Joint Stock Company
"NORVIK BANKA"

Consolidated and Separate Financial statements
prepared in accordance with International
Financial Reporting Standards
as adopted by the European Union
for the year ended 31 December 2017 and
independent auditor's report

CONTENTS

Dear Shareholders, Clients and Partners!

2017 was a dynamic year for AS NORVIK BANKA (the Bank) with a greater focus on the development of the Bank's business in Latvia and a special attention to our senior clients, whose financial needs are not always understood and satisfied by other banks. At the same time, the Bank continued to work on its efficiency and develop new business opportunities to be even more competitive in the intensive financial sector.

In 2017 the Bank's net operating income was 44.5 million euro (in 2016 – 50.7 million euro), but net losses were 43.9 million euro (in 2016 – profit 9.4 million euro). In comparison with the previous year the Bank's net operating income increased by 4.5 million euro (11.3%) excluding compensation from Visa Inc. in 2016 in amount 10.7 million euro.

Situation in the Latvian and Global Economy

The assessments of the Bank of Latvia suggest that in 2017, the economic growth in Latvia was more rapid than expected, which caused a gradual increase in the GDP growth forecasts both in September and December. A forceful economic growth is expected in the future as well, although its tempo will slow down, with a more modest growth of the external demand and investment inflow. A forceful increase in demand in Lithuania, Estonia and Poland, as well as the rapid Russian economy recovery tempo will slow down in 2018, however, the increase in demand in the United Kingdom slows down already. The inflow of both private and EU fund investments will remain active – an unusually sharp increase observed in 2017 was caused by the low base for investments into means of transport, as well as non-residential buildings and engineering structures.

In general, the dynamics of inflation corresponds to that forecasted – the increase in oil prices on the global markets was compensated by the appreciation of euro against the U.S. dollar, while the global food prices stabilized. In 2018, the legislative amendments will have a considerable impact on the inflation – the increase in the indirect tax rates and minimum wage level. It is anticipated that the inflation in 2018 will, at large, be similar to that observed in 2017, with a decrease in contribution from food products, but an increase in the contribution from core inflation due to the sharp growth of domestic demand and labour costs.

Although, the pressure on the wage rates that arises on the market due to the limited labour supply, has a positive effect on the citizens' income and expenditure in the short term, it weakens the competitiveness of the companies and reduces their economic growth prospects in the mid-term. The proportion of payroll in the added value is proximal to the EU average, and Latvia gradually loses the competitive advantage of having lower wage levels. Therefore, the economists from the Bank of Latvia state that the growth of investment inflows in productive sectors (both private and public, incl. the contribution of the EU funds, investments), as well as structural reforms with a view to improve the quality of human capital, are of particular importance for strengthening the sustainable economic growth in the mid-term.

Bank's New Products

We continued to work actively on the development of new products and services. Following the market trends, in cooperation with MasterCard the Bank developed and started offering its clients contactless payment cards of new design. Moreover, a new product – Jelgava Citizen Bank Card, was developed in cooperation with the Jelgava City Council and successfully launched on the market. The card provides its users with an advantage to receive allowances from the Jelgava City Council on passenger fares in public transport, school children to pay for school dinner, as well as an opportunity to pay with the card both in regular and online shops.

Senior Segment

In Q3, the Bank concluded a 5-year cooperation agreement with the Latvian Pensioners’ Federation with the view of providing the federation with a financial support and involving seniors in the employment programme developed by Norvik Banka.

Branch Network

The Bank continued to optimise and upgrade its branch network by opening new or redesigning the existing customer service centres in accordance with the bank’s new interior concept. At the end of the reporting period, there were 54 customer service centres and branches.

Pension fund management business

Tier II pension fund management business (AS Norvik Ieguldījumu Pārvaldes Sabiedrība, Norvik IPS) continued to evolve successfully and the number of clients grew by more than 3 thousand persons.

The number of members of pension plans managed by Norvik IPS reached 83 319 persons (as of 31 December 2016 – 80 151 persons), while the amount of assets under its management increased up to 134.73 million euro (in 2016 – 104.94 million euro).

Moreover, owing to professional investment management, Norvik IPS pension plans showed the highest profitability among all Tier II pension fund managers.

ПАО "Норвик Банк" (Russian Federation)

In 2017, the Bank concluded an agreement for the sale of ПАО "Норвик Банк" (Russian Federation), as a result of which in 2018 the Group lost control over the subsidiary. For details please see note 6. This transaction was concluded within the framework of the policy of the Group aimed at the reduction of exposure in the Russian Federation. The sale of the subsidiary resulted in a significant reduction in the Group's capital requirements, and, as a result, improved the Group's capital adequacy ratio.

Management Team Changes

At the end of the year Anders Fogh Rasmussen was assigned to the post of the Deputy Chairman of AS Norvik Banka Council. Mr Rasmussen served as NATO Secretary General from 2009-2014 and Prime Minister of Denmark from 2001-2009. Prior to this he was Minister of Tax and Minister of Economic Affairs in the Danish government.

In the third quarter, Norvik Banka introduced changes to the composition of the Bank’s Council with the Doctor of Law Mr August Hanning joining the team. Mr Hanning studied in Münster and Freiburg, and graduated from the Westphalian Wilhelm University in Münster as a lawyer having defended a doctoral dissertation in Law with honours. Dr. August Hanning has devoted his professional career to work in the state administration – he was a State Secretary in the Federal Ministry of the Interior (Germany), while since 2010 he’s been working as a lawyer and legal adviser.

The Bank’s team was also joined by Laura Poča-Rozenblūma, who is leading of the Latvian Banking business. This decision was conditioned by the Bank’s strategic business development priorities associated with increasing Norvik Bank’s presence on the Latvian market. Laura Poča-Rozenblūma has more than 15-year experience in the financial sector. She started building her career at the former *Hansabanka*, and has later held leading positions at *Swedbank*, working both at the national and international level. Moreover, prior to joining Norvik Banka, she has been a member of *Nordea* bank’s management team. Laura Poča-Rozenblūma has earned a Master’s Degree in Economics and

Bachelor’s Degree in Engineering Science and Economics at Riga Technical University, as well as studied Small and Medium-Sized Business Management.

Anti-money laundering

In 2017, Norvik Banka was continuously working on strengthening its AML policies and corporate governance in the field of AML. Norvik Banka has implemented recommendations of US/BSA audit which was completed in 2016 creating a US/BSA-proof AML environment, aligned with local regulatory requirements. Norvik Banka also focused on implementations of requirements on new legislative acts and recommendations of FCMC.

In order to strengthen AML IT support, Norvik Banka has bought external IT vendor the 3rd-party AML IT solution “Siron” from FICO-Tonbeller solution Siron that has full functionality for sanction screening, KYC and transaction monitoring. In May 2017 Siron was fully implemented. Additionally, in mid-2017 Norvik Banka has acquired the enhanced sanctions analysis and lists from one of the world’s leading business-to-business data and content provider - Accuity (Reed Consulting Business International).

Norvik Banka pays special attention to AML training of its employees and provided both internal and external training for its employees including international ACAMS certificates.

Winergy

The positive event is the inclusion of SIA Winergy in the Group, which took place thanks to the minority shareholder's capital investments. Since its becoming a part of the Group, the principal loan amount of energy loans EUR 6 million was repaid by the end of 2017 and interest revenue of EUR 1.7 million has been paid. The Bank had previously announced its plans for this asset and, in accordance with the decision taken in 2017, implemented a series of measures aimed at preparing assets for sale and seeking potential investors. There are currently a number of interested investors who are still continuing to check technical documentation, company’s technical condition, and company financial statements. The Bank's management intends to sell this asset in 2018. The sale of the asset will have a significant impact on the Bank / Group balance sheet and will make it possible to significantly reduce the risk assets and increase the Bank / Group capital adequacy ratio.

Legal proceedings Winergy case

The criminal case, wherein seven persons were accused of large-scale fraud in connection with the implementation of SIA Winergy project, was forwarded to the court at the beginning of 2018. The Bank is recognized as a victim in a criminal case.

Information on lodging a claim to ICSID

On 12 December 2017, the Bank and its controlling shareholders filed an arbitration claim against the Republic of Latvia to the International Centre for Settlement of Investment Disputes (ICSID). The ICSID is a part of the World Bank established to resolve international investment disputes arising from the international law. Upon registration of the Bank’s arbitration claim an ICSID arbitration panel will be established to consider the claims lodged by the Bank and its shareholders. The ICSID arbitration panel will adopt a decision based on the international law and its final decision will be binding and immediately enforceable.

The Bank and its controlling shareholders have turned to the arbitration court because of an unfair, arbitrary, ill-considered and unjustified regulatory approach implemented by the Latvian institutions towards the Bank in violation of the Latvia’s obligations under the international law. The claim was filed after a range of fruitless negotiations held between the Latvian government and the Bank, whereby the

Bank came forward with a number of solutions to arrive at a mutual agreement, which would require no financial expenses. The Bank and its controlling shareholders still hope to reach a mutually acceptable settlement agreement with the Latvian government, but have initiated an arbitration proceeding to maintain and exercise their statutory rights. Lodgement of the claim in no way affects Norvik Banka’s performance plans.

Participation in Events and Conferences

In 2017 Norvik Banka’s experts participated in several conferences in Latvia and abroad. Events geography included Europe, Asia and North America and the list of events includes such renowned names as SIBOS conference, “Atlantis” business forum, InTax Expo, Black Sea Oil Trade conference, InvestPro. These events were a good opportunity for Norvik Banka to share bank’s experience and establish new business partnership.

Norvik Banka started a new joint project in cooperation with MiM-Kyiv and Ukrainian Private Banking Club. Called „Norvik Seasons”, the event was a series of discussion boards, lectures and Q&A sessions throughout the year. In 2017 meetings were dedicated to such problems as news of European banking legislature, modern high-tech banking, MIFID II standards implementation, introduction of PSD2 rules and other hot topics of modern banking. Norvik experts shared their views and bank’s expertise with MBA students, Ukrainian experts and entrepreneurs. In December 2017 Norvik Banka welcomed a group of Ukrainian banking specialists in Riga.

One of 2017’s biggest events for the bank was Digital Freedom Festival in Riga in late November. Norvik Banka was one of head sponsors of the event and hosted several discussions during the festival. Bank leaders and experts shared opinions on prospects of cryptocurrencies, modern financial technologies, cybersecurity and banking system.

Financial results

The Bank’s main balance sheet figures are as follows:

- total assets as of 31 December 2017 was 789 million euro, a decrease of 89 million euro comparing to the indicators of as of 31 December 2016, which was mainly determined by the outflow of client’s deposits;
- the clients’ loan portfolio at the end of 2017 amounted to 214 million euro (a 27.6 million euro decrease year-on year);
- the liquidity ratio at the end of the reporting period reached 61.33% (as of 31 December 2016 – 59.45%).

The Bank follows a liquidity management strategy that provides a high rate of return balanced for the risk assumed, whilst purposefully maintaining significantly higher than the minimum required level of reserves (the minimum required liquidity ratio is 50.00%).

From the Bank’s income statement, key highlights are as follows:

- net interest income in 2017 decreased till 7.3 million euro comparing with 10.6 million euro in 2016, following a reduction in the balance sheet of the Bank;
- net fee and commission income has shown an increase of 14.4% and has reached 21.8 million euro comparing with 19.0 million euro in 2016;
- net gain from sales of available-for-sale securities was 1.7 million euro demonstrating three times increase;
- in 2017 impairment losses on loans and investments in amount of 52 million euro was recognized (in 2016 – 11.2 million euro), it was mainly influenced by ПАО "Норвик Банк" (Russian Federation) 85% shares sales agreement.

Thus, the Bank’s net losses before tax in 2017 were 43.3 million euro (comparing to net profit before tax calculation in the amount of 10.0 million euro profit in 2016).

In 2017 in the Group’s income statement impairment losses on investment property in amount of 18.0 million euro were recognized and goodwill impairment losses in amount of 9.9 million euro due to the sale of subsidiary were recognized.

The remuneration to the Bank’s sworn auditor SIA PricewaterhouseCoopers in the reference year was calculated in the amount of 298 thousand euro, in particular:

- audit of the annual/semi-annual report – 296 thousand euro;
- non-audit fees – 2 thousand euro.

The amount of remuneration of members of the Council and the Board, as well as the total amounts of transactions concluded with the Bank are given in Notes 42 to this report. The Bank has no obligations related to pension payments to the former members of the Board and the Council.

The Bank’s comprehensive losses during the reporting period was 43 905 thousand euro, while comprehensive losses accumulated during the previous periods were 26 296 thousand euro.

As regards shares/equity, key highlights are as follows:

- the Bank’s capital adequacy ratio as of 31 December 2017 was 14.24% compared to 21.44% in December 2016 and the minimum regulatory requirements in the amount of 14.00%;
- the Group’s capital adequacy ratio as of 31 December 2017 was 10.41% compared to 14.80% in December 2016 and the minimum regulatory requirements in the amount of 13.55%.

No dividends were paid in the reporting period, and no distribution is planned in 2018.

One of the main tasks in the Bank’s daily operation is risk assessment – mainly credit, market and liquidity risks (*information on the risks the Bank/Group are exposed to is given in Notes 7 to this report*). The Bank permanently controls cash flow liquidity ensuring the Bank’s mandatory ability to fulfil its obligations towards depositors and creditors under the circumstances of an economic environment with high mobility. The Bank’s management improves and enhances the efficiency of policies, approaches and procedures the lending sphere and in relation to activities on the financial markets, reducing the Bank’s and the Group’s exposure to inherent risks when performing these activities.

In the next period, the Bank plans to focus on capital adequacy ratio increase, and reduction in large exposure limits specifically Winergy through it's sale.

Events after the Reporting Period

As from the end of the reporting period until the date of publication of this report the Latvian banking sector has experienced one of the most dynamic changes in recent years. Since the publication of the US institutions’ (FinCEN) report on ABLV, the banking market saw significant turbulence which gradually decreased and did not have a major impact on Norvik Banka, though clients became more active asking questions about the developments. The Bank’s management, branch employees and contact centre’s specialists were actively engaged in the provision of answers and explanations.

Norvik Banka is a joint stock company registered in the Republic of Latvia and operating according to the laws of the Republic of Latvia and pursuant to the licence No.30 issued by the Bank of Latvia on

27 April 1992. Registration No.40003072918. AS Norvik Banka's legal address: 15-2 Elizabetes Street, Riga, LV-1010, Latvia. Information on the composition of the Group and investments in the equity of subsidiaries is given in Note 3 to this report.

The composition of the Council and of the Board as of 31 December 2017 and changes thereto are given on Page 15 of this financial report.

At the beginning of 2017 the Group employed 1 589 staff members (including the Bank – 619), while as of 31 December 2017 the Group employed 1 364 staff members, (including the Bank – 614).

Loyalty rewards!

Chairman of the Supervisory Council G.Guselnikov	Chairman of the Management Board O.R.Bramwell

Riga 08 June 2018

Consolidated Non-financial Statement

Business Model

Norvik Bank is in Latvia based universal bank, that holds 109`000 customers, out of which 94% is resident base, other 6% is internationally based customer segment; to both segments Bank is providing full range of services, from transaction banking management, till multiple financing products, and outsourced insurance product portfolio.

Second half of 2017 was dedicated to clear distinction of first line of business Banking Latvia Strategy development and positioning, in the financial sector, where banks proactively address only their target customers, Norvik Bank provides financial solutions for all who need banking services without distinction based on wealth, status or age. Norvik Bank cares for the society and segments who need financial advice the most, Norvik Bank is willing to service by offering wide range of products to suit their needs, and support them to improve the quality of life by giving opportunity to share experience and interact.

To ensure high range of tailored and mass financial services, Norvik Bank has wide branch network, with 53 branches and accessible digital solutions, Norvik Bank is servicing following segments: private retail customers, corporate retail customers, municipalities, international retail and corporate customers, private banking customers. Bank ensures following product range for our customers: accounts, internet bank, credit and debit cards (also premium level), offering sets, 2nd pension pillar management, investment products, securities, currency exchange, cash operations, transaction banking – local and international payments, short term financing products, trade finance solutions, guarantee services, brokerage services, currency conversions, marginal trading, safe depository services, as well as wide range of offering via partners, with beneficial rates for customers. Key customer group that is currently serviced by bank are Latvian Russian speaking citizens and senior citizens. Since Norvik Banka has more than 11`000 customers exceeding age of 80, specialized products are developed for respective customer needs, like specialized senior contact centre information line, heritance accounts, power of attorney for family members or servicing at customers premises.

Second line business direction is International Business that specializes in servicing Large Corporate clients and high net worth private individuals with a significant level of capital, operating in international markets, like EU and CIS. Customer geography serviced in International banking largely is Cyprus, Russia and Ukraine. Servicing of respective geographies is strictly guided by the OECD and FATF rules, as well as the Regulatory Rules No.234 of the CRCF of the Republic of Latvia, and the amendments to the Law on the Prevention of the Legalization of Proceeds from Crime and Financing terrorism. Norvik Bank has taken a zero tolerance stance towards high-risk clients, and sanctions, ensuring that the Bank meets not only Latvian and EU AML requirements, but also US Bank Secrecy Act standards and international best practices in dealing with its international clients. Norvik Banka has stopped servicing customers from high-risk jurisdictions.

Sharing Competence

At the election held in March, the Chairman of the Board of Norvik Banka Oliver Bramwell was re-elected as a board member of the British Chamber of Commerce in Latvia (BritCham).

The BritCham was founded in 1996 and is one of the largest foreign entrepreneurs’ association in Latvia. Its members include companies from Latvia, UK, and other countries.

In November, the management team of the largest Latvian entrepreneurs' association – the Latvian Chamber of Commerce and Industry (LCCI) held a meeting in Liepāja with specially invited TOP 50 entrepreneurs in Liepāja, to discuss the opportunities for improving the business environment of various areas in the region. It was the meeting of the members of the LCCI Kurzeme business club organised with the participation on the Liepāja City Council and Norvik Banka.

Procedures and policies

In order to implement social responsibility the Bank operates in accordance with a number procedures and policies. The main policies are the following:

Personnel Policy

The goal of Personnel policy is to ensure efficient practice of solution of personnel management issues at the Bank in compliance with its existing corporate values, ethical standards and long-term interests in order to successfully achieve goals of the Bank and implement its strategy not encouraging risk taking that exceeds risk tolerance determined by the Bank and ensuring corresponding capital adequacy.
The Policy set the guidelines to the personnel management processes: personnel planning, selection of employees, integration of new employees, personnel motivation, remuneration system, work evaluation, personnel training and development, personnel career management.

Bank's Standards of Professional Conduct and Ethics and Conflicts of Interest Management Policy

By this Policy the Bank determines the Bank's corporate values and standards of professional conduct and ethics and sets the following goals regarding prevention of conflicts of interest:

- to create an efficient and effective internal control system, so that the Bank is able to fulfil all requirements regarding prevention of conflicts of interest, as set in the regulatory acts effective in the Republic of Latvia;
- to minimize all possible risks and losses that are connected with conflicts of interest and that can adversely effect the Bank's activity and reputation;
- to identify and prevent conflicts of interest, so that the Bank's activity complies with the high standards of integrity, by ensuring a fair attitude to all clients, in order to realise this goal.

Policy on Prevention of Conflicts of Interest in Providing Investment Services and Ancillary Investment Services

The objective of this Policy is to determine and identify the key circumstances that give rise or may give rise to Conflict of interest in the course of provision of Investment services and Ancillary Investment Services, that, in turn, may constitute a hazard or harm for the interests of one or more Clients, as well as to identify actions to be performed in order to prevent or reduce to the extent possible a possible Conflict of Interest and it's negative consequences.

Gift acceptance Policy

This Policy is developed in order to assist the Employees take the impartial and fair decision on a Gift or Benefit offer acceptance, and do not let the Employee to affect the Bank's reputation with any actions resulting from this decision.
The Policy defines the Gift and Benefit offers acceptance or rejection criteria, principles and limits.

Compliance risk management Policy

The goal of the Policy is to determine the basic principles of Compliance risk management, and the Bank has set the following goals in the respective field:

- to create an efficient Compliance risk management system so that the Bank is able to fulfill all requirements set in the External regulations governing the activities of the Bank, as well as related standards, professional codes of conduct and ethics, established by self-regulatory organizations and other best practice standards;
- to identify and eliminate non-compliance of the Bank’s activities in order to ensure the lawful activities of the Bank, to create reliable and trustworthy reputation of the Bank, based on the best banking practice.

Anti-money laundering and counter-terrorism financing and sanctions compliance policy

The Policy is developed in compliance with the statutory requirements and the good practice in the AML/CTF and Sanctions Compliance area.

With this Policy the Bank defines the following goals:

- to establish an efficient internal control system to enable fulfilment of all the requirements laid down in the regulatory enactments of the RL in the AML/CTF and Sanctions Compliance area;
- to minimize the possible risks and losses incurred as a result of money laundering and terrorism financing and violation of Sanctions, which may have a negative impact on the Bank’s business activity;
- to bring the Bank’s practice more in line with the international standards of good practice in the AML/CTF and Sanctions Compliance area.

Reputation risk management Policy

The purpose of this Policy is to create the Bank’s reputation risk management system in order to:

- create, support and protect the good reputation of the Bank,
- comply with laws, regulations and standards which regulate the activity of the Bank,
- ensure accordance with the legal interests of the clients, shareholders, depositors and partners of the Bank.

Operational Risk Management Policy

The purposes of the Policy are to minimize the Bank’s possible losses that could arise due to inadequate or unsuccessful internal processes, or that could result from other people’s actions, system errors or from external events. The Policy defines the Bank’s Operational risk sources and objects, as well as sets and establishes efficient principles and methods for Operational risk management.

Anti-corruption

The bank’s agreed and signed-off a general memorandum on anti-corruption from the Latvian Commercial Banks Association.

Digital Development

By signing a cooperation agreement in Q2, for the second year in a row Norvik Banka became the official bank of the *Digital Freedom Festival* to jointly improve understanding of the development of financial technologies and innovations in the region.

