarentee fund	1,606	4,690	1,606	4,690
on balances due to credit institutions and central banks	1,306	802	1,289	674
on deposits from non-bank customers	187	139	156	129
Total interest expense	**21,442**	**20,589**	**21,493**	**20,508**

The group's/ bank's interest income on impaired assets totalled EUR 3.3 (2.4) million. Negative interest income has been included in interest expenses on balances due to credit institutions and central banks.

Note 4

Commission and fee income and expense

EUR'000

Commission and fee income	Group 01.01.2016.– 31.12.2016.	Group 01.01.2015.– 31.12.2015.	Bank 01.01.2016.– 31.12.2016.	Bank 01.01.2015.– 31.12.2015.
commission on payment transfer handling on behlaf of customers	21,200	30,001	21,054	29,894
commission on account service	12,342	12,325	11,995	12,087
commission on handling of settlement cards	8,354	9,034	8,356	9,037
commission on brokerage operations	4,650	8,310	-	-
commission on assets management	3,301	2,363	407	628
commission on documentary operations	1,387	1,189	1,387	1,189
other commission and fee income	1,848	2,342	2,204	2,943
Total commission and fee income	**53,082**	**65,564**	**45,403**	**55,778**
Commission and fee income				
correspondent bank service charges	2,675	4,065	2,668	4,010
commission on payment cards	2,313	2,436	2,314	2,436
commission on customer attraction	1,571	2,385	8,584	9,036
commission on brokerage operations	1,297	1,409	-	-
other commission and fee expense	619	136	549	61
Total commission and fee expense	**8,475**	**10,431**	**14,115**	**15,543**

Note 5

Net gain on transactions with financial instruments and foreign exchange

EUR'000

Financial instruments at fair value through profit or loss	Group 01.01.2016.– 31.12.2016.	Group 01.01.2015.– 31.12.2015.	Bank 01.01.2016.– 31.12.2016.	Bank 01.01.2015.– 31.12.2015.
Gain/ (loss) from revaluation of financial instruments at fair value through profit or loss	1,693	(699)	1,693	(654)
Derivatives	59	4	59	4
Securities	1,634	(703)	1,634	(658)
Gain/ (loss) from trading with financial instruments at fair value through profit or loss	300	660	300	530
Derivatives	(87)	44	(87)	44
Securities	387	616	387	486
Net gain/ (loss) from financial instruments at fair value through profit or loss	**1,993**	**(39)**	**1,993**	**(124)**
Available-for-sale financial instruments				
Gain from sale of available-for-sale securities	22,031	1,763	21,950	1,711
Net realised gain from available-for-sale financial instruments	**22,031**	**1,763**	**21,950**	**1,711**
Financial instruments at amortised cost				
(Loss) from sale of held-to-maturity investments	-	(52)	-	(52)
Net realised (loss) from sale of financial instruments	**-**	**(52)**	**-**	**(52)**
Net result from foreign exchange trading and revaluation	**21,373**	**19,827**	**21,247**	**19,769**
Net gain on transactions with financial instruments and foreign exchange	**45,397**	**21,499**	**45,190**	**21,304**

During reporting period a EUR 16.4 million gain was recognized from VISA Europe Ltd. Available-for-sale share buyback transaction. It included a EUR 13.1 million cash transfer, deferred payment of EUR 1.1 million and additionally, 4 750 class C preferred shares of Visa Inc. were allocated to the bank and were recognized in available-for-sale portfolio with fair value on receipt determined at EUR 2.2 million.

Note 6

Net result on transactions with repossessed real estate

EUR'000

	Group 01.01.2016.–31.12.2016.	Group 01.01.2015.–31.12.2015.
Proceeds from disposal of repossessed real estate	12,079	16,498
Acquisition cost of disposed repossessed real estate	(11,068)	(15,992)
Cost of disposal of repossessed real estate	(66)	(28)
Net gain from sale	**945**	**478**
Proceeds from lease and management of repossessed real estate	330	425
Expense related to management of repossessed real estate	(486)	(576)
Impairment of repossessed real estate	(3,385)	(2,713)
Reversal of impairment of repossessed real estate	173	114
Net result on repossessed real estate	**(2,423)**	**(2,272)**

The net carrying amount of repossessed real estate properties disclosed as assets of the subsidiaries of Pillar Holding Company, KS amounts to EUR 41.3 (52.3) million, and the largest part of which 44.6% (34.8%) consists of land plots for private and commercial construction, and apartments comprise 29.2% (42.3%).
Other repossessed real estate includes private houses, commercial sites and parking lots and other auxiliary facilities, which are mostly located within new apartment building projects.

The management of the group has carried out a valuation of these non-financial assets – repossessed real estate (paragraph p)). Following the assessment, changes in reversal of impairment have been identified. Based on the analysis, in 2016 and 2015 the group recognised impairment of these assets.
The gross carrying amount of repossessed real estate properties disclosed as assets of the subsidiaries of Pillar Holding Company, KS amounts to EUR 50.2 (59.1) million and the impairment recognised for these assets at the reporting date was EUR 8.9 (6.8) million.
During the reporting period, impairment charge of repossessed real estate properties increased resulting from revaluation of assets of the subsidiary of the group Pillar 3, SIA. As a precaution, additional impairment of all assets of Pillar 3, SIA was recognized in the reporting period, based on the company's actual sales data of previous periods, additional impairment adjustment factor (10%) was applied to the part of the assets, which was found to bear the marks of lower liquidity.
The repossessed real estate recognised on the balance sheet of Pillar 3, SIA at the end of 2016 was EUR 15.9 (25.1) million, which comprised 38.5% (48.0%) of the total repossessed real estate of the group.

Note 7

Other operating income and expense

EUR'000

Other income	Group 01.01.2016.–31.12.2016.	Group 01.01.2015.–31.12.2015.	Bank 01.01.2016.–31.12.2016.	Bank 01.01.2015.–31.12.2015.
other income from sale of goods/services of related companies	2,518	5,979	-	-
income from financial consulting, legal, accounting and IT services	2,094	2,462	3,333	3,222
income from insurance	310	260	310	260
recognition of associates under the equity method	184	12	-	-
other operating income	755	868	435	164
Total other income	**5,861**	**9,581**	**4,078**	**3,646**
Other expense				
membership fees	1,441	1,363	1,223	1,154
other expense related to the sale of goods/services of related companies	1,126	4,983	-	-
losses of group due to loss of control	-	163	-	-
other expense	266	13	226	110
Total other expense	**2,833**	**6,522**	**1,449**	**1,264**

Decrease other operating income and expense during the reporting period is due to derecognition of other operating income and expenses of the holding company AmberStone Group, AS, by the group, because in June 2015 the group lost control over this holding company.

Note 8

Impairment allowance for loans

EUR'000

Category	Group 01.01.2016.– 31.12.2016.	Group 01.01.2015.– 31.12.2015.	Bank 01.01.2016.– 31.12.2016.	Bank 01.01.2015.– 31.12.2015.
Loans - individual allowances	27	3,811	322	3,431
Loans - portfolio allowances	379	2,979	359	2,942
Increase/ (decrease) in allowances for the reporting year	**406**	**6,790**	**681**	**6,373**
(Recovery) of write-offs/ loss from asset write-off	(738)	(902)	(738)	(890)
Impairment allowances establsihed during the reporting year, net	**(332)**	**5,888**	**(57)**	**5,483**

Changes in loan impairment allowances of the group in 2016:

EUR'000

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

As at 31 December 2016, the impairment allowances for loans represent 1.6% (2.7%) of the group's/bank's loan portfolio. The decrease in allowances for loans during the reporting period is mostly related to improvements in the quality of the mortgage loan portfolio and write-off of lost loans.

Changes in loan impairment allowances of the group in 2015:

EUR'000

	Mortgage	Business	Other	Consumer	**Total**
Allowances at the beginning of the year	**23,936**	**5,442**	**1,963**	**34**	**31,375**
Increase	7,131	7,097	486	440	15,154
(Decrease)	(5,778)	(1,899)	(285)	(402)	(8,364)
Total allowances for the year	**1,353**	**5,198**	**201**	**38**	**6,790**
(Decrease) in allowances for the year due to currency fluctations	46	(14)	-	-	32
(Elimination) of allowances for the year due to write-offs	(10,884)	(2,867)	(488)	(3)	(14,242)
Allowances at the end of the year	**14,451**	**7,759**	**1,676**	**69**	**23,955**
Individual allowances	234	6,164	-	-	6,398
Portfolio allowances	14,217	1,595	1,676	69	17,557
Total gross loans	**345,728**	**529,836**	**21,242**	**1,152**	**897,958**

Changes in loan impairment allowances of the bank in 2016:

EUR'000

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

Changes in loan impairment allowances of the bank in 2015:

EUR'000

	Mortgage	Business	Other	Consumer	Total
Allowances at the beginning of the year	**23,936**	**5,446**	**1,963**	**32**	**31,377**
Increase	7,131	6,681	484	440	14,736
(Decrease)	(5,778)	(1,899)	(284)	(402)	(8,363)
Total allowances for the year	**1,353**	**4,782**	**200**	**38**	**6,373**
(Decrease) in allowances for the year due to currency fluctations	46	(15)	-	-	31
(Elimination) of allowances for the year due to write-offs	(10,884)	(2,833)	(488)	(1)	(14,206)
Allowances at the end of the year	**14,451**	**7,380**	**1,675**	**69**	**23,575**
Individual allowances	234	5,785	-	-	6,019
Portfolio allowances	14,217	1,595	1,675	69	17,556
Total gross loans	**345,728**	**528,953**	**21,241**	**1,152**	**897,074**

Note 9

Administrative expense

EUR'000

Category	Group 01.01.2016.– 31.12.2016.	Group 01.01.2015.– 31.12.2015.	Bank 01.01.2016.– 31.12.2016.	Bank 01.01.2015.– 31.12.2015.
Remuneration to personnel, incl. Statutory Social Insurance Contributions	42,351	40,931	33,299	31,787
Remuneration to management, incl. Statutory Social Insurance Contributions	3,566	2,168	3,566	2,168
Total personnel expense	**45,917**	**43,099**	**36,865**	**33,955**
Consulting and professional services	4,016	3,337	2,991	2,462
Office maintenance	3,544	3,726	2,408	2,563
IT system maintenance and development	3,410	3,312	2,782	2,762
Penalty payment to State Treasury (see Note 37)	3,167	-	3,167	-
Advertising and marketing expenses	1,778	1,739	1,552	1,397
Communications and information resources	1,685	1,587	1,505	1,423
Other personnel expense	1,672	1,673	1,336	1,323
ML/TF inspection expenses (Navigant Consulting Inc.)	1,464	-	1,464	-
Non-deductible VAT	1,404	1,258	1,380	1,210
Donations	881	1,239	654	1,016
Other taxes	782	771	352	244
Sworn auditor statutory audit	138	165	70	57
Sworn auditor other audits	17	34	17	6
Sworn auditor tax consultation	-	15	-	6
Other administrative expense	397	96	229	192
Other administrative expense, total	**24,355**	**18,952**	**19,907**	**14,661**
Total administrative expense	**70,272**	**62,051**	**56,772**	**48,616**

In 2016 and 2015, the group employed an average of 809 (782) persons, whereas the bank employed an average of 655 (636) persons (full–time equivalent).

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

	Group 31.12.2016. number	Group 31.12.2015. number	Bank 31.12.2016. number	Bank 31.12.2015. number
Management	10	10	10	10
Heads of divisions and departments	152	142	105	102
Other personnel	665	645	550	542
Total at the end of the year	**827**	**797**	**665**	**654**

Note 10

Taxation

EUR'000

	Group 01.01.2016.– 31.12.2016.	Group 01.01.2015.– 31.12.2015.	Bank 01.01.2016.– 31.12.2016.	Bank 01.01.2015.– 31.12.2015.
Corporate income tax	3,130	4,150	2,258	3,178
Deferred tax asset from temporary differences	(750)	2,035	267	2,153
Tax paid abroad	122	197	122	197
Prior year corporate income tax adjustments	(15)	(10)	(23)	(4)
Total corporate income tax expense	**2,487**	**6,372**	**2,624**	**5,524**

Effective corporate income tax calculation:

EUR'000

	Group 01.01.2016.–31.12.2016.	Group 01.01.2015.–31.12.2015.	Bank 01.01.2016.–31.12.2016.	Bank 01.01.2015.–31.12.2015.
Profit before corporate income tax	81,303	68,246	81,961	74,563
Theoretical corporate income tax	**12,195**	**10,237**	**12,293**	**11,184**
Non-taxable portion for bonds which are publicly traded in the EU/EEA	(6,266)	(6,442)	(6,266)	(6,442)
Other permanent differences	(2,529)	1,605	(2,898)	(365)
Adjustments to prior-year corporate income tax	(15)	(10)	(23)	(4)
Adjustments to prior-year deferred tax	(152)	1,847	-	1,847
Unrecognized deferred tax asset	(73)	-	-	-
Minimum tax from operation	-	21	-	-
Tax rebate	(795)	(1,083)	(604)	(893)
Tax paid abroad	122	197	122	197
Total corporate income tax expense	**2,487**	**6,372**	**2,624**	**5,524**

Deferred tax movement of group:

EUR'000

	01.01.2016.				31.12.2016.		31.12.2016.
	Net balance	Recognized in profit or loss	Recognized in other comprehensive income	Excluded after loss of cotrol	Net balance	Deferred tax (assets)	Deferred tax liabilities
Temporary difference between tangible fixed asset carrying balance in financial accounting and for tax purposes	1,326	27	-	-	1,353	-	1,353
Fair value revaluation reserve	10	-	78	-	88	-	88
Revaluation of derivatives and securities	(29)	30	-	-	1		1
Revaluation of assets and reserve for unused vacation	(340)	212	-		(128)	(128)	-
Deferred tax asset from transactions within the group	(57)	-	-	-	(57)	(57)	-
Tax losses	(273)	(1,019)	-	-	(1,292)	(1,292)	-
Deferred tax (assets)/ liabilities before off-set	637	(750)	78	-	(35)	**(1,477)**	**1,442**
Tax off-set						76	(76)
Net tax (assets)/ liabilities						**(1,401)**	**1,366**

Deferred tax asset was not recognised with regard to tax losses of EUR 2.7 (2.2) million as it is not certain that future profits will be available to the group to use this asset.

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

EUR'000

	01.01.2015.				31.12.2015.		31.12.2015.
	Net balance	Recognized in profit or loss	Recognized in other comprehensive income	Excluded after loss of cotrol	Net balance	Deferred tax (assets)	Deferred tax liabilities
Temporary difference between tangible fixed asset carrying balance in financial accounting and for tax purposes	2,417	(1,091)	-	-	1,326	-	1,326
Fair value revaluation reserve	(294)	-	304	-	10	-	10
Revaluation of derivatives and securities	(265)	236	-	-	(29)	(29)	-
Revaluation of assets and reserve for unused vacations	(2,242)	1,828	-	74	(340)	(340)	-
Deferred tax asset from transactions within the group	(58)	1	-	-	(57)	(57)	-
Tax losses	(1,334)	1,061	-	-	(273)	(273)	-
Deferred tax (assets)/ liabilities before off-set	(1,776)	2,035	304	74	637	**(699)**	**1,336**
Tax off-set						320	(320)
Net tax (assets)/ liabilities						**(379)**	**1,016**

Deferred tax movement of bank:

EUR'000

	01.01.2016.				31.12.2016.	31.12.2016.
	Net balance	Recognized in profit or loss	Recognized in other comprehen-sive income	Excluded after loss of cotrol	Net balance	Deferred tax (assets)
Temporary difference between tangible fixed asset carrying balance in financial accounting and for tax purposes	1,232	25	-	1,257	-	1,257
Fair value revaluation reserve	10	-	78	88	-	88
Revaluation of derivatives and securities	(29)	30	-	1	-	1
Revaluation of assets and reserve for unused vacations	(212)	212	-	-	-	-
Deferred tax (assets)/ liabilities before off-set	1,001	267	78	1,346	**-**	**1,346**
Tax off-set					-	-
Net tax (assets)/ liabilities					**-**	**1,346**

EUR'000

	01.01.2015.			31.12.2015.		31.12.2015.
	Net balance	Recognized in profit or loss	Recognized in other comprehen-sive income	Net balance	Deferred tax (assets)	Deferred tax liabilities
Temporary difference between tangible fixed asset carrying balance in financial accounting and for tax purposes	1,173	59	-	1,232	-	1,232
Fair value revaluation reserve	(294)	-	304	10	-	10
Revaluation of derivatives and securities	(265)	236	-	(29)	(29)	-
Revaluation of assets and reserve for unused vacations	(2,070)	1,858	-	(212)	(212)	-
Deferred tax (assets)/ liabilities before off-set	(1,456)	2,153	304	1,001	**(241)**	**1,242**
Tax off-set					241	(241)
Net tax (assets)/ liabilities					**-**	**1,001**

Taxes paid by the group and the bank:

EUR'000

	Group	Group	Bank	Bank
Tax	01.01.2016.– 31.12.2016.	01.01.2015.– 31.12.2015.	01.01.2016.– 31.12.2016.	01.01.2015.– 31.12.2015.
Corporate income tax	2,987	3,609	1,612	3,111
Personal income tax	8,136	7,846	7,180	6,902
Statutory social insurance contributions	10,863	7,814	9,333	6,567
Value added tax	(746)	844	140	159
Real estate tax	751	652	367	244
Risk duty	3	4	3	3
Natural resource tax	2	3	1	-
Total	**21,996**	**20,772**	**18,636**	**16,986**

Note 11

Cash and deposits with central banks

EUR'000

	Group 31.12.2016.	Group 31.12.2015.	Bank 31.12.2016.	Bank 31.12.2015.
Demand deposits with the Bank of Latvia	398,719	438,528	398,719	438,528
Cash on hand	14,331	9,662	14,328	9,659
Demand deposits with Banque de Luxembourg	1,381	946	-	-
Total cash and deposits with central banks	**414,431**	**449,136**	**413,047**	**448,187**

As at 31 December 2016 and 2015, the bank had no overdue balances due from central banks.

Note 12

Balances due from credit institutions

As at 31 December 2016, the bank had established correspondent relationships with 32 (32) credit institutions registered in the EU and OECD area, 4 (4) credit institutions registered in Latvia, and 36 (38) credit institutions incorporated in other countries.
The group's and bank's major balances due from credit institutions at the reporting date were as follows: Bank of China Limited (Singapore Branch), EUR 48.0 (46.1) million, Landesbank Baden-Wuerttemberg, EUR 45.5 (114.6) million, UBS Switzerland AG EUR 27.0 (18.5) million.

EUR'000

Demand deposits with credit institutions	Group 31.12.2016.	Group 31.12.2015.	Bank 31.12.2016.	Bank 31.12.2015.
Correspondent account balances	178,833	363,058	175,484	359,850
Overnight deposits	3,734	-	16,067	5,000
Total demand deposits with credit institutions	**182,567**	**363,058**	**191,551**	**364,850**
Other balances due from credit institutions				
Term deposits	79,189	296,893	79,189	296,893
Other balances	10,764	10,029	10,764	10,029
Total other balances due from credit institutions	**89,953**	**306,922**	**89,953**	**306,922**
Total balances due from credit institutions	**272,520**	**669,980**	**281,504**	**671,772**

As at 31 December 2016, part of the group's and bank's balances due from credit institutions totalling EUR 24.8 (49.7) million and EUR 24.3 (49.2) million respectively were pledged to secure transactions with financial instruments other than cash equivalents. Cash equivalents do not include the group's and bank's term deposits of EUR 51.1 (5.3) million.

As at 31 December 2016 and 2015, the group's and bank's balances due from credit institutions were neither past due nor impaired. The maximum credit risk exposure of the balances due from credit institutions is equal to the carrying amount of these assets.

Note 13

Financial assets at fair value through profit or loss

EUR'000

Issuer	Group 31.12.2016.	Group 31.12.2015.	Bank 31.12.2016.	Bank 31.12.2015.
Fixed-income debt securities				
Corporate companies	12,352	9,322	-	-
Credit institutions	6,647	1,479	4,671	-
Central governments and central banks	2,483	511	-	-
Financial auxillaries and other financial intermediaries	229	162	-	-
Municipalities	112	13	-	-
Total fixed-income debt securities	21,823	11,487	4,671	-
Equity shares				
Corporate companies	272	1,506	272	1,506
Credit institutions	-	1,100	-	1,100
Total investments in equity shares	272	2,606	272	2,606
Investments in funds	6,321	12,028	16,067	19,680
Total financial instruments at fair value	**28,416**	**26,121**	**21,010**	**22,286**

The maximum credit risk exposure of securities designated at fair value is equal to the carrying amount of these assets. As at 31 December 2016, the group's and the bank's investments at fair value of EUR 5.3 (11.1) million and EUR 15.0 (18.7) million respectively in open-ended investment funds registered in Latvia, which are redeemable at net asset value, were not listed on stock exchanges.

Ten largest exposures as at 31 December 2016 amounted to 42.6% (46.6%) of the total group's financial assets at fair value through profit or loss, whereas ten largest exposures of the total bank's financial assets at fair value through profit or loss, amounted to 99.9% (87.9%).

Note 14

Available-for-sale financial assets

EUR'000

Issuer	Group 31.12.2016.	Group 31.12.2015.	Bank 31.12.2016.	Bank 31.12.2015.
Fixed-income debt securities				
Central governments	630,171	1,447,424	608,301	1,425,277
Credit institutions	237,546	238,795	214,832	223,449
International organisations	67,092	64,864	67,092	64,864
Corporate companies	64,766	33,008	41,776	31,094
Municipalities	22,760	19,510	17,013	16,590
Financial auxillaries and other financial intermediaries	6,974	6,651	4,806	6,651
Total fixed-income debt securities	1,029,309	1,810,252	953,820	1,767,925
Equity shares				
Financial auxillaries and other financial intermediaries	2,974	12,398	2,974	12,398
Corporate companies	300	231	300	231
Total investments in equity shares	3,274	12,629	3,274	12,629
Investments in funds	9,991	10,192	-	-
Total available-for-sale financial instruments	**1,042,574**	**1,833,073**	**957,094**	**1,780,554**

The maximum credit risk exposure of securities designated at fair value is equal to the carrying amount of these assets. During the reporting period, an impairment allowance was recognised for available-for-sale debt securities in the amount of EUR 0.3 (1.1) million.

Most of the debt securities' portfolio – 88.9% (90.9%) of assets - has been invested by the bank in investment-grade securities. At the end of the reporting year, the weighted average duration of the bank's securities portfolio was 2.5 (2.5) years.

Ten largest exposures as at 31 December 2016 amounted to 62.2% (78.1%) of the total group's available-for-sale financial assets, whereas ten largest exposures of the total bank's available-for-sale financial assets as at 31 December 2016 amounted to 66.5% (79.3%).

Note 15

Held-to-maturity financial instruments

EUR'000

Issuer	Group 31.12.2016.	Group 31.12.2015.	Bank 31.12.2016.	Bank 31.12.2015.
Fixed-income debt securities				
Central governments and central banks	645,800	602,613	623,428	587,571
Corporate companies	185,403	164,235	159,001	147,119
Credit institutions	120,197	150,774	109,754	137,603
Municipalities	71,615	69,339	69,214	67,014
International organisations	30,322	30,136	28,667	28,512
Financial auxillaries and other financial intermediaries	1,982	516	978	-
Total held-to-maturity financial instruments, gross	**1,055,319**	**1,017,613**	**991,042**	**967,819**
Impairment allowance	(1,332)	(2,566)	(1,332)	(2,566)
Total held-to-maturity financial instruments, net	**1,053,987**	**1,015,047**	**989,710**	**965,253**

The maximum credit risk exposure of held-to-maturity portfolio securities is equal to their carrying amount.

The largest part of the group's portfolio of held-to-maturity securities, 84.9% (81.0%), is invested in investment grade securities. Whereas, the share of the portfolio of held-to-maturity securities that the bank has invested in investment grade securities is 84.1% (80.4%).

As at 31 December 2016, part of the held-to-maturity financial instruments totalling EUR 4.6 (9.4) million were pledged for securing transactions with financial instruments and held-to-maturity financial instruments totalling EUR 53.2 (143.4) million for securing targeted longer-term refinancing operations (TLTRO).

Ten largest exposures as at 31 December 2016 amounted to 59.6% (58.0%) of the total group's held-to-maturity financial instruments, whereas ten largest exposures of the total bank's held-to-maturity financial instruments as at 31 December 2016 amounted to 62.5% (60.1%).

EUR'000

	Group/ bank 01.01.2016.– 31.12.2016.	Group/ bank 01.01.2015.– 31.12.2015.
Impairment allowance at the beginning of the period	**2,566**	**1,963**
Increase	623	1,235
(Decrease)	(856)	(587)
(Decrease) due asset to write-offs	(1,017)	(89)
Changes in allowances for the year due to currency fluctations	16	44
Impairment allowance at the end of the period	**1,332**	**2,566**

Note 16

Derivatives

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

EUR'000

	Group 31.12.2016.			Bank 31.12.2016.			Group/ bank 31.12.2015.		
	Notional ammount	Fair value Assets	Fair value Liabilities	Notional ammount	Fair value Assets	Fair value Liabilities	Notional ammount	Fair value Assets	Fair value Liabilities
Gold futures	405	59	-	405	59	-	405	4	-
Currency forwards	19,934	565	42	2,903	21	42	5,357	117	365
Total derivatives	**20,339**	**624**	**42**	**3,308**	**80**	**42**	**5,762**	**121**	**365**

The bank uses derivative foreign currency exchange instruments in order to manage currency positions.
As at 31 December 2016 and 31 December 2015, payments related to derivatives were not past due.

Note 17

Loans and receivables

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

EUR'000

Customer profile	Group 31.12.2016.	Group 31.12.2015.	Bank 31.12.2016.	Bank 31.12.2015.
Corporate companies	483,065	406,752	465,337	405,868
Private individuals	348,924	372,906	348,840	372,906
Financial auxiliaries and other financial intermediaries	204,382	118,300	204,382	118,300
Credit institutions	9,940	-	9,940	-
Total gross loans	1,046,311	897,958	1,028,499	897,074
Impairment allowance	(16,367)	(23,955)	(16,353)	(23,575)
Total net loans	**1,029,944**	**874,003**	**1,012,146**	**873,499**

As at 31 Decebmer 2016, a part of liabilities of the group and the bank to other financial intermediaries in the amount of EUR 22.8 (35.1) million was pledged to secure transactions with financial instruments.

More detailed information about impairment allowances for loans is disclosed in Note 8.

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

Ten largest exposures of the group as at 31 December 2016 amounted to 22.9% (23.1%) of the total group’s net loan portfolio, however, those of the bank amounted to 23.3% (23.1%) of the total bank's net loan portfolio. No individual impairment allowances has been established for these loans.