In October, the second festival was held and it was a success. The festival assembled more than 1300 technology and *start-up* companies' representatives, experts, opinion shapers, investors, journalists and students from 36 countries. 7 discussions were held at *Norvik Investors Lounge*, whereby the listeners were invited to think about the future of the financial industry.

In November, Digital Freedom Festival together with Norvik Banka held discussions on money and cyber-security, whereby it evaluated the security level of biometrics as an authorization tool, discussed challenges caused by big data, discussed the extent to which digital life has become an integral part of our everyday routine, as well as the legislation in the area of cyber-security and the government's role in controlling cyberspace.

Employer

Norvik Banka has declared the 18th most desired workplace in Latvia. The survey was conducted by the leading recruitment company CV-Online Latvia, and almost 12,000 people took part in the voting for the best employers.

To create a solid team and a positive internal atmosphere, Norvik Banka as an employer thinks also about the improvement and maintenance of the bank's internal life. Forming a sense of unity, the bank's employees are offered an opportunity to celebrate various holidays together – Easter, March 8, Ligo, Christmas and celebration of the bank's birthday in the yard of the bank's office on Elizabetes Street, which has already become a tradition.

To encourage the employees to live a healthy life and to go in for sport activities outside of working hours, the bank has created its football team, in which the bank's employees train regularly and participate in various competitions. Norvik Banka's team has showed excellent results in a futsal tournament for the commercial banks and other financial institutions of Latvia.

Moreover, for a number of years already, the bank's employees participate in the Lattelecom Riga Marathon where they choose running either a short distance of 6 km or a half-marathon, or marathon.

Promoting a healthy lifestyle movement, Norvik Banka's Personnel Department has introduced a Fruit Day initiative, under which on a weekly basis the employees are offered fresh fruit as an important source of vitamins.

NORVIK Academy

In November 2017, a Module Program under the Norvik Academy was launched to train the Bank's managers. The program provides for 7 modules, where each of them lasts one full business day. The training takes place once a month, in small groups, so that each manager could not only hear an interesting topic but also share his experience, express opinion on the subject and fulfil practical tasks. Currently, 56 managers are involved in the managers' module training, for the rest of them the training will start in April-May 2018.

In 2017, a top managers session was organised during which Norvik Banka's qualities crystallized out, which we consider to be our values: Humanity, Agility and Adaptability.

Moreover, the Board Module Programme was launched. Out of five, three modules have already taken place.

On a regular basis, at least once in two months, the Norvik Academy arranges the Business Breakfast, which the Board, leading specialists and new employees take part in. Usually the Business Breakfast is a get-acquainted meeting, during which an interesting lector offers a brief overview of some issue topical for the bank.

Support of Seniors

In October, the Bank concluded a 5-year cooperation agreement with the Latvian Pensioners' Federation with the view of providing the federation with a financial support and involving seniors in the employment programme developed by Norvik Banka.

The seniors' employment programme was aimed at employing at least three seniors in 2017 and about 50 more seniors in 2018 at the position of financial advisers in the Bank's branches throughout Latvia.

The new initiative in the field of employment provides for involvement of seniors in active work at Norvik Banka as advisers at the Bank's branches. The seniors will have a possibility to choose the work schedule, which fits their ability, gain knowledge on the Bank's latest digital financial solutions and transfer it to other Bank's senior clients.

The programme will enhance seniors' engagement in public life, including the labour market. The data from the Central Statistics Bureau suggest that, in 2016, 40% of all the Latvian citizens were older than 50. Moreover, the citizens in the age range from 50 to 61 constitute the third of all the employment age people. Both Latvian and European society gets old and seniors' engagement is a vital issue at the government level.

The first senior that joined Norvik Banka and will lead the seniors' employment programme, Lidija Dzene states: *As a senior I am interested in staying involved and helping others – these are the main reasons why I took the position at Norvik Banka. I wish to contribute to society and find this a perfect opportunity to do it.*

Additionally, the collaboration of Norvik Banka and the Latvian Pensioners' Federation provides for organisation of various events for seniors, financial consultations, as well as other initiatives launched by Norvik Banka to improve the quality of seniors' life.

Charity

In 2017, Norvik Banka signed a cooperation agreement with *MTG TV Latvia*, thus becoming a partner of the charitable actions *Eņģeļi pār Latviju* and *Labestības diena*.

In May, the television company Latvian Independent Television (LNT), the Children's Hospital Foundation, Norvik Bank and Supernetto chain of shops organised a final concert within the framework of the charity event *Labestības diena*. During this event, 76,378.85 EUR were donated, which allowed to provide aid to all 29 children that took part in the project this year. Moreover, as part of the charity action, waiting areas and games room in the Children's Hospital were refined and equipped to make little patients feel as calm and as happy as possible when visiting their doctors.

The project *Eņģeļi pār Latviju* mainly focused on aiding children with autistic spectrum disorders. At the end of December a charity concert was held as part of hte project, during which EUR 143 090.76 were donated.

In parallel with the big project, Norvik Banka's employees initiated and implemented another project – *Norvik Christmas Charity Market*, where everyone could buy various bank employees' handcrafted items (cakes, jewellery, knitted and crocheted items, etc.) by making donations. The total of 580.32 EUR were donated. All the donated funds will be transferred to the Children's Hospital Fund within the framework of the project *Eņģeļi pār Latviju*.

Anyone could also donate at the largest branches of Norvik Banka by putting their donations into special donation boxes. Later all the donated funds were transferred to the Children's Hospital Fund bank account.

Culture Support

In early May, the internationally acclaimed production BRODSKY/BARYSHNIKOV was performed at Apollo Theatre in London, within the framework of 25-year anniversary of Norvik Banka. The poems of the Nobel laureate in literature Joseph Brodsky are recited by the Riga-born ballet dancer Michael Baryshnikov, who have recently acquired Latvian citizenship, but the performance is conceived and directed by Alvis Hermanis, with the support of the Latvian team.

However, already in April, the photo exhibition of the production's rehearsal process in the New Riga Theatre was displayed at the premises of Norvik Banka on 11 Raiņa blvd. The authors of the ten photographs displayed at the premises of Norvik Banka were artists Jānis Deinats and Pāvels Antonovs. The exposition that took place with support of Baryshnikov Productions ltd and the New Riga Theatre, allowed to have glance of the process of creating the performance both in Riga and New York.

Detailed information on operation is presented in the Norvik Group's financial report for 2017.

SUPERVISORY COUNCIL AND MANAGEMENT BOARD

Supervisory Council as at 31 December 2017

Name	Position	Date of initial appointment
G.Guselnikov	Chairman of the Supervisory Council	19/12/2013
I.Smolin	Deputy Chairman of the Supervisory Council*	15/05/2015
Dr. August Gustav Paul Hanning	Member of the Supervisory Council	16/06/2017
Peter Michael Odintsov	Member of the Supervisory Council	24/11/2017
Anders Fogh Rasmussen	Member of the Supervisory Council**	20/11/2017

* - From 05/02/2018 Member of the Supervisory Council
** - From 05/02/2018 Deputy Chairman of the Supervisory Council

During the reporting period following persons have resigned:
On 22/11/2017 Member of the Supervisory Council A.Ruselis has resigned from the position.

During the reporting period, the following persons were appointed:
- Member of the Supervisory Council Dr. August Gustav Paul Hanning,
- Member of the Supervisory Council Peter Michael Odintsov,
- Member of the Supervisory Council Anders Fogh Rasmussen

Management Board as at 31 December 2017

Name	Position	Date of initial appointment
O.R.Bramwell	Chairman of the Management Board	19/12/2013
A.Verbicka	Member of the Management Board	10/11/2015
A.Kutyavin	Member of the Management Board	29/12/2015
D.Kalmykov	Member of the Management Board	05/08/2016
L.Poča-Rozenblūma *	Member of the Management Board	28/07/2017

During the reporting period following persons have resigned:
On 20/12/2017 Member of the Management Board S.Gorashchenko has resigned from the position.

During the reporting period L.Poča-Rozenblūma was appointed as Member of the Management Board.

*At the date of issuing this financial statement Member of the Management Board L.Poča-Rozenblūma has resigned from the position of the Management Board on 9 March 2018.

On behalf of the Supervisory Council and Management Board:

Chairman of the Supervisory Council
G.Guselnikov

Chairman of the Management Board
O.R.Bramwell

Riga 08 June 2018

STATEMENT OF MANAGEMENT`S RESPONSIBILITIES

The Management of JSC “Norvik Banka” (the Bank) is responsible for preparing the Consolidated Financial Statements of the Bank and its subsidiaries (the Group) and Separate Financial Statements of the Bank.

The Consolidated and Separate Financial Statements are prepared in accordance with the source documents and present fairly the financial position of the Group as of 31 December 2017 and the results of its operations and cash flows for the financial year ended 31 December 2017, as well as the financial position of the Bank as of 31 December 2017 and the results of its operations and cash flows for the financial year ended 31 December 2017.

The management confirms that suitable accounting policies have been used and applied consistently and reasonable and prudent judgments and estimates have been made in the preparation of the Consolidated and Separate Financial Statements for the year ended 31 December 2017 set out on pages 17 to 127. The management also confirms that applicable International Financial Reporting Standards as adopted by the EU have been followed and that the Consolidated and the Separate Financial Statements have been prepared on a going concern basis and comply with the Regulations on the Preparation of Financial Statements of Banks issued by the Latvian Financial and Capital Market Commission in all material respects.

The Bank’s management is also responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the Group and of the Bank and to prevent and detect fraud and other irregularities. They are also responsible for operating the Bank in compliance with the Law on Credit Institutions, Regulations issued by the Latvian Financial and Capital Market Commission (FCMC) and other legislation of the Republic of Latvia in all material respects.

On the behalf of the Supervisory Council and Management Board:

Chairman of the Supervisory Council
G.Guselnikov

Chairman of the Management Board
O.R.Bramwell

Riga 08 June 2018

CONSOLIDATED AND SEPARATE INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

		2017		2016	
		Group	Bank	Group	Bank
	Notes	EUR'000	EUR'000	EUR'000	EUR'000
Interest and similar income		14 673	15 348	18 090	18 415
Interest and similar expense		(8 009)	(8 072)	(7 768)	(7 772)
Net interest income	8	**6 664**	**7 276**	**10 322**	**10 643**
Fee and commission income	9	28 086	26 040	24 305	22 724
Fee and commission expense	9	(4 283)	(4 266)	(3 707)	(3 693)
Dividend income	28	57	2 897	27	27
Net trading income	10	8 847	10 463	12 400	9 923
Net gain/(loss) from sales of available-for-sale financial assets	11	1 701	1 469	7 058	11 283
Other operating income	12	32 402	1 979	28 542	1 748
Other operating expense	12	(18 375)	(1 365)	(16 294)	(1 922)
Administrative expenses	13	(46 568)	(33 438)	(38 967)	(27 913)
Depreciation and amortization	24,26	(5 342)	(2 229)	(4 952)	(1 674)
Changes in fair value of investment property	25	(18 040)	(158)	(7 078)	83
Result of acquisition of subsidiary		-	-	6 164	-
Impairment loss on available for sale financial assets	21	(2 548)	(43 817)	(3 113)	(7 063)
Impairment loss on assets held for sale		(156)	(96)	(189)	-
Impairment loss on tangible fixed assets	26	(158)	-	(55)	(138)
Impairment loss on held-to-maturity financial assets		(8)	(8)	(5)	(5)
Impairment loss on other assets		(822)	-	(950)	-
Impairment loss on financial assets	20	(13 694)	(8 078)	280	(3 988)
Profit/(loss) before tax		**(32 237)**	**(43 331)**	**13 788**	**10 035**
Income tax expense	14	143	(583)	(1 258)	(608)
Profit/(loss) for the year from continuing operations		**(32 094)**	**(43 914)**	**12 530**	**9 427**
Discontinued operations					
Profit/(loss) for the year from discountinued operations	28	(15 621)	-	1 430	-
Profit/(loss) for the year		**(47 715)**	**(43 914)**	**13 960**	**9 427**
Attributable to:					
Owners of the parent					
Profit/(loss) for the year from continuing operations		(32 127)	-	12 436	-
(Loss) for the year from discountinued operations		(15 621)	-	1 430	-
Profit/(loss) for the year attributable to owners of the parent		**(47 748)**	**-**	**13 866**	**-**
Non-controlling interests					
Profit for the year from continuing operations		33	-	94	-
Basic and Diluted Earnings per share (EUR)	37	(0.22)	-	0.06	**-**

The accompanying notes on pages 24 to 127 form an integral part of these consolidated and separate financial statements.

The consolidated and separate financial statements on pages 17 to 127 were approved by the Supervisory Council and Management Board on 08 June 2018:

Chairman of the Supervisory Council
G.Guselnikov

Chairman of the Management Board
O.R.Bramwell

CONSOLIDATED AND SEPARATE STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

		2017		2016	
		Group	Bank	Group	Bank
	Notes	EUR'000	EUR'000	EUR'000	EUR'000
Profit/loss for the year		**(47 715)**	**(43 914)**	**13 960**	**9 427**
Items that will not be reclassified subsequently to profit or loss:					
Gain on revaluation of property, net of tax	26	1 070	-	1 307	374
Other changes		629	(43)	-	-
Deferred tax relating to revaluated tangible fixed assets		-	-	46	46
Reclassification of deferred tax, related to tangible fixed assets, due to changes in the legislation		1 771	792	-	-
		3 470	**749**	**1 353**	**420**
Items that may be reclassified subsequently to profit or loss:					
Translation gain/(loss) from foreign operations					
Translation gain/(loss) arising during the year		(6 508)	-	14 599	-
		(6 508)	**-**	**14 599**	**-**
Available- for-sale financial assets					
Revaluation		91	(43 088)	(3 021)	12 084
Impairment loss	21	2 548	43 817	3 113	7 063
Net (gain) from sales of available-for-sale financial assets	11	(1 701)	(1 469)	(7 058)	(11 283)
		938	**(740)**	**(6 966)**	**7 864**
Other comprehensive income/(losses)		**(2 100)**	**9**	**8 986**	**8 284**
Total comprehensive income/(losses) for the year		**(49 815)**	**(43 905)**	**22 946**	**17 711**
Attributable to:					
Equity holders of the owners of the parent		(49 778)	-	22 647	-
Non-controlling interests		(37)	-	299	-

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Chairman of the Supervisory Council
G.Guselnikov

Chairman of the Management Board
O.R.Bramwell

CONSOLIDATED AND SEPARATE BALANCE SHEET AND OFF-BALANCE SHEET ITEMS FOR THE YEAR ENDED 31 DECEMBER 2017

		31.12.2017		31.12.2016	
	Note	Group	Bank	Group	Bank
		EUR'000	EUR'000	EUR'000	EUR'000
Assets					
Cash and balances with the central banks	15	131 978	131 977	214 554	200 001
Loans to and receivables from banks	16	54 041	53 755	42 495	35 714
Trading financial assets	17	-	-	96 545	-
Derivative financial instruments	18	384	384	819	763
Loans to and receivables from customers	19	172 580	213 653	274 471	241 217
Available-for-sale financial assets	21	142 559	318 249	99 379	333 210
Held-to-maturity financial assets	23	16 705	16 705	19 483	19 483
Prepaid corporate income tax		110	-	352	-
Investment property	25	67 086	6 150	92 577	6 308
Tangible fixed assets	26	93 214	37 302	110 945	35 532
Goodwill	22	407	-	10 265	-
Intangible assets	24	6 325	1 114	5 975	948
Assets held for sale	27	1 143	445	5 756	541
Assets held for sale (subsidiary)	28	205 037	-	-	-
Other assets	29	26 550	9 359	28 250	4 459
Total assets		**918 119**	**789 093**	**1 001 866**	**878 176**
Liabilities					
Due to the central bank and other banks	31	2 059	2 062	7 363	7 367
Derivative financial instruments	18	1 199	1 199	318	318
Customer deposits	32	613 468	662 293	788 159	686 338
Subordinated deposits	33	21 309	21 309	40 844	35 656
Subordinated debt securities	34	37 096	37 096	38 849	38 849
Deferred tax liabilities	14	117	-	3 463	792
Liabilities related to assets held for sale	28	172 343	-	-	-
Other liabilities	35	18 213	4 223	20 679	4 040
Total liabilities		**865 804**	**728 182**	**899 675**	**773 360**
Equity attributable to equity holders of the Bank					
Share capital	36	131 102	131 102	131 102	131 102
Reserves		10	10	10	10
Revaluation reserve of tangible fixed assets		9 662	4 898	6 697	4 488
Revaluation reserve of available-for-sale financial assets		(360)	9 895	(1 298)	10 635
Revaluation reserve of foreign currency translation		(23 383)	-	(17 066)	-
Accumulated losses		(65 570)	(84 994)	(18 206)	(41 419)
Total equity attributable to equity holders of the Bank		**51 461**	**60 911**	**101 239**	**104 816**
Non-controlling interests	21	854	-	952	-
Total equity		**52 315**	**60 911**	**102 191**	**104 816**
Total liabilities and equity		**918 119**	**789 093**	**1 001 866**	**878 176**
Off-balance sheet items					
Commitments and contingencies					
Contingent liabilities		3 249	3 249	8 957	3 276
Commitments		3 553	3 556	21 261	5 182
Total commitments and contingencies	39	**6 802**	**6 805**	**30 218**	**8 458**
Return on assets (ROA), %		(4.97)	(5.27)	1.31	1.00

The accompanying notes on pages 24 to 127 form an integral part of these consolidated and separate financial statements.

The consolidated and separate financial statements on pages 17 to 127 were approved by the Supervisory Council and Management Board on 08 June 2018:

Chairman of the Supervisory Council
G.Guselnikov

Chairman of the Management Board
O.R.Bramwell

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

		Attributable to owners								
Group	**Note**	**Share capital EUR’000**	**Reserve EUR’000**	**Revaluation reserve of tangible fixed assets EUR’000**	**Revaluation reserve of available-for-sale financial assets EUR’000**	**Revaluation reserve of foreign currency translation EUR’000**	**Accumula-ted losses EUR’000**	**Total EUR’000**	**Non-controlling interests EUR’000**	**Total Groups’ equity EUR’000**
As at 1 January 2016		**131 102**	**10**	**5 456**	**5 668**	**(31 222)**	**(32 421)**	**78 593**	**652**	**79 245**
Revaluation of available-for-sale financial assets	21	-	-	-	(6 966)	-	-	**(6 966)**	-	**(6 966)**
Foreign currency translation of foreign subsidiaries*		-	-	246	-	14 156	-	**14 402**	197	**14 599**
Revaluation of tangible fixed assets	26	-	-	1 299	-	-	-	**1 299**	8	**1 307**
Deferred tax relating to revaluated tangible fixed assets		-	-	46	-	-	-	**46**	-	**46**
Other comprehensive income		**-**	**-**	**1 591**	**(6 966)**	**14 156**	**-**	**8 781**	**205**	**8 986**
Profit for the year		-	-	-	-		13 866	**13 866**	94	**13 960**
Total comprehensive income for the year		**-**	**-**	**1 591**	**(6 966)**	**14 156**	**13 866**	**22 647**	**299**	**22 946**
Amortization of revaluation reserve of tangible fixed assets		-	-	(350)	-	-	349	**(1)**	**1**	**-**
As at 31 December 2016		**131 102**	**10**	**6 697**	**(1 298)**	**(17 066)**	**(18 206)**	**101 239**	**952**	**102 191**
Revaluation of available-for-sale financial assets	21	-	-	-	938	-	-	**938**	-	**938**
Foreign currency translation of foreign subsidiaries*		-	-	(121)	-	(6 317)	-	**(6 438)**	(70)	**(6 508)**
Revaluation of tangible fixed assets	26	-	-	1 070	-	-	-	**1 070**	-	**1 070**
Reclassification of deferred tax, related to tangible fixed assets, due to changes in the legislation		-	-	1 771	-	-	-	**1 771**	-	**1 771**
Other changes		-	-	629	-	-	-	**629**	-	**629**
Other comprehensive income		**-**	**-**	**3 349**	**938**	**(6 317)**	**-**	**(2 030)**	**(70)**	**(2 100)**
(Loss)/profit for the year		-	-	-	-	-	(47 748)	**(47 748)**	33	**(47 715)**
Total comprehensive income for the year		**-**	**-**	**3 349**	**938**	**(6 317)**	**(47 748)**	**(49 778)**	**(37)**	**(49 815)**
Dividends paid		-	-	-	**-**	**-**	**-**	**-**	(62)	**(62)**
Amortization of revaluation reserve of tangible fixed assets		-	-	(384)	-	-	384	**-**	1	**1**
As at 31 December 2017		**131 102**	**10**	**9 662**	**(360)**	**(23 383)**	**(65 570)**	**51 461**	**854**	**52 315**

* Translation reserve on consolidation of the subsidiaries that have functional currency another than euro.

SEPARATE STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

Bank	Note	Share capital EUR'000	Reserve EUR'000	Revaluation reserve of tangible fixed assets EUR'000	Revaluation reserve of available-for-sale financial assets EUR'000	Accumu-lated losses EUR'000	Total EUR'000
As at 1 January 2016		**131 102**	**10**	**4 379**	**2 771**	**(51 157)**	**87 105**
Revaluation of available- for-sale financial assets	21	-	-	-	7 864	-	**7 864**
Revaluation of tangible fixed assets	26	-	-	374	-	-	**374**
Deferred tax relating to revaluated tangible fixed assets		-	-	46	-	-	**46**
Other comprehensive income		**-**	**-**	**420**	**7 864**	**-**	**8 284**
Profit for the year		**-**	**-**	**-**	**-**	9 427	**9 427**
Total comprehensive income for the year		**-**	**-**	**420**	**7 864**	**9 427**	**17 711**
Amortization of revaluation reserve of tangible fixed assets		-	-	(311)	-	311	-
As at 31 December 2016		**131 102**	**10**	**4 488**	**10 635**	**(41 419)**	**104 816**
Revaluation of available- for-sale financial assets	21	-	-	-	(740)	-	**(740)**
Reclassification of deferred tax, related to tangible fixed assets, due to changes in the legislation		-	-	792	-	-	**792**
Other changes	26	-	-	(43)	-	-	**(43)**
Other comprehensive income		-	-	**749**	**(740)**	-	**9**
Loss for the year		-	-	-	-	(43 914)	**(43 914)**
Total comprehensive income for the year		**-**	**-**	**749**	**(740)**	**(43 914)**	**(43 905)**
Amortization of revaluation reserve of tangible fixed assets		-	-	(339)	-	339	-
As at 31 December 2017		**131 102**	**10**	**4 898**	**9 895**	**(84 994)**	**60 911**

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The consolidated and separate financial statements on pages 17 to 127 were approved by the Supervisory Council and Management Board on 08 June 2018:

Chairman of the Supervisory Council
G.Guselnikov

Chairman of the Management Board
O.R.Bramwell

CONSOLIDATED AND SEPARATE CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

		2017		2016	
		Group	Bank	Group	Bank
	Note	EUR'000	EUR'000	EUR'000	EUR'000
Cash flow from operations					
Profit/loss before corporate income tax from continuing operations		(32 237)	(43 331)	13 788	10 035
Profit/loss before corporate income tax from discontinuing operations		(15 621)	-	1 430	-
Adjustments for:					
Depreciation of intangible and tangible fixed assets and write off		5 792	2 676	5 568	2 289
(Decrease)/increase in provisions for impairments losses on financial investments	20	13 918	8 302	(91)	4 283
Impairment loss on other assets		822	-	950	-
Interest income		(14 673)	(15 348)	(18 090)	(18 415)
Interest expense		8 009	8 072	7 768	7 772
Dividend income		(57)	(2 897)	(27)	(27)
Impairment of tangible fixed assets		158	-	400	399
Reversal of impairment loss on tangible fixed assets		-	-	(345)	(261)
Impairment losses on assets held for sale		156	96	189	-
(Profit)/loss from assets held for sale		38	-	-	-
Impairment losses of held to maturity financial assets		8	8	5	5
Impairment losses of available-for-sale financial assets		2 548	43 817	3 113	7 063
Acquisition of subsidiary		-	-	(6 164)	-
Impairment of goodwill		9 858	-	-	-
(Profit)/loss from available-for-sale financial assets	11	(1 701)	(1 469)	(7 058)	(11 283)
(Profit)/loss from foreign exchange revaluation	10	(11 744)	(13 252)	4 798	7 639
Non-realized (profit)/loss from investment property	25	18 040	158	7 078	(83)
Operating cash flow before changes in operating assets and liabilities		**(16 686)**	**(13 168)**	**13 312**	**9 416**
Decrease/(increase) in loans and receivables to banks		1 528	1 490	(1 128)	(2 330)
Decrease/(increase) in trading financial assets		7 121	-	(29 173)	109
Decrease/(increase) in derivatives financial assets		433	379	990	1 043
Decrease/(increase) in loans and receivables to customers		20 783	20 918	27 094	2 754
Decrease/(increase) in assets held for sale		(759)	-	-	-
Decrease/(increase) in other assets		173	(4 937)	11 624	7 022
Increase/(decrease) in due to banks		(5 304)	(5 305)	4 951	5 037
Increase/(decrease) in customer deposits		(5 581)	(25 170)	(164 272)	(154 570)
Increase/(decrease) in derivatives financial liabilities		881	881	(29)	(1)
Increase/(decrease) in other liabilities		(365)	176	(817)	(4 184)
Cash generated from (used in) operating activities		**2 224**	**(24 736)**	**(137 448)**	**(135 704)**
Interest received		12 502	13 177	18 292	15 722
Interest (paid)		(6 982)	(7 045)	(6 850)	(7 280)
Dividend received		57	2 897	27	27
Dividend (paid) to minority shareholders		(62)	-	-	-
Corporate income tax (paid)		(682)	(583)	(1 441)	(608)
Net cash generated from (used in) operating activities		**7 057**	**(16 290)**	**(127 420)**	**(127 843)**

CONSOLIDATED AND SEPARATE CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

		2017		2016	
		Group	Bank	Group	Bank
	Note	EUR’000	EUR’000	EUR’000	EUR’000
Cash generated from (used in) investing activities					
Acquisition of intangible and tangible fixed assets	24, 26	(5 677)	(4 655)	(11 403)	(6 006)
Sale of intangible and tangible fixed assets	24, 26	-	-	298	-
Decrease/ (increase) in held-to-maturity financial assets		472	472	314	314
Acquisition of investment property	25	(1 467)	-	(6 839)	-
Sale of investment property	25	4 358	-	3 704	-
Decrease in available-for-sale financial assets		298 838	313 800	386 405	390 816
(Increase) in available-for-sale financial assets		(350 275)	(350 275)	(239 532)	(241 255)
Net cash generated from (used in) investing activities		**(53 751)**	**(40 658)**	**132 947**	**143 869**
Cash generated from (used in) financing activities					
Debt securities issued		-	-	10 491	10 491
Increase in subordinated deposits		400	400	420	420
(Decrease) in subordinated deposits		(17 607)	(12 873)	(3 311)	(3 311)
Net cash generated from (used in) financing activities		**(17 207)**	**(12 473)**	**7 600**	**7 600**
Net increase/(decrease) in cash and cash equivalents		**(63 901)**	**(69 421)**	**13 127**	**23 626**
Cash and cash equivalents at the beginning of the period		254 245	232 949	241 166	223 095
Cash equivalent decrease from discountinued operations		(24 580)	-	(1 097)	-
Effect of exchange changes on cash and cash equivalents		18 931	20 880	1 049	(13 772)
Cash and cash equivalents at the end of the period	38	**184 695**	**184 408**	**254 245**	**232 949**

The accompanying notes on pages 24 to 127 form an integral part of these consolidated and separate financial statements.

The consolidated and separate financial statements on pages 17 to 127 were approved by the Supervisory Council and Management Board on 08 June 2018:

Chairman of the Supervisory Council
G.Guselnikov

Chairman of the Management Board
O.R.Bramwell

1. GENERAL INFORMATION

“Norvik Banka” (“the Bank”) is a joint stock company incorporated in the Republic of Latvia acting in accordance with Latvian legislation and License No. 30 issued by the Bank of Latvia on 27 April 1992.
The legal address of JSC “Norvik Banka” is 15-2 Elizabetes Street, Riga, LV-1010 Latvia.
The Bank on 31 December has 54 customers servicing centers and a representative office in the United Kingdom (on 31 December 2016 63 customers servicing centers). The main banking operations are local and international money transfers, the issuance of loans, securities operations and foreign currency transactions.

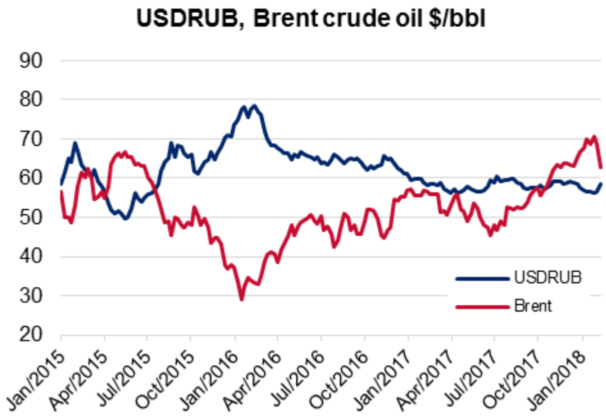
In accordance with the Commercial Law of the Republic of Latvia the shareholders' meeting has the right and obligation to make decisions on approval of the annual financial statements.
Group publishes Information Disclosure report prepared in accordance with the Regulation (EU) Nr. 575/2013 of the European Parliament and of the Council requirements on Bank’s web page www.norvik.eu.
These financial statements were prepared based on the going concern assumption.

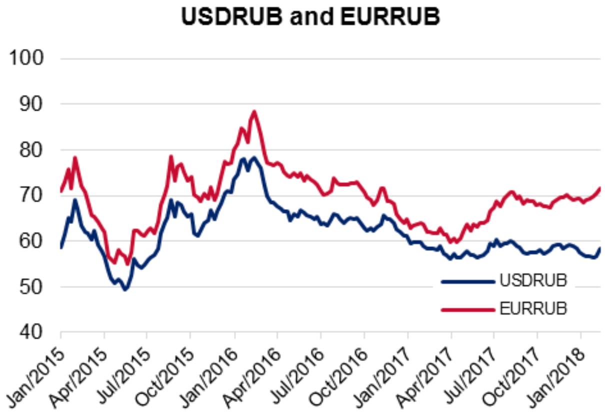
2. OPERATING ENVIRONMENT OF THE GROUP

Exposure to the Russian Federation

Real GDP growth stood at 1.5% YoY in 2017 after the decline of 0.2% YoY in 2016. It was projected that real GDP growth will exceed 2.0%, but the dynamics for the year was worsened by weak data at the end of the year. In the fourth quarter, the industrial sector showed negative dynamics. The decline in industrial production was 1.7% YoY, while the manufacturing sector fell by 2.2%. The decrease in industrial production was due to a reduction in spending on defence. December was a bad month for some industries. The biggest decline was recorded in machinery-producing industry — 8.7% YoY.
Support for the Russian economy throughout the entire year 2017 was provided by consistently high prices for Brent crude oil, which exceeded the level of $70/bbl at the end of the year. OPEC, with the active participation of Russia, extended the agreement to curb production until March 2018, which had a positive impact on oil prices. As a result, Brent crude oil rose by 17.7% last year.
The combination of factors such as limited consumer demand, strengthened ruble and lower prices for food imports led to a rapid decline in inflation in 2017. Annual inflation reached a record low, and by the end of 2017 stood at 2.5% YoY. This trend of low inflation coupled with a decrease in inflation expectations were the main factors for reducing the key rate from 10.00% to 7.75% by the end of 2017, and by additional 25 bps to 7.50% in February this year. At the same time, it is expected that Bank of Russia will continue to maintain a moderately tight monetary policy with the potential of a gradual reduction of rates to 6.5-7.0% by 2020, with annual inflation and inflation expectations staying around 4.0%.
In 2017, the ruble appreciated against the dollar by 5.9%, while declined against the euro by 7.1%. Such movement of the Russian currency to the dollar and euro reflects the overall trends of the dollar and the euro in last year. USD/RUB rate is holding the range 56.0-61.0. The medium-term trend is still bearish. For the most part of the past year, the ruble remained in the sidelines to the single European currency in the range of 67.0-71.0. By the end of last year and early 2018, the ruble rate consolidated at the upper level of this range. Thanks to rising oil prices, which traditionally provided substantial support to the ruble, Russia's gold and foreign exchange reserves have substantially increased. In 2017, reserves rose from $390 billion to $432 billion.
In general, the prospects for the Russian economy and financial assets in 2018 are mixed. Among the positive factors is the continuing acceleration of global growth, which is fuelling the growth in

demand for raw materials. Negative influence is exerted by the risks of destabilization of the world financial system amid tightening of monetary policy by the world’s central banks, as well as possible uncertainty in the oil market after the OPEC deal is expired.





As of 31 December 2017 the Group has material assets that are not related to the primary banking operations (non-core assets), held primarily in closed investment fund Nākotnes Īpašumu Fonds in the amount of 132 388 thousand euro (as of 31 December 2016 was 151 591 thousand euro). These assets are held as available for sale investments and include also assets of Russian origin (See below).

The following section discloses the Group’s operations in the Russian Federation (RF) and full related exposure, both core and non-core.
At the end of 2017 an agreement was concluded about sale of the majority ownership of ПАО "Норвик Банк” (Russia). The transaction was effected within the framework of the measures for reducing of the exposure to the assets of the Russian Federation and was co-ordinated with the Financial and Capital Market Commission of the Republic of Latvia and RF Central Bank. The transaction was finalised in February 2018 and resulted in the Bank selling 85% of the shares of the subsidiary bank and losing control over it. The Bank kept 15% of the shares to be transferred to the new owner over the course of 5 years. As a result of the transaction, a substantial loss was recognised in the balance sheet of the Bank/Group due to re-measurement of the asset to its sale value (see note 21). It has to be noted that the sale of the asset improved considerably the Tier 1 capital adequacy ratio of the Group (8.78%). Also the impact of RF geopolitical risks on the Bank decreased. Sale of the asset will allow, among other things, to reduce significantly large exposures.
In 2017 the Bank retained a major part of assets of Russian origin, in particular:

1) closed investment fund Nākotnes Īpašumu Fonds including assets located in Russia with book value of 24 332 thousand euro (as of 31 December 2016 was 29 178 thousand euro).

2) loans and accounts receivable granted to Russian developers of commercial real estate with the total net exposure of 84 million as of 31 December 2017 and 95.2 million euro as of 31 December 2016, including hotels, operating in several major Russian cities:

	31.12.2017 EUR'000	31.12.2016 EUR'000
Moscow and Moscow region	37 406	43 724
Perm	7 086	7 690
Kirov	16 568	17 737
Yekaterinburg	16 614	18 840
Tomsk	6 490	7 211
Total net exposure	**84 164**	**95 202**

The amount of the Group’s and the Bank’s deposits of which the end holders are residents of Russia are respectively 24.4 million euro and 24.4 million euro or approximately 3.97% (decrease due to sale of the investment in subsidiary) and 3.68% of the entire deposit base as of 31 December 2017. As of 31 December 2016 the Group’s and the Bank’s deposits of which the end holders are residents of Russia were respectively 199.7 and 36.2 million euro or approximately 25.3% and 5.0% of the entire deposit base.

The following asset is included in the total exposure to the Russian Federation - an unfinished construction of the hotel “Hilton Mozhaisk Borodino Hotel & Spa”. It is a five-star resort SPA hotel with 160 rooms located 100 km away from the Moscow Automobile Ring Road in an environmentally pristine district of the localities near Moscow spread over 9 hectares. At the Bank level, the respective balance is reflected in the “Loans to and receivables from clients” in the amount of 7.5 million euro and in the “Available for sale financial assets” in the amount of 12.2 million euro. At the Group level, it is reflected in the “Investment property” section in the amount of 20 million euro in value terms. At the moment, the hotel is not commissioned for occupation. The Bank is looking for outside investors needed to accomplish the final works and commission the hotel for occupation.
As noted earlier, the management of the Bank/Group has decided to reduce the loan investments in the Russian assets. Currently selling of the assets and refinancing of the loans are in the process. Refinancing of a part of the Russian loans will allow, among other things, to reduce significantly large exposures.

Sensitivity analysis

As of 31 December 2017 the Bank’s balance sheet position “Loans to and receivables from customers” includes a net exposure of 44.3 million euro to **wind energy industry** (2016: 45.0).

The Group’s management has assessed the recoverable amount of the loan on the basis of the enterprise value determined by an independent valuation expert. The key assumptions used in this valuation are as follows:

Pre-tax discount rate for existing wind park – 6.41% (2016: 7.46%);

Pre-tax discount rate for developing wind park – 8.49% (2016: 8.22%);

Electricity sales price* – 110 EUR/MWh.

But if Pre-tax discount rate increased by 1% - for existing wind park to 7.41% and for developing wind park to 9.49%, the enterprise value would decrease from 46.48 to 42.06 million euro. This would lead to increase of provisions for loans by 2.23 million euro; (2016: if Pre-tax discount rate increased by 1% - for existing wind park to 8.46% and for developing wind park to 9.22%, the enterprise value would decrease from 45 to 38.5 million euro. This would lead to increase of provisions for loans by 6.5 million euro).

If Pre-tax discount rate decreased by 1 % - for existing wind park to 5.41% and for developing wind park to 7.49%, the enterprise value would increase from 46.48 to 51.59 million euro. This would allow to reverse the provisions for loans by 3.32 million euro; (2016: If Pre-tax discount rate decreased by 1 % - for existing wind park to 6.46% and for developing wind park to 7.22%, the enterprise value would increase from 45 to 52.2 million euro. This would allow to reverse the provisions for loans by 7.2 million euro).

As of 31 December 2017 the Bank's and the Group's balance sheet position "Loans to and receivables from customers" includes a gross exposure of 58.8 million euro and "Available-for-sale financial assets" in amount 12.4 million euro to **hotel operations** in Russia (2016: in "Loans to and receivables from customers" 56.8 million euro and "Available-for-sale financial assets" 14.9 million euro). The Group's management has assessed the recoverable amount of these exposures on the basis of the valuations of independent valuation experts. The key assumptions used in this valuation are as follows:

ADR (Average Daily Rate) per room – from EUR 54 to EUR 122 (2016: from EUR 76 to EUR 260);

Occupancy rate – from 40% to 72.6% (2016: from 50% to 71%);

Discount rate – from 14.15% to 16.17% (2016: 17.8% to 21.7%), multiplier rate – 4.21% (2016: capitalization rate – 13.3%).

If ADR (Average Daily Rate) changed by 5%, the collateral valuations would change by 5 million euro. If ADR decreased, this might further lead to the increase of provisions for loans by 4.9 million euro (2016: if ADR (Average Daily Rate) changed by 5%, the collateral valuations would change by 8.5 million euro. If ADR decreased, this might further lead to the increase of provisions for loans by 3.9 million euro). But if ADR increased, this might further lead to the reversal of provisions for loans by 3.7 million euro (2016: But if ADR increased, this might further lead to the reversal of provisions for loans by 4.5 million euro).

As of 31 December 2017 the Bank's and the Group's balance sheet position "Loans to and receivables from customers" includes a gross exposure of 64.9 million euro to **commercial property** in Russia (2016: 53.1 million euro). The Group's management has assessed the recoverable amount of these exposures on the basis of the valuations of independent experts. The key assumptions used in these valuations are as follows:

Annual Rent rate per sq. m. – from EUR 71 to EUR 473 (2016: from EUR 150 to EUR 552);

Sale price per sq. m. – from EUR 510 to EUR 4 444 (2016: from EUR 2 300 to EUR 5 310);

Discount rate – from 13.2% to 15.49% (2016: from 15.3% to 17.3%); capitalization rate - from 10.0% to 12.0% (2016: from 7.0% to 13.0%).

If Annual Rent rate per sq. m. and Sale price per sq. m would decreased by 5%, the collateral valuations would be change by 2.1 million euro. If Annual Rent rate per sq. m. increase, this might lead to the collateral valuations increase by 2.5 million euro (2016: if Annual Rent rate per sq. m. and Sale price per sq. m are changed by 5%, the collateral valuations would be changed by 2.2 million euro).

If Annual Rent rate per sq. m and Sale price per sq. m decreased by 5%, this would lead to the increase of provisions for loans by 0.74 million euro (2016: if Annual Rent rate per sq. m and Sale price per sq. m decreased, this might further lead to the increase of provisions for loans by 0.09 million euro). If the Annual Rent rate per sq. m and Sale price per sq. m increased by 5%, this might further lead to the reversal of provisions for loans by 0.72 million euro (2016: the Annual Rent rate per sq. m and Sale price per sq. m increased, this might further lead to the reversal of provisions for loans by 2.9 million euro).

* *Electricity sales price will not be changed until 2021.*

Fluctuation of the Russian ruble might have an impact on the Bank’s and the Group’s total amount of the provisions to “Loans to and receivables from customers”.

As of 31 December 2017 the Bank’s and the Group’s balance sheet position “Loans to and receivables from customers” relating to hotel operations, commercial property and other loans includes a gross exposure of 137.5 million euro to **loans in Russia** and “Available-for-sale financial assets” in amount 12.4 million euro (2016: “Loans to and receivables from customers” 139.9 million euro and 14.9 million euro in “Available-for-sale financial assets”).

The weakening of the Russian ruble exchange rate by 10% would lead to the following increase of the provisions for loans as follows:

- hotel operations by 3.57 million euro;
- commercial property by 1.45 million euro;

The strengthening of the Russian ruble exchange rate by 10% would lead to reverse of the provisions for loans as follows:

- hotel operations – by 3,9 million euro
- commercial property by 3.6 million euro.

In 2016:

The weakening of the Russian rouble exchange rate by 15% would lead to the following increase of the provisions for loans as follows:

- hotel operations by 4.4 million euro;
- commercial property by 2.8 million euro;
- other real estate by 1.0 million euro;
- Processing business by 0.6 million euro.

The strengthening of the Russian rouble exchange rate by 15% would lead to reverse of the provisions for loans as follows:

- hotel operations by 4.7 million euro;
- commercial property by 5.7 million euro.

3. SIGNIFICANT ACCOUNTING PRINCIPLES

Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of tangible fixed assets (Class Land and building), investment properties, available-for-sale financial assets (including investment of subsidiaries) and financial instruments categorised at fair value through profit or loss. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. Accounting policies applied in the year 2016 are consistent with those followed in the preparation of the Group`s and the Bank`s annual financial statements for the year ended 31 December 2017.

The following new and amended IFRS and interpretations as adopted by EU became effective in 2017, but had no significant impact on the operations of the Group and the Bank and these financial statements:

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

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

Certain new standards and interpretations have been published that become effective for the accounting periods beginning on 1 January 2018 or later periods or are not yet endorsed by the EU:

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

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

IFRS 15 “Revenue from Contracts with Customers” (effective for annual periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. IFRS 15 implementation will have no impact on next year's financial statements.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Plan Amendment, Curtailment or Settlement - Amendments to IAS 19 (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).The amendments specify how to determine pension expenses when changes to a defined benefit pension plan occur. When a change to a plan—an amendment, curtailment or settlement—takes place, IAS 19 requires to remeasure net defined benefit liability or asset. The amendments require to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. Before the amendments, IAS 19 did not specify how to determine these expenses for the period after the change to the plan. By requiring the use of updated assumptions, the amendments are expected to provide useful information to users of financial statements.

The Group and the Bank has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Group and the Bank anticipates that the adoption of all other standards, revisions and interpretations will have no material impact on the financial statements of the Group and the Bank in the period of initial application, except for IFRS 9.