The breakdown of loans issued by the group and the bank by category:

EUR'000

	31.12.2016.			31.12.2015.		
Category	Carrying amount	Off-balance sheet amount	Total exposure, gross	Carrying amount	Off-balance sheet amount	Total exposure, gross
Group						
Ordinary loans	851,391	27,517	878,908	772,641	33,768	806,409
Credit lines	109,505	61,672	171,177	99,448	17,205	116,653
Receivable from finance intermediaries	56,395	-	56,395	11,790	-	11,790
Security payments for financial transactions	13,994	-	13,994	7,733	-	7,733
Balances on current accounts	3,261	-	3,261	4,539	-	4,539
Balances on payment cards	1,548	13,187	14,735	1,807	15,708	17,515
Debt securities	10,217	-	10,217	-	-	-
Total gross loans	**1,046,311**	**102,376**	**1,148,687**	**897,958**	**66,681**	**964,639**
Impairment allowance	(16,367)	-	(16,367)	(23,955)	-	(23,955)
Total net loans	**1,029,944**	**102,376**	**1,132,320**	**874,003**	**66,681**	**940,684**
Bank						
Ordinary loans	833,603	27,517	861,120	771,757	33,768	805,525
Credit lines	109,506	61,672	171,178	99,448	17,205	116,653
Receivable from finance intermediaries	56,395	-	56,395	11,790	-	11,790
Security payments for financial transactions	13,994	-	13,994	7,733	-	7,733
Balances on current accounts	3,236	-	3,236	4,539	-	4,539
Balances on payment cards	1,548	13,257	14,805	1,807	15,775	17,582
Debt securities	10,217	-	10,217	-	-	-
Total gross loans	**1,028,499**	**102,446**	**1,130,945**	**897,074**	**66,748**	**963,822**
Impairment allowance	(16,353)	-	(16,353)	(23,575)	-	(23,575)
Total net loans	**1,012,146**	**102,446**	**1,114,592**	**873,499**	**66,748**	**940,247**

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

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

EUR'000

	31.12.2016.				31.12.2015.			
		Portfolio allowances		Total		Portfolio allowances		Total
Category	Individual allowances	allowances for impaired loans	allowances for not impaired loans		Individual allowances	allowances for impaired loans	allowances for not impaired loans	
Group								
Mortgage	281	6,780	750	7,811	234	13,241	976	14,451
Business	4,490	256	2,364	7,110	6,164	185	1,410	7,759
Other	-	1,365	-	1,365	-	1,676	-	1,676
Consumer	-	81	-	81	-	69	-	69
Total impairment allowances for loans	**4,771**	**8,482**	**3,114**	**16,367**	**6,398**	**15,171**	**2,386**	**23,955**
Bank								
Mortgage	281	6,781	749	7,811	234	13,241	976	14,451
Business	4,490	245	2,369	7,104	5,785	185	1,410	7,380
Other	-	1,365	-	1,365	-	1,675	-	1,675
Consumer	-	73	-	73	-	69	-	69
Total impairment allowances for loans	**4,771**	**8,464**	**3,118**	**16,353**	**6,019**	**15,170**	**2,386**	**23,575**

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

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

EUR'000

	Group	Group	Bank	Bank
Industry	31.12.2016.	31.12.2015.	31.12.2016.	31.12.2015.
Mortgage loans to private individuals	307,772	324,731	307,772	324,731
Real estate management	272,525	255,112	277,265	255,112
Financial and insurance activities	213,969	118,086	213,970	118,087
Trading	58,872	47,951	49,530	47,951
Other loans to private individuals	30,914	30,646	30,837	30,646
Manufacturing	29,958	9,964	29,958	9,964
Transportation and logistics	28,099	9,912	28,099	9,912
Energy	3,831	5,148	3,831	5,148
Agriculture	3,781	4,751	3,781	4,751
Construction	13,372	60	278	60
Other industries	66,851	67,642	66,825	67,137
Total net loans	**1,029,944**	**874,003**	**1,012,146**	**873,499**

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

EUR'000

	Group	Group	Bank	Bank
Country	31.12.2016.	31.12.2015.	31.12.2016.	31.12.2015.
Latvia	721,342	639,138	726,057	638,634
Russian Federation	135,441	111,867	113,008	111,867
United States of America	51,366	11,611	51,366	11,611
Great Britain	30,832	19,285	30,831	19,285
Ukraine	17,961	18,001	17,961	18,001
Total other countries	73,002	74,101	72,923	74,101
Total net loans	**1,029,944**	**874,003**	**1,012,146**	**873,499**

Collateral analysis for the group's loans:

EUR'000

Category	Total gross loans	Deposit	Securities	Real estate	Other collateral	Fair value of collateral, total
						31.12.2016.
Mortgage	**321,909**	**197**	**-**	**355,429**	**376**	**356,002**
LTV up to 100%	123,990	197	-	224,076	376	224,649
LTV over 100%	197,919	-	-	131,353	-	131,353
Business	**641,118**	**46,008**	**351,877**	**607,085**	**260,567**	**1,265,537**
LTV up to 100%	604,239	46,008	351,877	590,695	260,458	1,249,038
LTV over 100%	36,879	-	-	16,390	109	16,499
Other	**82,015**	**-**	**-**	**-**	**1**	**1**
LTV up to 100%	-	-	-	-	-	-
LTV over 100%	82,015	-	-	-	1	1
Consumer	**1,269**	**1,895**	**18**	**-**	**-**	**1,913**
LTV up to 100%	405	1,895	18	-	-	1,913
LTV over 100%	864	-	-	-	-	-
Total gross loans	**1,046,311**	**48,100**	**351,895**	**962,514**	**260,944**	**1,623,453**
Impairment allowance	(16,367)					
Total net loans	**1,029,944**					
Category						31.12.2015.
Mortgage	**345,728**	**7**	**-**	**361,203**	**100**	**361,310**
LTV up to 100%	121,494	7	-	216,846	100	216,953
LTV over 100%	224,234	-	-	144,357	-	144,357
Business	**529,836**	**22,845**	**314,832**	**518,402**	**69,497**	**925,576**
LTV up to 100%	489,384	21,942	314,832	494,673	68,824	900,271
LTV over 100%	40,452	903	-	23,729	673	25,305
Other	**21,242**	**-**	**-**	**-**	**1**	**1**
LTV up to 100%	-	-	-	-	-	-
LTV over 100%	21,242	-	-	-	1	1
Consumer	**1,152**	**2,002**	**-**	**-**	**-**	**2,002**
LTV up to 100%	382	2,002	-	-	-	2,002
LTV over 100%	770	-	-	-	-	-
Total gross loans	**897,958**	**24,854**	**314,832**	**879,605**	**69,598**	**1,288,889**
Impairment allowance	(23,955)					
Total net loans	**874,003**					

LTV[5] above 100% does not generate significant risk as allowances are recognised both for existing losses and losses that have been incurred but are not yet known. The need for allowances is assessed by taking into account the unsecured portion of a mortgage and consumer loan and the statistics collected on loan movements to lower quality groups. Allowances for corporate loans are recognised if the primary source of repayment or cash flows from operating activities of the client and the secondary source of repayment, or potential income from the sale of collateral becomes insufficient for repayment of the loan. As concerns other loans, the most significant part is brokerage accounts and security deposits which are partially covered by customer funds.

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

Collateral analysis for the bank's loans:

EUR'000

Category	Total gross loans	Deposit	Securities	Real estate	Other collateral	Fair value of collateral, total
Category						31.12.2016.
Mortgage	**321,909**	**198**	**-**	**355,429**	**376**	**356,003**
LTV up to 100%	123,990	198	-	224,076	376	224,650
LTV over 100%	197,919	-	-	131,353	-	131,353
Business	**623,390**	**27,461**	**354,991**	**613,210**	**260,568**	**1,256,230**
LTV up to 100%	586,504	27,461	354,991	596,820	260,459	1,239,731
LTV over 100%	36,886	-	-	16,390	109	16,499
Other	**82,015**	**-**	**-**	**-**	**1**	**1**
LTV up to 100%	-	-	-	-	-	-
LTV over 100%	82,015	-	-	-	1	1
Consumer	**1,185**	**1,838**	**-**	**-**	**-**	**1,838**
LTV up to 100%	331	1,838	-	-	-	1,838
LTV over 100%	854	-	-	-	-	-
Total gross loans	**1,028,499**	**29,497**	**354,991**	**968,639**	**260,945**	**1,614,072**
Impairment allowance	(16,353)					
Total net loans	**1,012,146**					
Category						31.12.2015.
Mortgage	**345,728**	**7**	**-**	**361,203**	**100**	**361,310**
LTV up to 100%	121,494	7	-	216,846	100	216,953
LTV over 100%	224,234	-	-	144,357	-	144,357
Business	**528,953**	**22,845**	**314,832**	**512,802**	**67,257**	**917,736**
LTV up to 100%	488,501	21,942	314,832	489,073	66,584	892,431
LTV over 100%	40,452	903	-	23,729	673	25,305
Other	**21,241**	**-**	**-**	**-**	**1**	**1**
LTV up to 100%	-	-	-	-	-	-
LTV over 100%	21,241	-	-	-	1	1
Consumer	**1,152**	**2,002**	**-**	**-**	**-**	**2,002**
LTV up to 100%	382	2,002	-	-	-	2,002
LTV over 100%	770	-	-	-	-	-
Total gross loans	**897,074**	**24,854**	**314,832**	**874,005**	**67,358**	**1,281,049**
Impairment allowance	(23,575)					
Total net loans	**873,499**					

The principles for determining the fair value of collateral are described in Note 32.
During the reporting year, the real estate with a total value of EUR 1.2 (8.6) million was taken over.

Note 18

Investments in subsidiaries and associates

The group's investments in associates:

EUR'000

Company	Country of incor-poration	31.12.2016. Share capital	Equity (non-audited)	Group's share of total share capital, %	Carrying amount under equity method	31.12.2015. Share capital	Equity (non-audited)	Group's share of total share capital, %	Carrying amount under equity method
AmberStone Group, AS	LV	35,000	40,886	24.28	9,117	35,000	40,158	24.64	9,068
Total investments in associates		**35,000**	**40,886**	**x**	**9,117**	**35,000**	**40,158**	**x**	**9,068**

The bank's investments in associates:

EUR'000

Company	Country of incor-poration	31.12.2016. Share capital	Equity (non-audited)	Group's share of total share capital, %	Carrying amount under equity method	31.12.2015. Share capital	Equity (non-audited)	Group's share of total share capital, %	Carrying amount under equity method
AmberStone Group, AS	LV	35,000	40,886	24.28	8,635	35,000	40,158	24.64	8,770
Total investments in associates		**35,000**	**40,886**	**x**	**8,635**	**35,000**	**40,158**	**x**	**8,770**

Movements in the investments in subsidiaries and associates:

EUR'000

	Group 01.01.2016.– 31.12.2016.	Group 01.01.2015.– 31.12.2015.	Bank 01.01.2016.– 31.12.2016.	Bank 01.01.2015.– 31.12.2015.
Investments at the beginning of the year	**9,068**	**2**	**8,770**	**-**
Establishment/(disposal) of associates	(135)	(2)	(135)	-
Change in investments in associates under equity method	184	12	-	-
Increase in investments in associates as a result of loss of control over subsidiary	-	9,056	-	8,770
Investments at the end of the year	**9,117**	**9,068**	**8,635**	**8,770**

Consolidated operating results of associated company Amberstone Group, AS:

EUR'000

Position	31.12.2016. (non-audited)	31.12.2015. (audited)
Non-current assets	27,826	24,432
Current assets	25,888	29,277
Total assets	**53,714**	**53,709**
Non-current liabilities	8,597	8,294
Current liabilities	4,231	5,800
Total liabilities	**12,828**	**14,094**
Total equity	40,886	39,615
profit/(loss) for the reporting period	759	(5)
Total equity and liabilities	**53,714**	**53,709**

Changes in non-controlling interest:

EUR'000

	Group 01.01.2016.– 31.12.2016.	Group 01.01.2015.– 31.12.2015.
Non-controling interest at the beginning of the year	**876**	**12,337**
Increase in non-controling share investement	1,723	126
Part of profit related to the non-controling share	222	597
Distributed dividends	(550)	(292)
Issue of personnel shares	-	36
(Decrease) in non-controling share as a result of losing control	-	(11,928)
Non-controling share at the end of the year	**2,271**	**876**

Group entities:

No	Company	Country of incorpo-ration	Registration number	Business profile	31.12.2016. Share in the entity's capital (%)	31.12.2016. Share in the entity's capital with voting rights (%)	31.12.2015. Share in the entity's capital (%)	31.12.2015. Share in the entity's capital with voting rights (%)
1	ABLV Bank, AS	LV	50003149401	Financial services	100	100	100	100
2	ABLV Bank Luxembourg, S.A.	LU	B 162048	Financial services	100	100	100	100
3	ABLV Consulting Services, AS	LV	40003540368	Consulting services	100	100	100	100
4	ABLV Advisory Services, SIA	LV	40103964811	Consulting services	100	100	-	-
5	ABLV Corporate Services Holding Company, SIA	LV	40103799987	Holding company	100	100	100	100
6	ABLV Corporate Services, SIA	LV	40103283479	Consulting services	100	100	100	100
7	ABLV Corporate Services, LTD	CY	HE273600	Consulting services	100	100	100	100
8	ABLV Capital Markets, IBAS	LV	40003814705	Financial services	90	100	90	100
9	ABLV Asset Management, IPAS	LV	40003814724	Financial services	90	100	90	100
10	PEM, SIA	LV	40103286757	Investment project management	51	51	100	100
11	PEM 1, SIA	LV	40103551353	Wholesale trade services of other machinery and equipment	51	51	17.3	17.3
12	ABLV Private Equity Fund 2010, KS	LV	40103307758	Investment activities	-	-	100	100
13	New Hanza Capital, AS	LV	50003831571	Holding company	88	88	91.6	91.6
14	NHC 1, SIA	LV	50103247681	Investments in real estate	88	88	100	100
15	NHC 2, SIA	LV	40103963977	Investments in real estate	88	88	-	-
16	NHC 3, SIA	LV	50103994841	Investments in real estate	88	88	-	-
17	NHC 4, SIA	LV	40203032424	Investments in real estate	88	88	-	-
18	NHC 5, SIA	LV	50203032411	Investments in real estate	88	88	-	-
19	NHC 6, SIA	LV	40203032439	Investments in real estate	88	88	-	-
20	Pillar, SIA	LV	40103554468	Holding company	100	100	100	100
21	Pillar Holding Company, KS	LV	40103260921	Holding company	100	100	100	100
22	Pillar 3, SIA	LV	40103193067	Real estate transactions	100	100	100	100
23	Pillar 4 & 6, SIA	LV	40103210494	Real estate transactions	100	100	100	100
24	Pillar 7 & 8, SIA	LV	40103240484	Real estate transactions	100	100	100	100
25	Pillar 9, SIA	LV	40103241210	Real estate transactions	100	100	100	100
26	Pillar 11, SIA	LV	40103258310	Real estate transactions	100	100	100	100
27	Pillar 2, 12 & 14, SIA	LV	50103313991	Real estate transactions	100	100	100	100
28	Pillar 18, SIA	LV	40103492079	Real estate transactions	100	100	100	100
29	Pillar 19, SIA	LV	40103766952	Real estate transactions	100	100	100	100
30	Pillar 20, SIA	LV	40103903056	Real estate transactions	100	100	100	100
31	Pillar 21, SIA	LV	40103929286	Real estate transactions	100	100	100	100
32	Pillar 22, SIA	LV	50103966301	Real estate transactions	100	100	-	-
33	Pillar Management, SIA	LV	40103193211	Real estate management and administration	100	100	100	100
34	Pillar RE Services, SIA	LV	40103731804	Parking management	100	100	100	100
35	Pillar Contractor, SIA	LV	40103929498	Management and coordination of construction processes	100	100	100	100
36	Pillar Architekten, SIA	LV	40103437217	Designing and designers supervision	100	100	100	100
37	Pillar Development, SIA	LV	40103222826	Infrastructure maintenance	100	100	100	100
38	Pillar Utilities, SIA	LV	40103693339	Infrastructure management	100	100	100	100
39	ABLV Building Complex, SIA	LV	40203037667	Investments in real estate	100	100	-	-

Open-ended mutual funds included in the group:

					31.12.2016.	31.12.2015.
No	Open-end mutual fund	Country of registra-tion	ISIN	Fund type	Share in the entity's capital (%)	Share in the entity's capital (%)
1	ABLV Multi-Asset Total Return USD Fund	LV	LV0000400919	Total return fund	70.6	76.0
2	ABLV High Yield CIS RUB Bond Fund	LV	LV0000400778	Corporate bond fund	69.3	69.3
3	ABLV Emerging Markets Corporate USD Bond Fund	LV	LV0000400935	Corporate bond fund	58.4	86.6
4	ABLV European Industry EUR Equity Fund	LV	LV0000400844	Equity fund	54.6	57.5

The bank's investments in subsidiaries:

EUR'000

		31.12.2016.				31.12.2015.			
Company	Country of incor-poration	Share capital	Equity	Bank's share of total share capital, %	Carrying amount	Share capital	Equity	Bank's share of total share capital, %	Carrying amount
Pillar Holding Company, KS	LV	75,000	54,373	100	75,000	85,000	69,068	100	85,000
ABLV Bank Luxembourg, S.A.	LU	25,000	15,191	100	25,000	25,000	14,430	100	25,000
Pillar Development, SIA	LV	15,600	14,087	100	15,600	12,300	11,275	100	12,300
New Hanza Capital, AS	LV	15,000	14,904	88	13,200	-	-	-	-
ABLV Building Complex, SIA	LV	8,500	8,497	100	8,500	-	-	-	-
Pillar Management, SIA	LV	1,000	991	100	1,073	1,000	975	100	1,073
ABLV Capital Markets, IBAS	LV	1,000	4,173	90	900	1,000	6,423	90	900
ABLV Consulting Services, AS	LV	711	907	100	711	711	802	100	711
ABLV Asset Management, IPAS	LV	650	830	90	585	650	1,032	90	585
PEM, SIA	LV	100	849	51	51	100	(256)	100	100
ABLV Corporate Services Holding Company, SIA	LV	100	211	100	100	100	141	100	100
Pillar, SIA	LV	3	(2)	100	6	3	2	100	6
ABLV Advisory Services, SIA	LV	3	26	100	3	-	-	-	-
ABLV Private Equity Fund 2010, KS	LV	-	-	-	-	50	2,492	100	50
Total bank's investments in subsidiaries, gross		**142,667**	**115,037**	**x**	**140,729**	**125,914**	**106,384**	**x**	**125,825**
Allowance for impairment					(20,784)				(14,559)
Total bank's investments in subsidiaries, net					**119,945**				**111,266**

Management believes that the investment in the Bank's subsidiary ABLV Bank Luxembourg, S.A. is not impaired, as the present value of future cash flows exceeds the bank's investment in the subsidiary and amounts to EUR 36.8 (46.8) million. As at 31 December 2015, the value of this investment was measured by the management of the bank using a different valuation method, therefore they are not directly comparable. The projected cash flow is discounted with a 12.2% (11.0%) discount rate. The estimates are based on the approved financial plan of ABLV Bank Luxembourg, S.A. for time period from 2017 to 2026, assuming that the profit of the subsidiary can be distributed in dividends, observing the minimum capital adequacy ratio determined by the Regulation. The first operating years of ABLV Bank Luxembourg, S.A. were planned with significant losses due to administrative expenses and low income. In further periods the expected income from client commissions and interest income increase significantly, thus exceeding the administrative costs and achieving profit. The compound annual growth rate from operating activities is forecast to be 16.7% (24.0%), compared to the actual data of 2016. Should the discount rate used in the calculations increase by 1 percentage point – to 13.2%, then the forecast present value of future cash flows would decrease by 10.3% to EUR 32.9 million. However, if profit from operating activities is forecast to grow at a slower pace – by 2 percentage points, then the forecast present value of future cash flows would decrease by 19.2% to EUR 29.6 million, which still exceeds the carrying amount of the bank's investment in ABLV Bank Luxembourg, S.A..

During the reporting period, the bank established a new subsidiary ABLV Building Complex, SIA with share capital of EUR 8.5 million. The new subsidiary will be the contracting authority for the construction of the head office building complex of the bank.

During the reporting period, according to prior plans the subsidiary ABLV Private Equity Fund 2010, KS was liquidated. This subsidiary was an investment fund, which was established to make investments in leading and prospective Latvian companies. During the operation of the fund, several investment projects were realised, which provided more than 20% annual profitability for invested capital. As all of the ABLV Private Equity Fund 2010, KS, investments were realised, the bank decided to liquidate the company.

Customer assets under trust management by ABLV Asset Management, IPAS and assets of the open investment funds managed by ABLV Asset Management, IPAS at the end of the reporting period amount to EUR 127.2 (131.2) million. Customer financial instruments of ABLV Capital Markets, IBAS at the end of the reporting period amount to EUR 1.27 (1.15) billion. The bank and ABLV Capital Markets, IBAS provide investments services to customers jointly: ABLV Capital Markets, IBAS accepts customer orders for transactions with financial instruments and the bank executes these orders and acts as the custodian of customer financial instruments.
Credit risk and other risks related to these assets are borne by the customer, who provided these assets the group and/or the bank for trust management.

Movements in the allowance for impairment of subsidiaries:

		EUR'000
	Bank	Bank
	01.01.2016.– 31.12.2016.	01.01.2015.– 31.12.2015.
Allowance for impairement at the beginning of the period	**14,559**	**11,719**
Increase in allowance for impairement	6,225	2,840
Allowance for impairement at the end of the period	**20,784**	**14,559**

During the reporting period the bank recognised allowance impairment of its subsidiary Pillar Holding Company, KS amounting to EUR 6.2 (2.8) million.
This allowance impairment is related to the decrease in estimated cash flow expected to be generated by subsidiary operations (see Note 6). The recoverable value of the investment was measured at value in use determined by discounting future cash flows from the sale of property owned by subsidiaries at the expected market value on the date of sale net of selling and maintenance costs of this property. If the cash flow discount rate of Pillar Holding Company, KS was increased by 1 percentage point to 4.0%, then the investment in subsidiaries would decrease by 1.3% or EUR 0.5 million.

Movements in the bank's investment in subsidiaries:

		EUR'000
	Bank	Bank
	01.01.2016.– 31.12.2016.	01.01.2015.– 31.12.2015.
Investments at the beginning of period, gross	**125,825**	**126,818**
Established/ (dispossessed) subsidiaries	21,703	1,073
(Decrease) in investments due to the loss of control	-	(5,725)
Increase in investments in subsidiaries	3,300	6,980
Decrease in investments in subsidiaries	(10,099)	(3,321)
Investments at the end of the period, gross	**140,729**	**125,825**
Allowance for impairment	(20,784)	(14,559)
Investments at the end of the period, net	**119,945**	**111,266**

Note 19

Investment properties

				EUR'000
	Group	Group	Bank	Bank
	31.12.2016.	31.12.2015.	31.12.2016.	31.12.2015.
Land	23,306	22,142	24,910	24,910
Buildings	11,384	834	148	159
Total investment properties	**34,690**	**22,976**	**25,058**	**25,069**

In 2016, the bank's lease and rent income from investments in real estate amounted to EUR 86.0 (29.8) thousand, maintenance expenses – EUR 290.1 (187.8) thousand, including maintenance expenses for non-performing real estate – EUR 209.3 (161.4) thousand.
However, the group's lease and rent income from investments in real estate amounted to EUR 571.9 (29.8) thousand, maintenance expense – EUR 472.7 (187.8) thousand, including maintenance expense for non-performing real estate – EUR 209.3 (161.4) thousand.
The fair value of investment properties is described in Note 32.

Movements in the group's and bank's investment properties in 2016:

EUR'000

	Group			Bank		
	Land	Buildings	Total, excl. Prepayments	Land	Buildings	Total, excl. Prepayments
Acquisition value as at 01.01.2016.	**22,142**	**1,000**	**23,142**	**24,910**	**225**	**25,084**
Additions	1,349	11,132	12,481	-	-	-
Reclassification to property and equipment	(185)	-	(185)	-	-	-
Disposals	-	(471)	(471)	-	-	-
Acquisition value as at 31.12.2016.	**23,306**	**11,661**	**34,967**	**24,910**	**225**	**25,084**
Accumulated depreciation as at 01.01.2016.	**-**	**166**	**166**	**-**	**66**	**66**
Depreciation charge	-	111	111	-	11	11
Accumulated depreciation as at 31.12.2016.	**-**	**277**	**277**	**-**	**77**	**77**
Net carrying amount as at 01.01.2016.	**22,142**	**834**	**22,976**	**24,910**	**159**	**25,069**
Net carrying amount as at 31.12.2016.	**23,306**	**11,384**	**34,690**	**24,910**	**148**	**25,058**

Movements in the group's and bank's investment properties in 2015:

EUR'000

	Group				Bank		
	Land	Construction in progress	Buildings	Total, excl. prepayments	Land	Buildings	Total, excl. prepayments
Acquisition value as at 01.01.2015	**22,094**	**7,073**	**947**	**30,114**	**24,859**	**225**	**25,084**
Additions	48	-	-	48	51	-	51
Reclassification	-	(7,073)	53	(7,020)	-	-	-
Acquisition value as at 31.12.2015	**22,142**	**-**	**1,000**	**23,142**	**24,910**	**225**	**25,135**
Accumulated depreciation as at 01.01.2015.	**-**	**-**	**118**	**118**	**-**	**55**	**55**
Depreciation charge	-	-	48	48	-	11	11
Accumulated depreciation as at 31.12.2015	**-**	**-**	**166**	**166**	**-**	**66**	**66**
Net carrying amount as at 01.01.2015.	**22,094**	**7,073**	**829**	**29,996**	**24,859**	**170**	**25,029**
Net carrying amount as at 31.12.2015.	**22,142**	**-**	**834**	**22,976**	**24,910**	**159**	**25,069**

Note 20

Intangible assets, property and equipment

EUR'000

	Group 31.12.2016.	Group 31.12.2015.	Bank 31.12.2016.	Bank 31.12.2015.
Intangible assets	5,600	6,133	5,366	5,811
Prepayments for intangible fixed assets	460	232	460	225
Total intangible assets	**6,060**	**6,365**	**5,826**	**6,036**
Buildings and property improvements	5,644	6,280	3,785	4,167
Construction in progress	11,186	8,162	-	-
Office equipment and IT hardware	3,542	3,375	3,019	2,616
Land	3,123	2,938	173	173
Vehicles	1,646	1,441	1,054	984
Art objects	942	866	942	866
Leasehold improvements	424	509	424	509
Prepayments for tangible fixed assets	760	296	64	214
Total property and equipment	**27,267**	**23,867**	**9,461**	**9,529**

As at 31 December 2016, the group had intangible assets, property and equipment with the carrying amount of 0, and amortised cost of EUR 6.2 (6.1) million, whereas the cost of the bank's intangible assets, property and equipment was EUR 6.1 (5.9) million.