Management of the Bank has carried out assessment of implementation of IFRS 9 and has recognised respective capital correction as at 1 January 2018. As a result, additional provisions for expected credit losses of financial assets were recognised in the amount of 1 246 thousand euro for the Bank/the Group:

Bank/Group, EUR'000	Measurement category		Carrying value per IAS 39	Effect		Carrying value per IFRS 9
	IAS 39	IFRS 9	(closing balance 31 December 2017)	ECL	Reclassifi-cation	(opening balance 1 January 2018)
Cash and cash equivalents	L&R	AC	**14 938**	**-**	-	**14 938**
Mandatory cash balances with the Central Bank	L&R	AC	**117 039**	**(6)**	-	**117 033**
Investments in debt securities	AFS	FVOCI	128 616	(251)	-	128 365
Investments in debt securities	HTM	AC	16 705	-	-	16 705
Total investments in debt securities			**145 321**	**(251)**	-	**145 070**
Investments in equity securities	AFS	FVOCI	190 623	-	-	190 623
Total investments in equity securities			**190 623**	**-**	-	**190 623**
Due from other banks	L&R	AC	**53 755**	**(176)**	-	**53 579**
Loans and advances to customers	L&R	AC	215 938	(813)	-	215 125
Total loans and advances to customers			**215 938**	**(813)**	-	**215 125**
Other financial assets	L&R	AC	1 777	-	-	1 777
Total other financial assets			**1 777**	-	-	**1 777**
Total financial assets			**739 391**	**(1 246)**	-	**738 145**

where:

- L&R - Loans to and receivables from customers,
- AFS – Available for sale financial assets,
- HTM – Held to maturity financial assets,
- AC – Assets measured at amortized cost
- FVOCI - Assets measured at fair value through other comprehensive income.

Basis of Consolidation

In accordance with IFRS 10 “Consolidated financial statements” and the requirements of FCMC the Bank has prepared consolidated financial statements for the Group and separate financial statements of the Bank.

In the separate financial statements the Bank has recognized investments in subsidiaries share capital at fair value and classified them in Available for sale balance sheet line.
Subsidiaries are those investees that the Group controls because the Group:

- has the power to direct relevant activities of the investees that significantly affect their returns,
- has exposure, or rights, to variable returns from its involvement with the investees,
- has the ability to use its power over the investees to affect the amount of investor’s returns.

Subsidiaries are consolidated from the date on which control is transferred to the Group, and are deconsolidated from the date on which control ceases.
Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group’s policies.

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets on a transaction by fair value.

Goodwill. Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill, and are not larger than an operating segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the disposed operation, generally measured on the basis of the relative values of the disposed operation and the portion of the cash-generating unit which is retained.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Bank. Non-controlling interest forms a separate component of the Group’s equity.

The Bank and following companies make up a group of entities controlled either directly by the Bank or through Bank’s investment funds (“the Group”) and are consolidated in Group financial statements:

Norvik Group 31.12.2017							
Name	Holding company name	Accumulated equity interest (%), 31.12.2017	Accumulated equity interest (%), 31.12.2016	Country	Address	Economic sector	Registration number
NORVIK LIQUIDATION UNIVERSAL CREDIT ORGANISATION CJSC	AS Norvik Banka	100	100	AM	Yerevan, 12 Saryan str., Armenia	Financial service activities	NR. 14
NORVIK APDROŠINĀŠANAS BROKERIS SIA	AS Norvik Banka	100	100	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Insurance brokerage services	40003950355
NORVIK BANKA UK LIMITED	AS Norvik Banka	100	100	GB	London, 46/48 Grosvenor Gardens, 1st floor , SW1W 0EB, United Kingdom	Financial service activities	8940522
NORVIK IEGULDĪJUMU PĀRVALDES SABIEDRĪBA AS	Norvik Banka UK Limited	100	100	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Financial service activities	40003411599
ПАО Норвик Банк	AS Norvik Banka	97.75	97.75	RU	610000, г. Киров (обл.), Преображенская, дом 4.,Россия	Financial service activities	1024300004739
SPORT LEASING SIA	AS Norvik Banka	100	100	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Financial service activities	40203018685
COLEUM INC LIMITED	AS Norvik Banka	100	0	CY	Cyprus, Nicos, Lamprou Katsoni,27,Irini Court 1ST Floor, Flat/Office 102	Financial service activities	HE 372093
NORVIK IPS AS SIF NĀKOTNES ĪPAŠUMU FONDS	AS Norvik Banka	100	100	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Financial service activities	40003411599
MAGNUM ESTATE SIA	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	100	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Real estate activities	40103295514
Пресес Намс Балтия ООО	Magnum Estate SIA	99.9	99.9	RU	Псковская обл, г.Великие Луки, наб.Лейтенанта Шмидта, д.1, к.1, 182113	Printing and reproduction of recorded media	1107746214245
Пресес Намс Балтия ООО	Magnum Estate SIA	99	99	BY	Минск, Логойский тракт, дом 22А, помещение 171, офис 3	Printing and reproduction of recorded media	192241788
PALETES SIA	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	100	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Real estate activities	40003370229
OSTAS 1 SIA	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	100	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Real estate activities	40003934350
LAT ESTATE SIA	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	100	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Real estate activities	40103214388
LANORA SIA	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	100	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Real estate activities	40103214316

Name	Holding company name	Accumulated equity interest (%), 31.12.2017	Accumulated equity interest (%), 31.12.2016	Country	Address	Economic sector	Registration number
PILNSKALNA 911 SIA	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	100	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Real estate activities	40103667035
PNB PRINT SIA	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	100	LV	Silakrogs Ropažu nov. LV2133, Jāņsili	Printing and reproduction of recorded media	40103219845
KRASTA SIA	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	100	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Real estate activities	40103669801
BALTIJAS NAFTAS GRUPA SIA	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	100	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Real estate activities	50103484321
VISALIA SIA	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	100	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Administrative and support service activities	40103220115
ACTON SIA	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	100	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Real estate activities	40103220030
CITY ESTATES SIA	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	100	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Real estate activities	40103219898
RELOCATION SIA	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	100	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Real estate activities	40103220079
SOLUM ESTATE SIA	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	100	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Real estate activities	40103295641
MERKURS RIGANTE PLUSS SIA	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	100	LV	Rīga, Zemaišu 3 , LV-1002	Administrative and support service activities	40103283110
EKO FORUMS PLUSS SIA	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	100	LV	Rīga, Gardenes iela 11, LV-1002	Real estate activities	40003884083
ALFA TIMBER SIA	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	100	LV	Rīga, Daugavgrīvas šoseja 8, LV-1016	Manufacture of wood and of products of wood and cork, except furniture	50103384551
NBT AGRO SIA	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	100	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Administrative and support service activities	40103692121
NBT AGRO2 SIA	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	100	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Administrative and support service activities	40103217168
NBT ENERGY SIA	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	100	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Electricity, gas, steam and air conditioning supply	40103680940

Name	Holding company name	Accumulated equity interest (%), 31.12.2017	Accumulated equity interest (%), 31.12.2016	Country	Address	Economic sector	Registration number
NBT1 ENERGY SIA	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	100	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Electricity, gas, steam and air conditioning supply	40103688179
NBT3 ENERGY SIA	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	100	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Electricity, gas, steam and air conditioning supply	40103696477
A5 & M3 SIA	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	100	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Real estate activities	40103713508
IKSOV CJSC	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	100	AM	Yerevan, 375010, Tpagrihner 9 Kentron, Armenia	Financial service activities	286.120.05894
LAN LTD	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	100	AM	Yerevan, Zaqiyan 10/25, Kentron, Armenia	Real estate activities	286.110.06690
Cecily Holdings Limited	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	100	CY	2, Sophouli Str., 8th floor, 1096 Nicosia	Financial service activities	HE 275512
Landowner OOO	Cecily Holdings Limited	100	100	RU	Московская область, Можайский район, Борисовский с.о., дер. Заречье	Accommodation and food service activities	1057747139306
UKU INVESTMENTS SIA	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	100	LV	Rīga, E.Birznieka-Upīša 20A-25, LV-1050	Real estate activities	40103551673
WINERGY SIA	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	100	LV	Rīga, E.Birznieka-Upīša 20A-25, LV-1050	Electricity, gas, steam and air conditioning supply	40103194486
TRUST HOLDING SIA	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	100	LV	Rīga, E.Birznieka-Upīša 20A-25, LV-1050	Real estate activities	40003769469
NORWIND SIA	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	100	LV	Rīga, E.Birznieka-Upīša 20A-8, LV-1050	Electricity, gas, steam and air conditioning supply	40103966460
EYESURF LIMITED	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	100	CY	Cyprus, Limassol, Agiou Andreou,332 Patrician CH, 3035	Financial service activities	HE 343592
Орион ООО	EYESURF LIMITED	99.9999975	99.9999975	RU	г.Москва, ул.Шаболовка д.10, 1190049	Real estate activities	5077746753497
MADORA SIA *	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	0	0	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Real estate activities	40103214354
DAYS SIA*	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	0	0	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Real estate activities	50103219851

Name	Holding company name	Accumulated equity interest (%), 31.12.2017	Accumulated equity interest (%), 31.12.2016	Country	Address	Economic sector	Registration number
SERENITY SIA*	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	0	0	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Real estate activities	40103296045
LANATA SIA *	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	0	0	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Real estate activities	40103214284
SEASTONE SIA	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	0	100	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Manufacture of chemicals and chemical products	40103679763
WIND ONE OU	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	liquidated	*	EE	Tartu, MNT 7-7, Estonia, 10145	Financial service activities	12023503
ACCOUNTING LAB SIA	Norvik Ieguldījumu Pārvaldes Sabiedrība AS	liquidated	100	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Professional, scientific and tehchnical activities	40103259956
NORVIK EURASIA AIF AS	AS Norvik Banka	liquidated	100	LV	Rīga, Elizabetes 15-1, LV-1010	Financial service activities	40103934446
OLERINIA LIMITED	AS Norvik Banka	liquidated	100	CY	Limassol, Agiou Andreou, 332 Patrician chambers, Lemesos,3035	Financial service activities	HE329149
ALLURINE LIMITED	AS Norvik Banka	liquidated	100	CY	Limassol, Agiou Andreou, 332 Patrician chambers, Lemesos,3035	Financial service activities	HE329342
HOMELINK SIA	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	liquidated	100	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Real estate activities	40103220172

* Companies were included in the Bank’s consolidation group as the Bank controls the entity in accordance with IFRS 10 paragraph 6.

Financial assets and liabilities

Financial assets and liabilities held for trading

Financial assets and liabilities held for trading are those that have been acquired or have arisen mainly for the purpose of earning a profit from short-term price fluctuations. These include trading debt securities, equity instruments. Trading securities are initially recorded in the balance sheet at fair value. Subsequently these securities are recorded at their fair value based on quoted market price. Any realized and unrealized profit or loss is recorded in the income statement as net profit or loss from trading securities. Interest earned by the Group from held for trading securities is recognized as interest income. Dividends received are recorded as dividend income. The Group recognizes purchase or sale of trading securities using settlement date accounting.

Derivatives recorded at fair value through profit or loss

Derivative financial instruments are accounted for on a trade date basis and are initially measured at fair value and at subsequent reporting dates also at fair value. Fair values are obtained from quoted market prices, and/or discounted cash flow models. The Group and the Bank operates with derivative financial instruments such as future currency agreements (forwards), currency exchange agreements (swaps) and options. All derivatives are carried as assets if their fair value is positive and as liabilities if their fair value is negative. Fair value of derivative transactions is included in the balance sheet as "Derivatives financial instruments". Changes in the fair value of derivatives are included in the income statement in "Net trading income" on a daily basis.

Day 1 Profit/Loss

In the event that the transaction price differs from the fair value of a financial asset or financial liability measured at fair value, the difference between these values (profit or loss) is reported in profit or loss.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets not classified as loans and receivables, held-to-maturity financial assets or financial assets at fair value through profit and loss. Available-for-sale financial assets include certain bonds, investments in funds, investments in jointly controlled entities and investments in subsidiaries.

Available-for-sale financial assets are initially recorded at their fair value (including expenses on purchase of the assets). The Group recognizes purchase or sale of available-for-sale financial assets using settlement date accounting. Subsequently assets are measured at their fair value based on quoted market prices where available. If financial assets are not quoted in an active market their fair value is measured using alternative methods (for example, prices of similar investments, net asset value calculation, or valuation performed by a certified valuator).

Available-for-sale assets for which the market price is not quoted and which fair value is not possible to measure by using other previously mentioned alternative methods are initially recorded at their fair value and subsequently measured at cost less allowance for impairment when appropriate.

Unrealized gains or losses on available-for-sale financial assets are recognized directly in other comprehensive income except for impairment losses and foreign currency exchange gains and losses arising from monetary assets until the financial asset are derecognized at which time the cumulative gain or loss previously recognized in equity is recognized in the income statement.

Loans and receivables to banks and to customers

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

Loans are measured at amortized cost using the effective interest rate method. The amortized cost of a loan is the amount at which the loan is measured at initial recognition minus principal repayments plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and minus any reduction (through the use of an allowance account) for impairment or uncollectibility (Note 20).

Finance lease

A finance lease is a lease that transfers substantially all the risks and rewards incident to ownership to the lessee at the inception of the lease. Receivables arising from finance lease are recognized as loans granted to clients. Received lease payments less principal amount are recognized as interest income based on a pattern reflecting a constant periodic return on the net investment.

Reverse repurchase agreements

Securities purchases under agreements to resell at a specified future date ("reverse repo") are not recognized on the balance sheet. The corresponding cash paid including accrued interest is recognized on the balance sheet as a Loans to and receivables from customers. The difference between the purchase and resale price is treated as interest income and is accrued over the life of the agreement using the effective interest rate method.

Financial liabilities measured at amortized cost

Included in balance sheets as "Due to banks", "Customer deposits", "Subordinated debt securities" and "Subordinated debt" are financial liabilities measured at amortized cost.

After initial measurement these financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate. The amortization is included in "Interest and similar expense" in the income statement.

Derecognition of financial assets and financial liabilities

A financial asset is derecognized where:

- the right to receive cash flows from the assets has expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a `pass-through` arrangement; and
- either (a) the Group has transferred substantially all the risks and rewards of the assets or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the assets.

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expired.

Offsetting

Financial assets and liabilities may be offset and the net amount is reported in the statement of financial position when the Bank or Group has a legally enforceable right to set off the recognized amounts and the transactions are intended to be reported in the statement of financial position on a net basis.

The Bank and Group does not offset any financial assets and financial liabilities.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and for all overdue loans regardless of the balance of the outstanding principal. Assets that are individually assessed for impairment are not included in the collective assessment of impairment.

If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred the amount of the loss is measured as the difference between the asset's carrying value and the present value of expected future cash flows discounted at the financial instrument’s original effective interest rate.

For the measurement of collective impairment the Group assumes that all contractual cash flows will be received and recognizes impairment losses based on historical loss experience which is adjusted on the basis of currently available data.

Allowances are assessed collectively on portfolios with similar features - credit cards portfolio and unsecured consumer loans portfolio. The main criterion for assessment is settlement discipline and the calculation of necessary allowances on portfolio is based on experience and previous period’s statistics.

The carrying amount of the asset is reduced through the use of an allowance and the increase/decrease in the amount of the impairment loss is recognized in the income statement. If any loan and receivable cannot be recovered they are written off from the balance sheet accounts and charged against allowance for credit losses.

Inventory

Raw materials, materials and goods for sale in the financial report are assessed using a FIFO method. The inventory is presented on the balance sheet at the lower of the two values: at the net realisable value or the cost. The cost covers the costs of basic materials, as well as direct labour costs and other costs which have occurred when bringing the inventory to its present location and condition. The net sale value is a sale value from which estimated completion costs and the required sale costs are deducted.

Inventory is recorded following the method of continued inventory records. If required, the value of obsolete, low-turnover or damaged inventory is derecognised or provisions are made in the amount set by the management.

Investment property

The Group holds real estate (land and buildings) as an investment property with the purpose to earn rental income or for value appreciation, including properties that is being constructed or developed for future use as investment property. Initially investment property is measured at cost.

The fair value model of accounting is used for subsequent measurement of investment property. Fair value of investment property reflects market conditions at the balance sheet date. See Note 25 for more detailed information with respect to the Group’s investment property. Gains or losses arising from changes in the fair value of investment property are included in the income statement in “Changes in fair value of investment property” in the period in which they arise.

Intangible (except for goodwill) and tangible fixed assets

All fixed tangible and intangible assets except for goodwill and real estate (class Land and building) are accounted at their cost less accumulated depreciation and amortization. Depreciation and amortization is calculated on a straight-line basis using the following depreciation and amortization rates:

Intangible assets:	*Annual charge*
Licenses	20%
Software	20%
Tangible fixed assets:	
Buildings	3%
Other	7%-33%

Intangible assets with finite lives are amortized over the useful life. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each (financial) year-end. The depreciation and amortization expense on tangible fixed and intangible assets with finite lives is recognized in the income statement line “Depreciation and amortization”.

To avoid significant differences between book value and fair value of its real estate the Bank carries its land and buildings at revalued amounts, with the exception of buildings that belong to class of tangible assets "historically significant buildings" which fair value is difficult to determine due to their uniqueness, therefore they are accounted for at amortized cost. Revaluations are performed with sufficient regularity. Fair value is determined based on valuator reports done by independent certified valuators. The increase of building value as the result of revaluation is recognized in equity and included in the comprehensive income report. If such increases cancel previous revaluation decreases then it is recognized in the statement of profit or loss. The decrease of a building’s fair value that appeared during revaluation is recognized in the statement of profit or loss except where such a decrease cancels a previous revaluation increase that is shown in equity (and included in the comprehensive income report), in that case the decrease is recognized in equity and included in the other comprehensive income report. After building revaluation the Bank depreciates its value in accordance with Bank’s depreciation rates.

Assets held for sale and Discontinued Operations

Assets held for sale relate to foreclosed properties and equipment held for sale. These assets are carried at the lower of their carrying amount and fair value less costs to sell. The changes in the asset value are recorded in the profit or loss statement.

Discontinued Operation relate to a subsidiary that is excluded from the Group by sale in 2018. These assets are carried at fair value less costs to sell (see Note 28). Earnings and cash flows of discontinued operations, if any, are disclosed separately from continuing operations with comparatives being re-presented.

Interest and fee income and expense recognition

Interest current income and expenses are recognized in the income statement on an accrual basis of accounting using the effective interest rate method. Interest income and expense include the amortization of any difference (discount premium or other) between the initial carrying amount of the interest-bearing financial asset or liability and its maturity amount calculated on an effective interest rate (including deals with negative interest rate) foundation. Negative interest on the financial assets is recognized within interest expense.

Interest income includes coupons earned on bonds and other fixed income securities.

Fee and commission income and expense consist of fees and commissions received/paid by the Bank for providing financial services other than those related to the origination of a financial asset or liability, which form a part of the effective interest income/expense. Fees and commissions arise on financial services provided by the Bank, including payment services, brokerage services, investment advice and financial planning, investment banking services and asset management services. Fee and commission income is recognized when the corresponding service is provided or completed.

Recognition of revenue and expenses (Goods sold and services provided)

Revenue is recognised in the income statement (Income statement line “Other operating income”) upon the transfer of the risks and rewards of ownership to the buyer.

Revenue from the services provided is recognised in the income statement in proportion to the stage of completion of a transaction at the balance sheet date. The stage of completion of a transaction is being evaluated based on the costs of the work performed.

The revenue is formed by the value of the services provided and the goods sold which is established at the fair value of the received or receivable payment. The revenue amount is assessed by subtracting the awarded discounts and the sale-related taxes.

Revenue from the sale of goods is recognised if the following conditions are fulfilled:

- the company has transferred to the buyer significant risks and payments related to the ownership rights;
- the company does not retain neither the right to further management which is normally related to the ownership right, nor the actual control over the goods sold;
- the revenue amount can be reliably measured;
- it is probable that the company will obtain the economic benefits related to the transaction, and
- costs which have occurred or will occur in relation to the transaction can be reliably measured.

The revenue is not recognised if there are any doubts regarding the coverage of the service costs or the return of the goods.
The expenses are presented in the period to which they relate irrespective of the date when the payment is made (Income statement line “Other operating expense”).

Cash and cash equivalents

Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Cash and cash equivalents include balances on nostro accounts with other banks, interbank deposits with original maturities of less than three months. Funds restricted for a period of more than three months as of the moment of origination thereof are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

The cash flow statement reflects an analysis of the cash flow from operating investing and financing activities for the period. Cash flows from operating activities are presented using the indirect method. Cash flows from investing and financing activities are presented based on gross receipts and payments made during the reporting period.

Taxes

Corporate current income tax is calculated in conformity with the tax legislation of subsidiaries’ operating countries. Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is not recognised on post-acquisition retained earnings and other post acquisition movements in reserves of subsidiaries where the Group controls the subsidiary's dividend policy, and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

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

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

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event it is probable that the Group will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation its carrying amount is the present value of those cash flows.

The Group creates provisions for guarantees issued and other off balance sheet items based on individual review of off balance sheet items. The management uses its judgement and estimates as the probability of an outflow of economic resources and makes assessment of the value of security and collateral held and the amounts and timings of such outflows and recoveries if any.

Other liabilities

Other payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortized cost.

Foreign currency translation

Transactions and balances

Euro is the functional currency of the Bank and the entities based in the Latvia. Rouble is the functional currency of the entities based in Russia. The presentation currency of these financial statements is the Euro.

Transactions in foreign currencies (i.e. other than functional currency) are translated to the functional currency using the foreign exchange rate promulgated by the official European Central Bank and ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the closing foreign exchange rate ruling at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction. Foreign exchange differences arising on translation are recognised in profit or loss as "Profit/loss from revaluation of open position net".

All realized gains and losses are recorded in the income statement in the period in which they arise. Unrealized gains and losses at reporting dates are credited or charged to the income statement.

Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates in which case income and expenses are translated at the dates of the transactions);
- All resulting exchange differences are recognized as a separate component of equity *"Revaluation reserve of foreign currency translations".*

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to other comprehensive income.

The foreign currency exchange rates for the principal currencies that were used as of the end of the period were as follows:

	31 December 2017	**31 December 2016**
USD/ EUR	1.1993	1.0541
RUB/EUR	69.392	64.30

4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The presentation of consolidated financial statements in conformity with IFRS as adopted by the EU requires the entity to make estimates and assumptions that affect the recognized amounts for assets liabilities and disclosure of contingent assets and liabilities as of the date of balance sheet date as well as recognized income and expenses for the reporting period. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates may significantly differ from related actual results.

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

The most significant judgments and estimates representing most probable sources of uncertainty existing in current financial and economical market are presented below:

Going concern considerations

The Group and the Bank finished 2017 with a net loss of EUR 47,748 thousand and EUR 43,914 thousand respectively. The primary reasons for the loss is provisions for impairment of loans to and receivables from customers (Group and Bank) and available for sale financial assets (Bank only) and the reduction in value of investment properties (Group only).

As at 31 December 2017 the Group's and the Bank's Tier 1 capital ratio was 6.46% and 9.15%, respectively and the Group's and the Bank's total capital ratio was 10.41% and 14.724%, respectively. Thus, as at the year end the Group and the Bank did not meet minimum required Tier 1 capital ratio set by the FCMC of 10.788% and 11.125%, respectively, and the minimum total capital ratio set by the FCMC of 13.55% was not met at the Group level. The capital ratios improved after the sale of the subsidiary in February 2018 and new requirements were set by FCMC for the Group after the year end, i.e., Tier 1 capital ratio of 8.29% by 30 April 2018 and 10.79% by 30 September 2018. As at 30 April 2018 the Group's and the Bank's Tier 1 capital ratio was 8.78% and 9.78%, respectively, and the Group's and the Bank's total capital ratio was 13.76% and 14.72%, respectively. Thus, as at the date of issue of these financial statements the Group and the Bank fulfilled the Tier 1 and total capital ratio requirements. Please see also Note 6 "Capital adequacy and further considerations" and Note 41 "Capital adequacy calculation".

The Group and the Bank were also in breach of the large risk exposures limits as at the year end.
The Bank is taking the measures to ensure compliance with the set limits for the Tier 1 and total capital ratio and reducing large risk exposures:

The Bank's management continues taking measures to prepare one of its large risk exposures, SIA Winergy, for sale and searching for potential investors. Currently, a group of interested investors has been identified and they continue reviewing the technical documentation (see Note 6 for more detail).
The Bank's management continues to work on the further reduction of its Russian credit exposures. Thus, the refinancing or sale of these will have a positive influence on the Group's and the Bank's capital adequacy ratio (see Note 6 for more detail). This is expected to be completed partially or in full by the end of September 2018.

The Bank continues to prepare its prospectus for the issuance of the Bank's perpetual bonds. The perpetual bonds would be used to increase the Bank's Tier 1 capital (see Note 6 for more detail).
To further strengthen the Bank's capital, the management also considers the possibility of merging with another credit institution in Latvia.

In light of the recent events in Latvia concerning non-resident clients, and the regulatory uncertainty concerning the non-resident business, the following iterates a few points concerning the Bank's business model and strategic plans.

The Bank, since mid-2017, has been under a regulatory Settlement Agreement (Agreement) concerning anti-money laundering (AML), and as part of this Agreement has had to submit its client portfolio, Bank processes and procedures to numerous, independent AML audits. These were concerning specific client definitions (Shell Company), the risk-scoring decision engine used by the Bank, and a more general, USA/BSA follow-up audit to the work conducted by Navigant Consulting, Inc in 2016. Big-4 audit firms have conducted all three of these audits. Further to this, the Agreement defined multiple requirements for the business model of the Bank, most specifically concerning the proportion of Shell Company credit turnover in the total Bank portfolio. This figure is currently at approximately 60% and the Agreement requests a reduction in this proportion to less than 20% over a four-year period. The impact of this reduction had been taken into consideration when strategically planning the activities and expected balance sheet and income from the International Business. The Shell Company definition is as per the November 2017 updated AML regulation, and covers those firms which are a)not evidencing their day-to-day business activities to the Bank, b) based in a jurisdiction not requiring annual financial reports, and c) having a business address in a different jurisdiction to the legal address.

Given the market turmoil following the release of the FinCEN report on 13th February 2018 concerning ABLV Bank, as well as the expected reduction in available USD clearing banks in the nearest time, and the public remarks of both the Financial and Capital Markets Commission (FCMC) and Minister of Finance concerning non-resident clients and Shell Companies, we expected to see further strict requirements from the regulator. On 9 May 2018 changes to the Law on the Prevention of Money Laundering and Terrorism Financing came into force prohibiting the financial institutions to maintain business relationship or execute any transactions with the Shell Companies who meets the definition described in points a) and b) of the previous paragraph.

Irrespective of this, the management of the Bank were already working on a more aggressive plan to reduce the proportion of Shell Companies in the client portfolio - work that had already been started in 2017 will continue in a much more accelerated manner.

On 5 April 2018 the Bank submitted to FCMC its revised operating strategy, determining that the Bank will focus on its Latvian Business segment, a lower-risk category of non-resident clients, and continue its work in reducing its large risk exposure to support the Tier 1 capital ratio at the Group level.

The impact of this, combined with an expected reduction in USD clearing facilities has now been taken into account in our re-budgeted 2018 financial plan, and we would anticipate a EUR 5.2 million reduction in income from that originally planned, with a potential reduction in non-resident liabilities of a further EUR 59m or 24%. Future income / liabilities would then be expected to stabilise in 2019 and onwards. The requirements for de-risking that are expected to come into force in 2018 will be met, as they have been met before, with additional turbulence in the market, but we have a highly experienced customer service team, a well-qualified AML department and expect that this turbulence, aside from the aforementioned impact to the P&L, will be limited.

In terms of new business, or ways to counter the regulatory pressure envisaged, the Bank since 2016 has been working on a move away from a transit-based customer service model to an investment-based customer service model - what this means is that we are looking to service high-wealth individuals (from the Forbes 500 for example), with their holding companies and core assets, and supporting their M&A requirements and transactions as a Bank. This model has been highly successful in the US, UK and other key markets, and even with limited size we have seen the results of this over the last two years. There will be a sharp reduction in the number of customers, but a significant improvement in AML-quality (de-risking), and more focused income streams.

The Bank, in mid-2017 hired a senior team from the local market segment to support the growth of our Latvian Banking business line - the Bank has the largest retail network in the country (63 sales points) and more than 100,000 Latvian, resident clients that we service online and offline. The goal from the start of the re-launch of this business line was to double the portfolio of clients and hence income stream within a three-year period. In light of the above, the team have now been tasked with accelerating this, which will ensure that the negativity from the International Business line can be absorbed over a 2-3 year period of time.

The Bank's ability to continue as a going concern is substantially dependent on resolving compliance with the prudential ratios (capital adequacy ratios and large risk exposures limits) and execution of the Recovery Plan in the set time limits, as well as their ability to implement the revised strategy as described above. The Group's and the Bank's financial statements are prepared on the going concern basis and do not include any adjustments, including valuation of assets and liabilities, that may be required if the going concern assumption would not be applicable.

As part of the regular (at least annual) stress testing under the internal capital adequacy assessment process (ICAAP) framework, as well as under the new internal liquidity adequacy assessment process (ILAAP) framework, stress testing of the liquidity of the Bank portfolio is conducted. In both the severe short term and mild medium-term testing cases the Bank is able to liquidate short and medium term assets such as securities and overnight financial collateral to ensure depositor payments. This has been demonstrated following the market turbulence from mid-February 2018 and the Bank has further stress-tested the liquidity ratios in the 5 April 2018 presentation to the FCMC. In the longer-term if necessary the management of the Bank are confident that additional assets could be liquidated through early repayment or sale of loans, though potentially at a discount to book value depending on the market situation.

Based on the above, the management of the Bank conclude that it is appropriate to prepare the financial statements on the going concern principle. However, a material uncertainty still exists that may cast significant doubt about the Bank's ability to continue as a Going Concern. This is due to the number of measures regarding prudential ratios the Bank has to take in a very short period of time and its ability to implement the Bank's revised strategy in the short and medium term which in turn depends on the Bank being able to reduce its exposures to non-core assets and adjust its business model (liquidation of transactions with shell companies, etc.) in the short term, and ensure it earns sufficient profit from its core banking activities.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recognized on the balance sheet cannot be obtained from active markets, fair value is determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible a degree of judgment is required in establishing fair values depending on liquidity concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. See Note 40.
The Banks/Group's management believes that the fair value of the assets and liabilities presented in these financial statements is measured reliably.

Allowances for impairment losses on loans and receivables

The Group reviews its loan portfolios at each reporting date to assess whether an allowance for impairment should be recognized in the income statement and for which amount. Based on best knowledge about current situation, management makes a particular judgment about financial position of counterparty, realization value of underlined collateral and estimation of net present value of expected future cash flows, when determining the amount of allowance required.

In addition to specific allowances for individually significant loans and receivables, the Group also creates a collective impairment allowance for exposures, which although not specifically identified as requiring a specific allowance have a greater risk of default than when originally granted (credit card and consumer loans). Collective impairment allowances reflect historical data of respective markets as well as specific features of financial investment for which allowances estimations are made (see Note 2 *Sensitivity analysis*).

Fair value of investment property and tangible fixed assets (class Land and building)

Valuation of investment properties and tangible fixed assets (class Land and building) using income capitalisation method. Investment property and tangible fixed assets (class Land and building) are stated at its fair value based on reports prepared by an international valuation company at the end of each reporting period.

For these properties, the valuation was based principally on discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The principal assumptions underlying the estimation of the fair value are those relating to: the receipt of contractual rentals; expected future market rentals; void periods; maintenance requirements; and appropriate discount rates. These valuations are regularly compared to actual market yield data and actual transactions by the Group, and those reported by the market.

5. LEGAL PROCEEDINGS

(a)

3 961 thousand USD (equivalent to 3 638 thousand euro) were arrested on the Bank’s account opened with Deutsche Bank Trust Company Americas (as noted earlier in the Management Reports included in the Annual Reports for years 2014, 2015, 2016).
On 14 November 2017 the claimant company GOLDEN HORN SHIPPING and Bank concluded an amicable settlement whereby the Bank disbursed to the company GOLDEN HORN SHIPPING a compensation amounting to 120 thousand US dollars. On 17 November 2017 judge Otken of the U.S. District Court Southern District of New York revoked the arrest imposed on the funds of Norvik Banka held with Deutsche Bank. The ruling of the court has been executed.

(b)

The company Parmas Corporation LLC has filed a claim with the Court of Arbitration of St.Petersburg regarding recovery of the loan debt of 3 391 thousand euro from the borrower SIA L-Serviss. The company Parmas Corporation LLC substantiates the claim rights with assignment agreement dated 29 October 2012 whereby Norvik Malta Sicav Plc. has transferred its claim rights towards SIA L-Serviss to the company Parmas Corporation LLC. The decision dated 29 December 2017 passed by the Court of Arbitration of St.Petersburg satisfied fully the claim of the company Parmas Corporation LLC. The ruling of the court has not entered into force yet, since the respondent SIA L-Serviss submitted an appeal. The liquidator of Norvik Malta Sicav Plc has filed a claim with London Court of International Arbitration (LCIA) against the company Parmas Corporation LLC seeking annulment of the assignment agreement.
The Bank believes that provisions for this legal case are not necessary.

(c)

In March 2017, SIA Winergy business partner has filed a claim with the court of arbitration against SIA Winergy for recovery of penalty in the amount of 250 thousand euro. According to the judgement of the court of arbitration as of 5 June 2017, the penalty in the amount of 250 thousand euro was recovered from SIA Winergy in favour of the plaintiff as well as arbitration proceedings related expenses in the amount of 19.6 thousand euro, thus the total amount is 269.6 thousand euro. SIA Winergy considers the judgment to be completely groundless and will object to issuing of an order of enforcement for enforcing the judgment. As to the date of drafting the report, the plaintiff has not applied to the court for issue of the order of enforcement regards enforcement of the judgement of the court of arbitrations. In respect of the aforementioned arbitration case SIA Winergy, considering the agreement on the arbitration clause and the amendments regarding the penalty invalid, has filed the claim against the business partner for holding the arbitration court agreement and amendments to the contract invalid. The court has initiated civil proceedings regards the submitted claim, the hearing of which is scheduled for September 2018.

The Ministry of Environment Protection and Regional Development (VARAM) filed a claim with the Administrative court against SIA Winergy on performance of the concluded agreement, accuracy of the execution thereof and imposing an obligation towards SIA Winergy to repay the received funding in the amount of 2 134 thousand euro. By the judgement of the District Administrative Court the VARAM claim was sustained and SIA Winergy was imposed an obligation to repay VARAM the received funding in the amount of 2 134 thousand euro. SIA Winergy has submitted a cassation appeal on the aforementioned judgment to the Department of Administrative Cases of the Supreme Court. The cassation appeal has not been considered as of the date of drafting the report. In respect of the receipt of the aforementioned funding there is a criminal case filed in court against the former officials of SIA Winergy. Within the criminal case VARAM has filed a claim for material compensation in the amount of recoverable funding and, in accordance with the decisions of the process handler, the freezing order towards SIA Winergy funds in the amount of 1 343 thousand euro has been applied.
The Bank believes that provisions for this legal case are not necessary.

6. CAPITAL ADEQUACY AND FURTHERS PLANS

In 2017, the Bank presented the Financial and Capital Market Commission with an updated plan for strengthening of the Bank's/ Group's capital. The plan foresaw several scenarios. The core measures of the plan were as follows:

- the measures for reducing requirements to subjects in the Russian Federation;
- the sale of the Group's asset (SIA Winergy) that runs power generation and sales business;
- the issue of the Bank's perpetual bonds that can be converted into Tier 1 capital;
- conversion of subordinated deposits;
- attraction of new investors.

A positive event in the year 2016 was the entry of SIA Winergy into the Group as a result of the capital investments from a minority shareholder. Within the period from the moment the asset entered the Group until late 2017, the principal amount of the energy sector's credits of 6 million EUR was reimbursed and the interest income of 1.7 million EUR was paid. Earlier the Bank's management informed about its plans for the asset and, in line with its decision, in 2017, it took measures directed at preparing the asset for sale and searching for a potential investor. Currently, a circle of interested investors took shape, who continue to audit the technical documentation, implement the technical check of the asset, and audit the financial reporting of the company. The Bank's management plans to realise the asset in 2018. The asset's realization will have a material influence on the Bank's/ Group's balance and will provide an opportunity to considerably reduce the encumbrance over the risk-generating assets and increase the capital adequacy ratio of the Bank/ Group.

A considerable part of the Bank's/Group's exposure is concentrated on the territory of the Russian Federation. The intense volatility of the Russian Rouble, observed over the recent years, had a material influence on the Bank's/Group's financial indicators in the previous periods. Earlier the Bank's management took a decision to reduce these exposures. One of the underlying objectives of 2017 was the refinancing of the credits issued on the real estate located in Russia, as well as the sale of the Group's assets located in Russia. In 2018, the Bank sold one of the assets, namely, its shares in "ПАО Норвик Банк". According to Share Purchase Agreement 85% of the total shares previously owned by the Bank was transferred to the buyer in February 2018, remaining 15% will be transferred within a period of 5 years. As a result of the sale the Bank lost control over "ПАО Норвик Банк" and it was removed from the Group. Receivable over the remaining 15% of the shares will be classified under the “Loans and Receivables”. The sale of this asset had an impact on the Bank’s/the Group’s capital adequacy ratio (see Note 41). The Bank’s management continues to work on the further reduction of the credit debt into the Russian exposure. Thus, the refinancing or sale will help to mitigate the risks arising from a slump of the exchange rate and, therefore, will have a positive influence on the Bank’s/Group’s capital adequacy ratio.

Currently, the Bank continues to prepare the prospectus for the issue of the Bank’s perpetual bonds. According to the prospectus, it is recommended to use the perpetual bonds to increase the Bank’s/ Group’s Tier 1 capital. The goal of the issue of each series of Bonds is to attract funds, which the Issuer will use without limits to finance its core activity, including to:

- improve the term structure of assets and liabilities;
- attract funds to additionally increase the Issuer’s Tier 1 capital and to support the amount of liquidity necessary for the Issuer’s activity.

The Bank continues to use the subordinated capital – in 2017 the book value of the subordinated deposits and subordinated bonds reduced from 74.5 million euro to 58.4 million euro.

According to Basel III standard, the use of Tier 2 capital with a view to the respective capital for the purposes of determining limits of exposures is limited to 1/3 of Tier 1 capital in 2017 and in 2018. Currently, the Bank has no plans to increase the Tier 2 capital, but as part of capital strengthening, it intends to reduce the subordinated deposits gradually.

Same as before, in 2017 the Bank carried out successful operations related to investments and trade of securities. As a result, the total income from this operation in 2017 amounted to 5 million EUR.

Over the year 2017, one of the underlying objectives was the realisation of the taken over assets. Part of the assets was sold. The value of the assets sold in 2017 amounted to 5 million EUR. The Bank sold 1 (one) company (on instalments) and 6 real estate objects.

Over the past year, the Bank continued to introduce changes in the Bank’s activity – in summer 2017, the Bank made every effort to develop the Bank’s Latvian banking, paying special attention to the financial needs of seniors. The Bank sees that this group of clients is not paid enough attention on the banking market and, thus, lacks financial services adjusted to their needs. The clients of the segment highly value the Bank’s opportunity to provide its services in the widest branch network in Latvia. The Bank began its cooperation with Latvia Pensioners’ Federation and launched seniors’ employment programme.

The Bank has reviewed the processes and the efficiency, as well as 2017 summer has considerably reinforced our management team, namely, a new member – Laura Poča-Rozenblūma has joined the team and currently manages the Bank’s Latvian banking sector and occupies the position of the Bank’s board member. Laura has vast experience of working in the financial sector. Previously, she worked at such banks as *Swedbank* and *Nordea*. Alongside, our team has welcomed many other leading specialists, mainly from Scandinavian banks’ area.

In 2018, the Bank plans to adhere to the previously accepted strategy as regards the corporate and retail lending, i.e. to assume a conservative position as to the credit risk management.

The Bank’s total capital adequacy ratio (Note 41) at the end of 2017 was 14.24% (the Group’s capital adequacy ratio was 10.41%). After the sale of the Bank’s subsidiary, the capital adequacy ratio amounted to 14.72% for the Bank and 13.76% for the Group.

The Bank continues to work to attract investors and, thus, increase the shareholders’ capital, which is the main element of the Tier 1 capital that lays the groundwork for business development. Additional Tier 1 capital will provide an opportunity to gain additional income.

To strengthen the capital, the Bank’s management consider a possibility of merging with another credit institution in Latvia.

7. RISK MANAGEMENT

Risk is an integral part of the Group’s activities and it is managed through a process of ongoing identification, assessment and monitoring. The process of risk management is essential for the Group’s continuing profitability. Each separate structural unit of the Group is responsible for risk exposures related to their responsibilities. The Group’s activity is subject to the following main types of risks: liquidity risk, credit risk, market risk and operational risk. The risk monitoring function at the Group and the Bank’s level is separated from the business structures. The system of risk limits established at the Group and the Bank’s level includes all of the aforementioned types of risk.

Risk management structure

The Management Board is ultimately responsible for identification and control of risks.

Supervisory Council

The Supervisory Council reviews and approves risk management policies.

Management Board

The Management Board is responsible for the overall risk management approach, for the establishment of risk management principles and structure, as well as for the approval of methodologies and procedures to ensure implementation of risk management policies. The Management Board sets limits on open currency positions and restrictions on large exposures.

Assets and Liabilities Committee

The Assets and Liabilities Committee is responsible for the monitoring of asset and liability management and sets limits on counterparties within the limits and restrictions set by the Board. The Committee sets funding and deposit pricing, manages liquidity, foreign exchange risk and interest rate risk.

Credit Committees

The Credit Committees (2 Committees in JSC “Norvik Banka”, Latvia, and 4 Committees in ПАО “Норвик Банк” (the entity is excluded from the consolidation at the reporting preparations date) are responsible for the approval of an exposure within their competence and the analysis of quality of the loan portfolio.

Non-Profile Asset Management Committee

The Non-Profile Assets Management Committee is responsible for the matters related to the Bank’s repossessed assets (for example, real estate, commercial property, etc).

Chief Risk Officer

The Chief Risk Officer performs overall risk control functions, supervises the risk management system and coordinates the activity of the Bank’s units involved in risk management.

Risk Management Department

The Risk Management Department is responsible for the establishment of the risk management system: identification and assessment of risks inherent in the Bank’s activity; preparation and submission of risk reports. This unit also ensures the development of the Internal Capital Adequacy Assessment Process (ICAAP).

Resource Management Department

The Resource Management Department is responsible for liquidity management and cash management.

Capital Markets Department

The Capital Markets Department is responsible for the foreign currency exchange business, foreign currency exchange operations, brokerage business and for the management of the Bank's securities portfolios.

Internal Audit Department

The Internal Audit Department audits risk management processes annually and examines both the adequacy of policies and procedures and the compliance with the internal and external requirements. The Internal Audit discusses the results of inspections with the management and submits reports on inspection results with necessary recommendations to the Supervisory Council and the Management Board and the related units. The Internal Audit performs follow-up engagements to check whether recommendations are followed and implemented.

To ensure control and management over financial risks, the Management Board and the Supervisory Council of the Group has an approved Credit Policy, Investment policy, Financial Risks Management and Control Policy, Liquidity and liquidity risk management Policy with regard to such significant risks as liquidity risk, credit risk and market risk, as well as other documents that regulate the financial risk management system created by the Group.

LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet the payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn or paid. This may result in the failure to meet obligations to repay depositors and fulfil commitments to lend.

To limit this risk, the Bank as the Group's liquidity manager places its assets so as to ensure settlement of their creditors' legal claims at any time (liquidity), arranges diversified funding sources in extent appropriate to current market condition in addition to its core deposit base and monitors future cash flows and liquidity on a daily basis.