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

EUR'000

	Intangible fixed assets	Land	Construction in progress and leasehold improvements	Buildings and property improvements	Vehicles	Office equipment and IT hardware and other fixed assets	Total, excl. Prepayments
Acquisition value as at 01.01.2016.	**12,582**	**2,938**	**9,539**	**11,195**	**2,058**	**14,016**	**52,328**
Additions	839	-	3,068	2	613	1,753	6,275
Reclasification	-	185	-	-	-	-	185
Disposals and written-offs	(1)	-	-	-	(275)	(1,642)	(1,918)
Acquisition value as at 31.12.2016.	**13,420**	**3,123**	**12,607**	**11,197**	**2,396**	**14,127**	**56,870**
Accumulated depreciation as at 01.01.2016.	**6,449**	-	**868**	**4,915**	**617**	**9,775**	**22,624**
Depreciation charge	1,372	-	129	638	320	1,489	3,948
Depreciation write-off	(1)	-	-	-	(187)	(1,621)	(1,809)
Accumulated depreciation as at 31.12.2016.	**7,820**	**-**	**997**	**5,553**	**750**	**9,643**	**24,763**
Net carrying amount as at 01.01.2016.	**6,133**	**2,938**	**8,671**	**6,280**	**1,441**	**4,241**	**29,704**
Net carrying amount as at 31.12.2016.	**5,600**	**3,123**	**11,610**	**5,644**	**1,646**	**4,484**	**32,107**

Movements in the group's intangible assets, property and equipment in 2015:

EUR'000

	Goodwill	Intangible fixed assets	Land	Production equipment	Construction in progress and leasehold improv-ements	Buildings and property improv-ements	Vehicles	Office equipment and IT hardware	Total, excl. Prepay-ments
Acquisition value as at 01.01.2015.	**229**	**10,962**	**4,055**	**7,270**	**1,546**	**26,822**	**2,273**	**13,965**	**67,122**
Additions	-	2,158	-	-	1,159	34	596	1,358	5,305
Reclassification	-	(2)	-	-	7,033	(8)	-	2	7,025
Disposals	(229)	(5)	(1,117)	(7,270)	(199)	(15,653)	(531)	(686)	(25,690)
Disposals and written-offs	-	(531)	-	-	-	-	(280)	(623)	(1,434)
Acquisition value as at 31.12.2015.	**-**	**12,582**	**2,938**	**-**	**9,539**	**11,195**	**2,058**	**14,016**	**52,328**
Accumulated depreciation as at 31.12.2015.	**-**	**5,699**	**-**	**2,213**	**746**	**6,153**	**703**	**8,867**	**24,381**
Depreciation charge	-	1,264	-	-	122	1,014	286	2,285	4,971
Reclassification	-	9	-	-	-	(2)	-	(9)	(2)
Disposals due to loss of control	-	(2)	-	(2,213)	-	(2,250)	(191)	(758)	(5,414)
Depreciation write-off	-	(521)	-	-	-	-	(181)	(610)	(1,312)
Accumulated depreciation as at 31.12.2015.	**-**	**6,449**	**-**	**-**	**868**	**4,915**	**617**	**9,775**	**22,624**
Net carrying amount as at 01.01.2015.	**229**	**5,263**	**4,055**	**5,057**	**800**	**20,669**	**1,570**	**5,098**	**42,741**
Net carrying amount as at 31.12.2015.	**-**	**6,133**	**2,938**	**-**	**8,671**	**6,280**	**1,441**	**4,241**	**29,704**

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

EUR'000

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

Movements in the bank's intangible assets, property and equipment in 2015:

EUR'000

	Intangible fixed assets	Land	Buildings and property improvements	Leasehold inprovements	Vehicles	Office equipment and IT hardware and other fixed assets	Total, excluding prepayments
Acquisition value as at 01.01.2015.	**10,127**	**173**	**7,890**	**1,091**	**1,150**	**11,783**	**32,214**
Additions	2,084	-	31	29	416	1,111	3,671
Reclassification	(2)	-	-	-	-	2	-
Disposals and written-offs	(518)	-	-	-	(170)	(588)	(1,276)
Acquisition value as at 31.12.2015.	**11,691**	**173**	**7,921**	**1,120**	**1,396**	**12,308**	**34,609**
Accumulated depreciation as at 01.01.2015.	**5,231**	**-**	**3,378**	**490**	**368**	**7,873**	**17,340**
Depreciation charge	1,151	-	376	121	175	1,543	3,366
Reclassification	9	-	-	-	-	(9)	-
Depreciation write-off	(511)	-	-	-	(131)	(581)	(1,223)
Accumulated depreciation as at 31.12.2015.	**5,880**	**-**	**3,754**	**611**	**412**	**8,826**	**19,483**
Net carrying amount as at 01.01.2015.	**4,896**	**173**	**4,512**	**601**	**782**	**3,910**	**14,874**
Net carrying amount as at 31.12.2015.	**5,811**	**173**	**4,167**	**509**	**984**	**3,482**	**15,126**

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

Note 21

Other assets

EUR'000

	Group	Group	Bank	Bank
	31.12.2016.	31.12.2015.	31.12.2016.	31.12.2015.
Receivables	1,133	1,363	501	504
Payments for financial instruments	162	102	162	102
Total other financial assets	**1,295**	**1,465**	**663**	**606**
Due from state treasury	2,170	419	346	-
Deferred expenses and accrued income	2,138	1,928	1,636	1,239
Stock	994	995	-	-
Precious metals	451	401	451	401
Other assets	1,167	1,120	742	669
Total other non-financial assets	**6,920**	**4,863**	**3,175**	**2,309**
Impairment expense	(333)	(336)	(128)	(178)
Total other assets, net	**7,882**	**5,992**	**3,710**	**2,737**

Note 22

Due to Bank of Latvia and demand deposits from credit institutions

EUR'000

	Group	Group	Bank	Bank
	31.12.2016.	31.12.2015.	31.12.2016.	31.12.2015.
Targeted longer term refinancing operation (TLTRO) liabilities	50,000	180,072	50,000	180,072
Total balances due to Bank of Latvia	**50,000**	**180,072**	**50,000**	**180,072**

In March 2016, ECB announced a new targeted longer-term refinancing operations actions (hereinafter -TLTRO) – TLTRO II with an even lower interest rate and a 4-year term, as well as announced the opportunity to cover previous liabilities before maturity.
Using this opportunity and assessing the current necessity for long-term resources, group/bank prematurely repaid EUR 180.0 million, which it had received previously within the program. Subsequently, within TLTRO II group/bank attracted funds in the amount of EUR 50.0 million, to increase the term of using resources and reduce the interest expenses.

Demand deposits from credit institutions:

EUR'000

	Group 31.12.2016.	Group 31.12.2015.	Bank 31.12.2016.	Bank 31.12.2015.
Latvian credit institutions	12,138	40,346	12,138	40,346
Credit institutions from other countries	4,105	6,937	4,105	6,937
Credit institutions from EMU countries	220	1,871	4,132	16,011
Total demand deposits from credit institutions	**16,463**	**49,154**	**20,375**	**63,294**

As at 31 December 2016, the group had balances due to 5 (4) credit institutions, which exceeded 10% of the total balances due to credit institutions, which amounted to EUR 11.8 (35.2) million. The bank had balances due to 5 (4) credit institutions, which exceeded 10% of the total balances due to credit institutions, which amounted to EUR 13.7 (44.9) million.

Note 23

Deposits

EUR'000

Customer type	Group 31.12.2016.	Group 31.12.2015.	Bank 31.12.2016.	Bank 31.12.2015.
Corporate companies				
current accounts	2,201,391	2,850,172	2,124,978	2,797,758
term deposits	73,929	37,516	52,206	37,465
Total corporate companies	2,275,320	2,887,688	2,177,184	2,835,223
Other financial intermediaries				
current accounts	210,779	330,460	221,356	338,620
term deposits	19,196	778	19,196	778
Total other financial intermediaries	229,975	331,238	240,552	339,398
Other customers				
current accounts	629	1,796	629	1,796
term deposits	-	-	-	-
Total other customers	629	1,796	629	1,796
Total deposits from corporate customers	**2,505,924**	**3,220,722**	**2,418,365**	**3,176,417**
Private individuals				
current accounts	500,331	639,554	466,820	601,596
term deposits	21,517	15,179	16,639	15,179
Total deposits from private individuals	**521,848**	**654,733**	**483,459**	**616,775**
Total deposits	**3,027,772**	**3,875,455**	**2,901,824**	**3,793,192**

The group’s top 20 customers in terms of the deposit amount account 14.0% (14.4%) of the total deposits the banks 20 customers in terms of the deposit amount account for 14.3% (14.4%) of the total deposits.

Of the total deposits placed with the group and the bank, 85.9% (85.7%) are from customers whose beneficiaries are CIS residents.

Note 24

Issued securities

EUR'000

ISIN	Currency	Number of intially issued securities	Par value	Date of emmision	Date of maturity	Discount / coupon rate, %	Group 31.12.2016.	Group 31.12.2015.	Bank 31.12.2016.	Bank 31.12.2015.
Subordinated bonds										
LV0000800936	EUR	150,000	100	22.12.2011.	22.12.2021.	4.8	-	14,316	-	14,316
LV0000800977	EUR	50,000	100	25.06.2012.	25.06.2022.	4.5	4,883	4,669	4,883	4,669
LV0000800985	USD	200,000	100	27.06.2012.	27.06.2022.	4.5	18,983	18,380	18,983	18,380
LV0000801124	USD	200,000	100	18.03.2013.	18.03.2023.	4.5	17,792	16,474	17,792	16,474
LV0000801173	USD	200,000	100	27.06.2013.	27.06.2023.	4.3	17,815	16,537	17,815	16,537
LV0000801181	EUR	200,000	100	27.06.2013.	27.06.2023.	4.3	18,723	17,948	18,723	17,948
LV0000801223	USD	150,000	100	23.10.2013.	23.10.2023.	4.3	14,098	13,650	14,098	13,650
LV0000801520	EUR	200,000	100	27.10.2014.	27.10.2024.	4.1	17,592	16,844	17,592	16,844
LV0000801835	EUR	200,000	100	26.10.2015.	26.10.2025.	3.8	17,348	2,299	17,348	2,299
LV0000802189	EUR	200,000	100	31.10.2016	31.10.2026	3.8	2,685	-	2,685	-
Subordinated bonds, total							**129,919**	**121,117**	**129,919**	**121,117**
Ordinary bonds										
LV0000801298	USD	75,000	1,000	17.02.2014.	17.02.2016.	1.98	-	34,795	-	34,795
LV0000801306	EUR	20,000	1,000	17.02.2014.	17.02.2016.	1.98	-	12,811	-	14,322
LV0000801421	USD	75,000	1,000	08.07.2014.	08.07.2016.	2.00	-	60,734	-	60,734
LV0000801439	EUR	20,000	1,000	08.07.2014.	08.07.2016.	2.05	-	19,705	-	19,705
LV0000801504	USD	75,000	1,000	28.10.2014.	28.10.2016.	2.10	-	66,437	-	66,437
LV0000801512	EUR	20,000	1,000	28.10.2014.	28.10.2016.	1.90	-	17,143	-	18,147
LV0000801645	USD	75,000	1,000	23.02.2015.	23.02.2017.	2.20	62,671	68,031	62,671	68,031
LV0000801652	EUR	20,000	1,000	23.02.2015.	23.02.2017.	1.80	16,902	17,763	18,411	19,273
LV0000801751	USD	75,000	1,000	07.07.2015.	07.07.2017.	1.55	50,234	50,636	50,234	50,636
LV0000801769	EUR	20,000	1,000	07.07.2015.	07.07.2017.	0.80	11,291	17,768	12,797	19,274
LV0000801850	USD	75,000	1,000	26.10.2015.	26.10.2017.	1.65	42,498	57,579	42,498	57,579
LV0000801868	EUR	20,000	1,000	26.10.2015.	26.10.2017.	0.80	5,365	6,358	7,368	8,361
LV0000801991	USD	75,000	1,000	22.02.2016.	22.02.2018.	1.85	60,328	-	60,328	-
LV0000802007	EUR	20,000	1,000	22.02.2016.	22.02.2018.	0.70	6,273	-	8,278	-
LV0000802072	USD	75,000	1,000	11.07.2016	11.07.2018	1.85	57,310	-	57,310	-
LV0000802080	EUR	20,000	1,000	11.07.2016	11.07.2018	0.70	8,572	-	8,572	-
LV0000802163	USD	75,000	1,000	31.10.2016	31.10.2018	1.85	56,039	-	56,039	-
LV0000802171	EUR	20,000	1,000	31.10.2016	31.10.2018	0.70	13,879	-	13,879	-
Ordinary bonds, total							**391,362**	**429,760**	**398,385**	**437,294**
Issued securities, total							**521,281**	**550,877**	**528,304**	**558,411**

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

As at 31 December 2016 76.0% (74.2%) of the group's/bank's issued security holders were legal entities and 24.0% (25.8%) were individuals. In turn, 93.0% (91.8%) of the bond holders were non-residents while 7.0% (8.2%) – residents.

Note 25

Subordinated liabilities

As at 31 December 2016, the group's and bank's subordinated liabilities of EUR 144.7 (136.4) million comprised subordinated bonds amounting to EUR 129.9 (121.1) million and subordinated deposits amounting to EUR 14.8 (15.3) million.
Subordinated deposits by currencies amount to USD 9.8 (9.9) million and EUR 5.5 (6.2) million.

Information on the subordinated bonds issued by the bank is disclosed in Note 24.

The analysis of subordinated deposits as at 31 December 2016:

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

The analysis of subordinated deposits as at 31 December 2015:

Lenders	Loan amount, EUR'000	Accumulated interest, EUR'000	Total subordinated loans, EUR'000	Interest rate, %	Currency
non-residents	9,043	12	9,055	1.75 - 3.15	USD
non-residents	6,195	11	6,206	3.00 - 3.90	EUR
Total subordinated deposits	**15,238**	**23**	**15,261**		

The proportionate share of lenders (for each individual lender) does not exceed 10% of the total amount of the subordinated liabilities.
The remaining weighted average maturity of subordinated deposits from lenders is 2.9 (3.4) years.

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

Note 26

Paid-in share capital

As at 31 December 2016, the paid-in share capital of the bank amounted to EUR 38.3 million (35.3 million). The par value of each share is EUR 1.0 (1.0).
The bank's share capital consists of 34 470 000 (31 770 000) ordinary registered voting shares and 3 830 000 (3 530 000) registered non-voting shares (personnel shares).
As at 31 December 2016, the bank had 138 (135) voting shareholders.

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

	31.12.2016.		31.12.2015.	
	Share of the bank's share capital, EUR'000	Share of the bank's voting capital, %	Share of the bank's share capital, EUR'000	Share of the bank's voting capital, %
Group of shareholders related to Ernests Bernis				
Ernests Bernis	1,701	4.93	1,568	4.93
Nika Berne	293	0.85	270	0.85
Cassandra Holding Company, SIA	12,924	37.49	11,864	37.34
Group of shareholders related to Ernests Bernis, total	**14,918**	**43.27**	**13,702**	**43.12**
Group of shareholders related to Oļegs Fiļs				
OF Holding, SIA	14,918	43.28	13,702	43.13
Group of shareholders related to Oļegs Fiļs, total	**14,918**	**43.28**	**13,702**	**43.13**
Other shareholders, total	4,634	13.45	4,366	13.75
Total voting shares	**34,470**	**100.00**	**31,770**	**100.00**
Non-voting shares (personnel shares)	3,830		3,530	
Total share capital	**38,300**		**35,300**	

In the reporting year, the bank issued 2 700 000 ordinary registered voting shares (based on the decisions of the ordinary shareholders' meeting of 7 April 2016. The par value of all the issued shares was EUR 1.0, while the emission price of each ordinary registered voting share was EUR 14.15, comprised of the par value of EUR 1.0 and the share premium of EUR 13.15. The issue was intended to ensure steady development of the group/ bank in the future. During the reporting period, on account of the bank issued 300 000 personnel shares (from the previous years retained earnings) with nominal value EUR 1.0 (based on the decision of the Extraordinary Shareholders' Meeting of 29 December 2016.

After this issue, share capital of the bank consisted of 34 470 000 name shares with voting rights and 3 830 000 personnel shares. All name shares with voting rights rank equal with respect to dividends, liquidation quota and voting rights in the Shareholders meeting. All personnel shares grant equal rights to dividends. Personnel shares do not grant any right to vote or receive liquidation quotas. Most of the issued voting shares have been acquired by the existing shareholders of the bank - Cassandra Holding Company, SIA and OF Holding, SIA.

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

	31.12.2016.			31.12.2015.		
	Number of employees	Number of personnel shares	Share of the bank's share capital, EUR'000	Number of employees	Number of personnel shares	Share of the bank's share capital, EUR'000
Chairman of the council and council members	3	-	-	3	-	-
Chairman of the board	1	-	-	1	-	-
Board members	6	1,705,000	1,705	6	1,633,800	1,634
Heads and deputy heads of divisions	26	1,775,000	1,775	21	1,566,200	1,566
Department heads	1	50,000	50	-	-	-
Non-distributed	-	300,000	300	-	330,000	330
Registered non-viting shares (personnel shares), total	**x**	**3,830,000**	**3,830**	**x**	**3,530,000**	**3,530**

Dividends declared and paid:

	Bank	Bank
		EUR'000
	01.01.2016.– 31.12.2016.	01.01.2015.– 31.12.2015.
Dividends declared	68,835	58,444
Dividends paid	(68,840)	(58,443)

	Bank	Bank
		EUR
	01.01.2016.– 31.12.2016.	01.01.2015.– 31.12.2015.
Bank's share par value	1.00	1.00
Dividends declared per bank's value	1.95	1.79
Dividends paid per bank's value	1.95	1.79

Note 27

Other liabilities

EUR'000

	Group 31.12.2016.	Group 31.12.2015.	Bank 31.12.2016.	Bank 31.12.2015.
Fund shares owned by third parties	6,541	4,088	-	-
Other liabilities	3,001	1,013	1,691	874
Payments in progress for transactions with financial instruments	1,355	23,568	235	23,568
Payments to subsidiaries	-	-	195	293
Payables to suppliers	1,118	1,326	158	29
Total other financial liabilities	**12,015**	**29,995**	**2,279**	**24,764**
Deferred expenses and accrued income	6,749	8,935	7,068	8,816
Accrual for employee vacation pay	3,787	2,351	1,670	1,417
Other liabilities	371	456	67	75
Total other non-financial liabilities	**10,907**	**11,742**	**8,805**	**10,308**
total other liabilities	**22,922**	**41,737**	**11,083**	**35,072**

Note 28

Memorandum items

EUR'000

Contingent liabilities	Group 31.12.2016.	Group 31.12.2015.	Bank 31.12.2016.	Bank 31.12.2015.
Guaranties and indemnities	10,015	9,949	9,928	9,516
Total contingent liabilities	**10,015**	**9,949**	**9,928**	**9,516**
Other commitments to customers				
Unused credit lines	61,672	17,205	61,672	17,205
Loan commitments	27,517	33,768	27,517	33,768
Letters of credit	23,965	2,074	23,965	2,074
Undrawn credit facilities on settlement cards	13,187	15,708	13,257	15,775
Contractual commitments on purchase of non-financial assets	6,064	6,855	221	85
Othe commitments to customers, total	**132,405**	**75,610**	**126,632**	**68,907**
Total contingent liabilities and comminments to customers	**142,420**	**85,559**	**136,560**	**78,423**

Note 29

Funds under trust management

As at 31 December 2016, funds under trust management by the group amounted to EUR 279.8 (226.3) million, while funds under trust management by the bank amounted to EUR 25.4 (39.7) million.

The bank's funds under trust management comprise loans issued from the funds specifically assigned by customers to the bank. Meanwhile, the group's funds under trust management also include funds of the customers of ABLV Asset Management, IPAS managed by the said company based on the customers' authorisation and the funds under trust management of ABLV Bank Luxembourg, S.A.

More detailed information on the funds of the customers of ABLV Asset Management, IPAS is disclosed in Note 18.

The related credit risk and other risks remain fully with the customer, which provided these funds to the group and/or the bank.

Note 30

Related party disclosures

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

Group's transactions with related parties:

EUR'000

Assets	31.12.2016. Share-holders	Manage-ment	Related companies	Associated companies	Other related individuals	31.12.2015. Sharehol-ders	Manage-ment	Related companies	Associated companies	Other related individuals
Loans	1,438	1,873	9,252	8,726	29	29	2,318	9,263	9,838	109
Liabilities										
Deposits	5,698	2,037	7,036	8,306	940	3,111	2,255	9,988	7,737	1,884
Suburdinated deposits	380	-	-	-	-	-	-	-	-	-
Ordinary bonds	-	15	-	6,665	33	150	45	1,139	14,063	28
Subordinated bonds	49	6,919	865	2,454	849		5,081	1,096	1,748	820
Memorandum items										
Undrawn credit facilities and payment card limits	-	167	78	703	20	-	150	198	937	29
Guarantees	-	125	-		-	-	125	-	-	-

Income/ expense	01.01.2016.–31.12.2016. Share-holders	Manage-ment	Related companies	Associated companies	Other related individuals	01.01.2015.–31.12.2015. Sharehol-ders	Manage-ment	Related companies	Associated companies	Other related individuals
Interest income	104	42	196	345	-	20	65	173	298	2
Interest expense	(2)	(228)	(61)	(300)	(28)	(2)	(167)	(71)	(127)	(28)
Commission and fee income	36	19	40	44	5	1	16	268	4	3
Net results form sales of repossessed real estate	-	-	-	-	77	-	-	-	72	-

Bank's transactions with related parties:

EUR'000

Assets	31.12.2016. Sharehol-ders	Manage-ment	Related companies	Subsi-diaries and associated companies	Other related individuals	31.12.2015. Sharehol-ders	Manage-ment	Related companies	Subsi- diaries and associated companies	Other related individuals
Due from credit institutions	-	-	-	12,333	-	-	-	-	5,000	-
Loans	1,438	1,873	9,252	13,445	29	29	2,318	9,263	9,838	109
Liabilities										
Due to credit institutions	-	-	-	3,913	-	-	-	-	14,663	-
Deposits	5,698	1,974	7,036	35,186	940	3,111	2,245	9,988	26,317	1,884
Subordinated deposits	380	-	-	-	-	-	-	-	-	-
Ordinary bonds	-	15	-	13,689	33	150	45	1,139	21,596	28
Subordinated bonds	49	6,919	865	2,453	849	-	5,081	1,096	1,748	820
Memorandum items										
Undrawn credit facilities and payment card limits	-	167	78	773	20	-	150	198	1,004	29
Guarantees	-	125	-	168	-	-	125	-	8	-

Income/ expense	01.01.2016.–31.12.2016. Sharehol-ders	Manage-ment	Related companies	Subsi-diaries and associated companies	Other related individuals	01.01.2015.–31.12.2015. Sharehol-ders	Manage-ment	Related companies	Subsi- diaries and associated companies	Other related individuals
Interest income	104	42	196	401	-	20	65	173	521	2
Interest expense	(2)	(228)	(61)	(419)	(28)	(2)	(167)	(71)	(207)	(28)
Income from dividends	-	-	-	6,104	-	-	-	-	9,201	-
Commission and fee income	1	16	7	728	4	1	16	268	853	3
Commission and fee expense	-	-	-	(7,013)	-	-	-	-	(6,651)	-
Other operating income	-	-	-	3,333	-	-	-	-	3,222	-
Recognised impairment, net	-	-	-	(6,225)	-	-	-	-	(2,840)	-

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

Note 31

Segment information

The management of the group and the bank believe that the group's operations can be organised into four segments based on the core business activities as follows: banking services, advisory services, investment management services, and real estate development (previously - management of repossessed properties and investments in real estate).

The group defines its operating segments based on its organisational structure. The bank views its operations as one single segment, without making any separate disclosures, while at the group level the bank and all its subsidiaries are attributed to the group's operating segments as follows:
- banking services: ABLV Bank, AS, ABLV Bank Luxembourg, S.A.;
- advisory services: ABLV Consulting Services, AS, ABLV Corporate Services Holding Company, SIA, ABLV Corporate Services, SIA, ABLV Corporate Services, LTD, ABLV Advisory Services, SIA;
- investment management services: ABLV Asset Management, IPAS, ABLV Capital Markets, IBAS, PEM SIA, PEM 1, SIA, New Hanza Capital, AS, NHC 1, SIA, NHC 2, SIA, NHC 3, SIA, NHC 4, SIA, NHC 5, SIA, NHC 6, SIA, investment funds included in the group (see Note 18);
- real estate development: ABLV Building Complex, SIA, Pillar Holding Company, KS, Pillar, SIA, Pillar 3, SIA, Pillar 4 & 6, SIA, Pillar 7 & 8, SIA, Pillar 9, SIA, Pillar 11, SIA, Pillar 2, 12 & 14 SIA, Pillar 18, SIA, Pillar 19, SIA, Pillar 20, SIA, Pillar 21, SIA, Pillar 22, SIA, Pillar Development, SIA, Pillar Utilities, SIA, Pillar Management, SIA, Pillar RE Services, SIA, Pillar Contractor, SIA, Pillar Architekten, SIA.

Operating segment information is prepared on the basis of internal reports.

Analysis of the operating segments of the group:

EUR'000

						01.01.2016.–31.12.2016.
	Banking	Investment management	Consultation services	Real estate development*	Eliminated or corrected on consolidation	Group, total
Net interest income	64,452	(35)	-	134	26	64,577
incl. External transactions	64,495	82	-	-		
incl. Internal transactions	(43)	(117)	-	134		
Net commission income	33,258	7,468	(18)	(8)	3,907	44,607
incl. External transactions	39,763	4,853	(9)	-		
incl. internal transactions	(6,505)	2,615	(9)	(8)		
Net result of transactions with securities and foreign exchange	51,684	(5)	402	57	(6,572)	45,566
incl. External transactions	45,546	(3)	23	-		
incl. Internal transactions	6,138	(2)	379	57		
Net other income/expenses	2,485	2,640	6,973	(1,772)	(9,721)	605
incl. External transactions	(407)	1,472	2,118	(2,578)		
incl. Internal transactions	2,892	1,168	4,855	806		
Personnel and other administrative expenses	(60,608)	(3,860)	(6,545)	(3,676)	4,417 -	70,272
Depreciation	(3,368)	(162)	(144)	(385)	-	(4,059)
Impairment allowance and other provisions	(6,243)	32	-	-	6,490	279
Corporate income tax	(1,566)	(672)	(81)	(168)	-	(2,487)
Total segment profit/(loss)	**80,094**	**5,406**	**587**	**(5,818)**	(1,453)	**78,816**
Additions of property and equipment, intangible assets and investment property	2,868	12,576	81	4,024	(793)	**18,756**
						31.12.2016.
Total segment assets	**4,032,562**	**58,542**	**3,011**	**141,810**	(262,602)	**3,973,323**
Total segment liabilities	**3,695,568**	**32,834**	**1,459**	**10,228**	(85,099)	**3,654,990**

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

EUR'000

	01.01.2015.-31.12.2015.						
	Banking	Investment management	Investement management excluded due to loss of control	Consultation services	Management of reposessed properties and investments in real estate	Eliminated or corrected on consolidation	Group, total
Net interest income	64,217	849	(46)	5	83	(149)	64,959
incl. external transactions	63,840	955	-	-	-		
incl. Internal transactions	377	(106)	(46)	5	83		
Net commission income	41,228	10,230	(7)	(20)	(8)	3,710	55,133
incl. external transactions	47,213	7,929	-	(9)	-		
incl. Internal transactions	(5,985)	2,301	(7)	(11)	(8)		
Net result of transactions with securities and foreign exchange	30,841	(175)	(1)	202	(15)	(9,094)	21,758
incl. external transactions	21,776	(166)	-	(38)	-		
incl. Internal transactions	9,065	(9)	(1)	240	(15)		
Net other income/expenses	2,155	(262)	1,777	6,437	(1,398)	(7,922)	787
incl. External transactions	(848)	581	1,777	2,036	(2,759)		
incl. Internal transactions	3,003	(843)	-	4,401	1,361		
Personnel expense and other administrative expenses	(52,457)	(3,659)	(437)	(5,932)	(3,908)	4,342	(62,051)
Depreciation	(3,606)	(52)	(860)	(101)	(400)	-	(5,019)
Impairment allownace and other provisions	(12,782)	(296)	-	-	-	5,757	(7,321)
Corporate income tax	(5,547)	(841)	(19)	(50)	85	-	(6,372)
Total segment profit/ (loss)	**64,049**	**5,794**	**407**	**541**	**(5,561)**	(3,356)	**61,874**
Additions of property and equipment, intangible assets and investment property	5381	64	-	273	1354	(3)	**7,069**
							31.12.2015.
Total segment assets	**5,047,508**	**22,253**	**-**	**2,961**	**152,743**	(233,877)	**4,991,588**
Total segment liabilities	**4,754,624**	**10,240**	**-**	**1,562**	**5,742**	(57,909)	**4,714,259**

Note 32

Fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The group and the bank disclose the fair values of assets and liabilities in such a manner so as to be able to compare the fair values with the carrying amounts.

Fair value of financial instruments, such as available-for-sale financial assets, financial assets at fair value through profit or loss and held-to-maturity investments, is mostly defined based on quoted prices in an active market. Where no price is observable for some of these financial instruments, fair value is determined based on observable prices in a market, where no active trading is done – this is applicable to several debt securities and open-ended investment funds.

Finally, other valuation techniques are used for some financial assets which are not quoted in the market and for which no quoted prices for similar financial assets in active markets are available. Fair value of such financial instruments is estimated based on valuation models which are based on the assumptions and estimates regarding the potential future financials of the investment property, and the industry and geographical area risks in which the respective investment property operates. Fair value of derivatives is calculated based on the net present value method, where all inputs in the valuation model are observable, while exchanged traded derivatives, such as futures, as valued based on quoted prices.

The management of the bank and the group believe that the most credible market value of real estate was identified based on the evaluations presented by both external real estate appraisers and bank's real estate experts. Investment properties are valued on the basis of discounted cash flows. According to this approach, fair value is calculated based on assumptions regarding expected future cash flows from income and expense resulting from the holding of real estate during its life cycle, including the value of the property at the date of sale. These cash flows are discounted at a discount rate, which is equal to the market return from similar assets, to arrive at the present value. The selling value of the investment properties may differ from the market value as defined, if the market of such kind of properties is not properly developed in Latvia.

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

The fair value of term deposits is estimated by discounting the expected cash flows at the average market interest rates prevailing at the end of the reporting period.

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

EUR'000

Assets at fair value	31.12.2016. Carrying amount	31.12.2016. Fair value	31.12.2015. Carrying amount	31.12.2015. Fair value
Derivatives	624	624	121	121
At fair value through profit or loss				
Financial assets at fair value through profit or loss	28,416	28,416	26,121	26,121
Available-for-sale				
Available-for-sale financial assets	1,042,574	1,042,574	1,833,073	1,833,073
Total assets at fair value	**1,071,614**	**1,071,614**	**1,859,315**	**1,859,315**
Assets at amortised cost				
Cash and deposits with central banks	414,431	414,431	449,136	449,136
Balances due from credit institutions	272,520	272,520	669,980	669,980
Loans	1,029,944	1,029,081	874,003	873,744
Held-to-maturity investments	1,053,987	1,084,140	1,015,047	1,029,737
Investment properties	34,690	43,040	22,976	22,976
Other financial assets	1,295	1,295	1,465	1,465
Total assets at amortised cost	**2,806,867**	**2,844,507**	**3,032,607**	**3,047,038**
Liabilities at fair value				
Derivatives	42	42	365	365
Group's consolidated fund shares owned by 3rd parties	6,541	6,541	4,088	4,088
Total liabilities at fair value	**6,583**	**6,583**	**4,453**	**4,453**
Liabilities at amortised cost				
Financial liabilities at amortised cost	3,635,800	3,631,082	4,696,726	4,692,596
Total liabilities at amortised cost	**3,635,800**	**3,631,082**	**4,696,726**	**4,692,596**

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

EUR'000

Assets at fair value	31.12.2016. Carrying amount	31.12.2016. Fair value	31.12.2015. Carrying amount	31.12.2015. Fair value
Derivatives	80	80	121	121
At fair value through profit or loss				
Financial assets at fair value through profit or loss	21,010	21,010	22,286	22,286
Available-for-sale				
Available-for-sale financial assets	957,094	957,094	1,780,554	1,780,554
Total assets at fair value	**978,184**	**978,184**	**1,802,961**	**1,802,961**
Assets at amortised cost				
Cash and deposits with central banks	413,047	413,047	448,187	448,187
Balances due from credit institutions	281,504	281,504	671,772	671,772
Loans	1,012,146	1,011,445	873,499	873,240
Held-to-maturity investments	989,710	1,020,884	965,253	980,771
Investment properties	25,058	34,306	25,069	25,069
Other financial assets	663	663	606	606
Total assets at amortised cost	**2,722,128**	**2,761,849**	**2,984,386**	**2,999,645**
Liabilities at fair value				
Derivatives	42	42	365	365
Total liabilities at fair value	**42**	**42**	**365**	**365**
Liabilities at amortised cost				
Financial liabilities at amortised cost	3,517,592	3,512,838	4,634,994	4,630,798
Total liabilities at amortised cost	**3,517,592**	**3,512,838**	**4,634,994**	**4,630,798**

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

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

Level 1 instruments may contain liquid securities and exchange traded derivatives. Level 2 instruments may contain securities that do not have an active market, standardised OTC derivatives and foreign exchange transactions as well as certain open-ended investment funds. Level 3 instruments contain certificates of venture capital funds, investment properties, term deposits and loans. For valuation methods and assumptions, please see the description above.

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

EUR'000

				31.12.2016.				31.12.2015.
Assets at fair value	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Derivatives	59	565	-	624	4	117	-	121
Financial assets at fair value through profit or loss	21,519	6,897	-	28,416	19,504	6,617	-	26,121
Available-for-sale financial assets	989,277	49,955	3,342	1,042,574	1,760,689	59,687	12,697	1,833,073
Total assets at fair value	**1,010,855**	**57,417**	**3,343**	**1,071,614**	**1,780,197**	**66,421**	**12,697**	**1,859,315**
Assets at amortised cost								
Loans	-	-	1,029,944	1,029,944	-	-	874,003	874,003
Held-to-maturity investments	1,035,724	17,905	358	1,053,987	996,477	18,240	330	1,015,047
Investment properties	-	-	34,690	34,690	-	-	22,976	22,976
Total asets at amortised cost	**1,035,724**	**17,905**	**1,064,992**	**2,118,621**	**996,477**	**18,240**	**897,309**	**1,912,026**
Liabilities at fair value								
Derivatives	-	42	-	42	-	365	-	365
Group's consolidated fund shares owned by 3rd parties	-	6,541	-	6,541	-	4,088	-	4,088
Total liabilities at fair value	**-**	**6,583**	**-**	**6,583**	**-**	**4,453**	**-**	**4,453**
Liabilities at amortised cost								
Financial liabilities at amortised cost	-	603,941	96,792	700,733	-	741,687	57,966	799,683
Total liabilities at amortised cost	**-**	**603,941**	**96,792**	**700,733**	**-**	**741,687**	**57,966**	**799,683**

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

EUR'000

				31.12.2016.				31.12.2015.
Assets at fair value	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Derivatives	59	21	-	80	4	117	-	121
Financial assets at fair value through profit or loss	1,117	19,893	-	21,010	3,545	18,741	-	22,286
Available for sale financial assets	919,764	33,988	3,342	957,094	1,718,362	49,495	12,697	1,780,554
value	**920,940**	**53,902**	**3,342**	**978,184**	**1,721,911**	**68,353**	**12,697**	**1,802,961**
Assets at amortised cost								
Loas	-	-	1,012,146	1,012,146	-	-	873,499	873,499
Held to maturity investments	971,447	17,905	358	989,710	946,683	18,240	330	965,253
Investment properties	-	-	25,058	25,058	-	-	25,069	25,069
Total assets at amortised cost	**971,447**	**17,905**	**1,037,562**	**2,026,914**	**946,683**	**18,240**	**898,898**	**1,863,821**
Liabilities at fair value								
Derivatives	-	42	-	42	-	365	-	365
Total liabilities at fair value	**-**	**42**	**-**	**42**	**-**	**365**	**-**	**365**
Liabilities at amortised cost								
Financial liabilities at amortised cost	-	610,964	70,191	681,155	-	749,221	57,945	807,166
Total liabilities at amortised cost	**-**	**610,964**	**70,191**	**681,155**	**-**	**749,221**	**57,945**	**807,166**

The analysis of fair value measurement's hierarchy of assets does not include cash on hands, deposits with central banks, balances due from credit institutions and other financial assets, due to the fact that these assets have not differences between the carrying amount and fair value in terms of short residual maturity. The analysis of fair value measurement's hierarchy of liabilities, which are not recognized at fair value, does not include demand deposits amounted to 2.95 (3.91) billion EUR in the group and demand deposits amounted to 2.85 (3.84) billion EUR in the bank, as these liabilities do not have differences between carrying amount and fair value.

Reclassification of financial instruments between level 1 and 2 of the hierarchy of sources of determining the fair value made in the reporting period and previous reporting period was insignificant, except the following: in 2015, debt securities of one central government, amounting to EUR 66.0 million, were reclassified from the second level of the hierarchy of sources of determining the fair value to the first one.

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

EUR'000

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

During the reporting period group and bank concluded a share buyback transaction for EUR 12.3 million involving VISA Europe Limited shares classified as Level 3 financial instruments. There were no reclassifications to/from Level 3 during the reporting period.

Level 3 available-for-sale security discounted value as at 31 December 2016 amounted to 0.32% (0.69%) from total available-for-sale portfolio, which insignificant, therefore group/bank did not conduct a sensitivity analysis.

EUR'000

Assets at fair value	31.12.2015.	Redemption	Impairment	Revaluation	Reclasification	Effect of foreign exchange	31.12.2014.
Available-for-sale financial assets	12,697	(16)	(1,053)	12,274	284	86	1,122
Total assets at fair value	**12,697**	**(16)**	**(1,053)**	**12,274**	**284**	**86**	**1,122**

During 2015 a reclassification from Level 2 to Level 3 was performed for the following securities:
- one central government debt security for EUR 136.5 thousand;
- one credit institution debt security for EUR 147.4 thousand.

Note 33

Capital management and capital adequacy

The primary objective of the group's and bank's capital management is to ensure that the group and the bank comply with externally imposed capital requirements and maintain healthy capital ratios in order to support their business and maximise the shareholders' value. Capital adequacy refers to the sufficiency of the group's and bank's capital resources to cover credit risk, operational risk, and market risks.

The goals of the group's and bank's capital management in 2016 are consistent with those of the previous years. According to the Regulation, the group/bank use the Standardised Approach for credit risk and market risk capital requirements, the Basic Indicator Approach for operational risk capital requirement, and the Standardised Approach to calculate the capital requirement for credit valuation adjustment (CVA) risk of OTC derivatives.
It is specified in the Regulation that Tier 1 common capital (CET1) ratio should be 4.5%, Tier 1 capital should be 6.0% and the total capital ratio should be at least 8.0%. According to the Regulation, the total capital of the group/bank should be equal to the sum of credit risk, market risk and operational risk capital requirements, including capital reserves and potential Pillar II capital increases.

According to the Law on Credit Institutions, the group and the bank maintains a capital conservation buffer in the amount of 2.5% of total exposures, which restricts dividend payment and redemption of certain Tier 1 equity instruments, which effectively sets a target of 8.5% for Tier 1 capital and 10.5% for the total capital adequacy ratio.
In addition to the above, on 1 January 2016 the requirements of the FCMC for countercyclical capital buffer come into effect, which are based on risk distribution by geography. The group/bank provides that the common equity tier 1 capital (CET1) is sufficient to cover the capital conservation and countercyclical capital buffer.
In 2016, Commission Delegated Regulation (EU) 2016/101 entered into effect which sets out the principles of calculation of additional valuation adjustment (AVA). The bank and the group applies the simplified approach for determination of additional valuation adjustment. According to this approach, the additional valuation adjustment is calculated as 0.1% of the asset and liability absolute value sum in fair
The group and the bank have observed the requirements of the Regulation and during the reporting period the CET1 ratio of the group was 12.31%, the total capital ratio was 18.81%, thus the capitalisation of the group is maintained at a level exceeding the capital requirements according to the Regulation.

At the end of 2015, the FCMC made the decision to list the bank as other systemically significant institution and specified that from 30 June 2017 the group/bank was required to maintain a capital reserve of other systemically significant institutions of 1.0% of total exposures and from 30 June 2018 a reserve of 2.0%.

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

Own funds and capital requirements:

EUR'000

	Group* 31.12.2016.	Group* 31.12.2015.	Bank 31.12.2016.	Bank 31.12.2015.
Tier 1				
paid-in share capital	38,300	35,300	38,000	35,300
share premium	132,423	96,918	132,423	96,918
ve capital and other reserves	2,134	2,134	2,134	2,134
retained earnings	62,805	72,188	68,770	68,565
curent year's profit	6,000	-	6,000	-
intangible assets	(6,029)	(6,333)	(5,827)	(6,036)
revaluation reserve of available-for-sale financial assets	676	3,784	683	3,799
non-controlling interests	1,010	558	-	-
additional value adjustment for assets measured at fair value	(647)	-	(595)	-
Total Tier 1	**236,672**	**204,549**	**241,588**	**200,680**
Common equity tier 1 capital (CET1)	**236,672**	**204,549**	**241,588**	**200,680**
Additional Tier 1 capital	**-**	**-**	**-**	**-**
Tier 2				
subordinated capital	125,063	120,323	125,063	120,323
Total Tier 2 capital	**125,063**	**120,323**	**125,063**	**120,323**
Total own funds	**361,735**	**324,872**	**366,651**	**321,003**
Capital requirement				
Capital requirement for credit risk	126,178	125,680	124,879	125,612
Total capital requirement for market risks	7,353	7,240	7,289	7,240
capital requirement for foreign currency risk	1,671	496	1,686	496
capital requirement for position risk	5,682	6,744	5,603	6,744
Capital requirement for counterparty credit risk	63	11	5	11
CVA	12	3	1	3
Capital requirement for operational risk	20,229	20,907	17,601	15,867
Total capital requirement for market risks	**153,835**	**153,841**	**149,775**	**148,733**
Common equity tier 1 capital ratio (CET1) (%)	12.31	10.64	12.90	10.79
Total capital ratio (%)	18.81	16.89	19.58	17.27

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

Note 34

Risk management

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

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

the prevention of such threats, maintaining the appropriate balance between risks and profits and minimising potential adverse effects of risks on the entity's financial position and operations.

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

For the purposes of risk management, a risk strategy has been articulated. This strategy defines risks assumed by the bank both individually and at the group level in carrying on its operations and providing services, the level of risk tolerance and actions to ensure compliance with this level. The risk strategy, which has been approved by the council of the bank, is based on the Operational Strategy of the ABLV Group 2016 – 2018. Apart from the risk strategy, risk management policies have been developed and approved by the council of the bank. The introduction and effectiveness of these policies are controlled by the board and the Chief Risk Officer (CRO), while the practical implementation is provided by the respective structural units, including the Risk Management Division whose functions are strictly segregated from the business functions.

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

The goal of the risk management policies is to ensure efficient risk management, identify and analyse the risks inherent in the group's and bank's business, set relevant limits, introduce reliable control procedures, as well as control risk and exposure compliance with the applicable limits using administrative and IT resources.
The risk management system has been constantly improved following the group's and bank's operational and financial market development. The improvement process is controlled by the Internal Audit Department on a regular basis.

Note 35

Credit risk

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

Credit risk management framework

Credit risk is managed according to the Credit Risk Management Policy, which stipulates the provisions and key principles of credit risk management for the sake of timely identification, analysis, assessment, and prevention of possible credit risks. The group and the bank believe that their exposure to credit risk arises mainly from loans, investments in fixed income securities, and balances due from credit institutions.

The credit risk management process comprises the following:
- placing and monitoring of credit risk and concentration risk limits;
- setting and monitoring of criteria for granting of loans;
- evaluation of customer's solvency and collateral;
- monitoring of credit quality, both individually and collectively;
- determination of the recoverable amount of loans and other assets;
- measurement and assessment of credit risk;
- revision of regulations concerning credit risk and concentration risk management.

The following is employed for the purposes of credit risk management:
- limits system:
  - loan portfolio limits for individual loan programs, lines, exposures to customers or groups of related customers, which is determined according to the financial plan, EU Regulation No. 575/2013;
  - loan portfolio concentration limits, diversifying the loan portfolio by industries, collateral of the same type and currencies;
  - limits for credit institutions and financial companies;

  - limits for investments in securities;
  - limits for financial instruments and goods holders;
  - limits for country risk and credit rating groups;
  - limits for high risk transactions.
- asset quality monitoring.

In order to measure credit risk, the group and the bank perform the following:
- regular loan portfolio quality analysis – at least once per quarter;
- regular analysis of compliance with the limits set for the loan portfolio, securities portfolio, and claims on credit institutions – at least once per quarter;
- regular concentration analysis of the loan portfolio, claims on credit institutions, and debt securities – at least once per year;
- regular asset quality assessment, which is performed at least once per quarter for the loan portfolio and securities portfolio and at least once per year – for other assets;
- regular country risk analysis – at least once per half a year;
- regular analysis of credit institutions, financial companies, and financial instrument and commodity custodians – at least once per year;
- regular credit risk stress testing – at least once per half a year;
- regular capital adequacy assessment – at least once per half a year;
- regular credit risk and concentration risk assessment under the risk management report – at least once per quarter;
- regular assessment of strategic indicators – at least once per quarter.

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

Collateral is appraised by an independent appraiser accepted by the group and the bank. The bank may adjust (reduce) the value defined by the independent appraiser if, in the bank's opinion, the appraiser has not considered certain risk factors. For the purposes of loan collateral, the bank considers such reduced value. As collateral, the bank may accept real estate, new and used vehicles, commercial vehicles, goods held at customs or customer's warehouse, securities, technological equipment and machinery, receivables as the aggregation of property, etc. Based on the collateral type and liquidity, the group and the bank apply the maximum acceptable proportion of the loan to be issued.

The Credit Policy, the Lending Regulation and other regulations provide for the main criteria and types of acceptable collateral, the basic principles and frequency of collateral evaluations. Depending on the type of collateral and risk exposure, the bank's employees perform monitoring of the collateral value 1 – 4 times per year. On certain occasions, an independent appraiser may be involved. With regard to exposures in excess of EUR 3 million or 5% of the bank's equity, independent appraisals are conducted once every three years.

For effective credit risk management, the bank has set up the permanent Assets Evaluation Committee which performs a regular analysis of assets and memorandum items, i.e., their recoverability. Depending on the results of such analysis, the amount of the allowance for credit losses (impairment) is determined. For the purposes of such analysis, both specific and collective (portfolio) risks are considered.
The bank analyses the quality of its loan portfolio on a regular basis to identify loss events. If a loss event is identified, the loan is assessed for impairment. The age of past due loans is used as one of the quality criteria. The criteria applied to corporate loans also include the borrower's business performance and prospects, its existing and forecast cash flows to meet the liabilities, compliance with the monitoring/ risk factors set, collateral value, etc. Past due loans are loans with delayed contractual interest and/or principal payments. Different loan groups (mortgage loans, corporate loans, consumer loans, etc.) have different aging criteria (8 to 90 days) which are determined by assessing and considering risks inherent in the relevant loan group. Information on delayed credit payments is disclosed starting from the first day of delay. Impaired loans are loans for which the bank has recognised impairment allowances as a result of a loss event.

Non-performing loans are loans with payments overdue by more than 90 days or impaired loans, or loans that are planned to be forwarded for collection by way of forced disposal of collateral, and loans with disposed collaterals. If a non-performing loan is restructured (provisions of the agreement are changed) it remains classified as a non-performing loan for at least 12 months after the date of change of provisions.

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

Credit quality analysis for the group:

EUR'000

	Mortgage	Business	Other	Consumer	Total gross loans	Fair value of collateral
						31.12.2016.
Neither past due nor impaired loans	269,227	622,659	80,607	1,055	973,548	1,557,791
Past due but not impaired loans, incl.:	30,607	7,254	-	124	37,985	41,868
less than 30 days	24,852	3,571	-	54	28,477	30,872
31 to 59 days	4,472	3,403	-	26	7,901	9,106
60 to 89 days	505	6	-	23	534	416
more than 90 days	778	274	-	21	1,073	1,474
Impaired loans	22,075	11,205	1,408	90	34,778	23,794
Total gross loans	**321,909**	**641,118**	**82,015**	**1,269**	**1,046,311**	**1,623,453**
Impairment allowance	(7,811)	(7,110)	(1,365)	(81)	(16,367)	
Total net loans	**314,098**	**634,008**	**80,650**	**1,188**	**1,029,944**	
						31.12.2015.
Neither past due nor impaired loans	280,325	510,619	19,523	912	811,379	1,221,800
Past due but not impaired loans, incl.:	30,948	4,445	-	126	35,519	33,667
less than 30 days	26,448	697	-	76	27,221	24,454
31 to 59 days	3,107	1,325	-	26	4,458	4,731
60 to 89 days	414	1,159	-	12	1,585	1,866
more than 90 days	979	1,264	-	12	2,255	2,616
Impaired loans	34,455	14,772	1,719	114	51,060	33,422
Total gross loans	**345,728**	**529,836**	**21,242**	**1,152**	**897,958**	**1,288,889**
Impairment allowance	(14,451)	(7,759)	(1,676)	(69)	(23,955)	
Total net loans	**331,277**	**522,077**	**19,566**	**1,083**	**874,003**	

Credit quality analysis for the bank:

EUR'000

	Mortgage	Business	Other	Consumer	Total gross loans	Fair value of collateral
						31.12.2016.
Neither past due nor impaired loans	269,227	604,945	80,607	982	955,761	1,548,410
Past due but not impaired loans, incl.:	30,607	7,255	-	123	37,985	41,868
less than 30 days	24,852	3,571	-	53	28,476	30,872
31 to 59 days	4,472	3,404	-	26	7,902	9,106
60 to 89 days	505	6	-	23	534	416
more than 90 days	778	274	-	21	1,073	1,474
Impaired loans	22,075	11,190	1,408	80	34,753	23,794
Total gross loans	**321,909**	**623,390**	**82,015**	**1,185**	**1,028,499**	**1,614,072**
Impairment allowance	(7,811)	(7,104)	(1,365)	(73)	(16,353)	
Total net loans	**314,098**	**616,286**	**80,650**	**1,112**	**1,012,146**	
						31.12.2015.
Neither past due nor impaired loans	280,325	510,620	19,523	912	811,380	1,213,960
Past due but not impaired loans, incl.:	30,948	4,445	-	126	35,519	33,667
less than 30 days	26,448	697	-	76	27,221	24,454
31 to 59 days	3,107	1,325	-	26	4,458	4,731
60 to 89 days	414	1,159	-	12	1,585	1,866
more than 90 days	979	1,264	-	12	2,255	2,616
Impaired loans	34,455	13,888	1,718	114	50,175	33,422
Total gross loans	**345,728**	**528,953**	**21,241**	**1,152**	**897,074**	**1,281,049**
Impairment allowance	(14,451)	(7,380)	(1,675)	(69)	(23,575)	
Total net loans	**331,277**	**521,573**	**19,566**	**1,083**	**873,499**	

Regular stress tests of the group's/ bank's loan portfolio, balances due from credit institutions as well as securities portfolio are performed to assess the credit risk exposure and identify potential critical situations. The maximum exposure to credit risk is assessed without taking into account collateral and other credit enhancements, while the minimum exposure is assessed taking into account the fair value of the collateral at the reporting date. If the loan is secured against a financial instrument, its fair value is determined according to the market value of the respective financial instrument; if the loan is secured against a bank deposit, the fair value of the collateral is the nominal value of the respective deposit; if the loan is secured against real estate, its fair value is determined according to the valuation provided by independent experts and adjusted (reduced) based on the group's/bank's experience. The fair value of other collateral is their purchase value or carrying amount taking into consideration the valuation provided by independent experts and the group.

As at 31 December 2016, the gross amount of loans having the maturity date for principal or interest changed totalled EUR 80.8 (82.6) million.
These changes were made on the basis of the agreements between the group or the bank and customers amending respective loan conditions, as otherwise the loans might be past due. A loan is considered to be restructured from the date of the above mutual agreement to the date when at least two years have passed without delays of contractual payments by more than 30 days or any of the loss events has taken place.

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

Financial assets of the group by risk rating:

EUR'000

Financial assets	Assets not overdue without recognised impairment		Portfolio allowance		Individually assessed		31.12.2016.
	Higher rating	Lower rating	Assets overdue without recognised impairment	Assets with recognised impairment	Assets without recognised impairment	Assets with recognised impairment	**Gross fianacial assets**
Cash and deposits with central banks	414,431	-	-	-	-	-	414,431
Balances due from credit institutions	226,241	46,279	-	-	-	-	272,520
Derivatives	624	-	-	-	-	-	624
Financial assets at fair value through profit or loss	11,815	16,601	-	-	-	-	28,416
Available-for-sale financial assets	1,001,455	41,119	-	-	-		1,042,574
Held-to-maturity investments	894,397	159,342	-	-	-	1,580	1,055,319
Loans and receivables	907,476	66,072	37,804	23,524	181	11,254	1,046,311
Mortgage	268,570	657	30,607	21,754	-	321	321,909
Business	557,244	65,415	7,170	272	84	10,933	641,118
Other	80,607	-	-	1,408	-	-	82,015
Consumer	1,055	-	27	90	97	-	1,269
Other financial assets	-	1,295	-	-	-	-	1,295
Total financial assets, gross	**3,456,439**	**330,708**	**37,804**	**23,524**	**181**	**12,834**	**3,861,490**
							31.12.2015.
Cash and deposits with central banks	449,136	-	-	-	-	-	449,136
Balances due from credit institutions	580,075	89,905	-	-	-	-	669,980
Derivatives	121	-	-	-	-	-	121
Financial assets at fair value through profit or loss	19,601	6,520	-	-	-	-	26,121
Available-for-sale financial assets	1,794,532	38,541	-	-	-	99	1,833,172
Held-to-maturity investments	823,777	189,391	-	-	-	4,445	1,017,613
Loans and receivables	742,358	69,022	34,720	36,093	798	14,967	897,958
Mortgage	279,288	1,037	30,800	34,066	148	389	345,728
Business	442,634	67,985	3,892	194	553	14,578	529,836
Other	19,523	-	-	1,719	-	-	21,242
Consumer	913	-	28	114	97	-	1,152
Other financial assets	-	1,465	-	-	-	-	1,465
Total financial assets, gross	**4,409,600**	**394,844**	**34,720**	**36,093**	**798**	**19,511**	**4,895,566**

Financial assets of the bank by risk rating:

EUR'000

							31.12.2016.
			Portfolio allowance		Individually assessed		
	Assets not overdue without recognised impairment						
Financial assets	Higher rating	Lower rating	Assets overdue without recognised impairment	Assets with recognised impairment	Assets without recognised impairment	Assets with recognised impairment	**Gross fianacial assets**
Cash and deposits with central banks	413,047	-	-	-	-	-	413,047
Balances due from credit institutions	225,118	56,386	-	-			281,504
Derivatives	80	-	-	-	-	-	80
Financial assets at fair value through profit or loss	-	21,010	-	-	-	-	21,010
Available-for-sale financial assets	925,966	31,128	-	-	-	-	957,094
Held-to-maturity investments	832,528	156,934	-	-	-	1,580	991,042
Loans and receivables	889,689	66,072	37,804	23,499	181	11,254	1,028,499
Mortgage	268,570	657	30,607	21,754	-	321	321,909
Business	539,531	65,415	7,170	257	84	10,933	623,390
Other	80,607	-	-	1,408	-	-	82,015
Consumer	981	-	27	80	97	-	1,185
Other financial assets	-	663	-	-	-	-	663
Total financial assets, gross	**3,286,428**	**332,193**	**37,804**	**23,499**	**181**	**12,834**	**3,692,939**
							31.12.2015.
Cash and deposits with central banks	448,187	-	-	-	-	-	448,187
Balances due from credit institutions	585,203	86,569	-	-	-	-	671,772
Derivatives	121	-	-	-	-	-	121
Financial assets at fair value through profit or loss	20,708	1,578	-	-	-	-	22,286
Available-for-sale financial assets	1,742,013	38,541	-	-	-	99	1,780,653
Held-to-maturity investments	775,870	187,504	-	-	4,445	-	967,819
Loans and receivables	742,358	69,022	34,720	36,093	798	14,083	897,074
Mortgage	279,288	1,037	30,800	34,066	148	389	345,728
Business	442,635	67,985	3,892	194	553	13,694	528,953
Other	19,522	-	-	1,719	-	-	21,241
Consumer	913	-	28	114	97	-	1,152
Other financial assets	-	606	-	-	-	-	606
Total financial assets, gross	**4,314,460**	**383,820**	**34,720**	**36,093**	**5,243**	**14,182**	**4,788,518**

Credit risk concentration

To mitigate concentration risk, the group and the bank apply diversification and a system of limits. The group and the bank place limits on the amount of risk for individual borrowers (groups of connected clients), and for geographical and industry concentrations as well as exposures having one type of collateral, etc. With a view to limiting credit risk and concentration risk, the target levels and limits of the loan portfolio are defined as a percentage of eligible capital, considering risks associated with the lending product and the location and liquidity of collateral.
Concentration limits for individual industry sectors are determined on the basis of credit quality ratios in the relevant sector and industry trends both in Latvia and abroad.
Concentration limits for geographical regions are based on the possibilities of registering and recovering collateral, as well as the political and economic situation in the relevant country.
Concentration limits for a certain type of collateral are defined, considering the liquidity of collateral.
In the event that any group of loans is affected by economic factors deteriorating the condition of all loans belonging to this group, it is decided to place certain restrictions on lending in the specific industry, and potential credit losses are identified.