Liquidity risk management and control are based on asset and liability term analysis, incoming and outgoing cash flow analysis, internal limit regulations regarding the net liquidity position, effective usage of liquidity surplus, liquidity regulation for the remaining free resources, etc.

The Bank maintains marketable securities portfolio which can be liquidated or pledged in unforeseen situations. Additionally, the Bank maintains an obligatory reserve deposit with the Central Bank of Latvia.

The Liquidity and liquidity risk Management Policy accepted by the Supervisory Council determines liquidity risk control and management according to which the Management Board of the Bank and the Assets and Liabilities Committee set the general liquidity risk management criteria by regulating the volumes, terms and directions of the Group's activities. The Resource Department manages liquidity on a daily basis ensuring execution of intra-day payment obligations, calculates the liquidity buffer, manages liquidity portfolio to ensure long-term liquidity positions and to maintain the Bank's ability to meet all obligations under stressful scenario as well as submits reports to the management, The Resource Department performs liquidity stress testing and submits stress testing results to the Board and the Supervisory Council. The Risk Management Department measures and monitors the liquidity risk.

The Bank monitors and ensures the liquidity ratio set by the Financial and Capital Market Commission: the Bank maintains liquid assets that are sufficient for settling liabilities in the amount of no less than 50% of the total current liabilities of the Bank (liquidity ratio).

Liquidity ratio is calculated as liquid assets divided by all liabilities with the remaining contractual maturity of 30 days or less. Liquid assets for the purpose of the calculation are cash, balances due from the Bank of Latvia and solvent credit institutions placed on demand and for up to 30 days, and investments in securities that can be sold in short time or pledged to obtain a loan. Current liabilities are on-demand liabilities and liabilities with a residual maturity of no more than 30 days.

The liquidity ratio during the year was as follows:

	2017	**2016**
	%	**%**
31 December	61.33	59.45
Average during the period	62.23	61.46
Highest	68.20	66.58
Lowest	57.76	57.44

MATURITY ANALYSIS OF ASSETS AND LIABILITIES

To ensure long-term liquidity, the Bank evaluates and plans the term structure of its assets and liabilities on a regular basis.

The Group's experience shows that demand deposit balance is a stable source of funding, so, despite the fact that holders have a right to get the demand deposits at any time without any penalties, deposits with an original "on demand" maturity are shown in the liabilities maturity analysis by maturity breakdown, which corresponds to the Group and the Bank’s historical experience about the actual holding period of these deposits. According to the Group's experience, the breakdown of demand deposits by their maturity does not exceed 5 years.

The table below presents the maturity structure of the Group’s assets, liabilities and off-balance sheet liabilities based on their contractual maturity, except for demand deposits the breakdown of the maturity of which corresponds to the Group's historical experience related to the actual term of holding of such deposits.

Group As at 31 December 2017	Up to 1 month EUR'000	From 1 to 3 months EUR'000	From 3 to 6 months EUR'000	From 6 months to 1 year EUR'000	From 1 to 5 years EUR'000	From 5 years and over EUR'000	No stated matutiry EUR'000	Total EUR'000
Financial assets								
Cash and balances with the central bank	131 978	-	-	-	-	-	-	**131 978**
Loans to and receivables from banks	52 973	-	-	-	-	-	1 068	**54 041**
Derivatives financial instruments	351	33	-	-	-	-	-	**384**
Loans to and receivables from customers	11 961	1 915	5 196	21 702	60 539	51 525	19 742	**172 580**
Available-for-sale financial assets	128 616	-	-	-	5 102	8 841		**142 559**
Held-to-maturity financial assets	-	-	-	-	-	-	16 705	**16 705**
Other assets	764	-	-	-	-	-	2 346	**3 110**
Non-financial assets								
Prepaid corporate income tax	110	-	-	-	-	-	-	**110**
Investment property	-	-	-	-	-	-	67 086	**67 086**
Tangible fixed assets	-	-	-	-	-	-	93 214	**93 214**
Goodwill	-	-	-	-	-	-	407	**407**
Intangible assets	-	-	-	-	-	-	6 325	**6 325**
Assets held for sale	-	-	-	1 143	-	-	-	**1 143**
Assets held for sale (subsidiary)	-	205 037	-	-	-	-	-	**205 037**
Other assets	11 163	329	2 097	806	6 091	4	2 950	**23 440**
Total assets	**337 916**	**207 314**	**7 293**	**23 651**	**71 732**	**60 370**	**209 843**	**918 119**
Financial liabilities								
Due to the central bank and other banks	475	-	-	-	-	-	1 584	**2 059**
Derivatives financial instruments	1 132	67	-	-	-	-	-	**1 199**
Customer deposits	166 199	27 838	54 410	94 548	270 139	228	106	**613 468**
Subordinated deposits	-	615	100	549	15 064	4 981		**21 309**
Subordinated debt securities	-	-	-	-	37 096	-	-	**37 096**
Other liabilities	721	-	-	-	3 538	-	2	**4 261**
Non-financial liabilities								
Deferred tax liabilities	-	-	-	-	-	-	117	**117**
Liabilities related to assets held for sale	-	172 343	-	-	-	-	-	**172 343**
Other liabilities	9 151	990	45	1 390	1 490	886	-	**13 952**
Total liabilities	**177 678**	**201 853**	**54 555**	**96 487**	**327 327**	**6 095**	**1 809**	**865 804**
Off-balance sheet items	3 181	-	-	-	-	-	-	**3 181**
Net liquidity (total assets - total liabilities - off-balance sheet items)	**157 057**	**5 461**	**(47 262)**	**(72 836)**	**(255 595)**	**54 275**	**208 034**	
Cumulative liquidity	**157 057**	**162 518**	**115 256**	**42 420**	**(213 175)**	**(158 900)**	**49 134**	

Group As at 31 December 2016	Up to 1 month EUR’000	From 1 to 3 months EUR’000	From 3 to 6 months EUR’000	From 6 months to 1 year EUR’000	From 1 to 5 years EUR’000	From 5 years and over EUR’000	No stated matutiry EUR’000	Total EUR’000
Financial assets								
Cash and balances with the central bank	214 554	-	-	-	-	-	-	**214 554**
Loans to and receivables from banks	39 691	-	-	-	-	-	2 804	**42 495**
Trading financial assets	9 336	16 344	11 155	10 712	48 646	352	-	**96 545**
Derivatives financial instruments	794	25	-	-	-	-	-	**819**
Loans to and receivables from customers	26 608	28 582	18 352	41 894	59 449	79 730	19 856	**274 471**
Available-for-sale financial assets	89 040	-	-	-	7 288	3 051	-	**99 379**
Held-to-maturity financial assets	-	-	-	-	492	-	18 991	**19 483**
Other assets	542	99	15	410	-	-	4 515	**5 581**
Non-financial assets								
Prepaid corporate income tax	127	-	-	-	225	-	-	**352**
Investment property	-	-	-	-	-	-	92 577	**92 577**
Tangible fixed assets	-	-	-	-	-	-	110 945	**110 945**
Goodwill	-	-	-	-	-	-	10 265	**10 265**
Intangible assets	-	-	-	-	-	-	5 975	**5 975**
Assets held for sale	-	-	-	5 756	-	-	-	**5 756**
Other assets	17 316	443	1 224	395	2 590	604	97	**22 669**
Total assets	**398 008**	**45 493**	**30 746**	**59 167**	**118 690**	**83 737**	**266 025**	**1 001 866**
Financial liabilities								
Due to the central bank and other banks	7 359	-	-	-	2	-	2	**7 363**
Derivatives financial instruments	313	5	-	-	-	-	-	**318**
Customer deposits	152 279	67 290	95 349	136 809	334 126	241	2 065	**788 159**
Subordinated deposits	-	1 769	-	11 198	16 862	11 015	-	**40 844**
Subordinated debt securities	-	-	-	-	25 494	13 355	-	**38 849**
Other liabilities	7 894	-	-	40	-	-	228	**8 162**
Non-financial liabilities								
Deferred tax liabilities	-	-	-	-	-	-	3 463	**3 463**
Other liabilities	7 819	139	907	1 892	594	1 166	-	**12 517**
Total liabilities	**175 664**	**69 203**	**96 256**	**149 939**	**377 078**	**25 777**	**5 758**	**899 675**
Off-balance sheet items	26 757	-	-	-	-	-	-	**26 757**
Net liquidity (total assets - total liabilities - off-balance sheet items)	**195 587**	**(23 710)**	**(65 510)**	**(90 772)**	**(258 388)**	**57 960**	**260 267**	
Cumulative liquidity	**195 587**	**171 877**	**106 367**	**15 595**	**(242 793)**	**(184 833)**	**75 434**	

Bank **As at 31 December 2017**	**Up to 1 month EUR'000**	**From 1 to 3 months EUR'000**	**From 3 to 6 months EUR'000**	**From 6 months to 1 year EUR'000**	**From 1 to 5 years EUR'000**	**From 5 years and over EUR'000**	**No stated matutiry EUR'000**	**Total EUR'000**
Financial assets								
Cash and balance with the central bank	131 977	-	-	-	-	-	-	**131 977**
Loans to and receivables from banks	52 687	-	-	-	-	-	1 068	**53 755**
Derivative financial instruments	351	33	-	-	-	-	-	**384**
Loans to and receivables from customers	11 242	1 910	5 192	29 235	66 456	79 876	19 742	**213 653**
Available-for-sale financial assets	128 616	31 814	-	-	5 102	152 717	-	**318 249**
Held to maturity financial assets	-	-	-	-	-	-	16 705	**16 705**
Other assets	773	-	-	-	-	-	1 004	**1 777**
Non-financial assets								
Investment property	-	-	-	-	-	-	6 150	**6 150**
Tangible fixed assets	-	-	-	-	-	-	37 302	**37 302**
Intangible assets	-	-	-	-	-	-	1 114	**1 114**
Assets held for sale	-	-	-	445	-	-	-	**445**
Other assets	3 180	-	-	-	4 311	-	91	**7 582**
Total assets	**328 826**	**33 757**	**5 192**	**29 680**	**75 869**	**232 593**	**83 176**	**789 093**
Financial liabilities								
Due to the central bank and other banks	478	-	-	-	-	-	1 584	**2 062**
Derivative financial instruments	1 132	67	-	-	-	-	-	**1 199**
Customer deposits	169 853	27 932	54 655	95 389	273 237	228	40 999	**662 293**
Subordinated deposits	-	615	100	549	15 064	4 981	-	**21 309**
Subordinated debt securities	-	-	-	-	37 096	-	-	**37 096**
Other liabilities	721	-	-	-	-	-	2	**723**
Non-financial liabilities								
Deferred tax	-	-	-	-	-	-	-	**-**
Other liabilities	2 688	-	-	812	-	-	-	**3 500**
Total liabilities	**174 872**	**28 614**	**54 755**	**96 750**	**325 397**	**5 209**	**42 585**	**728 182**
Off-balance sheet items	3 181	-	-	-	-	-	-	**3 181**
Net liquidity (total assets - total liabilities - off-balance sheet items)	**150 773**	**5 143**	**(49 563)**	**(67 070)**	**(249 528)**	**227 384**	**40 591**	
Cumulative liquidity	**150 773**	**155 916**	**106 353**	**39 283**	**(210 245)**	**17 139**	**57 730**	

Bank **As at 31 December 2016**	**Up to 1 month EUR'000**	**From 1 to 3 months EUR'000**	**From 3 to 6 months EUR'000**	**From 6 months to 1 year EUR'000**	**From 1 to 5 years EUR'000**	**From 5 years and over EUR'000**	**No stated matutiry EUR'000**	**Total EUR'000**
Financial assets								
Cash and balance with the central bank	200 001	-	-	-	-	-	-	**200 001**
Loans to and receivables from banks	32 948	-	-	-	-	-	2 766	**35 714**
Derivative financial instruments	738	25	-	-	-	-	-	**763**
Loans to and receivables from customers	21 060	18 760	2 753	32 957	46 518	104 099	15 070	**241 217**
Available-for-sale financial assets	89 040	-	-	-	7 289	236 881	-	**333 210**
Held to maturity financial assets	-	-	-	-	493	-	18 990	**19 483**
Other assets	539	-	-	-	-	-	1 143	**1 682**
Non-financial assets								
Investment property	-	-	-	-	-	-	6 308	**6 308**
Tangible fixed assets	-	-	-	-	-	-	35 532	**35 532**
Intangible assets	-	-	-	-	-	-	948	**948**
Assets held for sale	-	-	-	541	-	-	-	**541**
Other assets	2 681	-	-	-	-	-	96	**2 777**
Total assets	**347 007**	**18 785**	**2 753**	**33 498**	**54 300**	**340 980**	**80 853**	**878 176**
Financial liabilities								
Due to the central bank and other banks	7 363	-	-	-	2	-	2	**7 367**
Derivative financial instruments	313	5	-	-	-	-	-	**318**
Customer deposits	135 993	37 585	56 394	84 562	313 545	241	58 018	**686 338**
Subordinated deposits	-	1 769	-	11 198	16 862	5 827	-	**35 656**
Subordinated debt securities	-	-	-	-	25 494	13 355	-	**38 849**
Other liabilities	1 686	-	-	-	-	-	228	**1 914**
Non-financial liabilities								
Deferred tax	-	-	-	-	-	-	792	**792**
Other liabilities	1 432	-	-	694	-	-	-	**2 126**
Total liabilities	**146 787**	**39 359**	**56 394**	**96 454**	**355 903**	**19 423**	**59 040**	**773 360**
Off-balance sheet items	4 998	-	-	-	-	-	-	**4 998**
Net liquidity (total assets - total liabilities - off-balance sheet items)	**195 222**	**(20 574)**	**(53 641)**	**(62 956)**	**(301 603)**	**321 557**	**21 813**	
Cumulative liquidity	**195 222**	**174 648**	**121 007**	**58 051**	**(243 552)**	**78 005**	**99 818**	

MATURITY ANALYSIS OF FINANCIAL LIABILITIES

The tables below present the maturity structure of the Group and the Bank’s liabilities and off-balance sheet liabilities based on their contractual maturity, except for demand deposits the breakdown of the maturity of which corresponds to the Group and the Bank's historical experience related to the actual term of holding of such deposits.

The liabilities presents undiscounted cash flows based on historical experience:

Financial liabilities **As at 31 December 2017 - Group**	**Up to 1 month EUR’000**	**From 1 to 3 months EUR’000**	**From 3 to 6 months EUR’000**	**From 6 months to 1 year EUR’000**	**From 1 to 5 years EUR’000**	**From 5 years and over EUR’000**	**Total EUR’000**
Due to the central bank and other banks	2 062	-	-	-	-	-	**2 062**
Derivative financial instruments	824	15	-	-	-	-	**839**
- Contractual amounts payable	*291 621*	*12 076*	-	-	-	-	**303 697**
- Contractual amounts receivable	*(290 797)*	*(12 061)*	-	-	-	-	**(302 858)**
Customer deposits	165 922	28 346	54 231	96 138	272 326	98	**617 061**
Subordinated debt	82	815	333	1 011	17 233	5 313	**24 787**
Subordinated debt securities	44	651	11	-	36 390	-	**37 096**
Other financial liabilities	4 261	-	-	-	-	-	**4 261**
Total undiscounted financial liabilities	**173 195**	**29 827**	**54 575**	**97 149**	**325 949**	**5 411**	686 106
Financial guarantees	3 249	-	-	-	-	-	**3 249**
Credit related commitments	3 553	-	-	-	-	-	**3 553**
Total	**6 802**	**-**	**-**	**-**	**-**	**-**	**6 802**

Financial liabilities **As at 31 December 2016 - Group**	**Up to 1 month EUR’000**	**From 1 to 3 months EUR’000**	**From 3 to 6 months EUR’000**	**From 6 months to 1 year EUR’000**	**From 1 to 5 years EUR’000**	**From 5 years and over EUR’000**	**Total EUR’000**
Due to the central bank and other banks	7 374	-	-	-	-	-	**7 374**
Derivative financial instruments	407	(34)	-	-	-	-	**373**
- Contractual amounts payable	*448 018*	*821*	-	-	-	-	**448 839**
- Contractual amounts receivable	*(447 611)*	*(855)*	-	-	-	-	**(448 466)**
Customer deposits	156 291	68 939	97 657	138 166	335 829	975	**797 857**
Subordinated deposits	53	2 178	155	5 600	33 883	25 860	**67 729**
Subordinated debt securities	7	775	11	-	24 756	13 300	**38 849**
Other financial liabilities	8 162	-	-	-	-	-	**8 162**
Total undiscounted financial liabilities	**172 294**	**71 858**	**97 823**	**143 766**	**394 468**	**40 135**	920 344
Financial guarantees	8 957	-	-	-	-	-	**8 957**
Credit related commitments	21 261	-	-	-	-	-	**21 261**
Total	**30 218**	-	-	-	-	-	**30 218**

Financial liabilities As at 31 December 2017 - Bank	Up to 1 month EUR’000	From 1 to 3 months EUR’000	From 3 to 6 months EUR’000	From 6 months to 1 year EUR’000	From 1 to 5 years EUR’000	From 5 years and over EUR’000	Total EUR’000
Due to the central bank and other banks	2 062	-	-	-	-	-	**2 062**
Derivative financial instruments	824	15	-	-	-	-	**839**
- Contractual amounts payable	*291 621*	*12 076*	-	-	-	-	**303 697**
- Contractual amounts receivable	*(290 797)*	*(12 061)*	-	-	-	-	**(302 858)**
Customer deposits	170 331	68 552	55 044	96 429	275 470	98	**665 924**
Subordinated deposits	82	815	333	1 011	17 233	5 313	**24 787**
Subordinated debt securities in issue	44	651	11	-	36 390	-	**37 096**
Other financial liabilities	723	-	-	-	-	-	**723**
Total undiscounted financial liabilities	**174 066**	**70 033**	**55 388**	**97 440**	**329 093**	**5 411**	**731 431**
Financial guarantees	3 249	-	-	-	-	-	**3 249**
Credit related commitments	3 556	-	-	-	-	-	**3 556**
Total	**6 805**	-	-	-	-	-	**6 805**

Financial liabilities As at 31 December 2016 - Bank	Up to 1 month EUR’000	From 1 to 3 months EUR’000	From 3 to 6 months EUR’000	From 6 months to 1 year EUR’000	From 1 to 5 years EUR’000	From 5 years and over EUR’000	Total EUR’000
Due to the central bank and other banks	7 378	-	-	-	-	-	**7 378**
Derivatives financial instruments	407	(34)	-	-	-	-	**373**
- Contractual amounts payable	*448 018*	*821*	-	-	-	-	**448 839**
- Contractual amounts receivable	*(447 611)*	*(855)*	-	-	-	-	**(448 466)**
Customer deposits	137 516	40 408	111 055	85 253	315 220	975	**690 427**
Subordinated deposits	-	2 078	-	5 287	31 393	9 465	**48 223**
Subordinated debt securities	7	775	11	-	24 756	13 300	**38 849**
Other financial liabilities	1 914	-	-	-	-	-	**1 914**
Total undiscounted financial liabilities	**147 222**	**43 227**	**111 066**	**90 540**	**371 369**	**23 740**	**787 164**
Financial guarantees	3 276	-	-	-	-	-	**3 276**
Credit related commitments	5 182	-	-	-	-	-	**5 182**
Total	**8 458**	-	-	-	-	-	**8 458**

The tables below present the maturity profile of the Bank’s and Group’s financial liabilities by the remaining maturities: principal payment and/or interest payments under agreements. The amounts of the liabilities disclosed in the table are the contractual undiscounted cash flows.