The exposure to any single borrower, including banks and brokers, is further restricted by sub-limits. The credit risk concentration is analysed also by estimating the credit exposure ratio to eligible capital. According to the Regulation, the group and the bank treat credit exposure as a high risk transaction if it exceeds 10% of the eligible capital.
For the purposes of the credit risk concentration analysis, the issuers incorporated in a country only for the attraction of funds are disclosed as attributable to the country or region where the guarantors of the issue are located.
The credit risk inherent in the group's and bank's securities portfolios is reflected by the credit rating granted to respective securities and issuers. The group's and bank's securities portfolios are well-diversified and portfolio diversification is based on issues, credit rating classes, issuers and maturities.
Apart from the effective management of credit risk concentration, the bank has set limits for credit institutions and financial companies in order to restrict balances held with one institution and group of related institutions as well as defined the limit control regulations specifying the independent procedure for controlling compliance with the limits.
To enhance the effectiveness of credit risk management, which is associated with the assessment of existing and potential counterparties, the bank has designed an internal model for the assessment of credit institutions. With the model, the group

determines the maximum recommended co-operation limits, which are used for decision-making when assigning cooperation limits for credit institutions. Accordingly the internal rules provide execution control in accordance to stated limits.

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

EUR'000

Assets	Latvia	EMU countries	Other EU member states	Other OECD countries	International organisations	CIS countries	Other countries	Total
Cash and deposits with central banks	413,047	1,384	-	-	-	-	-	414,431
Balances due from credit institutions	2	99,120	8,457	44,676	-	50,769	69,496	272,520
Derivatives	-	-	15	59	-	-	550	624
Financial assets at fair value through profit or loss	5,529	2,368	1,668	7,054	-	4,006	7,791	28,416
Available-for-sale financial assets	39,311	369,907	147,332	369,177	67,092	32,826	16,929	1,042,574
Loans	721,342	41,653	30,855	57,867	-	156,176	22,051	1,029,944
Held-to-maturity investments	209,493	186,521	55,767	319,961	29,616	207,377	45,252	1,053,987
Other financial assets	1,277	18	-	-	-	-	-	1,295
Total financial assets	**1,390,001**	**700,971**	**244,094**	**798,794**	**96,708**	**451,154**	**162,069**	**3,843,791**
Liabilities								
Derivatives	-	-	18	-	-	-	24	42
Financial liabilities at amortised cost	277,024	349,130	609,062	126,053	-	536,686	1,732,371	3,630,326
Other financial liabilities	4,221	1,497	538	1,707	-	3	4,049	12,015
Total financial liabilities	**281,245**	**350,627**	**609,618**	**127,760**	-	**536,689**	**1,736,444**	**3,642,383**
Memorandum items	**44,619**	**29,128**	**6,158**	**40,138**	**-**	**13,092**	**9,285**	**142,420**

Analysis of concentration of the group's financial assets and liabilities by geographical area as at 31 December 2015:

EUR'000

Assets	Latvia	EMU countries	Other EU member states	Other OECD countries	International organisations	CIS countries	Other countries	Total
Cash and deposits with central banks	448,187	949	-	-	-	-	-	449,136
Balances due from credit institutions	4,568	247,719	34,125	267,271	-	45,383	70,914	669,980
Derivatives	-	-	99	19	-	-	3	121
Financial assets at fair value through profit or loss	5,793	3,263	1,901	6,706	-	3,840	4,618	26,121
Available-for-sale financial assets	53,330	409,938	200,664	1,054,614	64,864	37,966	11,697	1,833,073
Loans	639,138	23,008	19,299	33,794	-	132,934	25,830	874,003
Held-to-maturity investments	203,714	191,200	77,837	287,535	29,428	203,190	22,143	1,015,047
Other financial assets	1,363	102	-	-	-	-	-	1,465
Total financial assets	**1,356,093**	**876,179**	**333,925**	**1,649,939**	**94,292**	**423,313**	**135,205**	**4,868,946**
Liabilities								
Derivatives	1	187	114	59	-	-	4	365
Financial liabilities at amortised cost	458,178	321,858	1,000,321	1,211,759	-	703,712	974,991	4,670,819
Other financial liabilities	4,048	23,653	799	611	-	277	607	29,995
Total financial liabilities	**462,227**	**345,698**	**1,001,234**	**1,212,429**	-	703,989	**975,602**	**4,701,179**
Memorandum items	**45,398**	**11,792**	**6,864**	**8,589**	**-**	**7,126**	**5,790**	**85,559**

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

EUR'000

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

Analysis of concentration of the bank's financial assets and liabilities by geographical area as at 31 December 2015:

EUR'000

Assets	Latvia	EMU countries	Other EU member states	Other OECD countries	International organisations	CIS countries	Other countries	Total
Cash and deposits with central banks	448,187	-	-	-	-	-	-	448,187
Balances due from credit institutions	4,566	249,583	34,125	267,271	-	45,314	70,913	671,772
Derivatives	-	-	99	19	-	-	3	121
Financial assets at fair value through profit or loss	18,950	191	-	1,567	-	1,578	-	22,286
Available-for-sale financial assets	53,330	389,891	197,273	1,026,452	64,864	37,966	10,778	1,780,554
Loans	638,634	23,008	19,299	33,794	-	132,934	25,830	873,499
Held-to-maturity investments	199,770	179,369	68,207	269,598	28,512	200,425	19,372	965,253
Other financial assets	504	102	-	-	-	-	-	606
Total financial assets	**1,363,941**	**842,144**	**319,003**	**1,598,701**	**93,376**	**418,217**	**126,896**	**4,762,278**
Liabilities								
Derivatives	1	187	114	59	-	-	4	365
Financial liabilities at amortised cost	484,239	333,939	985,551	1,175,846	-	667,384	963,271	4,610,230
Other financial liabilities	1,196	23,568	-	-	-	-	-	24,764
Total financial liabilities	**485,436**	**357,694**	**985,665**	**1,175,905**	-	**667,384**	**963,275**	**4,635,359**
Memorandum items	**38,262**	**11,792**	**6,864**	**8,589**	-	**7,126**	**5,790**	**78,423**

Note 36

Other financial risks

Liquidity risk

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

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

The key principles and procedures to identify, analyse and control liquidity risk on a timely basis are laid down in the Liquidity Management Policy.

For ordinary liquidity risk management purposes, the bank applies the following indicators having certain limits and restrictions set:

- deposit coverage ratio;

- net liquidity positions by all currencies in total and by each separate currency;
- liquidity ratios for up to 30 days;
- large deposits on demand to liquid assets on demand;
- sum of term deposits of one customer (group of related customers)
- liquidity coverage ratio (LCR);
- net stable funding ratio (NSFR).

To identify the potential deterioration in the liquidity position on a timely basis, an early warning indicators system has been designed:

- substantial daily reduction of the amounts to be claimed under savings accounts and term deposits with the remaining maturities of “Less than 30 days”;
- simultaneous decrease in the weighted average duration and the total balance of term deposits;
- substantial growth of deposits claimed before their contractual maturity;
- decrease in the proportion of liquid assets in the total assets of the bank;
- negative information reported in the mass media about the bank or its related parties that may harm the bank’s reputation;

As at 31 December 2016, the bank’s liquidity ratio was 78.40% (82.68%).

As at 31 December 2016, the liquidity coverage ratio (LCR) of the group and the bank was 398.0% (448.0%) and 375.0% (437.0%). According to the Regulation, as at 31 December 2016, the group and the bank were required to maintain an LCR of at least 70%.
The bank manages funding liquidity risk and controls the funding structure by assessing the following:

- the funding structure in order to define the bank’s dependence on certain types of resources;
- diversification of funding maturities;
- potential funding sources and the bank’s access to such sources.

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

Contingency liquidity risk

Contingency liquidity risk relates to the organisation and planning for liquidity management in times of stress. Within the bank a specific crisis team is responsible for the liquidity management in times of crisis. This crisis team consists of the CEO, CRO, CFO, the Financial Market Division and the Risk Management Division. The group and the bank have defined principles to identify liquidity crisis stages and actions to overcome crisis situations. The main objective of group’s contingency plans is to enable senior management to act effectively and efficiently at times of crisis. The contingency plans are established for addressing temporary and long-term liquidity disruptions caused by a general event in the market or a bank specific event. These plans ensure that all roles and responsibilities are clearly defined and the necessary management information is in place.

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

Liquidity gap analysis

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

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

Securities in the bank’s portfolio are included in the maturity range in which they can be sold without loss, i.e. at the market value, except for held-to-maturity investments. Securities of the held-to-maturity portfolio are disclosed in the maturity range based on the ability to perform repo transactions with these securities in exchange for a secured loan. The share of the securities qualifying for repo transactions is presented in the “on demand and up to 1 month” maturity range, while the share of the securities not qualifying for repo transactions is disclosed according to the maturity date.
According to the bank’s experience, current accounts and other similar deposits constitute a sound source of financing. Current accounts and conceptually similar deposit types due "on demand" are classified in line with the bank’s experience regarding the life cycle of these deposits with the bank, although customers may receive demand deposits from the bank at

any time and without any penalties applied. The breakdown of demand deposits by maturity does not exceed 5 years and complies with the bank's historical experience regarding the length of the period and the extent of the outflow of demand deposits from the bank. This principle is not applied to demand deposits placed by large customers as the bank considers them less stable and these deposits are included in the maturity band of "on demand and up to 1 month".
Term deposits are disclosed according to contractual terms; however, customers may claim term deposits from the bank before the maturity date, subject to the deduction of a certain amount from the respective term deposit.
Impaired assets are stated net of allowances.

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

EUR'000

Assets	On demand and up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	More than 5 years and termless	Total
Cash and deposits with central banks	414,431	-	-	-	-	414,431
Balances due from credit institutions	245,629	2,562	-	-	24,329	272,520
Derivatives	20	60	365	179	-	624
Financial assets at fair value through profit or loss	23,569	-	4,847	-	-	28,416
Available-for-sale financial assets	945,876	10,233	27,112	55,805	3,548	1,042,574
Loans	142,606	26,882	139,818	482,851	237,787	1,029,944
Held-to-maturity investments	727,925	15,320	53,597	124,673	132,472	1,053,987
Other assets	5,624	-	6,225	-	118,978	130,827
Total assets	**2,505,680**	**55,057**	**231,964**	**663,508**	**517,114**	**3,973,323**
Liabilities						
Derivatives	23	19	-	-	-	42
Financial liabilities at amortised cost	753,772	200,966	575,567	1,968,895	131,126	3,630,326
Other liabilities	24,622	-	-	-	-	24,622
Total liabilities	**778,417**	**200,985**	**575,567**	**1,968,895**	**131,126**	**3,654,990**
Shareholders' equity	-	-	-	-	318,333	318,333
Total liabilities and shareholders' equity	**778,417**	**200,985**	**575,567**	**1,968,895**	**449,459**	**3,973,323**
Total memorandum items	32,478	11,199	66,943	15,910	15,890	142,420
Net liquidity position	1,694,785	(157,127)	(410,546)	(1,321,297)	51,765	x
Total liquidity position	1,694,785	1,537,658	1,127,112	(194,185)	(142,420)	x

Liquidity gap analysis for the group's assets, liabilities and memorandum items as at 31 December 2015:

EUR'000

Assets	On demand and up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	More than 5 years and termless	Total
Cash and deposits with central banks	449,136	-	-	-	-	449,136
Balances due from credit institutions	631,612	7,350	7,805	-	23,213	669,980
Derivatives	53	68	-	-	-	121
Financial assets at fair value through profit or loss	6,369	19,543	209	-	-	26,121
Available-for-sale financial assets	1,690,252	71,037	31,099	33,616	7,069	1,833,073
Loans	98,911	24,841	69,314	475,839	205,098	874,003
Held-to-maturity investments	588,257	11,897	58,984	237,393	118,516	1,015,047
Other assets	5,767	228	3,524	-	114,588	124,107
Total assets	**3,470,357**	**134,964**	**170,935**	**746,848**	**468,484**	**4,991,588**
Liabilities						
Derivatives	150	215	-	-	-	365
Financial liabilities at amortised cost	902,149	199,120	693,950	2,752,584	123,016	4,670,819
Other liabilities	43,075	-	-	-	-	43,075
Total liabilities	**945,374**	**199,335**	**693,950**	**2,752,584**	**123,016**	**4,714,259**
Shareholders' equity	-	-	-	-	277,329	277,329
Total liabilities and shareholders' equity	**945,374**	**199,335**	**693,950**	**2,752,584**	**400,345**	**4,991,588**
Total memorandum items	35,450	3,763	5,511	16,038	24,797	85,559
Net liquidity position	2,489,533	(68,134)	(528,526)	(2,021,774)	43,342	x
Total liquidity position	2,489,533	2,421,399	1,892,873	(128,901)	(85,559)	x

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

EUR'000

Assets	On demand and up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	More than 5 years and termless	Total
Cash and deposits with central banks	413,047	-	-	-	-	413,047
Balances due from credit institutions	254,613	2,562	-	-	24,329	281,504
Derivatives	20	60	-	-	-	80
Financial assets at fair value through profit or loss	16,163	-	4,847	-	-	21,010
Available-for-sale financial assets	944,919	6,181	5,423	-	571	957,094
Loans	142,523	26,882	121,573	483,381	237,787	1,012,146
Held-to-maturity investments	727,401	14,603	51,912	89,399	106,395	989,710
Other assets	4,040	-	2,456	-	168,499	174,995
Total assets	**2,502,726**	**50,288**	**186,211**	**572,780**	**537,581**	**3,849,586**
Liabilities						
Derivatives	23	19	-	-	-	42
Financial liabilities at amortised cost	725,047	198,975	544,957	1,915,209	131,125	3,515,313
Other liabilities	12,429	-	-	-	-	12,429
Total liabilities	**737,499**	**198,994**	**544,957**	**1,915,209**	**131,125**	**3,527,784**
Shareholders' equity	-	-	-	-	321,802	321,802
Total liabilities and shareholders' equity	**737,499**	**198,994**	**544,957**	**1,915,209**	**452,927**	**3,849,586**
Total memorandum items	26,618	11,199	66,943	15,910	15,890	136,560
Net liquidity position	1,738,609	(159,905)	(425,689)	(1,358,339)	68,764	x
Total liquidity position	1,738,609	1,578,704	1,153,015	(205,324)	(136,560)	x

Liquidity gap analysis for the bank's assets, liabilities and memorandum items as at 31 December 2015:

EUR'000

Assets	On demand and up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	More than 5 years and termless	**Total**
Cash and deposits with central banks	448,187	-	-	-		448,187
Balances due from credit institutions	633,842	7,350	7,805	-	22,775	671,772
Derivatives	53	68	-	-	-	121
Financial assets at fair value through profit or loss	3,336	18,741	209	-	-	22,286
Available-for-sale financial assets	1,693,215	60,845	26,340		154	1,780,554
Loans	98,911	24,841	69,314	475,839	204,594	873,499
Held-to-maturity investments	588,258	10,654	55,992	214,210	96,139	965,253
Other assets	3,131	228	3,039	-	160,051	166,449
Total assets	**3,468,933**	**122,727**	**162,699**	**690,049**	**483,713**	**4,928,121**
Liabilities						
Derivatives	150	215	-	-	-	365
Financial liabilities at amortised cost	893,983	198,226	690,113	2,704,892	123,016	4,610,230
Other liabilities	36,073	-	-	-	-	36,073
Total liabilities	**930,206**	**198,441**	**690,113**	**2,704,892**	**123,016**	**4,646,668**
Shareholders' equity	-	-	-	-	281,453	281,453
Total liabilities and shareholders' equity	**930,206**	**198,441**	**690,113**	**2,704,892**	**404,469**	**4,928,121**
Total memorandum items	28,314	3,763	5,511	16,038	24,797	78,423
Net liquidity position	2,510,413	(79,477)	(532,925)	(2,030,881)	54,447	x
Total liquidity position	2,510,413	2,430,936	1,898,011	(132,870)	(78,423)	x

In estimating the amount of expected financial liabilities, the group and the bank have included in the maturity gap analysis also interest payable on financial liabilities and memorandum items effective as at 31 December 2016 and 2015 which is expected in the future but has not been assessed at the reporting date.

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

EUR'000

Financial liabilities at amortised cost	Carrying amount	Up to 1 month	1 – 12 months	1 – 5 years	More than 5 years	Total
Demand deposits from credit institutions	16,463	16,463	-	-	-	16,463
Derivative inflow amount	42	(1,695)	(1,189)	-	-	(2,884)
Derivative outflow amount	-	1,694	1,155	-	-	2,849
Financial liabilities at amortised cost	3,613,863	3,032,637	242,539	222,609	131,882	3,629,667
Other financial liabilities	12,015	12,015	-	-	-	12,015
Total financial liabilities	**3,630,368**	**3,049,099**	**242,505**	**222,609**	**131,882**	**3,646,095**
Memorandum items	142,420	32,477	78,143	15,910	15,890	142,420
Total financial liabilities and memorandum items	**3,772,788**	**3,081,576**	**320,648**	**238,519**	**147,772**	**3,788,515**

Financial liabilities and memorandum items of the group as at 31 December 2015, which are expected in the future:

EUR'000

Financial liabilities	Carrying amount	Up to 1 month	1 – 12 months	1 – 5 years	More than 5 years	Total
Demand deposits from credit institutions	49,154	49,154	-	-	-	49,154
Derivative inflow amount	365	(2,804)	(2,641)	-	-	(5,445)
Derivative outflow amount	-	2,899	2,712	-	-	5,611
Financial liabilities at amortised cost	4,621,665	3,835,839	264,020	415,857	123,664	4,639,380
Other financial liabilities	29,995	29,995	-	-	-	29,995
Total financial liabilities	**4,671,184**	**3,885,088**	**264,091**	**415,857**	**123,664**	**4,688,700**
Memorandum items	85,559	35,450	9,274	16,038	24,797	85,559
Total financial liabilities and memorandum items	**4,756,743**	**3,920,538**	**273,365**	**431,895**	**148,461**	**4,774,259**

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

EUR'000

Financial liabilities	Carrying amount	Up to 1 month	1 – 12 months	1 – 5 years	More than 5 years	Total
Demand deposits from credit institutions	20,375	20,375	-	-	-	20,375
Derivative inflow amount	42	(1,695)	(1,189)	-	-	(2,884)
Derivative outflow amount	-	1,694	1,155	-	-	2,849
Financial liabilities at amortised cost	3,494,938	2,932,824	224,721	221,314	131,882	3,510,741
Other financial liabilities	2,279	2,279	-	-	-	2,279
Total financial liabilities	**3,515,355**	**2,953,198**	**224,687**	**221,314**	**131,882**	**3,531,081**
Memorandum items	136,560	26,618	78,142	15,910	15,890	136,560
Total financial liabilities and memorandum items	**3,651,915**	**2,979,816**	**302,829**	**237,224**	**147,772**	**3,667,641**

Financial liabilities and memorandum items of the bank as at 31 December 2015, which are expected in the future:

EUR'000

Financial liabilities	Carrying amount	Up to 1 mon	1 – 12 months	1 – 5 years	More than 5 years	Total
Demand deposits from credit institutions	63,294	63,294	-	-	-	63,294
Derivative inflow amount	365	(2,804)	(2,641)	-	-	(5,445)
Derivative outflow amount	-	2,899	2,712	-	-	5,611
Financial liabilities at amortised cost	4,546,936	3,753,521	266,568	420,966	123,664	4,564,719
Other financial liabilities	24,764	24,764	-	-	-	24,764
Total financial liabilities	**4,610,595**	**3,816,910**	**266,639**	**420,966**	**123,664**	**4,628,179**
Memorandum items	78,423	28,314	9,274	16,038	24,797	78,423
Total financial liabilities and memorandum items	**4,689,018**	**3,845,224**	**275,913**	**437,004**	**148,461**	**4,706,602**

Market risks

Market risk is exposure to potential losses due to the revaluation of assets and liabilities and memorandum items caused by changes in the market prices of financial instruments resulting from the fluctuations of currency exchange rates, interest rates and other factors. Market risk identification, assessment and management of the group and the bank are laid down in Market Risk Management Policy.

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

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

In 2016, the bank and group were not engaged in any securitizations.

Price risk

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

Non-fixed income financial instruments are held in the bank's trading portfolio.
The exposure to equity securities not held in the group's trading portfolio as at the reporting date amounts to EUR 12.9 (12.6) million, and for bank – EUR 2.9 (12.6) million.

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

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

The capital requirement for the security price risk for the securities in the trading portfolio and available-for-sale portfolio is determined by the bank and group using the Value at Risk (VaR) and Stressed Value at Risk (SVaR) internal models.

Currency risk

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

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

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

The bank has major open positions in EUR and USD (US dollars). The bank's open currency position in USD is rather small as it is hedged by using currency forwards/ futures. As at 31 December 2016, the bank's open currency position in USD was 3.6% (0.7%) of the bank's qualifying capital and, therefore, the effect of changes in the USD exchange rate is insignificant, and the group/bank conducts Value at Risk (VaR) calculation, which is also used for determining the amount of capital needed for covering currency risk. This risk is also controlled by limits set by Limits policy. As at 31 December 2016, all the above limits were met.
The group's Limits Policy defines major principles for limits application and control; limits for open foreign currency positions stipulate restrictions for each separate currency open position and total open position that are controlled on a daily basis. According to Credit Institution Law of Latvia open positions in each foreign currency may not exceed 10% of the bank's eligible capital and that the total foreign currency open position may not exceed 20% of eligible capital. As at 31 December 2016 the bank was in compliance with this requirement.

Group's currency position as at 31 December 2016:

EUR'000

Assets	EUR	USD	RUB	Other currencies	Total
Cash and deposits with central banks	410,719	3,476	35	201	414,431
Balances due from credit institutions	28,940	178,353	5,970	59,257	272,520
Derivatives	624	-	-	-	624
Financial assets at fair value through profit or loss	7,914	18,897	1,605	-	28,416
Available-for-sale financial assets	105,747	929,574	2,364	4,889	1,042,574
Loans	750,291	275,332	2,132	2,189	1,029,944
Held-to-maturity investments	204,516	842,483	6,514	474	1,053,987
Other assets	130,290	84	-	453	130,827
Total assets	**1,639,041**	**2,248,199**	**18,620**	**67,463**	**3,973,323**
Liabilities					
Derivatives	42	-	-	-	42
Financial liabilities at amortised cost	1,318,121	2,227,988	20,696	63,521	3,630,326
Other liabilities	16,654	7,420	514	34	24,622
Total liabilities	**1,334,817**	**2,235,408**	**21,210**	**63,555**	**3,654,990**
Net long/ (short) balance sheet position	**-**	**12,791**	**(2,590)**	**3,908**	**x**
Net off-balance sheet position from FX transactions	-	(363)	1,361	4,204	x
Net open long/ (short) currency position	**-**	**12,428**	**(1,229)**	**8,112**	**x**
Sensitivity gap if exchange rate against the national currency drops by 15%	**-**	**(1,864)**	**184**	**(1,217)**	**x**

Group's currency position as at 31 December 2015:

EUR'000

Assets	EUR	USD	RUB	Other currencies	Total
Cash and deposits with central banks	445,704	3,311	-	121	449,136
Balances due from credit institutions	28,495	546,590	15,003	79,892	669,980
Derivatives	121	-	-	-	121
Financial assets at fair value through profit or loss	5,234	19,731	1,156	-	26,121
Available-for-sale financial assets	153,320	1,670,194	3,284	6,275	1,833,073
Loans	648,958	211,790	2,308	10,947	874,003
Held-to-maturity investments	205,074	802,372	7,130	471	1,015,047
Other assets	123,040	500	1	566	124,107
Total assets	**1,609,946**	**3,254,488**	**28,882**	**98,272**	**4,991,588**
Liabilities					
Derivatives	365	-	-	-	365
Financial liabilities at amortised cost	1,341,174	3,203,711	30,440	95,494	4,670,819
Other liabilities	21,754	21,289	17	15	43,075
Total liabilities	**1,363,293**	**3,225,000**	**30,457**	**95,509**	**4,714,259**
Net long/ (short) balance sheet position	**-**	**29,488**	**(1,575)**	**2,763**	**x**
Net off-balance sheet position from FX transactions	-	(20,675)	2,461	171	x
Net open long/ (short) currency position	**-**	**8,813**	**886**	**2,934**	**x**
Sensitivity gap if exchange rate against the national currency drops by 15%	**-**	**(1,322)**	**(133)**	**(440)**	**x**

Bank's currency position as at 31 December 2016:

EUR'000

Assets	EUR	USD	RUB	Other currencies	Total
Cash and deposits with central banks	409,335	3,476	35	201	413,047
Balances due from credit institutions	27,038	189,409	5,964	59,093	281,504
Derivatives	80	-	-	-	80
Financial assets at fair value through profit or loss	7,011	12,887	1,112	-	21,010
Available-for-sale financial assets	55,493	894,348	2,364	4,889	957,094
Loans	754,925	252,900	2,132	2,189	1,012,146
Held-to-maturity investments	195,434	787,288	6,514	474	989,710
Other assets	174,504	38	-	453	174,995
Total assets	**1,623,820**	**2,140,346**	**18,121**	**67,299**	**3,849,586**
Liabilities					
Derivatives	42	-	-	-	42
Financial liabilities at amortised cost	1,287,713	2,143,665	20,708	63,227	3,515,313
Other liabilities	11,735	638	22	34	12,429
Total liabilities	**1,299,490**	**2,144,303**	**20,730**	**63,261**	**3,527,784**
Net long/ (short) balance sheet position	**-**	**(3,957)**	**(2,609)**	**4,038**	**x**
Net off-balance sheet position from FX transactions	-	16,668	1,361	4,204	x
Net open long/ (short) currency position	**-**	**12,711**	**(1,248)**	**8,242**	**x**
Sensitivity gap if exchange rate against the national currency drops by 15%	**-**	**(1,907)**	**187**	**(1,236)**	**x**

Bank's currency position as at 31 December 2015:

EUR'000

Assets	EUR	USD	RUB	Other currencies	Total
Cash and deposits with central banks	444,755	3,311	-	121	448,187
Balances due from credit institutions	31,354	545,987	15,015	79,416	671,772
Derivatives	121	-	-	-	121
Financial assets at fair value through profit or loss	4,069	17,414	803	-	22,286
Available-for-sale financial assets	124,167	1,646,828	3,284	6,275	1,780,554
Loans	648,454	211,790	2,308	10,947	873,499
Held-to-maturity investments	191,507	766,146	7,129	471	965,253
Other assets	165,358	524	1	566	166,449
Total assets	**1,609,785**	**3,192,000**	**28,540**	**97,796**	**4,928,121**
Liabilities					
Derivatives	365	-	-	-	365
Financial liabilities at amortised cost	1,341,145	3,143,424	30,441	95,220	4,610,230
Other liabilities	12,366	23,675	17	15	36,073
Total liabilities	**1,353,876**	**3,167,099**	**30,458**	**95,235**	**4,646,668**
Net long/ (short) balance sheet position	**-**	**24,901**	**(1,918)**	**2,561**	**x**
Net off-balance sheet position from FX transactions	-	(20,675)	2,461	171	x
Net open long/ (short) currency position	**-**	**4,226**	**543**	**2,732**	**x**
Sensitivity gap if exchange rate against the national currency drops by 15%	**-**	**(634)**	**(81)**	**(410)**	**x**

Interest rate risk

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

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

The amount of capital required to cover interest rate risk in the non-trading portfolio for the group and the bank is determined using the internal duration method.

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

Assets, liabilities and contingent liabilities are distributed into maturity bands according to the following conditions:
- shorter of the remaining repayment/performance/maturity term – for financial instruments with fixed interest rates;
- term until the next interest rate change date or the interest rate repricing date – for financial instruments with floating interest rates;
- demand deposits are distributed into maturity bands by reference to the historical stability of demand deposits and the historical life cycle based on the decay rate. Maturity bands are assigned to the part of demand deposits that corresponds to the core part under the assumption concerning the shock scenario of interest rate by 200 basis points.

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

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

EUR'000

		Group		Group		Bank		Bank	
		01.01.2016.– 31.12.2016.		01.01.2015.– 31.12.2015.		01.01.2016.– 31.12.2016.		01.01.2015.– 31.12.2015.	
		+100 bps	-100 bps	+100 bps	-100 bps	+100 bps	-100 bps	+100 bps	-100 bps
Total for all	Effect of changes on equity	(11,885)	11,885	(30,492)	30,492	(11,207)	11,207	(29,907)	29,907
currencies	Effect of changes on profit	6,231	(6,231)	5,842	(5,842)	6,331	(6,331)	6,197	(6,197)
USD	Effect of changes on equity	(10,574)	10,574	(28,666)	28,666	(10,259)	10,259	(28,149)	28,149
	Effect of changes on profit	2,177	(2,177)	2,348	(2,348)	2,275	(2,275)	2,603	(2,603)
EUR	Effect of changes on equity	(1,311)	1,311	(1,826)	1,826	(948)	948	(1,758)	1,758
	Effect of changes on profit	4,054	(4,054)	3,494	(3,494)	4,056	(4,056)	3,594	(3,594)

Commodity risk

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

Settlement risk

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

Counterparty credit risk

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

Note 37

Non-financial risks

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

Operational risk

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

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

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

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

The key principles allowing efficient operational risk management are as follows:

- setting up an adequate operational risk management system;
- employing an adequate method to identify and assess operational risk;
- monitoring operational risk on a regular basis;
- controlling and/ or mitigating operational risk adequately;
- ensuring business continuity.

The following risk mitigation techniques are employed for the purposes of operational risk management:

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

To manage the group's and bank's exposure to operational risk, an operational risk event database has been established. The key objectives of the database are as follows:

- collection of data about operational risk events and losses of the group and the bank;
- analysis of operational risk events and losses;
- assessment of the frequency of operational risk events and significance of operational risk losses;
- prevention of potential losses, based on the event assessment;
- definition of the major tendencies and making forecasts of future operational risk losses.

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

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

During the reporting year, 949 (990) operational risk events were registered in the database, of which only 67 (61) events were those which resulted in actual losses amounting to EUR 126.4 (95.5) thousand. The considerable number of the identified and registered events and, at the same time, rather a small amount of loss testify to the active involvement of the group's and bank's employees in the operational risk management and to the effectiveness of the control environment.

Money laundering and terrorism financing risk

The risk of money laundering and terrorism financing (hereinafter referred to as "ML/TF risk") is the impact and likelihood that the credit institution may be used in the laundering of proceeds derived from criminal activity or in terrorism financing in relation to the financial services it provides, its customer base, the geographic operational profile of its customers, and the supply channels of products and services.

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

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

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

The Customer Policy defines the principles of customer attraction and servicing based on the bank's and group's operational strategy that are implemented according to the local statutory requirements as well as good banking practice.

The ML/FT and sanctions policy details the control principles and the procedure for the Bank and its subsidiaries to manage money laundering and terrorism financing risks, to comply with economic/ financial sanctions and Latvian, EU and international laws on ML/FT and sanctions. It is laid down in this policy how to identify and manage ML/FT risk, including measurement, assessment, control and reporting of this risk to the management of the bank.

To mitigate ML/TF risk, the bank has formulated and documented an internal ML/TF risk management and prevention system encompassing activities and measures aimed at ensuring compliance with the requirements of the Anti-Money Laundering and Counter-Terrorism Financing Law, Cabinet Regulations, FCMC Regulations and other applicable regulations. All the group's employees and authorised representatives involved in customer servicing and KYC processes are subject to the procedure prescribed by the aforementioned documents and relevant internal regulations.
Bank's ML/TF risk management regulations lay down the following:

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

The amount of capital required to cover ML/FT risk is determined according an internal model based on the simplified method.

At the end of 2015, an administrative case was initiated by the FCMC and on 26 May 2016 the FCMC and ABLV Bank, AS signed an administrative agreement under which the parties reached settlement to close the case.

As part of the administrative agreement the bank was imposed a fine and an official warning was expressed to the board member in charge.
In determining the amount of the fine, the FCMC took into account that the bank was in compliance with all regulatory requirements and was in the process of improving internal controls, which resulted in reducing the fine to EUR 3.17 million, which is 2.5% of total annual revenue of the bank. Under the Credit Institution Law, the FCMC has the right to impose a fine of up to 10% of total net revenue of a bank for the previous financial year.

In the administrative agreement, the parties agreed on future measures which the bank committed to complete by the set deadline to improve its internal control system and raise the efficiency of its operations. The FCMC continues supervising whether the bank is fulfilling its commitments under the agreement according to the deadlines and the scope set therein.

The bank continues working on the responsibilities under the administrative agreement and improvement of its internal control system in compliance with the deadlines set out in the agreement. Following the initiative of the FCMC, Latvian banks that mostly render services to foreign clients, including ABLV Bank, underwent independent audit performed by the US advisory firms regarding the compliance with the US regulatory requirements; the audit was started in April 2016 and was intended for strengthening the internal control systems and processes in the banks. In our bank, the audit was performed by Navigant Consulting, Inc. This was one of the largest projects in our bank lately, which required considerable efforts and financial investments. In general, we are satisfied with the audit results: the bank's strengths were evaluated, and the recommendations given can be implemented without substantial investments in technologies and process modifications. During the audit, we acquired new experience in terms of differing compliance requirements in the European Union and the US.

Other risks

Other unquantifiable risks include:

- reputational risk;
- compliance risk;
- strategic and business risk;
- commission fee income and expenses volatility risk.

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

Reputational risk

Reputation risk is the risk of potential harm to reputation which may lead to adverse publicity, revenue decrease, costly litigation, reduction in the customer base or departure of key employees.

Reputational risk is a non-quantifiable risk and the consequences and losses that may be caused by this risk can hardly be determined. Reputational risk management by the bank (measurement, applicable methods, control) is governed by the Reputational Risk Management Policy.

Management and control of reputational risk is the responsibility of Chief Operations Officer (COO).

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

Certain risk assessment criteria and indicators signalling changes in the level of risk have been introduced to support the assessment of reputation risk.

Reputation risk is assessed using the expert method and the appointed experts are Deputy Chief Executive Officer, Chief Risk Officer, Chief Operations Officer, Head of Public Relations and an employee of the Risk Analysis Department. Monitoring measures are carried out in order to learn in due time and take immediate action in response to information on group companies or related parties published in the mass media that may impact the level of reputation risk.
Monitoring and management reporting upon discovering information that may have an adverse impact on reputation is ensured by the Head of Public Relations.

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

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

Compliance risk

Compliance risk is the risk that the bank or its subsidiary may incur losses or legal obligations, be subject to sanctions or suffer impairment of reputation as a result of a failure to comply or a breach of compliance laws, regulations and standards.

Compliance risk is unquantifiable and its consequences and losses are difficult to determine. Compliance risk is managed according to the Compliance risk management policy.

Management and control of compliance risk is the responsibility of Chief Compliance Officer (CCO).

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

Data required for the assessment of compliance risk are gathered and summarised by way of surveys and interviews conducted by a compliance expert.
Interviews are conducted with heads of the bank's structural units and subsidiaries and, where required, with other employees (specialists, subject matter experts) who have knowledge and experience that may help in the risk assessment.

In addition, the following is used: case studies, information from the litigation register, risk events registered in the risk event and loss data base, findings from regulator reviews and other sources of information.

Compliance risk is assessed using expert valuations.
The assigned level of risk indicates the type of reaction that needs to be taken, i.e. the level of detail of the preventive and corrective measures for the respective risk, what level of employees need to be assigned responsibility for the prevention of risk, and in what timeframe and manner one should react when the risk has materialised.

Compliance risk is monitored in order to be able to learn about and take immediate action in response to changes in compliance laws, regulations and standards.
Change monitoring is carried out by the Compliance Expert Unit. Observance of compliance laws, standards and rules in day to day operations of a structural unit is provided by the manager of each structural unit.

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

Strategic and business risk

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

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

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

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

Commission fee income and expenses volatility risk

Commission fee income and expenses volatility risk is the risk that the group and the bank may fail to receive the planned net commission income.

Commission fee income and expenses represent a significant part of operating income and changes in the types of operations or services that generate such income may have a significant impact on the operational result and capital of the group and the bank.

Commission fee income and expenses volatility risk is managed as part of strategy and business risk.

Information system risk

The bank has formulated the Information Technology Security Policy, the Information System Risk Analysis Regulations, the Security Requirements for Information Systems Being Designed, and other regulations dealing with information system risk management. Information system risk is included in operational risk based on the Operational Risk Management Policy adopted by the bank and, therefore, for capital adequacy purposes it was resolved not to segregate it from the capital requirement for operational risk. The bank analyses the data of the operational risk event and loss database to identify whether it is possible and necessary to establish a separate capital requirement for information system risk.

The bank conducts risk analysis on the basis of a documented methodology, which enables the effective planning of risk management measures. According to the risk analysis results, the bank chooses appropriate risk management (security) tools. Risk management measures are determined by the bank based on the relationship between security costs and potential loss. The bank specifically focuses and makes every effort to prevent risks associated with unauthorised access to the bank’s information by third parties or leakage of confidential information via global networks (Internet, etc.), e-mail, modems, optical discs, USB flash and other information media.
When commencing new projects for the designing, acquisition and alteration (modification) of information systems, the bank conducts risk analysis pertaining to these changes and takes measures to minimise the risk exposure.

Note 38

Litigation and claims

In the ordinary course of business, the bank has been involved in a number of legal proceedings to recover outstanding credit balances and maintain collateral, as well as other proceedings related to specific transactions. The management believes that any legal proceedings pending as at 31 December 2016 will not result in material losses for the bank and/ or the group.

Note 39

Events after the reporting date

As of the last day of the reporting year until the date of signing of these consolidated and separate financial statements there have been no events requiring adjustment of or disclosure in these consolidated and separate financial statements or notes thereto, excepted below mentioned.
The board of the bank will recommend to the shareholders to pay dividends of EUR 73.2 million and issue new ordinary shares in April 2017 to increase equity of the bank by EUR 50.7 million.

KPMG

KPMG Baltics SIA
Vesetas iela 7,
Rīga, LV-1013
Latvija

Tālrunis +371 67038000
Fakss +371 67038002
kpmg.com/lv

Independent Auditors' Report

To the shareholders of ABLV Bank AS

Our Opinion on the Consolidated and Separate Financial Statements

We have audited the accompanying separate financial statements of ABLV Bank AS ("the Bank") and accompanying consolidated financial statements of the Bank and its subsidiaries ("the Group") set out on pages 9 to 82 of the accompanying Consolidated and Separate Annual Report, which comprise:

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

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

Basis for Opinion

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

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

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

Key Audit Matters

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

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

Impairment of loans and receivables (Consolidated and separate financial statements)	
Key audit matter	*Our response*
The carrying amount of loans and receivables in the consolidated financial statements as at 31 December 2016: EUR 1 029.9 million; impairment reversal recognised in 2016: EUR 0.3 million; total impairment loss allowance as at 31 December 2016: EUR 16.4 million. The carrying amounts of loans in the separate financial statements at 31 December 2016: EUR 1 012.1 million; impairment reversal recognised in 2016: EUR 0.1 million; total impairment loss allowance as at 31 December 2016: EUR 16.4 million. *We refer to the financial statements: Note 2 (j) and 2 (o) (Information on principal accounting policies), Notes 8, 17 and 35 (financial disclosures).* The Bank and other entities within the Group offer a variety of loan products to corporate clients and individuals. Relative significance of the loans and receivables to the total assets has increased during 2016. The Group and Bank have an exposure to borrowers in foreign jurisdictions, including those in the CIS countries which have a recent history of depressed economic activity amounting to EUR 156.2 million or 15.2% of the total net loans and receivables in the consolidated financial statements and EUR 133.7 million or 13.2% of the total net loans and receivables in the separate financial statements. We identified this area as a significant risk during our audit because recognition of allowances for loan impairment is associated with significant estimation uncertainty as it requires the management to exercise judgment and develop complex and subjective assumptions about both the timing of recognition and the amounts of such impairment.	Our audit procedures included, among others: • testing of controls over the approval, recording and monitoring of loans, including, but not limited to, those over loan risk grade assignments, identification of loss events, determination of loan collateral fair values and the calculation of the impairment allowances. For corporate loans: • For a sample of loans with higher risk characteristics, such as individually significant exposures to related borrower groups, watchlist, restructured or CIS-based exposures, critically assessing, by reference to the underlying loan files, and through discussion with loan officers and loan analysis department personnel, the existence of any impairment triggers; • where impairment triggers had been identified, discussing with loan analysis department employees the forecasts of future cash flows used by Asset Evaluation Committee in the assessment of loan impairment and evaluating key assumptions applied, such as discount rates, collateral values (using our own valuation specialists), forecasted business performance as well as, where applicable, collateral sales costs and sales periods. For loans to individuals and other exposures assessed for collective impairment: • testing the underlying collective impairment models, including backtesting and the assessment of the completeness and

Individual impairment allowances recognized by the Bank and other entities within the Group mostly relate to large, individually monitored, corporate exposures. The assessment is therefore based on the knowledge of each individual borrower and often on estimation of the fair value of the related collateral. Collective allowances are predominantly related to mortgage-type loan exposures and reflect both already existing credit losses and also losses that have been incurred but are not yet identifiable on an individual exposure level. Collective impairment is estimated mainly based on historical pattern of losses and changes in loan risk characteristics based on qualitative indicators.	accuracy of underlying data, and assessing the key parameters such as the probability of default, loss given default and time period required for collateral repossession and realization. • critically assessing the rationale for the changes to model parameters and outputs in 2016, by reference to our understanding of the business, current economic trends and market practices; • assessing the loan population that had not been subject to any impairment allowances as at 31 December 2016 by reference to our understanding of the exposures and the related risks.

Impairment of held-to-maturity investments (Consolidated and separate financial statements)	
Key audit matter	*Our response*
The carrying amount of held-to-maturity (hereinafter "HTM") investments in the consolidated financial statements as at 31 December 2016: EUR 1 054.0 million; impairment reversal recognised in 2016: EUR 0.2 million; total impairment loss allowance as at 31 December 2016: EUR 1.3 million. The carrying amount of HTM investments in the separate financial statements as at 31 December 2016: EUR 989.7 million; impairment reversal recognised in 2016: EUR 0.2 million; total impairment loss allowance as at 31 December 2016: EUR 1.3 million. *We refer to the financial statements: Note 2 (j) and 2 (o) (Information on principal accounting policies), Note 15 and 35 (financial disclosures).* HTM investments, comprised of fixed income debt securities, and measured at amortized cost subsequent to initial recognition, are subject to a significant impairment risk, as both the Bank's and other Group entities' HTM investment portfolios include exposure to non-investment grade securities amounting to a gross balance of EUR 159.3 million or 15.1% of the total gross HTM portfolio in the consolidated financial statements and EUR 156.9 million or 15.8% of the total gross HTM portfolio in the separate financial statements. Assessment of whether any impairment should be recognized in light of existing impairment indicators, most notably fair value decrease of the investments, and the determination of the amounts of such impairment, if any, are subject to significant management judgment and estimates.	Our audit procedures included, among others: • testing that HTM financial assets fair values have been based on observable data from relevant public information platforms and assessing the data to determine the fair value of these assets; • comparing the estimated fair value of HTM investments to their current amortized cost as well as inspecting publicly available information and credit ratings of bond issuers to assess the need to perform an impairment assessment; • for the investments with identified loss events, challenging the forecasts of future cash flows approved by the Bank's Asset Evaluation Committee and evaluating key assumptions applied; • assessing collective impairment recognition for non-investment grade part of the HTM portfolio where impairment indicators have not been identified at a single exposure level.

Impairment of repossessed real estate (Consolidated and separate financial statements)	
Key audit matter	*Our response*
The carrying amount of repossessed real estate in the consolidated financial statements as at 31 December 2016: EUR 41.3 million; impairment loss recognised in 2016: EUR 3.4 million; total impairment loss allowance as at 31 December 2016: EUR 8.9 million. The total amount of sales of repossessed real estate is equal to 12.1 million EUR. *We refer to the financial statements: Note 2 (k) and 2 (p) (Information on principal accounting policies), Note 6 (financial disclosures).* Significant judgement is required from the management to identify and measure impairment of repossessed real estate, measured at cost, particularly due to the wide range of property types and locations in question. Due to the complexity of the estimates involved, mainly as concerns comparable sales prices and discount rates, and the fact that significant impairment losses were recognized in the past in relation to such assets that also affected the impairment amounts recognized in the Bank's separate financial statements in respect of its investment in Pillar Holding Company KS (see Key Audit Matter "Investments in subsidiaries"), we have assessed the area to be a significant risk for the Group audit.	Our procedures included, among others: • updating our understanding of Group's approach to the assessment of the recoverable amounts of repossessed real estate; • challenging the estimates of the recoverable amounts of the repossessed real estate population used by Asset Evaluation Committee and discussing them with loan analysis department personnel, with a particular focus on properties with higher risk characteristics, such as those with high carrying amounts, offered sales prices close to the carrying amount and/or in locations where actual recent market transactions have occurred with losses, including key assumptions made such as comparable sales prices and discount rates, by reference to our understanding of the real estate market and benchmarking against observable market transactions with comparable properties where available.

Impairment of investments in subsidiaries (Separate financial statements)	
Key audit matter	*Our response*
The carrying amount of investments in subsidiaries in the separate financial statements as at 31 December 2016: EUR 119.9 million; impairment loss recognised in 2016: EUR 6.2 million; total impairment loss allowance as at 31 December 2016: EUR 20.8 million. *We refer to the financial statements: Note 2 (c) and 2 (p) (Information on principal accounting policies), Note 18 (financial disclosures).* The determination of the recoverable amounts of investments in subsidiaries is a complex process and requires the management to make subjective judgements, including those in respect of future operating cash flows, growth rates and discount	Our procedures included, among others: • evaluating the reasonableness of management's judgments as to the existence of impairment indicators, and consequently, the requirement to perform related impairment tests. This included, but was not limited to, discussing the subsidiaries' performance with the Bank's Board members, and assessing their strategies and historical growth rates against past forecasts; • assessing the Bank's models and estimates applied to determine impairment losses recognised, where applicable using our internal valuations specialists, and challenging reports on valuations prepared by external

rates. Accordingly, we have identified this area as a significant risk in our audit. The above estimation uncertainty was particularly high in respect of the following two subsidiaries with recent history of operating losses: - Pillar Holding Company KS - managing the Group's repossessed real estate, with recoverability dependent on the uncertain realisation of repossessed collateral, as discussed further in the Key Audit Matter "Impairment of repossessed real estate". - ABLV Bank Luxembourg S.A - a development-stage subsidiary bank with recoverability dependent on future growth.	experts engaged by the Bank, whose competence and independence we also assessed. This included, among other things, challenging the valuation of repossessed real estate at Pillar Holding Company KS and its subsidiaries, and forecasted growth rates and discount rates for ABLV Bank Luxembourg S.A.; performing analysis of the sensitivity of the impairment tests' results to changes in assumptions and evaluating adequacy of impairment related disclosures.

Regulatory proceedings regarding Anti-Money Laundering practices (Consolidated and separate financial statements)

Key audit matter	*Our response*
We refer to the financial statements: Note 37 (non-financial risks). Since December 2015, the Bank had been involved in an administrative proceeding initiated by the Latvian financial services regulator, the Financial Capital and Market Commission (hereinafter "FCMC"), in relation to Anti-Money Laundering requirements embedded in Latvian law. During 2016, the Bank entered into an administrative agreement with FCMC which concluded the administrative proceeding and resulted in a EUR 3.2 million fine imposed on the Bank as well as the requirement for the Bank to strengthen its internal control system in the area. Compliance with the terms set out in the administrative agreement is a key prerequisite for Bank's successful operations in the future. Given the matter's importance to the Bank's reputational risk and the ability to continue as a going concern, we have assessed that the evaluation of the Bank's Anti-Money Laundering practices is a key audit matter for the Bank and the Group audit.	Our audit procedures included, among others: • reading minutes of the meetings of the Management Board and the Council of the Bank, and inspecting correspondence with FCMC; • updating our understanding of the matter through inquiries with the Bank's representatives responsible for compliance and, using our own internal forensic specialists, inspecting the regulator's findings and terms and conditions included in the administrative agreement; • testing the Bank's Anti-Money Laundering practices by involving our forensic specialists on a sample of clients and their transactions that were selected based on high risk-criteria to assess whether further issues might arise in the areas which were identified as critical by the FCMC. • evaluating the Bank's action plan for improving its internal control system as indicated by the FCMC, by inspecting the plan, reports and correspondence with the regulator, and considering the findings of an external advisor engaged by the Bank to perform an assessment of the Bank's Anti-Money Laundering control framework;

	• assessing adequacy of disclosures in respect of significant legal and regulatory proceedings.

Reporting on Other Information

The Bank management is responsible for the other information. The other information comprises:

- the Bank's Management Report, as set out on pages 3 to 6 of the accompanying Annual Report,
- the Bank's Council and the Board, as set out on page 7 of the accompanying Annual Report,
- the Statement of Management's Responsibility, as set out on page 8 of the accompanying Annual Report, and
- the Statement of Corporate Governance, as set out in a separate statement prepared by management available on Bank's website www.ablv.com.

Our opinion on the financial statements does not cover the other information included in the Annual Report, and we do not express any form of assurance conclusion thereon, except as described in the *Other reporting responsibilities in accordance with the legislation of the Republic of Latvia* section of our report.

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

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

Other reporting responsibilities in accordance with the legislation of the Republic of Latvia

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

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

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

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

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

Responsibilities of Management and Those Charged with Governance for the 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 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 Bank or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibility for the Audit of the consolidated and separate Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's and Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are

required to draw attention in our auditors' report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

KPMG Baltics SIA
Licence No 55

Armine Movsisjana
Chairperson of the Board
Sworn Auditor
Certificate No 178
Riga, Latvia
16 March 2017

BANKING / INVESTMENTS \ ADVISORY

ABLV

ABLV Bank, AS

Statement of Information Disclosure for 2016

Riga,
16 March 2017

Contents

General Information

Complying with Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, which sets forth the procedure for disclosing the information on the risks pertaining to operations of banks and investment firms, on purposes, methods, and policies of risk management, on own funds requirements, and internal capital adequacy assessment, as well as the remuneration policy and practices, this Statement of Information Disclosure is provided.

Statement of Information Disclosure is provided at the consolidation group level. ABLV Bank, AS (hereinafter referred to as the bank) is the parent company of the consolidation group, to which information disclosure requirements apply.

All data in this Statement of Information Disclosure are provided as at 31 December 2016, in thousands of euros (EUR'000), unless stated otherwise.

Information about Consolidated Group

The list of the entities constituting the consolidation group, conforming to the International Financial Reporting Standards as adopted in the European Union, as well as basic information on risk management and capital management, is disclosed in the bank's Annual report 2016 available at the bank's website www.ablv.com.

The bank and its affiliate companies (hereinafter referred to as the group) are consolidated using the full consolidation method. Proportional consolidation methods are not applied. There is no current or foreseen practical or legal impediment to the prompt transfer of the elements of own funds or repayment of liabilities between the parent company and affiliate companies of the group.

For the supervision purposes pursuant to the Financial and Capital Market Commission (hereinafter referred to as the FCMC) regulations No. 51 – Regulations on the Methods for Consolidation and Consolidated Reports, dated 26 March 2014, the entities constituting the group are as follows:

Company	Country of incorporation	Registration number
ABLV Bank, AS	LV	50003149401
ABLV Bank Luxembourg, S.A.	LU	B 162048
ABLV Capital Markets, IBAS	LV	40003814705
ABLV Asset Management, IPAS	LV	40003814724
PEM, SIA	LV	40103286757
PEM 1, SIA	LV	40103551353
New Hanza Capital, AS	LV	50003831571
ABLV Corporate Services Holding Company, SIA	LV	40103799987
Pillar, SIA	LV	40103554468
Pillar Holding Company, KS	LV	40103260921
Pillar 3, SIA	LV	40103193067
Pillar 4 & 6, SIA	LV	40103210494
Pillar 7 & 8, SIA	LV	40103240484
Pillar 9, SIA	LV	40103241210
Pillar 11, SIA	LV	40103258310
Pillar 2, 12 & 14, SIA	LV	50103313991
Pillar 18, SIA	LV	40103492079
Pillar 19, SIA	LV	40103766952
Pillar 20, SIA	LV	40103903056
Pillar 21, SIA	LV	40103929286
Pillar 22, SIA	LV	50103966301
Pillar Development, SIA	LV	40103222826
Pillar Utilities, SIA	LV	40103693339
ABLV Building Complex, SIA	LV	40203037667

Non-consolidated affiliate companies the investments made in the share capital of which do not constitute a decrease in the bank's own funds when calculating the same:

Company	Country of incorporation	Registration number
ABLV Consulting Services, AS	LV	40003540368
ABLV Advisory Services, SIA	LV	40103964811
ABLV Corporate Services, SIA	LV	40103283479
ABLV Corporate Services, LTD	CY	HE273600
NHC 1, SIA	LV	50103247681
NHC 2, SIA	LV	40103963977
NHC 3, SIA	LV	50103994841
NHC 4, SIA	LV	40203032424
NHC 5, SIA	LV	50203032411
NHC 6, SIA	LV	40203032439
Pillar Management, SIA	LV	40103193211
Pillar RE Services, SIA	LV	40103731804
Pillar Contractor, SIA	LV	40103929498
Pillar Architekten, SIA	LV	40103437217

The actual amount of own funds of the affiliate companies not included in the group for the supervision purposes corresponds to or exceeds the required amount.

Information on governance activities

The governance of the group/bank is ensured by the bank's council consisting of 3 (three) members of the council and the board consisting of 7 (seven) members of the board. The members of the board simultaneously hold the positions of Chief Executive Officer (CEO), Deputy Chief Executive Officer (dCEO), Chief Operating Officer (COO), Chief Compliance Officer (CCO), Chief Risk Officer (CRO), Chief Information Officer (CIO), and Chief Financial Officer (CFO).