The liabilities presents undiscounted cash flows based on contractual maturities:

Financial liabilities **As at 31 December 2017 - Group**	**Up to 1 month EUR’000**	**From 1 to 3 months EUR’000**	**From 3 to 6 months EUR’000**	**From 6 months to 1 year EUR’000**	**From 1 to 5 years EUR’000**	**From 5 years and over EUR’000**	**Total EUR’000**
Due to the central bank and other banks	2 062	-	-	-	-	-	**2 062**
Derivative financial instruments	824	15	-	-	-	-	**839**
- Contractual amounts payable	*291 621*	*12 076*	-	-	-	-	**303 697**
- Contractual amounts receivable	*(290 797)*	*(12 061)*	-	-	-	-	**(302 858)**
Customer deposits	495 803	11 438	20 644	53 109	35 969	98	**617 061**
Subordinated deposits	82	815	333	1 011	17 233	5 313	**24 787**
Subordinated debt securities	44	651	11	-	36 390	-	**37 096**
Other financial liabilities	4 261	-	-	-	-	-	**4 261**
Total undiscounted financial liabilities	**503 076**	**12 919**	**20 988**	**54 120**	**89 592**	**5 411**	686 106
Financial guarantees	3 249	-	-	-	-	-	**3 249**
Credit related commitments	3 553	-	-	-	-	-	**3 553**
Total	**6 802**	-	-	-	-	-	**6 802**

Financial liabilities **As at 31 December 2016 - Group**	**Up to 1 month EUR’000**	**From 1 to 3 months EUR’000**	**From 3 to 6 months EUR’000**	**From 6 months to 1 year EUR’000**	**From 1 to 5 years EUR’000**	**From 5 years and over EUR’000**	**Total EUR’000**
Due to the central bank and other banks	7 374	-	-	-	-	-	**7 374**
Derivative financial instruments	407	(34)	-	-	-	-	**373**
- Contractual amounts payable	*448 018*	*821*	-	-	-	-	**448 839**
- Contractual amounts receivable	*(447 611)*	*(855)*	-	-	-	-	**(448 466)**
Customer deposits	570 781	37 137	57 067	87 144	44 753	975	**797 857**
Subordinated deposits	53	2 178	155	5 600	33 883	25 860	**67 729**
Subordinated debt securities	7	775	11	-	24 756	13 300	**38 849**
Other financial liabilities	8 162	-	-	-	-	-	**8 162**
Total undiscounted financial liabilities	**586 784**	**40 056**	**57 233**	**92 744**	**103 392**	**40 135**	920 344
Financial guarantees	8 957	-	-	-	-	-	**8 957**
Credit related commitments	21 261	-	-	-	-	-	**21 261**
Total	**30 218**	-	-	-	-	-	**30 218**

Financial liabilities As at 31 December 2017 - Bank	Up to 1 month EUR’000	From 1 to 3 months EUR’000	From 3 to 6 months EUR’000	From 6 months to 1 year EUR’000	From 1 to 5 years EUR’000	From 5 years and over EUR’000	Total EUR’000
Due to the central bank and other banks	2 062	-	-	-	-	-	**2 062**
Derivative financial instruments	824	15	-	-	-	-	**839**
- Contractual amounts payable	*291 621*	*12 076*	-	-	-	-	**303 697**
- Contractual amounts receivable	*(290 797)*	*(12 061)*	-	-	-	-	**(302 858)**
Customer deposits	502 340	51 550	21 211	53 109	37 616	98	**665 924**
Subordinated deposits	82	815	333	1 011	17 233	5 313	**24 787**
Subordinated debt securities in issue	44	651	11	-	36 390	-	**37 096**
Other financial liabilities	723	-	-	-	-	-	**723**
Total undiscounted financial liabilities	**506 075**	**53 031**	**21 555**	**54 120**	**91 239**	**5 411**	**731 431**
Financial guarantees	3 249	-	-	-	-	-	**3 249**
Credit related commitments	3 556	-	-	-	-	-	**3 556**
Total	**6 805**	-	-	-	-	-	**6 805**

Financial liabilities As at 31 December 2016 - Bank	Up to 1 month EUR’000	From 1 to 3 months EUR’000	From 3 to 6 months EUR’000	From 6 months to 1 year EUR’000	From 1 to 5 years EUR’000	From 5 years and over EUR’000	Total EUR’000
Due to the central bank and other banks	7 378	-	-	-	-	-	**7 378**
Derivatives financial instruments	407	(34)	-	-	-	-	**373**
- Contractual amounts payable	*448 018*	*821*	-	-	-	-	**448 839**
- Contractual amounts receivable	*(447 611)*	*(855)*	-	-	-	-	**(448 466)**
Customer deposits	522 160	10 896	73 450	38 086	44 860	975	**690 427**
Subordinated deposits	-	2 078	-	5 287	31 393	9 465	**48 223**
Subordinated debt securities	7	775	11	-	24 756	13 300	**38 849**
Other financial liabilities	1 914	-	-	-	-	-	**1 914**
Total undiscounted financial liabilities	**531 866**	**13 715**	**73 461**	**43 373**	**101 009**	**23 740**	**787 164**
Financial guarantees	3 276	-	-	-	-	-	**3 276**
Credit related commitments	5 182	-	-	-	-	-	**5 182**
Total	**8 458**	-	-	-	-	-	**8 458**

CREDIT RISK

Credit risk is a potential risk that the Bank or the Group’s borrower or counterparty will fail or refuse to meet its obligations in accordance with the agreed terms.

Both the Group and the Bank manage the overall credit risk, including country risk, in accordance with the Credit Policy, Investment policy, Financial Risk Management and Control Policy and the Country Risk Management.

The credit risk management practice includes the methods of approval of the credit risk analysis of borrowers, counterparties or issuers, and the regular assessment of the off-balance sheet activities.

When managing credit risk, the Bank ensures adequate risk measurement, assessment and supervision.

The credit risk monitoring system established by the Bank is based on the following key elements:

-1st element – Availability of risk measurement method. The Bank has developed and consistently applies methods for assessing creditworthiness of the borrowers.

-2nd element – Decision making procedure for granting a loan. Decisions on granting a loan are made collectively and the limits of authority are distributed across various levels in accordance with the respective competence levels.

-3rd element – Diversification of the credit portfolio, i.e. establishment of limits and restrictions. Setting limits and restrictions is regarded as a tool for minimization of the credit risk and for elimination of potential losses.

-4th element – Monitoring of compliance with established limits and restrictions.

-5th element – Creation of adequate loan loss provisions to cover losses that might appear in the course of loan transactions. Created provisions are regarded as an instrument that would allow the Bank to cover future expected losses resulting from loan transaction risks, thus protecting the Bank's financial stability from any negative impact.

The Group and the Bank identify and control the credit risk by establishing the acceptable exposure limits for:

- individual borrowers and groups of interrelated counterparties;
- economic sectors;
- different types of exposures;
- types of collateral;
- unsecured loans;
- loans issued in the currency other than borrower's income currency.

Credit risk is managed by the Management Board and the Credit Committees: Retail Credit Committee and Credit Committee of the Bank, Latvia, and Small Credit Committee for Retail, Small Credit Committee for Corporate Business, Credit Committee, Expanded Credit Committee of ПАО "Норвик Банк".

The Management Board approves the bank's internal regulations for implementation of the Credit Policy, considers and accepts new loan exposures to the related parties, approves the measures for mitigating the risk related to the loan portfolio, performs control over the Credit Committees.

The Group has established the following decisions making bodies, which are responsible for the approval of credit limits for individual borrowers:

In AS Norvik Banka, Latvia:

The Retail Credit Committee approves exposure for up to 10 thousand euro, the Credit Committee – for up to 1 million euro. The Credit Committee analyses the quality of the loan portfolio or individual loans and in case of deterioration accepts measures for mitigating the credit risk. The Board and the Council approve the Credit Committee's decisions when the exposure exceeds 1 million euro. The Board approves new loan exposures to the related parties exceeding 50 thousand euro.

In ПАО "Норвик Банк", Russia:

The Small Credit Committees for Retail and for the Corporate Business make decisions on granting loans in the amount of up to RUB 1 million and RUB 5 million respectively, the Credit Committee – of up to RUB 25 million. The loans exceeding RUB 25 million for a borrower or a group of related borrowers are granted by the Expanded Credit Committee of ПАО "Норвик Банк" represented by 2 Board members and the Board Chairman of JSC "Norvik Banka". When the exposure exceeds 5% of ПАО "Норвик Банк" capital, the Credit Committee's decisions are approved by the Board of ПАО "Норвик Банк", while exposures exceeding 10% are approved by the Council of ПАО "Норвик Банк", which for the most part (5 out of 7) consists of JSC "Norvik Banka" management.

The main assessment criterion for possible lending is the creditworthiness of a client. Prior to making a final decision on any new loan exposure, the Bank and the Group must obtain sufficient and reliable information to enable assessment of the risk profile of a borrower or a counterparty.

Loan applications produced by the credit department officer or the relevant relationship managers are passed on to the relevant credit committee for the approval of a credit limit. Loan applications are supported also by the conclusions of the Risk Management Department, Legal Department, Security Department and collateral expert.

The decisions on setting the limits for counterparties and securities issuers are made by the Assets and Liabilities Committee in respect to each type of exposure and maximum maturity. The analysis of counterparties and issuers is performed by the Risk Management Department.

MAXIMUM EXPOSURE TO CREDIT RISK

The amount of the Group's maximum exposure to credit risk (without taking into account of any collateral) is represented by the carrying amount of each category of financial assets in the balance sheet and off-balance sheet items.

	31.12.2017		31.12.2016	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Credit risk exposure relating to on-balance sheet assets	**389 379**	**604 523**	**538 773**	**632 069**
Loans to and receivables from banks	54 041	53 755	42 495	35 714
Trading financial assets	-	-	96 545	-
Derivative financial instruments	384	384	819	763
Loans to and receivables from customers	172 580	213 653	274 471	241 217
Available-for-sale financial assets	142 559	318 249	99 379	333 210
Held-to-maturity financial assets	16 705	16 705	19 483	19 483
Other financial assets	3 110	1 777	5 581	1 682
Credit risk exposure relating to off-balance sheet items	**6 802**	**6 805**	**30 218**	**8 458**
Guarantees	3 249	3 249	8 957	3 276
Credit related commitments	3 553	3 556	21 261	5 182
Maximum exposure	**396 181**	**611 328**	**568 991**	**640 527**

The Group's and Bank's financial assets are held in the following geographical regions according to the customer's legal registration:

At 31 December 2017 – Group	Latvia EUR'000	OECD countries EUR'000	Russia EUR'000	Other countries EUR'000	Total EUR'000
Credit risk exposure relating to on-balance sheet assets	**59 395**	**149 816**	**65 893**	**114 275**	**389 379**
Loans to and receivables from banks	527	39 752	7 103	6 659	**54 041**
Derivative financial instruments	333	19	3	29	**384**
Loans to and receivables from customers	41 672	14 206	41 714	74 988	**172 580**
Available-for-sale financial assets	15 365	77 614	16 989	32 591	**142 559**
Held-to-maturity financial assets	-	16 705	-	-	**16 705**
Other financial assets	1 498	1 520	84	8	**3 110**
Credit risk exposure relating to off-balance sheet items	5 224	974	136	468	**6 802**
Total	**64 619**	**150 790**	**66 029**	**114 743**	**396 181**

At 31 December 2016 – Group	Latvia EUR'000	OECD countries EUR'000	Russia * EUR'000	Other countries EUR'000	Total EUR'000
Credit risk exposure relating to on-balance sheet assets	**49 810**	**94 647**	**269 124**	**125 192**	**538 773**
Loans to and receivables from banks	1 091	22 327	16 898	2 179	**42 495**
Trading financial assets	-	550	95 442	553	**96 545**
Derivative financial instruments	533	88	82	116	**819**
Loans to and receivables from customers	39 265	18 983	131 502	84 721	**274 471**
Available-for-sale financial assets	4 977	31 781	25 073	37 548	**99 379**
Held-to-maturity financial assets	-	19 483	-	-	**19 483**
Other financial assets	3 944	1 435	127	75	**5 581**
Credit risk exposure relating to off-balance sheet items	5 597	141	23 869	611	**30 218**
Total	**55 407**	**94 788**	**292 993**	**125 803**	**568 991**

* includes assets of the ПАО "Норвик Банк".

At 31 December 2017 - Bank	Latvia EUR’000	OECD countries EUR’000	Russia EUR’000	Other countries EUR’000	Total EUR’000
Credit risk exposure relating to on-balance sheet assets	**214 847**	**159 181**	**105 140**	**125 355**	**604 523**
Loans to and receivables from banks	523	39 752	6 996	6 484	**53 755**
Derivative financial instruments	333	19	3	29	**384**
Loans to and receivables from customers	65 669	14 206	49 254	84 524	**213 653**
Available-for-sale financial assets	147 756	87 379	48 803	34 311	**318 249**
Held to maturity financial assets	-	16 705	-	-	**16 705**
Other financial assets	566	1 120	84	7	**1 777**
Credit risk exposure relating to off-balance sheet items	5 227	974	136	468	**6 805**
Total	**220 074**	**160 155**	**105 276**	**125 823**	**611 328**

At 31 December 2016 - Bank	Latvia EUR’000	OECD countries EUR’000	Russia EUR’000	Other countries EUR’000	Total EUR’000
Credit risk exposure relating to on-balance sheet assets	**236 857**	**102 640**	**146 813**	**145 759**	**632 069**
Loans to and receivables from banks	1 091	22 275	10 169	2 179	**35 714**
Derivative financial instruments	533	88	26	116	**763**
Loans to and receivables from customers	63 753	16 893	57 801	102 770	**241 217**
Available-for-sale financial assets	171 432	42 465	78 691	40 622	**333 210**
Held to maturity financial assets	-	19 483	-	-	**19 483**
Other financial assets	48	1 436	126	72	**1 682**
Credit risk exposure relating to off-balance sheet items	5 646	141	2 061	610	**8 458**
Total	**242 503**	**102 781**	**148 874**	**146 369**	**640 527**

An industry sector analysis of the Group’s and Bank’s financial assets before taking into account any collateral held or other credit enhancements is as following:

	31.12.2017		31.12.2016	
	Group EUR’000	Bank EUR’000	Group EUR’000	Bank EUR’000
Credit risk exposure relating to on-balance sheet assets	**389 379**	**604 523**	**538 773**	**632 069**
Financial services	77 248	263 332	111 466	283 627
Banks	88 544	86 916	94 754	112 705
Processing industry	16 125	49 713	82 140	67 354
Governments	127 483	127 483	73 758	60 263
Private individuals	9 357	8 655	33 708	11 027
Trade	4 115	468	20 734	807
Transport	11 942	11 942	19 637	18 328
Building	2 764	2 762	15 956	297
Other	51 801	53 252	86 620	77 661
Credit risk exposure relating to off-balance sheet items	6 802	6 805	30 218	8 458
Total	**396 181**	**611 328**	**568 991**	**640 527**

The additional information about the financial asset types is also presented in Notes 16, 18, 19, 21 and 23.

Collateral and other credit enhancements

Exposure to the credit risk is also managed by obtaining collateral, as well as corporate and personal guarantees. The Group considers collateral as an element mitigating the credit risk. The acceptable types of collateral and the methods of evaluation thereof are established in the Credit Policy and the Procedure for Supervision of the Loans.

The main acceptable types of collateral are the following: real estate mortgage, ship mortgage, commercial pledge of the assets of companies, including fixed assets inventory and accounts receivable.

The management controls the market value of the collateral paying special attention to the real estate property and adjusting the value in accordance with the recent market prices.

The assessment of the real estate property is performed by independent certified valuators. The Bank adjusts the market value made by the valuators if considers that any substantial risk factors were omitted. Such adjusted market value is used in calculations of adequacy of collateral.

According to the requirements of the Bank’s Credit Policy the maximum portion of the loans with a similar type of collateral (excluding real estate) should be limited up to 30% of the loan portfolio (loans without collateral are not taken into consideration). The portion of unsecured exposures should be limited up to 15% of the Credit Portfolio. The Bank considers the unsecured exposures (which mainly are consumer loans, including cards) as a group of loans with the same purpose and similar credit risk that has been analysed, assessed and accepted while implementing the respective loan instrument.

Credit quality of loans and receivables

The Group and the Bank are constantly monitoring the creditworthiness of the borrowers, adequacy of the collateral and measurement of its fair value.

To monitor the loans quality, credit officers produce regular reports based on a structured analysis focusing on the corporate customers’ business and financial performance. Based on the monitoring results the watch list is made and reported to the Credit Committee. The exposure to private individuals is mainly monitored by means of ageing analysis. Any significant exposure to clients with deteriorating creditworthiness is also reviewed by the Management Board.

The Bank classifies the loans on a quarterly basis or every time when it receives the information about substantial deterioration of the quality of any loan. The classification is made to assess the quality and risk grade of the issued loans, indemnity measurement of potential losses and creation of sufficient provisions.

The loan assessment is made by the Credit Committees and the Assets and Liabilities Committee. The committees observe the principles of conservatism and discretion in their assessments and estimations, in order not to decrease the amount of assets and earnings or not to increase the amount of liabilities and costs so that the financial report remains reliable.

The Credit Committee decides on the loan recovery measures or the forbearance (restructuring). The Assets and Liabilities Committee decides on making provisions for impairment.

Special provisions in the financial reports are reflected as a result of deterioration of the loan quality and /or impairment. The amount of losses caused by the impairment is reflected in the Income Statement for the reported period.

The loan portfolio quality is reported to the Management Board and the Supervisory Council regularly.

The determination of impairment indication is based on comparison of the financial instrument’s carrying value and fair value. Due to the volatility on financial and capital markets the market price is not always a reliable source for impairment indication. If available the Group uses valuation models based on quoted market prices of similar products.

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

The detailed information on the provisions made against bad debts is presented in Note 20 “Impairment losses on financial assets”.

Ageing analysis of past due but not impaired loans and receivables to customers

One of the key evidence of potential impairment is past due. The Group monitors and follows up on past due balances.

The tables below represents the Group’s and the Bank’s analysis of past due but not impaired loans, impaired and neither past due nor impaired as at 31 December 2017 and 31 December 2016:

31.12.2017

Group, EUR'000	Mortgage loans	Industrial loans	Commercial loans	Consumer loans	Credit card balances	Reverse Repo transactions	Finance leases	Other	Receivables	**Total**
Neither past due nor impaired, of which:	**33 239**	**17 171**	**1 255**	**636**	**2 266**	**848**	**10 077**	**11 301**	**17 849**	**94 642**
Loans over 10 million to private companies	*28 182*	*13 465*	-	-	-	-	-	-	-	***41 647***
Loans from 2 to 10 million to private companies	-	-	-	-	-	-	*5 466*	*9 182*	*8 960*	***23 608***
Loans less than 2 million to private companies	*3 505*	*3 706*	*1 255*	-	*5*	*848*	*4 565*	*10*	*8 889*	***22 783***
Consumer loans and credit cards balances to private individuals	-	-	-	*636*	*2 261*	-	-	-	-	***2 897***
Mortgage loans to private individuals	*1 552*	-	-	-	-	-	-	-	-	***1 552***
Other loans to private individuals	-	-	-	-	-	-	*46*	*2 109*	-	***2 155***
Past due but not impaired	**6 970**	**6 659**	**364**	**97**	**156**	**-**	**8**	**113**	**-**	**14 367**
less than 30 days overdue	*211*	-	-	*97*	*156*	-	-	-	-	***464***
61 to 90 days overdue	*6*	*3 486*	-	-	-	-	-	*113*	-	***3 605***
91 to 180 days overdue	*1 578*	*268*	-	-	-	-	*8*	-	-	***1 854***
over 180 days overdue	*5 175*	*2 905*	*364*	-	-	-	-	-	-	***8 444***
Impaired individual	**12 130**	**79 379**	**4 151**	**6 049**	**2 308**	**-**	**579**	**97**	**-**	**104 693**
less than 30 days overdue	*11 415*	*54 654*	*15*	*42*	-	-	*10*	-	-	***66 136***
31 to 60 days overdue	-	*15 169*	-	-	-	-	-	-	-	***15 169***
61 to 90 days overdue	*40*	*3 099*	-	-	-	-	-	-	-	***3 139***
91 to 180 days overdue	-	*2 989*	-	*5 991*	*2 308*	-	*4*	-	-	***11 292***
over 180 days overdue	*675*	*3 468*	*4 136*	*16*	-	-	*565*	*97*	-	***8 957***
(Provisions)	(5 417)	(26 337)	(1 743)	(5 474)	(2 077)	-	(58)	(98)	-	**(41 204)**
Total	**46 922**	**76 872**	**4 027**	**1 308**	**2 653**	**848**	**10 606**	**11 413**	**17 849**	**172 498**

31.12.2017 **EUR'000**

Bank, EUR'000	Mortgage loans	Industrial loans	Commercial loans	Consumer loans	Credit card balances	Reverse Repo transactions	Finance leases	Other	Receivables	Total
Neither past due nor impaired, of which:	**33 206**	**50 971**	**1 459**	**636**	**2 266**	**848**	**-**	**11 371**	**17 849**	**118 606**
Loans over 10 million to private companies	*28 182*	*33 255*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	***61 437***
Loans from 2 to 10 million to private companies	*-*	*13 981*	*-*	*-*	*-*	*-*	*-*	*9 182*	*8 960*	***32 123***
Loans less than 2 million to private companies	*3 472*	*3 735*	*1 459*	*-*	*5*	*848*	*-*	*80*	*8 889*	***18 488***
Consumer loans and credit cards balances to private individuals	*-*	*-*	*-*	*636*	*2 261*	*-*	*-*	*-*	*-*	***2 897***
Mortgage loans to private individuals	*1 552*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	***1 552***
Other loans to private individuals	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*2 109*	*-*	***2 109***
Past due but not impaired	**6 304**	**6 659**	**233**	**97**	**156**	**-**	**8**	**113**	**-**	**13 570**
less than 30 days overdue	*209*	*-*	*-*	*97*	*156*	*-*	*-*	*-*	*-*	***462***
61 to 90 days overdue	*-*	*3 486*	*-*	*-*	*-*	*-*	*-*	*113*	*-*	***3 599***
91 to 180 days overdue	*1 578*	*268*	*-*	*-*	*-*	*-*	*8*	*-*	*-*	***1 854***
over 180 days overdue	*4 517*	*2 905*	*233*	*-*	*-*	*-*	*-*	*-*	*-*	***7 655***
Impaired individual	**29 999**	**79 379**	**4 151**	**6 049**	**2 308**	**-**	**579**	**98**	**-**	**122 563**
less than 30 days overdue	*29 284*	*54 654*	*15*	*42*	*-*	*-*	*10*	*-*	*-*	***84 005***
31 to 60 days overdue	*-*	*15 169*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	***15 169***
61 to 90 days overdue	*40*	*3 099*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	***3 139***
91 to 180 days overdue	*-*	*2 989*	*-*	*5 991*	*2 308*	*-*	*4*	*-*	*-*	***11 292***
over 180 days overdue	*675*	*3 468*	*4 136*	*16*	*-*	*-*	*565*	*98*	*-*	***8 958***
(Provisions)	(15 744)	(16 016)	(1 743)	(5 474)	(2 077)	-	(58)	(98)	-	**(41 210)**
Total	**53 765**	**120 993**	**4 100**	**1 308**	**2 653**	**848**	**529**	**11 484**	**17 849**	**213 529**