The group ensures diversity policy with regard to the competences of the members of the board. Each director is an expert in the respective professional area. Before appointment of the director or in case of changes in the powers, duties performed, or the competences required for the performance of those, the suitability of the candidate for the position of the director is assessed by the council, taking into account the professional competence, previous experience, including the experience outside the particular area and international experience, education, and reputation. The assessment of suitability of the directors and management personnel is performed in accordance with the normative document Policy on the Assessment of the Suitability of Officials and the Provision of Diversity in the Structure of Council and Board.
The Policy stipulates the organization of the implementation of the assessment of the suitability of members of the bank's board and council (hereinafter referred to as the management) and the provision of diversity in the management composition, frequency and procedure of assessing the management suitability, and the procedure for making the decisions on suitability.

If suitability assessment results in the conclusion that a member of the council, member of the board, or head of the Internal Audit Department is not suitable for the position, the same is immediately reported to the FCMC.
The Policy has been developed and is implemented in accordance with the FCMC regulations No. 112 the Regulations for Granting the Licenses for Operations of Credit Institutions and Credit Unions, Obtaining the Particular Permits Regulating the Operations of Credit Institutions and Credit Unions, Approving the Documents, and Providing the Information, the FCMC regulations No. 233 the Regulations for Establishing the Internal Control System, the FCMC recommendations No. 166 the Recommendations for the Assessment of the Suitability of the Members of the Board and Council and Key Function Holders, and the guidelines of the Personnel Policy.

Own funds, compliance with the capital requirements, and internal capital assessment

Basic information on capital management, including summarized information on all elements of own funds and their constituents, as well as capital adequacy, is disclosed in Note 33 of the bank's Annual report 2016 available at the bank's website www.ablv.com.

Internal capital assessment is a component of maintaining capital adequacy, and it is regulated by the group's/bank's Capital Adequacy Maintenance Policy, developed in accordance with the Credit Institution Law and taking into account the requirements of Regulation of the European Union (hereinafter – EU) No 575/2013, the Regulations for Establishing the Internal Control System and the Regulations on the Internal Capital Adequacy Assessment Process issued by the FCMC.

Within the process of internal capital assessment, the group/bank ensures that its own funds, in terms of their amount, elements and share, are sufficient for covering existing and possible risks pertaining to the group's/bank's current and planned operations.

Internal capital assessment process includes several stages, namely:

- estimating the amount of capital at the group's/bank's disposal;
- determining the amount of capital required for covering risks;
- determining the capital buffer;
- determining the total amount of the required capital;
- planning the capital at least for three following years and determining the desired level of capital:
  - capital adequacy planning, as a component of the group's/bank's overall planning process, is performed based on the financial plan for the following three years, approved by the bank's board;
  - making the forecast, both expected market changes (external factors) and changes in the bank (internal factors) are considered, including changes in main strategic areas;
  - during planning, the need for additional capital and its raising possibilities are considered.

The group/bank applies the following approach for internal capital assessment:

- to determine the amount of capital required for covering the risks for which regulatory minimum capital requirements are set, the group/bank follows Regulation (EU) No 575/2013, making adjustments in accordance with the FCMC Regulations on the Internal Capital Adequacy Assessment Process, if necessary;
- to determine the amount of capital and the amount of capital buffer required for covering other material risks for which no regulatory minimum capital requirements are set, the group/bank follows simplified methods of the Regulations on the Internal Capital Adequacy Assessment Process, additionally assessing the applicability of those methods to the group's/bank's operations, or using internal models or methods developed.

Own funds items for financial reporting purposes and for supervisory reporting purposes:

EUR'000

Equity	For financial reporting purposes	For supervisory purposes
Paid-in share capital	38,300	38,300
Share premium	132,423	132,423
Reserve capital and other reserves	2,134	2,134
Fair value revaluation reserve of available-for-sale financial assets	676	676
Retained earnings brought forward	63,401	62,805
Retained earnings for the period	6,000	6,000
Non-controlling interests	1,010	1,010
Intangible assets	(6,060)	(6,029)
Value adjustments due to the requirements for prudent valuation	(647)	(647)
Capital instruments and share premium accounts related to those	125,063	125,063
Total capital	**362,300**	**361,735**

The difference between the own funds items of the group for financial reporting purposes and the group for supervisory purposes arises due to different scope of consolidation. The applied consolidation methods used in both the group for financial reporting purposes and the group for supervisory purposes are the same.

Transitional own funds disclosure template pursuant to Regulation No 1423/2013 is as follows:

EUR'000

Common equity Tier 1 capital	
Capital instruments and share premium accounts related to those	170,723
of which: shares	34,470
of which: personnel shares	3,830
of which: share premium	132,423
Retained earnings	68,805
Accumulated other comprehensive income (ant other reserves to report unrealised gains and losses in accordance with applicable accounting standards)	2,810
Minority interests (the amount that qualifies for inclusion in consolidated Common Equity Tier 1 capital)	1,010
Independently reviewed interim profits less any foreseeable charge or dividend	-
Common equity Tier 1 capital: regulatory adjustments	(647)
Intangible assets	(6,029)
Total regulatory adjustments to common equity Tier 1 capital	**(6,676)**
Common equity Tier 1 capital	**236,672**
Tier 1 capital	**236,672**
Tier 2 capital: reserves and instruments	
Capital instruments and share premium accounts related to those	125,063
Tier 2 capital	**125,063**
Total capital	**361,735**
Total risk-weighted assets	**1,922,930**
Capital ratios and reserves	
Common equity Tier 1 capital (percentage of exposure value)	12.31%
Tier 1 capital (percentage of exposure value)	12.31%
Total capital (percentage of exposure value)	18.81%
Institution's specific buffer requirement (percentage of exposure value)	7.00%
of which: the requirement for the capital conservation buffer	2.50%
of which: the countercyclical capital buffer	0.00%
Common equity Tier 1 capital available for meeting the buffer requirement (percentage of exposure value)	7.81%
Direct and indirect holdings in capital of the financial sector entities in which the institution has no significant investment (the amount does not exceed the threshold of 10% and the appropriate short positions are deducted)	2,974
Deferred tax assets that arise from temporary differences (the amount does not exceed the threshold of 1C	1,142

Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer, according to Regulation No 2015/1555

EUR'000

Credit exposure breakdown by country relevant for calculation of the countercyclical capital buffer rate	General credit exposures		Trading book exposure		Securitisation exposure		Own funds requirements				Own funds requirement weights (%)	Counter-cyclical capital buffer rate (%)
	Exposure value for SA	Exposure value IRB	Sum of long and short position of trading book	Value of trading book exposure for internal models	Exposure value for SA	Exposure value IRB	of which: General credit exposures	of which: Trading book exposures	of which: Securitisation exposures	Total		
Sweden	4,861	-	-	-	-	-	81	-	-	81	0.07%	1.50%
Hong Kong	3,137	-	-	-	-		52	-	-	52	0.05%	0.625%
Norway	1,055	-	-	-	-		45	-		45	0.04%	1.50%
Total all countries	**1,752,474**	**-**	**-**	**-**	**-**	**-**	**110,234**	**-**	**-**	**110,234**	**100.00%**	

Amount of institution-specific countercyclical capital buffer, according to Regulation No 2015/1555:

	EUR'000
Total risk exposure amount	1,922,930
Institution specific countercyclical buffer rate (%)	0.002%
Institution specific countercyclical buffer requirement	39

Capital requirement for credit risk exposures by the following exposure categories:

Exposure category	EUR'000
Corporates	74,687
Retail	15,444
Institutions	8,950
Other items	7,737
Items associated with particularly high risk	6,053
Central governments or central banks	5,351
Regional governments or local authorities	2,619
Equity Exposures	2,510
Exposures in default	1,364
Secured by mortgages on immovable property	729
Covered bonds	541
Multilateral development banks	212
Claims in the form of CIU	-
Public sector entities	-
Total capital requirement for credit risk	**126,197**

The information on the main features characteristic of all CET1 and Tier 2 capital instruments issued by the group/bank is disclosed in the capital instruments' main features template at the bank's website https://www.ablv.com/en/about/financial-reports/cap

Risk management

Basic information on risk management is disclosed in Notes 34–37 of the bank's Annual report 2016 available at the bank's website www.ablv.com.

Risk management of the bank's affiliate companies is completely integrated in the bank's risk management process, thus ensuring unified approach and use of single methods within the group.

For the risk management purposes, there are risk management policies developed, alongside other internal normative documents that set forth the basic principles and procedures of risk management, functions and responsibility of the structural units/officials, hedging limits, as well as their control and reporting system. The risk management policies are approved by the bank's council, and their introduction and efficiency are supervised by the board and the Chief Risk Officer (CRO), whereas their implementation is ensured by respective structural units.

The bank's council approves the risk management strategy and policies, reviews the report on risk management prepared by the board, and assesses the risk management efficiency, as well as permanently supervises the board's work.

The bank's board is in charge of developing and approving the risk management policies and other internal normative documents that set forth the basic principles and procedures of risk management, as well as in charge of controlling the compliance with those.
The risk management policies and other internal normative documents are regularly reviewed and improved, and the implemented risk management systems are considered appropriate for the group's/bank's risk profile, sufficient, and facilitating the achievement of strategic objectives.

There are several collegiate bodies functioning in the group for the sake of ensuring the risk management efficiency and control, and those are the following:

- the Loans Committee ensures credit risk assessment, introduction of restrictions, and control over credit risk limits, as well as makes decisions on granting or refusing the loans;
- the Asset and Liability Management Committee ensures efficient management of resources, assessment of the risks pertaining to these operations, and introduction of the restrictions, as well as control over the set risk limits;
- the Investment Committee ensures efficient management of the financial assets of the clients of the bank's affiliate companies, assessment of the risks pertaining to these operations, and introduction of the restrictions, as well as control over the set risk limits;
- the Asset Evaluation Committee ensures assessment of the assets and off-balance sheet obligations of the bank and the bank's affiliate companies, determines the amount of provisions, supervises debt recovery, and also ensures supervision of the compliance with the set asset evaluation, classification, and provisioning guidelines;
- the Clients Control Committee ensures supervision of the clients' activities in order to prevent the attempts of using the bank for money laundering and terrorism financing;
- the Clients Monitoring Committee ensures reviewing of the reports made on the basis of the supervision (monitoring) of the clients' activities and makes the decisions on those.
- the Development Committee takes the decisions on initiating strategic IS development projects and supervises their implementation, determines and monitors the up-to-dateness, competitiveness, and profitability of the line of development of the bank's products and channels;
- the Audit Committee, the main task of which is the supervision of the control functions and their arrangement at the bank and its affiliate companies.

The group identifies and controls the risks associated with its operations and management of those.
The risk control is ensured by several particular structural units, namely:

- departments of the Compliance Division (compliance risk, and money laundering and terrorism financing risk);
- departments of the Information Technologies Division (IT/IS security);
- Public Relations Department of the Product Development Division (reputational risk);
- Financial Control Department (strategy and business risk, including fee income/expense volatility risk);
- departments of the Risk Management Division (financial risks and operational risk).

The Internal Audit Department, subordinated directly to the council, assesses the efficiency of the risk control function, performs independent supervision of the internal control system, alongside assessment of its adequacy and efficiency, in order to aid the bank's/affiliate company's council, board, and heads of structural units to perform their functions more efficiently.

Reporting procedure

In risk management and risk control processes various reports are used, which are supplied to the management, decision-making bodies, and heads of the structural units involved in risk management with respective frequency – daily, weekly, monthly, quarter, semi-annual, and annual reports.
The report on achievement of strategic objectives and compliance with indicators is supplied to the management once per quarter, and the same contains quantitative indicators on credit risk, foreign exchange risk, interest rate risk, liquidity risk, operational risk, and capital adequacy set in the Risk Management Strategy.
Quarterly the reports on management of all material risks and their amount are supplied to the management, once every six months are supplied to the management reports on results of internal capital assessment, and once per year -on functioning of the internal control system.

The group performs stress tests and reports their results to the bank's management. Stress tests are performed twice a year for liquidity risk and credit risk, and at least once a year – for operational risk, market risk, money laundering and terrorism financing risk and determining of the capital buffers. The liquidity stress test scenarios also cover market risk and reputational risk. The report on compliance with the limits and restrictions for liquidity risk, foreign exchange risk, operational risk, country risk, and exposures applying different breakdowns, as well as report on the financial plan fulfilment (strategy and business risk management), is supplied to the board once per quarter.
For the sake of operational control and decision-making, the reports are sent to the committees involved in risk management, members of the board, and heads of the structural units involved in risk management.

The following monthly reports are provided: the report on early warning indicators for liquidity risk, calculation of the reduction in economic value for interest rate risk management, report on the financial plan fulfilment for strategy and business risk management, report on operational risk events, and report on capital adequacy.
Weekly and daily reports and notices are used for foreign exchange risk, liquidity risk, exposure limitation, operational, reputational, and compliance risk management, as well as for ensuring capital adequacy.

Material risks are determined based on identifying the major types of operations and analyzing their associated risks.

The most material risks associated with the group's operations are the following:
- credit risk,
- market risk,
- operational risk,
- money laundering and terrorism financing risk,
- liquidity risk,
- other non-quantifiable risks of operations.

The group constantly assesses and controls the risks – both each one separately according to the risk type and by means of comprehensive assessment performed under capital adequacy assessment, and capital adequacy report is made on the basis of the group's risk profile.

The group considers that major credit risk pertains to credits, investments in debt securities, and claims on credit institutions. To assess the credit risk impact on the group's operations, stress tests are performed with regard to the loan portfolio, claims on credit institutions, and debt securities, as well as the bank's investments in affiliate companies related to real estate. Stress test results are taken into account when planning the group's further operations – implementation of new crediting products, determination of limits on existing and new crediting products, exposure amount broken down by countries and regions, investment activities, as well as determination of other restrictions.

The group maintains cautious approach to market risk under the securities positions that are also associated with the liquidity risk, interest rate risk, and credit risk.
Operational risk pertains to all business activities. The historically small amount of operational risk losses evidences efficient operational risk management at the group.
The liquidity risk profile is affected by the structure of financing. The short-term funds raised by the bank are invested in highly liquid assets only, and the sources of financing are diversified by issuing medium-term debt securities.

The risk profile is managed and supervised on the basis of the established risk management system. Risk management departments permanently supervise the bank's operations taking into account the limits and restrictions set on the risks, as well as determined target levels.

Credit risk

Credit risk assessment is performed for loan portfolio, debt securities, claims on credit institutions, and other assets. The amount of capital required for covering credit risk is determined by applying the standardised approach described in Regulation (EU) No 575/2013 and adjusting the amount of capital required for covering credit risk based on results of the stress test pessimistic scenario – taking into account the increase in calculated provisions in accordance with the stress test pessimistic scenario, as well as planned changes in the minimum capital requirements within the stress test period pursuant to the financial plan and the stress test pessimistic scenario.
Credit risk assessment for the group's/bank's loan portfolio is performed based on the scenario analysis, assessing the probability of counterparties' insolvency, loan recoverable amount, and their possible changes following possible changes in macroeconomic indicators.
The amount of capital required for covering credit risk is determined based on assessing the following parts of the loan portfolio:

- mortgage loans;
- loans granted for real estate development and investments;
- business loans to legal entities, not related to real estate development and investments;
- loans secured by pledge of investment portfolio.

Card credits, consumer loans, debit balance, brokerage accounts, and security deposits are not accounted for in stress tests due to their small portion in the total loan portfolio. Sensitivity analysis is performed on each portfolio part. The group's/bank's possible losses arising out of the loan portfolio are calculated defining 2 possible scenarios: basic and pessimistic ones. The scenarios should reflect possible impact of negative events on the group's/bank's risk level, financial and capital indicators. A negative event is considered to be an event the probability of which is extremely small but yet possible, and such event causes additional losses for the group/bank.
Considering the defined scenarios, their impact on minimum capital requirements for the loan portfolio as at the end date of examination period is determined. Calculation takes account of loans' shifts between degrees of risk due to increasing insolvency and decreasing real estate prices, and also of lower net loan balance due to making allowances.

Possible losses under claims on credit institutions and securities portfolio are calculated based on assessing the probability of insolvency occurrence in accordance with ratings assigned by external credit assessment institutions (credit rating agencies) and the summarized statistics on the possible amount of defaulted obligations in each rating group.
The group's/bank's possible losses arising out of claims on credit institutions and securities portfolio are calculated defining 2 possible scenarios: basic and pessimistic ones. Considering the defined scenarios, their impact on minimum capital requirements is determined. Calculation takes account of the claims on credit institutions and securities portfolio shifts between degrees of risk due to degraded rating, as well as portfolio net balance changes due to making allowances.

The group/bank applies the standardised approach to calculate minimum capital requirements under credit risk. From August 2016, the financial collateral comprehensive method is used, applying the same to the results of H1 2016. The bank nominated the rating agency Standard & Poor's Ratings Services for credit assessment, and ratings assigned by this agency are used to determine the risk degree of the securities of all exposure categories and of the claims on credit institutions.
Credit rating of the issue (if any) is considered the primary one for debt securities, otherwise the rating of this issuer's similar issue is used, but if there is no such, then the respective issuer's credit rating is applied.
To ensure more efficient management of the credit risk related to assessment of current and prospective cooperation with credit institutions, the bank has developed an internal credit institution assessment model. Using this model, the group/bank determines the limits for cooperation with credit institutions and controls compliance with the set limits pursuant to internal regulations.

Exposure values applying the credit risk mitigation substitution approach and the average amount of exposures are as follows:

EUR'000

Exposure class	Exposure value	Exposure value after risk transfer	Average amount of exposures over the reporting period
Central governments or central banks	1,277,781	1,677,692	1,372,323
Regional governments or local authorities	63,656	94,372	60,385
Public sector entities	101,531	-	102,872
Multilateral developments banks	96,708	96,708	96,279
International organisations	705	705	705
Institutions	787,146	490,417	1,061,085
Corporates	1,192,702	1,160,335	1,087,595
Retail	257,790	257,790	248,546
Secured by mortgages on immovable property	26,020	26,020	31,519
Exposures in default	15,174	15,174	17,097
Items associated w ith particularly high risk	53,511	53,511	53,344
Covered bonds	67,569	67,569	68,654
Claims in the form of CIU	9,991	9,991	2,498
Equity Exposures	18,428	18,428	17,796
Other items	111,290	111,290	167,703
Total	**4,080,002**	**4,080,002**	**4,388,401**

Credit risk weighted exposure amount by the following exposure categories:

EUR'000

Exposure category	Risk w eighted exposure amount
Corporates	924,367
Retail	193,045
Institutions	111,899
Other items	96,511
Items associated w ith particularly high risk	75,663
Central governments or central banks	66,849
Regional governments or local authorities	32,731
Equity Exposures	31,381
Exposures in default	17,054
Claims in the form of CIU	9,991
Secured by mortgages on immovable property	9,107
Covered bonds	6,757
Multilateral development banks	2,652
Public sector entities	-
Total creditrisk weighted exposure amount	**1,578,007**

Categories of exposures and the amount of collaterals:

EUR'000

Exposure class	Exposure value after risk transfer	Protection via guarantees and credit derivatives	Protection via pledged collaterals	of w hich, financial collateral
Central governments or central banks	1,677,692	-	-	-
Regional governments or local authorities	94,372	-	-	-
Public sector entities	-	-	-	-
Multilateral developments banks	96,708	-	-	-
International organisations	705	-	-	-
Institutions	490,417	-	-	-
Corporates	1,160,335	176	1,234,935	399,656
Retail	257,790	142	275,347	60
Secured by mortgages on immovable property	26,020	59	31,869	-
Exposures in default	15,174	-	17,875	204
Items associated w ith particularly high risk	53,511	-	68,408	-
Covered bonds	67,569	-	-	-
Claims in the form of CIU	9,991	-	-	-
Equity Exposures	18,428	-	-	-
Other items	111,290	-	74	74
Total	**4,080,002**	**377**	**1,628,508**	**399,994**

Concentration risk

Concentration risk is analyzed following simplified method, additionally assessing suitability of the applied method and the impact of the stress test results.

Under loan portfolio concentration risk analysis, the following is performed:
- individual concentration analysis;
- sector concentration risk analysis;
- collateral concentration risk analysis;
- currency mismatch risk analysis.

Under claims on credit institutions, individual concentration is assessed as well, and individual concentration and currency mismatch concentration risk is assessed for securities.
Overall amount of capital required for covering concentration risk is calculated as total of the said constituents.
For credit risk and concentration risk limitation, loan portfolio target levels and limits are set, the basic information on which is disclosed in Note 35 of the bank’s Annual report 2016 available at the bank's website www.ablv.com.

The categories of the exposures broken down by counterparty type:

EUR'000

Counterparty type	Central governments or central banks	Regional governments or local authorities	Institutions	Corporates	Retail	Covered bonds	Equity exposures	Other items	**Total**
Central banks	400,100	-	-	-	-	-	-	-	**400,100**
General government	878,190	60,207	-	-	-	-	-	793	**939,190**
of which: Impaired	-	-	-	-	-	-	-	793	**793**
of which: Past due but not impaired	-	-	-	-	-	-	-	-	-
Institutions	292,919	3,810	450,097	122,312	-	67,569	-	96,708	**1,033,415**
Other financial	-	14,155	40,320	127,455	1	-	12,327	11,799	**206,057**
of which: SME	-	-	-	77,144	1	-	9,347	-	**86,492**
of which: Impaired	-	-	-	-	-	-	-	-	-
of which: Past due but not impaired	-	-	-	-	1	-	-	-	**1**
Non financial	103,543	16,200	-	858,244	15	-	1,376	52,715	**1,032,093**
of which: SME	-	-	-	426,796	15	-	1,076	44,663	**472,550**
of which: Impaired	-	-	-	575	-	-	-	5,185	**5,760**
of which: Past due but not impaired	-	-	-	2,863	14	-	-	2,843	**5,720**
Households	-	-	-	50,205	257,774	-	-	40,170	**348,149**
of which: Impaired	-	-	-	1,579	7,004	-	-	7,221	**15,804**
of which: Past due but not impaired	-	-	-	3,378	26,274	-	-	2,393	**32,045**
Other	2,940	-	-	2,117	-	-	4,725	111,216	**120,998**
Total	**1,677,692**	**94,372**	**490,417**	**1,160,333**	**257,790**	**67,569**	**18,428**	**313,401**	**4,080,002**

The amount of the impaired exposures and exposures past due, but not impaired, broken down by significant geographical areas:

EUR'000

	Latvia	EMU countries	Other EU member states	Other OECD countries	International organisations	CIS countries	Other countries	**Total**
Impaired	17,557	1	1	1	-	4,002	795	**22,357**
Past due, but not impaired	32,728	481	2	6	-	4,538	11	**37,766**
Total	**50,285**	**482**	**3**	**7**	**-**	**8,540**	**806**	**60,123**

Breakdown of loans by significant industries:

EUR'000

Loans	Mortgage loans to private individuals	Other loans to private individuals	Construc-tion	Energy	Financial and insurance activities	Real estate management	Agriculture and forestry	Manufac-turing	Trading	Transpor-tation and logistics	Other industries	**Total**
Impaired loans	14,834	952	1	-	-	1,218	-	764	3,292	462	5	21,528
Past due but not impaired loans, incl.:	29,739	2,193	278	-	2	2,088	-	1	2,341	12	701	37,355
less than 30 days	24,146	2,049	9	-	1	1	-	1	1,121	7	683	28,018
31 to 59 days	4,325	100	-	-	1	2,087	-	-	1,213	2	16	7,744
60 to 89 days	491	23	-	-	-	-	-	-	6	-	1	521
more than 90 days	777	21	269	-	-	-	-	-	1	3	1	1,072
Neither past due nor impaired loans	263,199	27,769	13,093	3,831	213,967	279,130	3,781	29,193	53,239	27,625	66,145	980,972
Total net loans	**307,772**	**30,914**	**13,372**	**3,831**	**213,969**	**282,436**	**3,781**	**29,958**	**58,872**	**28,099**	**66,851**	**1,039,855**
Allowances												
Allowances for impaired loans	6,928	2,510	4	-	8	672	1	202	2,709	179	34	13,247
Changes over the year	(6,244)	(833)	(3)		(5)	(1,151)	-	(180)	528	(60)	(374)	(8,322)
Allowances for not impaired loans	738	64	-	3	345	781	3	108	121	279	682	3,124
Changes over the year	(225)	12		(13)	147	3	(11)	72	56	263	433	737

Breakdown of loans by significant geographical areas:

EUR'000

Loans	Latvia	EMU countries	Other EU member states	Other OECD countries	International organisations	CIS countries	Other countries	**Total**
Impaired loans	17,549	1	1	-	-	3,975	2	21,528
Past due but not impaired loans, incl.:	32,727	480	1	3	-	4,137	7	37,355
less than 30 days	25,587	478	1	3	-	1,943	6	28,018
31 to 59 days	5,600	1	-	-	-	2,143	1	7,745
60 to 89 days	491	-	-	-	-	30	-	521
more than 90 days	1,049	1	-	-	-	21	-	1,071
Neither past due nor impaired loans	680,977	41,172	30,853	57,864	-	148,064	22,042	980,972
Total net loans	**731,253**	**41,653**	**30,855**	**57,867**	-	156,176	**22,051**	**1,039,855**

Breakdown of assets by risk categories and significant countries:

EUR'000

Country	Central governments or central banks	Regional governments or local authorities	Institutions	Corporates	Retail	Covered bonds	Equity exposures	Other items	Total
Latvia	640,377	358	9,941	436,429	257,776	-	15,447	180,868	1,541,196
United States	314,300	-	45,260	43,922	-	-	2,709	-	406,191
Russian Federation	27,052	-	-	363,381	6	-	-	12,393	402,832
Germany	300,819	3,810	50,007	2,382	-	-	-	-	357,018
Canada	100,720	65,513	16,465	22,933	-	40,905	-	-	246,536
Sweden	87,253	4,781	51,876	20	-	-	-	-	143,930
Netherlands	-	-	75,789	10,174	-	-	-	-	85,963
Switzerland	-	-	41,787	25,809	-	-	-	-	67,596
Austria	-	-	59,646	9	-	-	-	-	59,655
Finland	37,878	14,155	2,855	15	-	-	-	-	54,903
Singapore	-	-	47,523	19	-	-	-	-	47,542
China	-	-	24,240	22,863	-	-	-	-	47,103
Norway	34,100	-	10,037	915	-	-	-	-	45,052
Lithuania	20,064	-	5,496	15,268	-	-	-	3	40,831
United Kingdom	-	-	906	38,920	-	-	-	382	40,208
Australia	-	-	4,775	-	-	26,664	-	-	31,439
Poland	23,269	-	3,025	944	-	-	-	-	27,238
Estonia	-	-	-	23,624	-	-	-	975	24,599
Slovakia	19,878	-	-	-	-	-	-	-	19,878
Luxembourg	1,381	-	12,009	974	-	-	-	352	14,716
Other countries	70,601	5,755	28,780	151,732	8	-	272	118,428	375,576
Total	**1,677,692**	**94,372**	**490,417**	**1,160,333**	**257,790**	**67,569**	**18,428**	**313,401**	**4,080,002**

Breakdown of assets by risk categories and remaining term to maturity:

EUR'000

Exposure class	Carrying amount and up to 1 month	1-3 months	3-12 months	1-5 years	5-10 years	More than 10 years and undated	Total
Central governments or central banks	400,100	60,665	236,981	685,068	280,965	13,913	1,677,692
Regional governments or local authorities	958	-	36,602	41,212	15,600	-	94,372
Public sector entities	-	-	-	-	-	-	-
Multilateral developments banks	-	-	62,343	15,293	19,072	-	96,708
International organisations	-	-	-	705	-	-	705
Institutions	250,432	12,160	98,165	103,843	25,818	-	490,418
Corporates	223,905	48,357	224,462	507,624	138,704	17,283	1,160,335
Retail	3,037	4,985	18,069	73,086	59,462	99,152	257,791
Secured by mortgages on immovable property	82	247	1,170	11,313	8,551	4,656	26,019
Exposures in default	385	729	2,478	4,668	509	6,405	15,174
Items associated with particularly high risk	1,300	1,815	11,112	38,635	48	600	53,510
Covered bonds	-	-	67,569	-	-	-	67,569
Claims on institutions and corporate with a short-term	-	-	-	-	-	-	-
Claims in the form of CIU	-	9,991	-	-	-	-	9,991
Equity Exposures	-	-	2,703	-	-	15,725	18,428
Other items	17,217	-	-	-	-	94,073	111,290
Total	**897,416**	**138,949**	**761,654**	**1,481,447**	**548,729**	**251,807**	**4,080,002**

Market risks

The group and the bank determine the following constituents of the market risk:
- securities price risk;
- interest rate risk;
- foreign exchange risk;
- commodities risk.

Securities price risk

To determine the amount of capital required for covering the market risk under the securities included in the group's and the bank's available-for-sale portfolio, the Value at Risk (VaR) and Stressed Value at Risk (SVaR) internal models are used given the confidence of 99% and the holding period of 10 days.

Non-fixed income securities are held in the group's/bank's trading portfolio. The amount of capital required for covering the market risk under capital securities included in the trading portfolio is determined by comparing the minimum capital requirements under position risk of trading portfolio capital securities with the risk value of these securities, which is calculated using the Value at Risk (VaR) internal model given the confidence of 99%, taking into account the changes in the securities market value over the reporting year and the average securities holding period in the trading portfolio.

Interest rate risk of non-trading portfolio

The amount of capital required for covering the interest rate risk of non-trading portfolio is determined by the group and the bank in accordance with the internal duration method, under which the reduction in economic value given the specific interest rate shock scenario is used as the amount of capital required for covering the risk.

Foreign exchange risk

The amount of capital required for covering the currency risk is calculated by the group and the bank by comparing the minimum capital requirements under foreign exchange risk with the aggregate value subject to foreign exchange risk, which is calculated using the internal model, and the larger of these values is used. Each value subject to foreign exchange risk is calculated using the internal model, given the confidence of 99% and the position holding period of one year. When calculating the aggregate value subject to foreign exchange risk, exchange rate intercorrelation is taken into account.

Commodities risk

Group of commodities that puts the group/bank under commodities risk is precious metals, except gold. In order to cover commodities risk the necessary amount of capital is calculated using terms division approach.

Operational risk

The capital requirements for covering operational risk are determined by the group/bank as equal to the minimum capital requirements calculated applying the basic indicator approach. Assessing their adequacy, the group/bank considers the following:
- the group's/bank's actual operational risk losses since establishment of the operational risk event database;
- internal audit evaluation of operational risk management system efficiency;
- available information on operational risk events within the sector;
- additional possible risks not covered by minimum requirements;
- results of the performed operational risk stress test.

For performing the stress test, VaR (Value at Risk) concept – OpVaR is used, the value of which represents potential unexpected losses.
The parameters used for OpVaR calculated are the following:
- confidence level – 99.9%;
- time horizon (holding period) – one year;
- historical data (risk event database);
- information on external events registered in the operational risk event database;
- operations development projected within the time horizon in accordance with the financial plan for the year.

Money laundering and terrorism financing risk

The amount of capital required for covering money laundering and terrorism financing risk is determined by the group/bank according to the internal model based on the simplified method, using the following:
- portion of non-residents' deposits in the total deposits;
- portion of deposits placed by clients to which enhanced due diligence should be applied in the total deposits;
- changes in the amount of non-residents' deposits during the last calendar year;
- amount of trust operations;
- amount of capital required for covering money laundering and terrorism financing risk.

The clients to which enhanced due diligence should be applied are identified in accordance with the FCMC Regulations for Enhanced Customer Due Diligence.
In addition to the determined amount of capital required for covering money laundering and terrorism financing risk, the share of capital based on the assessment of the group's/bank's internal control system efficiency is calculated. For assessing internal control system quality (ICSQ) under prevention of money laundering and terrorism financing, expert evaluation method is applied, where the following persons are considered experts: Chief Compliance Officer (CCO), Head of Compliance Division, Head of Corporate and Private Clients Service Division, Head of Financial Control Department, and Head of Internal Audit Department. For assessing ICSQ under prevention of money laundering and terrorism financing, the average of evaluations provided by the experts is used.
For assessing ICSQ under prevention of money laundering and terrorism financing, the average of evaluations provided by the experts is used, and adjustment factor and capital required for ICSQ are calculated based on the same. The calculated amount of capital for ISCQ is added to the required amount of capital calculated applying the simplified method.

Liquidity risk

The amount of capital required for covering liquidity risk is determined by the group and the bank based on the results of liquidity risk stress tests.
The required amount of capital is determined according to the detected most negative impact on the capital produced by the available-for-sale securities portfolio losses from the securities sold to ensure liquidity during market drop (including negative revaluation reserve for securities not being sold), expenses on pledging the securities under the loans to ensure liquidity in the held-to-maturity securities portfolio, price decline of the securities included in the trading portfolio during the market crisis, possible losses from securities default during the market crisis in the held-to-maturity securities portfolio, as well as making additional assumptions, if necessary.
The bank calculates liquidity costs that emerge in order to ensure the necessary liquidity reserves in accordance with the results of liquidity stress test. The result is taken into account upon determining the desirable yield for products offered by the bank.

Other risks

Since some risks are difficult to assess in quantitative terms, the group and the bank establishes qualitative and efficient environment for managing those risks.

The following risks are included in other non-quantifiable risks:
- reputational risk;
- compliance risk;
- strategy and business risk;
- fee income/expense volatility risk.

The amount of capital required for covering other risks is determined based on the simplified method, additionally assessing the suitability of this method to the group's/bank's operations.
The assessment of the method suitability is based on qualitative and quantitative assessment of respective risks, and estimation of possible losses. The group and the bank perform quantitative assessment of expenses on material and known reputational risk events in order to determine additional capital requirements for covering the reputational risk.

Determination of capital buffer

For determining the amount of capital buffer, the group/bank analyses and evaluates possible group/bank development scenarios for the following two years depending on different macroeconomic situation development scenarios, events, or market changes, and also assesses the impact of such scenarios, events, or market changes on the group's/bank's overall financial status, amount of the capital at the group's/bank's disposal, capital requirements, and capital adequacy.
Determining the buffer amount, the group/bank takes into account assumptions and results of performed stress tests of particular risks.

Determination of the total amount of required capital

The total amount of required capital is equal to the aggregate amount of capital required for covering all risks. If different assumptions (e.g., different holding periods) are used for calculating the amount of capital required for covering various risks, then the group/bank ensures comparability of the obtained results when calculating the total amount of required capital.

Leverage ratio

The leverage ratio is the ratio representing the percentage of Tier 1 capital to the total amount of non-risk weighted exposures (including off-balance sheet business), and the same ensures additional protection against the risks associated with errors in models and assessment under calculation of capital requirements. According to the proposed amendments to Regulation (EU) No 575/2013, the binding leverage ratio for credit institutions is supposed to be set to 3%. The target level of the leverage ratio set internally within the group is more cautious – it is set to be 4%.

The leverage ratio is calculated as the simple arithmetic mean of the monthly leverage ratios over a quarter. The capital measure is the Tier 1 capital, whereas the total exposure measure is the sum of the exposure values of all assets and off-balance sheet items.

According to the International Financial Reporting Standards, fiduciary assets are not recognized on balance sheet, and therefore those are excluded from the total exposure measure under calculation of the leverage ratio.

The leverage ratio is one of strategic indicators of the group, and the same is quarterly controlled against the target level. The ratio target level was complied with in all quarters of 2016. The board of the group is regularly informed about the leverage ratio dynamics, and in case of necessity the board can take the decision on correcting the leverage ratio movements by increasing the Tier 1 capital or restricting the growth of exposure value.

In 2016, compared to the previous year, the leverage ratio increased from 4.06% to 5.8%. The increase of this ratio was triggered by lowering the amount of risk transactions due to reviewing client pool of the group/bank (in accordance with the stricter regulatory requirements) and increase of Tier 1 capital due to issuing shares.

Summary reconciliation of accounting assets and leverage ratio exposures

EUR'000

Position	Applicable Amount
Total assets as per published financial statements	4,080,002
Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-
(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013)	-
Adjustments for derivative financial instruments	-
Adjustment for securities financing transactions (SFTs)	-
Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet	-
(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013)	-
(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013)	-
Other adjustments	(7,126)
Leverage ratio total exposure measure	**4,072,876**
Leverage ratio common disclosure	CRR leverage ratio expo- sures
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	3,941,316
(Asset amounts deducted in determining Tier 1 capital)	(7,126)
Total on-balance sheet exposures (excluding derivatives, SFTs and fidu-ciary assets)	**3,934,190**
Replacement cost associated with all derivatives transactions (ie net of eligi- ble cash variation margin)	-
Add-on amounts for PFE associated with all derivatives transactions (mark- to-market method)	-
Exposure determined under Original Exposure Method	832
Gross-up for derivatives collateral provided where deducted from the bal- ance sheet assets pursuant to the applicable accounting framework	-
(Deductions of receivables assets for cash variation margin provided in deri- vatives transactions)	-
(Exempted CCP leg of client-cleared trade exposures)	-
Adjusted effective notional amount of written credit derivatives	-
(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
Total derivatives exposures	**832**
Gross SFT assets (with no recognition of netting), after adjusting for sales ac- counting transactions	-
(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
Counterparty credit risk exposure for SFT assets	-
Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No 575/2013	-
Agent transaction exposures	-
(Exempted CCP leg of client-cleared SFT exposure)	-
Total securities financing transaction exposures	
Off-balance sheet exposures at gross notional amount	137,854
(Adjustments for conversion to credit equivalent amounts)	-
Other off-balance sheet exposures	**137,854**
(Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	-
(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	-
Tier 1 capital	**236,274**
Leverage ratio total exposure measure	**4,072,876**
Leverage ratio	**0.0580**
Choice on transitional arrangements for the definition of the capital mea- sure	-
Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013	-
Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)	CRR leverage ratio expo- sures
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	-
Trading book exposures	-
Banking book exposures, of which:	1,447,586
of which: covered bonds	67,569
of which: exposures treated as sovereigns	1,380,017
Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	160,364
Institutions	787,127
Secured by mortgages of immovable properties	26,020
Retail exposures	256,994
Corporate	1,061,129
Exposures in default	14,824
Other exposures (eg equity, securitisations, and other non-credit obliga- tion assets)	187,272

Non-encumbered assets

The information on encumbered and non-encumbered assets is compiled in accordance with the requirements of Regulation 575/2013, Regulation 2015/79 provisions and regulations No. 24 “Regulations for the Disclosure Encumbered and Unencumbered Assets” issued by FCMC on 25 February 2015.

Encumbered and non-encumbered assets:

EUR'000

Position	Encumbered assets	Fair value of encumbered assets	Non-encumbered assets	Fair value of non-encumbered assets	**Total assets**	Fair value of total assets
Loans on demand	-	-	699,816	-	699,816	-
Equity instruments	-	-	26,657	26,657	26,657	26,657
Debt securities	96,406	102,878	2,173,164	2,209,539	2,269,570	2,312,417
of which: issued by general governments	82,779	89,267	1,409,763	1,436,694	1,492,542	1,525,961
of which: issued by financial corporations	2,643	2,707	537,948	542,032	540,591	544,739
of which: issued by non-financial corporations	10,984	10,905	225,453	230,813	236,437	241,718
Loans and advances other than loans on demand	35,255	-	1,134,795	-	1,170,050	-
of which: mortgage loans	-	-	746,203	-	746,203	-
Other assets	-	-	143,449	-	143,449	-
Total	**131,661**	**102,878**	**4,177,881**	**2,236,196**	**4,309,542**	**2,339,074**

Information on collateral received:

EUR'000

Position	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
Collateral received by the institution	851,092	665,429
incl. capital instruments	-	-
incl. debt securities	-	-
incl. other collateral received	851,092	665,429
Own debt securities issued other than own covered bonds or asset-backed securities	-	-

Information on encumbered assets and received collateral, for securing financial liabilities:

EUR'000

Position	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and or asset-backed securities encumbered
Carrying amount of financial liabilities	83,515	989,225

The major sources of encumbrance assets are the following:
- participation in the targeted longer-term refinancing operations (TLTRO) programme;
- required collateral for transactions in financial instruments;
- collateral for settlements under the transactions performed by the clients using VISA cards;
- collateral for trade finance transactions.

In 2016, the group/bank continued participation in the targeted longer-term refinancing operations (TLTRO) programme, and the amount of encumbered assets under the programme was reduced from EUR 183 million to EUR 53 million in 2016. The asset pledging transactions are concentrated in the bank.

Remuneration policy and practices

The remuneration policy ensures unified approach and use of single methods within the group.
Existing remuneration policy is based on the business objectives, long-term interests, and performance results. The remuneration policy establishes the remuneration system, which ensures recruitment of officers possessing appropriate qualifications and their motivation, meanwhile not encouraging assumption of excessive risks, as well as includes evaluation of long-term impact of the transactions performed by the officers.
The remuneration policy is subordinated to fulfilment of the financial plan, which in turn is subordinated to the strategy and risk management policies.

The bank’s council approves the bank’s Personnel Policy, which determines the powers of the group’s/bank’s institutions under personnel management, remuneration system, bonus scheme, etc.; remuneration to the board is determined by the bank’s council. Regularly, at least once per year, the council reviews the core principles of remuneration policy to ensure their appropriateness to the group’s/bank's current operations and development strategy, as well as to changes in external factors.

The remuneration policy provides for variable remuneration part, which depends on compliance with values and ethical standards, cooperation between structural units, and also performance over a quarter, a half of the year, or a year. Variable remuneration part is expressed in monetary form (bonuses). When determining the variable remuneration part, it is ensured that the same does not exceed the fixed remuneration part set for the particular officer during the reporting period. At the group’s level, variable part of the whole remuneration system is determined and paid out on the basis of the performance results over a quarter, a half of the year, or a year. The deferred part of the variable remuneration part is set to be between 25% and 60%, and the same is applied towards the officer’s endowment life insurance or is invested in subordinated bonds.

Currently, there are three bonus schemes in the group/bank: initiative bonus, cooperation and quality of work performance bonus, and efficiency bonus, and those apply to and cover all staff of the bank and its affiliate companies. In 2016, there were 21 types of efficiency bonuses. Variable remuneration part (bonuses) includes incentives for the officers to maintain acceptable level of risk in their work. The remuneration policy takes into account assessment of the assets’ quality, which applies both to an individual officer and to the whole structural unit.
The group’s remuneration policy stipulates that for assessing the performance of the companies constituting the group and separate structural units both financial and non-financial indicators are used.

Major non-financial indicators included in performance evaluation:
- quality of cooperation between structural units and of work performance;
- client service quality ensured by structural units;
- compliance with normative documents and internal code of conduct, including those on anti-money laundering.

Major financial indicators included in performance evaluation:
- return on assets and their quality;
- amount and quality of investments;
- fee income;
- trading result;
- reporting period profit.

The officers have not acquired irrevocable rights to unpaid deferred part of the variable remuneration part.

In 2016, employment relations with 3 risk profile affecting employees according to quantitative criteria were terminated, and severance pay was paid to those; two of them had been holding risk profile affecting positions. The amount of paid severance pay equalled EUR 38 400 (14 399). The largest amount of severance pay paid in 2016 equalled EUR 30 800.

Information on remuneration to the officers in 2016:

EUR

Position	Council	Board	Investment services [1]	Services to individuals or small and medium-sized enterprises [2]	Asset management [3]	Corporate support function [4]	Internal control function [5]	Other types of operations [6]
Number of officers as at the end of the year	3	7	12	177	26	302	171	7
Profit/(loss) after tax				79,033,930				
Total remuneration	135,641	2,504,500	2,980,014	9,561,256	1,642,540	10,916,843	5,922,323	449,122
Including: variable remuneration part		673,479	1,157,061	2,838,124	265,608	3,168,214	1,641,494	50,529

Information on remuneration to the officers holding risk profile affecting positions in 2016:

EUR

Position		Council	Board	Investment services [1]	Services to individuals or small and medium-sized enterprises [2]	Asset management [3]	Corporate support function [4]	Internal control function [5]	Other types of operations [6]
	Number of officers affecting the institution's risk profile as at the end of the year	3	7	11	60	13	52	25	-
	including the number of risk profile affecting officers who hold senior management positions	-	-	3	6	4	10	7	-
Fixed remuneration part	Total fixed remuneration part	135,641	1,831,022	1,795,830	4,152,337	946,469	2,485,222	1,379,217	-
	including monetary funds and other means of payment	135,641	1,831,022	1,795,830	4,152,337	946,469	2,485,222	1,379,217	-
	including shares and instruments related to those	-	-	-	-	-	-	-	-
	including other instruments	-	-	-	-	-	-	-	-
Variable remuneration part	Total variable remuneration part	-	673,479	1,140,301	1,922,362	194,790	868,744	412,986	-
	including monetary funds and other means of payment	-	673,479	1,140,301	1,922,362	194,790	868,744	412,986	-
	including shares and instruments related to those	-	-	-	-	-	-	-	-
	including other instruments	-	-	-	-	-	-	-	-
Deferred variable remuneration part	Total deferred variable remuneration part that is deferred in the reporting year	-	404,087	587,626	1,037,416	72,837	206,568	83,116	-
	including deferred part in the form of monetary funds and other means of payment	-	404,087	587,626	1,037,416	72,837	206,568	83,116	-
	including deferred part in the form of shares and instruments related to those	-	-	-	-	-	-	-	-
	including deferred part in the form of other instruments	-	-	-	-	-	-	-	-
	Total unpaid deferred variable remuneration part that is awarded before the reporting year	-	535,713	1,659,093	4,452,586	400,392	679,009	291,315	-
	including the part to which irrevocable rights have been acquired	-	-	-	-	-	-	-	-
	including the part to which irrevocable rights have not been acquired	-	535,713	1,659,093	4,452,586	400,392	679,009	291,315	-
	Total deferred variable remuneration part paid out in the reporting year	-	484,527	731,967	744,490	40,813	164,284	51,056	-
Adjustments to the variable remuneration part	During the reporting year, adjustments have been made to the variable remuneration part with regard to the variable remuneration part awarded in previous years	-	-	-	-	-	-	15,528	-
Guaranteed variable remuneration part	Number of payees of the guaranteed variable remuneration part (sign-on payments)	-	-	-	-	-	-	-	-
	Amount of guaranteed variable remuneration part (sign-on)	-	-	-	-	-	-	-	-
Severance pay	Number of payees of severance pay	-	-	-	3	-		-	-
	Amount of severance pay in the reporting year	-	-	-	38,400	-	-	-	-
	Largest amount of severance pay to one person	-	-	-	30,800	-	-	-	-
Discretionary pension benefits	Number of payees of discretionary pension benefits	-	-	-	-	-	-	-	-
	Amount of discretionary pension benefits	-	-	-	-	-	-	-	-

[1] advisory on corporate finance, transactions in financial instruments traded on a regulated market or not traded on a regulated market, as well services related to financial instruments trading and sale;
[2] lending to individuals and corporates;
[3] management of individual investment portfolios, management of investments made in mutual funds complying with the requirements of Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS), and management of other types of assets;
[4] all functions the performance of which is related to the whole credit institution/consolidation group, e.g., IT, human resources management;
[5] internal audit, compliance control function, and risk control function;
[6] officers the professional activity of which cannot be attributed to the abovementioned activities. The institution appends additional explanations to the report, stating the types of operations within which the professional activity of the officers is carried out.

Non-financial and diversity information

This section of the Statement of Information Disclosure is provided in accordance with Directive 2014/95/EU of the European Parliament and of the Council amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and Groups.

Business model of the Group

For the group, corporate social responsibility means not just reasonable use of resources and equal possibilities for both gender balance at the companies of the group but, first of all, taking care of the clients' needs, well-being of the employees and their families, as well as development of the export capacity of the country. We take progressive attitude and approach to both client service and internal work organization.

As at 31 December 2016, ABLV Group included 24 companies rendering banking services, investment management and advisory services, ancillary services, as well as engaged in real estate development and management.

Sustainable development

Constant development, search for new areas, innovative ideas on optimization of existing processes – all these guarantee successful operations, excellent results, and therefore, stability. Stable development is also evidenced by other indicators, such as amount of taxes paid to the state budget, large and constantly growing team of employees, salary size, and other ones.
- amount of paid taxes
- in 2016, taxes paid by the group to the state budget amounted to EUR 22.0 million.
- constantly growing team of employees
- the group is one of the largest employers in Riga and Latvia. As at 31 December 2016, there were more than 800 employees working at the companies of our group, 38% of them men and 61% women.
- competitive remuneration

Average salary at the group considerably exceeds average salary in the country. According to the data of the Central Statistical Bureau, in the first three quarters of 2016, the average expenses per employee in Latvian finance and insurance sector amounted to EUR 15.74/h[1], whereas in the group the average expenses per employee in 2016 were at least 80% higher.

Corporate social responsibility

Contribution to the export capacity of the country.

On 10 November 2016, The Red Jackets movement supporting exporting brands presented Treasures of Latvia — Outstanding Export Brands and Inspiring Talents book in cooperation with Dace Melbārde, Minister for Culture. The book supported by ABLV Bank features companies which received The Red Jackets title in 2015, i.e., the most significant Latvian exporting brands and The Rising Stars of export.

Riga development and popularization.

The group actively develops the project of New Hanza, a new business and leisure area. This will be a unique area in the city, where office and residential buildings, urban infrastructure facilities, Latvian Museum of Contemporary Art, park area, etc., will be located. It will definitely enable attraction of new investments and increased interest in Riga as a place for economic activities. In 2016, the first stage of infrastructure construction was launched; it includes laying the streets and engineering systems, like water supply, sewage, heat, and electricity supply systems. In 2016, the best idea for reconstruction of the warehouse building of the former Riga railway goods station was chosen, too. This building, to be the only one historically preserved on the territory of New Hanza, is supposed to become a multifunctional cultural centre.

The group also contributes to preservation and restoration of the architectural heritage of the capital city. The building at 23 Elizabetes Street, in which ABLV Bank headquarters are currently located, is an excellent example of Art Nouveau, successfully renovated by the bank. The neighbouring building at 21a Elizabetes Street has been also thoroughly renovated, preserving all details that make it unique.

In August 2015, Pillar Group, which is a part of the group, became a major sponsor of the tour-closing concert of the band Brainstorm, which took place at New Hanza territory. More than 45 000 spectators visited the event, and it ensured good publicity for Riga in neighbouring countries.

[1] http://www.csb.gov.lv/en/statistikas-temas/labour-costs-key-indicators-30616.html

Professional business environment

Vision of the group:

- We offer the most highly valued experience in tailored banking services, based on a unique understanding of our clients and close relationships that we build with them.
- To make this vision come true, ABLV Bank also strictly adheres to the standards set by the state and local regulatory authority, FCMC, as well as by international organizations: the European Central Bank and the Organization for Economic Cooperation and Development (OECD).
- ABLV Bank, AS supports non-governmental organizations aiming at improving the banking sector and business environment in Latvia in general, as well as actively participates in their activities. Among the above mentioned there are the Association of Commercial Banks of Latvia, Latvian Chamber of Commerce and Industry, Employers' Confederation of Latvia and others. We have been supporting Certus think tank and are going to keep doing it as we believe an authoritative research centre with high potential is ultimately needed for further development of Latvia.

Sound work environment and social well-being.

Management has always stressed that people are the most important asset. This attitude is supported by a number of measures and principles aimed not only at ensuring compliance of work conditions with the standards set forth by laws but also at increasing employees' well-being, at making work environment comfortable, and at growing the feeling of being a part of the organization:

- The "Personnel Policy" applied at the group is developed in accordance with current legal acts of the Republic of Latvia, FCMC regulations, internal normative documents, and international legal provisions, thus ensuring complete observance of human rights.
- The group is traditionally being ranked among the employers in Latvian financial sector paying the biggest amount of labour taxes[2], which highlights the transparency of the group/bank and care about social guarantees for its employees at the same time.
- The employee satisfaction survey is carried out on a regular basis. According to the latest survey 'ABLV Group employee satisfaction index for 2015', in which 571 respondents participated, the level of employee involvement is among the highest ones in Latvia and substantially exceeds average indicators in the Baltics and Europe both in the financial sector and in general. This evidences high level of employee satisfaction, motivation, positive opinion, which provides competitive advantages and represents a sufficient resource for further business development: 89% of employees would definitely recommend the group as an employer. Almost all employees — 99% — believe that the company is undergoing steady upward development. Moreover, the company's reputation among the employees is growing every year: our specialists are proud to be a part of the group and are highly loyal. The above mentioned is supported by the average working life in the group, 6 years. Moreover, on 31 December 2016, 222 employees' experience in the group exceeded 10 years, while 49 employees have been working in the group for more than 20 years.
- In confirmation of the values concerning employees and the personnel policy being well thought trough, the leading recruitment portal in Latvia and Kapitāls magazine has named the bank one of the best employers in the financial sector by for several years in a row.
- Each employee of the group follows an internal code of ethics, 'ABLV Code' – the normative document describing the essence of our corporate culture and also containing everything that is important with regard to our values, procedures, culture, work environment, relations between employees, and client service.
- Health insurance is available for every employee. The group covers 75% of the insurance policy price.
- In 2010, to promote long-term loyalty and motivation of the employees, the decision on endowment life insurance was made. In 2015, first payments under the same were made.
- Corporate events (New Year's party for employees, special event for employees' children) are arranged at the group on a regular basis, which encourages team consolidation and positively affects work performance and group atmosphere.
- In addition to annual paid vacation, employees of the group are granted the possibility to use additional holidays depending on the duration of employment at the group.

Care for nature.

Affiliate companies of the group, making farsighted plans for future operations, try to take as much care about the environment as possible.

- The group support departments are situated in a 'smart building' — the multi-storey building, which ensures optimal electricity and heat consumption, almost preventing losses. The building is equipped with everything necessary for access by people with special needs.
- In the building, sensor water taps are used, which allows reducing water consumption.
- The companies of the group use virtual data warehouse and workstations, thus enabling lower paper consumption, less equipment and cables.
- Proper technical condition of cars of the group is maintained, ensuring compliance with the emission standards. Moreover, the group has received DHL Latvia logistics company certificates for offsetting greenhouse gas emissions several years in a row.

[2] State Revenue Service 2015 data

Care for society.

Being a socially responsible organization, the group tends to care not only about its employees but also about Latvian society in general. In 2016, we kept implementing and launched new initiatives of significant importance for the wider public:

- Christmas charitable campaign.
- Each year the group invites its employees, clients and partners to participate in the annual Christmas charitable campaign by ABLV Charitable Foundation. In 2016, a historical maximum was achieved when the total amount of donations exceeded EUR 1 million.
- Blood Donor Day.
- In 2016, 86 the group employees participated in a centralized blood donation, thus providing help to roughly 258 people in danger.
- Shadow Day.
- The group hosted upper secondary school pupils in order to let them get acquainted with the daily activities of the representatives of their desired professions on-the-spot and evaluate the preliminary choice they have made.

Given the growing significance of corporate social responsibility in the modern business environment, each company that operates reasonably and with best intentions will definitely add to its priorities not just mere achievement of financial indicators, but also work process optimization in terms of both saving resources and improving work environment. A company caring about sustainable development, long-term performance, and interests of its employees and the society will always enjoy stability, which ensures confidence about the future.

Developing export capacity of our country, paying considerable amount of taxes to the state budget, and increasing popularity of Riga, the group makes important contribution to the stability of Latvian economy and its future. Whereas high employee satisfaction evidences that our employer’s responsibility towards the society is growing every year. Taking the leading position in the Association of Commercial Banks of Latvia, the bank is involved in making decisions important for the whole banking sector in our country. All this makes corporate social responsibility an integral and essential part of operations of the group.