31.12.2016

Group, EUR'000	Mortgage loans	Industrial loans	Commercial loans	Consumer loans	Credit card balances	Reverse Repo transactions	Finance leases	Other	Receivables	Total
Neither past due nor impaired, of which:	**40 421**	**64 466**	**34 006**	**7 122**	**15 690**	**899**	**6 862**	**13 452**	**27 895**	**210 813**
Loans over 10 million to private companies	*32 662*	*47 076*	*-*	*-*	*-*	*-*	*-*	*10 448*	*26 611*	***116 797***
Loans from 2 to 10 million to private companies	*-*	*14 516*	*3 213*	*-*	*-*	*-*	*3 869*	*-*	*-*	***21 598***
Loans less than 2 million to private companies	*5 091*	*2 874*	*30 793*		*15*	*796*	*2 932*	*449*	*1 284*	***44 234***
Consumer loans and credit cards balances to private individuals	*-*	*-*	*-*	*7 122*	*15 675*	*-*	*-*	*-*	*-*	***22 797***
Mortgage loans to private individuals	*2 668*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	***2 668***
Other loans to private individuals	*-*	*-*	*-*	*-*	*-*	*103*	*61*	*2 555*	*-*	***2 719***
Past due but not impaired	**6 251**	**-**	**556**	**234**	**147**	**-**	**36**	**151**	**-**	**7 375**
less than 30 days overdue	*31*	*-*	*-*	*232*	*147*	*-*	*3*	*-*	*-*	***413***
31 to 60 days overdue	*3 649*	*-*	*-*	*-*	*-*	*-*	*-*	*62*	*-*	***3 711***
61 to 90 days overdue	*-*	*-*	*-*	*-*	*-*	*-*	*33*	*-*	*-*	***33***
91 to 180 days overdue	*24*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	***24***
over 180 days overdue	*2 547*	*-*	*556*	*2*	*-*	*-*	*-*	*89*	*-*	***3 194***
Impaired individual	**12 445**	**44 326**	**27 677**	**9 796**	**10 005**	**-**	**879**	**346**	**67**	**105 541**
less than 30 days overdue	*11 676*	*38 380*	*18 781*	*27*	*6*	*-*	*832*	*-*	*-*	***69 702***
31 to 60 days overdue	*46*	*719*	*330*	*962*	*-*	*-*	*-*	*-*	*-*	***2 057***
61 to 90 days overdue	*-*	*501*	*498*	*-*	*-*	*-*	*-*	*-*	*-*	***999***
91 to 180 days overdue	*-*	*-*	*963*	*-*	*-*	*-*	*-*	*-*	*-*	***963***
over 180 days overdue	*723*	*4 726*	*7 105*	*8 807*	*9 999*	*-*	*47*	*346*	*67*	***31 820***
(Provisions)	(4 783)	(18 576)	(8 234)	(8 637)	(8 156)	-	(131)	(306)	(67)	**(48 890)**
Total	**54 334**	**90 216**	**54 005**	**8 515**	**17 686**	**899**	**7 646**	**13 643**	**27 895**	**274 839**

31.12.2016

Bank, EUR'000	Mortgage loans	Industrial loans	Commercial loans	Consumer loans	Credit card balances	Reverse Repo transactions	Finance leases	Other	Receivables	Total
Neither past due nor impaired, of which:	**40 195**	**77 939**	**507**	**598**	**2 942**	**899**	**19**	**13 384**	**26 611**	**163 094**
Loans over 10 million to private companies	*32 661*	*61 021*	-	-	-	-	-	*10 447*	*26 611*	***130 740***
Loans from 2 to 10 million to private companies	-	*14 516*	-	-	-	-	-	-		***14 516***
Loans less than 2 million to private companies	*5 091*	*2 402*	*507*	-	*15*	*796*	*19*	*400*		***9 230***
Consumer loans and credit cards balances to private individuals	-	-	-	*598*	*2 927*	-	-	-		***3 525***
Mortgage loans to private individuals	*2 443*	-	-	-	-	-	-	-		***2 443***
Other loans to private individuals	-	-	-	-	-	*103*	-	*2 537*		***2 640***
Past due but not impaired	**4 584**	**-**	**321**	**157**	**147**	**-**	**36**	**151**	**-**	**5 396**
less than 30 days overdue	*28*	-	-	*155*	*147*	-	*3*	-	-	***333***
31 to 60 days overdue	*3 620*	-	-	-	-	-	-	*62*	-	***3 682***
61 to 90 days overdue	-	-	-	-	-	-	*33*	-	-	***33***
over 180 days overdue	*936*	-	*321*	*2*	-	-	-	*89*	-	***1 348***
Impaired individual	**28 378**	**64 499**	**4 802**	**7 169**	**2 573**	**-**	**879**	**112**	**-**	**108 412**
less than 30 days overdue	*27 609*	*58 928*	*255*	*27*	-	-	*832*	-	-	***87 651***
31 to 60 days overdue	*46*	*718*	-	-	-	-	-	-	-	***764***
61 to 90 days overdue	-	*500*	-	-	-	-	-	-	-	***500***
over 180 days overdue	*723*	*4 353*	*4 547*	*7 142*	*2 573*	-	*47*	*112*	-	***19 497***
(Provisions)	(9 549)	(15 228)	(2 193)	(6 332)	(2 320)	-	(130)	(112)	-	**(35 864)**
Total	**63 608**	**127 210**	**3 437**	**1 592**	**3 342**	**899**	**804**	**13 535**	**26 611**	**241 038**

Renegotiated (forborne) loans

Renegotiation or Forbearance is a concession granted to the borrowers in a difficult financial situation.

Concession may exist in the form of:

- modification of the previous (the original) terms and conditions, e.g. extension of the maturity, postponement of credit repayment, interest capitalisation, reduction of the original interest rate;
- the foreclosure of the pledge or other assets for partial credit repayment;
- interest capitalisation by adding the accrued interest to the principal amount of the credit or repayment of interest from the newly issued credit.

The decision on the loan forbearance is made by the Credit Committee, and for exposure exceeding the power of the Credit Committee the approval from the higher level of Management is required.

The net amount of forborne loans of Group and Bank as of 31 December 2017 is 17 780 thousand euro (2016: 24 822 and 19 671 thousand euro).

Quality of other financial assets

The credit risk of counterparties and securities issuers, as well as the limits set thereon, are monitored by the Risk Management Department and reviewed by the Assets and Liabilities Committee regularly.

The group uses the same credit policies in assuming conditional obligations as it does for on-balance sheet financial instruments, through established credit approvals, risk control limits and monitoring procedures.

As of 31 December 2017 and 31 December 2016 other financial assets – loans and receivables to banks; available-for-sale financial assets; contingent liabilities and commitments – have been classified as neither past due nor impaired.

Analysis by credit quality of Bank and Group assets outstanding at 31 December 2017 and 31 December 2016 is as follows:

31.12.2017

Group, EUR'000	Cash and balances with the central bank	Loans to and receivables from banks	Derivatives financial instruments	Available-for-sale financial assets	Held-to-maturity financial assets	Other financial assets	**Total**
Neither past due nor impaired	**131 978**	**54 041**	**384**	**142 559**	**16 705**	**3 110**	**348 777**
From Aaa to Aa3	*-*	*2 691*	*1*	*59 616*	*16 705*	*20*	***79 033***
From A1 to A3	*117 039*	*35 733*	*-*	*27 779*	*-*	*-*	***180 551***
From Baa1 to Baa3	*-*	*7 470*	*-*	*18 703*	*-*	*-*	***26 173***
From Ba1 to Ba3	*-*	*5 914*	*-*	*17 167*	*-*	*5*	***23 086***
From B1 to B3	*-*	*1 595*	*25*	*6 192*	*-*	*-*	***7 812***
From Caa1 and lower	*-*	*3*	*-*	*2 920*	*-*	*-*	***2 923***
No rating	*14 939*	*635*	*358*	*10 182*	*-*	*3 085*	***29 199***
Impaired (No rating)	-	-	-	-	-	13	**13**
(Provisions)	-	-	-	-	-	(13)	**(13)**
Total net assets	**131 978**	**54 041**	**384**	**142 559**	**16 705**	**3 110**	**348 777**

31.12.2017

Bank, EUR'000	Cash and balances with the central bank	Loans to and receivables from banks	Derivatives financial instruments	Available-for-sale financial assets	Held-to-maturity financial assets	Other financial assets	**Total**
Neither past due nor impaired	**131 977**	**53 755**	**384**	**318 249**	**16 705**	**1 777**	**522 847**
From Aaa to Aa3	*-*	*2 691*	*1*	*59 616*	*16 705*	*20*	***79 033***
From A1 to A3	*117 039*	*35 732*	*-*	*27 779*	*-*	*-*	***180 550***
From Baa1 to Baa3	*-*	*7 471*	*-*	*18 703*	*-*	*-*	***26 174***
From Ba1 to Ba3	*-*	*5 914*	*-*	*17 167*	*-*	*5*	***23 086***
From B1 to B3	*-*	*1 314*	*25*	*6 191*	*-*	*-*	***7 530***
From Caa1 and lower	*-*	*2*	*-*	*2 920*	*-*	*-*	***2 922***
No rating	*14 938*	*631*	*358*	*185 873*	*-*	*1 752*	***203 552***
Impaired (No rating)	-	-	-	-	-	13	**13**
(Provisions)	-	-	-	-	-	(13)	**(13)**
Total net assets	**131 977**	**53 755**	**384**	**318 249**	**16 705**	**1 777**	**522 847**

31.12.2016

Group, EUR'000	Cash and balances with the central bank	Loans to and receivables from banks	Trading financial assets	Derivatives financial instruments	Available-for-sale financial assets	Held-to-maturity financial assets	Other financial assets	**Total**
Neither past due nor impaired	**214 554**	**42 495**	**96 545**	**819**	**99 379**	**19 483**	**5 581**	**478 856**
From Aaa to Aa3	-	*141*	-	-	*18 976*	*18 991*	-	***38 108***
From A1 to A3	*188 974*	*21 914*	-	-	*8 000*	-	-	***218 888***
From Baa1 to Baa3	-	*7 484*	*12 175*	-	*4 431*	-	-	***24 090***
From Ba1 to Ba3	*6 276*	*10 195*	*70 996*	-	*39 917*	-	-	***127 384***
From B1 to B3	-	*1 190*	*11 209*	-	*16 696*	*492*	-	***29 587***
From Caa1 and lower	-	*12*	-	-	*1 020*	-	-	***1 032***
No rating	*19 304*	*1 559*	*2 165*	*819*	*10 339*	-	*5 581*	***39 767***
Impaired (No rating)	-	-	-	-	-	-	35	**35**
(Provisions)	-	-	-	-	-	-	(35)	**(35)**
Total net assets	**214 554**	**42 495**	**96 545**	**819**	**99 379**	**19 483**	**5 581**	**478 856**

31.12.2016

Bank, EUR'000	Cash and balances with the central bank	Loans to and receivables from banks	Derivatives financial instruments	Available-for-sale financial assets	Held-to-maturity financial assets	Other financial assets	**Total**
Neither past due nor impaired	**200 001**	**35 714**	**763**	**333 210**	**19 483**	**1 682**	**590 853**
From Aaa to Aa3	-	*141*	-	*18 976*	*18 991*	-	***38 108***
From A1 to A3	*188 974*	*21 914*	-	*8 000*	-	-	***218 888***
From Baa1 to Baa3	-	*1 738*	-	*4 431*	-	-	***6 169***
From Ba1 to Ba3	-	*10 088*	-	*39 917*	-	-	***50 005***
From B1 to B3	-	*422*	-	*16 696*	*492*	-	***17 610***
From Caa1 and lower	-	*12*	-	*1 020*	-	-	***1 032***
No rating	*11 027*	*1 399*	*763*	*244 170*	-	*1 682*	***259 041***
Impaired (No rating)	-	-	-	-	-	35	**35**
(Provisions)	-	-	-	-	-	(35)	**(35)**
Total net assets	**200 001**	**35 714**	**763**	**333 210**	**19 483**	**1 682**	**590 853**

MARKET RISK

Market risk is the risk that the fair value or future cash flows of financial instruments will adversely fluctuate due to changes in market variables such as interest rates, exchange rates and equity prices. The Group classifies exposures to market risk into either trading or non-trading portfolios. The Bank's subsidiaries, except the subsidiary bank in Russia do not have trading portfolios. The trading portfolio includes the positions arising from market-making transactions where the Bank acts as principal with clients or with the market and are managed by the Bank's Capital Markets Department according to the Investment Policy and the Financial Risk Management and Control Policy within limits and restrictions set by the Management Board and the Assets and Liabilities Committee.

Market risks arise mainly from open positions (both trading and non-trading) in interest rate and foreign currency exchange rates, both of them are exposed to general and specific market movements. Interest rate risk and foreign currency exchange risk are managed within set limits, sensitivities, stop-loss and stress tests. Market risks are reported on a regular basis to the Management Board and the Supervisory Council.

Interest rate risk

Interest rate risk is managed by the Assets and Liabilities Committee within the set limits: on investment portfolios, on interest rate total and net positions, and debt securities duration.

The Risk Management Department controls compliance with the set limits and measures the interest rate risk monthly.

The table below demonstrates sensitivity of the Group's income statement and equity to reasonable possible changes in interest rates on the condition that all other variables are constant.

The methods employed in the analysis of interest rate risk sensitivity have remained unchanged compared to the year 2016.

The sensitivity of the financial results is the effect of the assumed changes in interest rates on the net interest income (with equal effect on pre-tax profit) for one year based on the result of mismatches between interest-bearing assets and liabilities in terms of volumes and repricing or maturity dates.

The sensitivity of revaluation through equity is calculated by revaluating available-for-sale financial assets (debt securities) held as of 31 December 2017 and is based on the assumption that there are parallel shifts in the yield curve discounting future cash flows by amended interest rate. In 2016 and in 2017 the Bank didn't have available-for-sale financial assets (debt securities) denominated in RUB therefore the effect on the sensitivity of revaluation through equity in RUB equals to zero. There is the same effect on the sensitivity of equity of the Group as only the Bank has available-for-sale assets revaluing them through the equity.

The sensitivity of profit\losses is calculated by revaluating of held-to-maturity financial assets (debt securities) held as of 31 December 2017 and is based on the assumption that the Bank decides to sell them and there are parallel shifts in the yield curve discounting future cash flows by amended interest rate. The Bank held the debt securities from held-to-maturity portfolio as of 31 December 2017 denominated in USD only.

There is the same effect on the sensitivity of profit\losses of the Group as only the Bank has held-to-maturity financial instruments.

Possible parallel interest rate shift in basis points has been set to 100 bps for the USD and EUR currencies (100bp in 2016). The reason is that the Bank believes that there will be no dramatic increases in the interest rates of these currencies, given the current situation of stagnation at historical lows. After excluding ПАО "Норвик Банк" (formerly "Вятка-банк" ОАО (Russia) from the

Group at the reporting preparations date the sensitivity to the RUB has not been assessed as assets and liabilities of discontinued operations stated as not sensitive to the interest rate changes.

At 31 December 2017		Bank	Group	Sensitivity revaluation through the equity				
Currency	Increase in basis points	Sensitivity of financial result EUR'000	Sensitivity of financial result EUR'000	0 to 6 months EUR'000	6 months to 1 year EUR'000	More than 1 year EUR'000	Total EUR'000	Sensitivity of income statement EUR'000
EUR	100	(572)	(574)	-	-	(3 039)	(3 039)	-
USD	100	(1 453)	(1 450)	(17)	-	(4 202)	(4 219)	(218)

At 31 December 2017		Bank	Group	Sensitivity revaluation through the equity				
Currency	Decrease in basis points	Sensitivity of financial result EUR'000	Sensitivity of financial result EUR'000	0 to 6 months EUR'000	6 months to 1 year EUR'000	More than 1 year EUR'000	Total EUR'000	Sensitivity of income statement EUR'000
EUR	(100)	572	574	-	-	3 039	3 039	-
USD	(100)	1 453	1 450	17	-	4 202	4 219	218

At 31 December 2016		Bank	Group	Sensitivity revaluation through the equity				
Currency	Increase in basis points	Sensitivity of financial result EUR'000	Sensitivity of financial result EUR'000	0 to 6 months EUR'000	6 months to 1 year EUR'000	More than 1 year EUR'000	Total EUR'000	Sensitivity of income statement EUR'000
EUR	100	268	243	-	-	(964)	(964)	(14)
USD	100	(1 487)	(1 465)	(87)	(140)	(604)	(831)	(435)
RUB	300	(491)	(1 701)	-	-	-	-	-

At 31 December 2016		Bank	Group	Sensitivity revaluation through the equity				
Currency	Decrease in basis points	Sensitivity of financial result EUR'000	Sensitivity of financial result EUR'000	0 to 6 months EUR'000	6 months to 1 year EUR'000	More than 1 year EUR'000	Total EUR'000	Sensitivity of income statement EUR'000
EUR	(100)	(268)	(243)	-	-	964	964	14
USD	(100)	1 487	1 465	87	140	604	831	435
RUB	(300)	491	1 701	-	-	-	-	-

Foreign currency exchange risk

Foreign currency exchange risk is the risk that the fair value of a financial instrument will fluctuate due to changes in foreign currency exchange rates. The Group operates in different foreign currencies not only in the functional currency of the Bank or relevant group entity. Foreign currency exchange risk arise from the mismatches between assets and liabilities dominated in foreign currencies, t.i. foreign currency open position. Foreign currencies exchange risk is managed by the open positions management.

The Policy of Control over Large Exposures and the Financial Risk Management and Control Policy govern the foreign currency exchange risk control and management. These policies are based on meeting the restrictions of the net open position of each foreign currency and the total open position of foreign currencies in compliance with the internal limits set by the Management Board and with the requirements of the Credit Institutions Law of the Republic of Latvia stating that the total open position should not exceed 20% of the Bank’s eligible capital and the open position for every currency should not exceed 10% of the Bank’s eligible capital. In order to minimize foreign currency exchange risk, the Management Board sets stricter limits on the level of open long or short positions in single currencies and the total open position. In 2017, the stricter limits on foreign currencies’ open positions were in force, dividing all of the Bank’s foreign currencies into 3 groups and setting a separate limit for each of the currencies depending on its group. The Board may also set stricter limits for the Bank's subsidiaries, despite the fact that it is not required by the FCMC.

Relating to the subsidiary bank in Russia, (which is excluded from the consolidation at the reporting date) the national requirements for the foreign currency open positions are similar. During the 2016 and 2017 the Bank complied with those limits.

Additionally, in order to constrain a speculative management of on open position the Assets and Liabilities Committee sets stop-loss and open position limits on the dealer’s positions. To avoid losses arising from adverse changes in exchange rates, the Capital Market Division continuously on a daily basis manages open positions and supervises compliance with the set limits. Open positions are managed by the foreign exchange contracts (mainly spot and swap). The Risk Management Department controls compliance with set limits daily and measures foreign currency exchange risk monthly.

The following common principles are set to mitigate foreign currency exchange risk:

- In all operations and areas of activity of the Bank, the foreign currency rates set by or agreed with the Capital Markets Divisions t are used; The Capital Markets Divisions sets fixed and current foreign currency rates:
    - fixed exchange rates are used by all organizational units of the Bank in work with the Bank’s clients when conducting cash and non-cash money operations; the fixed rates may be changed during a day,
    - Current exchange rates are used upon mutual agreement between counterparties, as well as in accordance with concluded agreements that provide for usage of a base rate.
- The balance sheet assets and liabilities denominated in any foreign currency are revaluated in euro at the close of each working day. For revaluation purposes, the exchange rates set by the European Central Bank at the day of the conversion are used; Special provisions for assets and off-balance sheet liabilities are to be made in the same currencies in which these assets and off-balance sheet liabilities are denominated.
- The Bank’s accounting system ensures that at any point in time the calculation of the open currency position fairly reflects the foreign currency risk.
- The Bank ensures timely disclosure of all operations in the balance-sheet.

The methods employed in the analysis of currency risk sensitivity have remained unchanged compared to year 2016.

The tables below indicate the currencies to which the Group had significant exposure as of 31 December 2017 and as of 31 December 2016 on its bank and trading monetary assets and liabilities and its forecasted cash flows. The sensitivity analysis for the Group’s foreign currency exchange risk is presented in the following tables:

As at 31 December 2017 - Group	EUR	USD	RUB	Other currencies	Total
	EUR’000	EUR’000	EUR’000	EUR’000	EUR’000
Assets					
Cash and due from the central bank	121 815	3 166	865	6 132	**131 978**
Loans to and receivables from banks	3 188	41 272	2 357	7 224	**54 041**
Derivative financial instruments	384	-	-	-	**384**
Loans to and receivables from customers	116 038	55 869	583	90	**172 580**
Available-for-sale financial assets	55 965	86 594	-	-	**142 559**
Held to maturity financial assets	-	16 705	-	-	**16 705**
Prepaid corporate income tax	-	-	-	110	**110**
Investment property	67 086	-	-	-	**67 086**
Tangible fixed assets	93 064	-	-	150	**93 214**
Goodwill	407	-	-	-	**407**
Intangible assets	6 318	-	-	7	**6 325**
Assets held for sale	1 143	-	-	-	**1 143**
Assets held for sale (subsidiary)	12 895	22 497	168 127	1 518	**205 037**
Other assets	14 238	1 333	1 785	9 194	**26 550**
Total assets	**492 541**	**227 436**	**173 717**	**24 425**	**918 119**
Liabilities and equity					
Due to the central bank and other banks	17	2 039	3	-	**2 059**
Derivative financial instruments	1 199	-	-	-	**1 199**
Customer deposits	346 356	243 193	9 357	14 562	**613 468**
Subordinated debt	7 510	13 799	-	-	**21 309**
Debt securities	24 373	12 723	-	-	**37 096**
Deferred tax liabilities	45	72	-	-	**117**
Liabilities related to assets held for sale	1 914	3 312	167 112	5	**172 343**
Other liabilities	15 284	104	863	1 962	**18 213**
Total liabilities	**396 698**	**275 242**	**177 335**	**16 529**	**865 804**
Share capital and reserves	51 461	-		-	**51 461**
Non-controlling interests	-	-	854	-	**854**
Total liabilities and equity	**448 159**	**275 242**	**178 189**	**16 529**	**918 119**
Net balance sheet long/(short) position	**44 382**	**(47 806)**	**(4 472)**	**7 896**	
Spot foreign-exchange contracts long/(short) position	(17 744)	20 155	483	(2 894)	
Swap foreign-exchange contracts long/(short) position	(55 312)	54 295	1 518	(501)	
Forward foreign-exchange contracts long/(short) position	(521)	(446)	1 382	(415)	
Net open long/(short) currency position	**(29 195)**	**26 198**	**(1 089)**	**4 086**	
Currency open position in % from capital as of 31/12/2017		**33.85**	**1.41**		

As at 31 December 2016 - Group	EUR	USD	RUB	Other currencies	Total
	EUR’000	EUR’000	EUR’000	EUR’000	EUR’000
Assets					
Cash and due from the central bank	194 162	3 467	13 996	2 929	**214 554**
Loans to and receivables from banks	3 122	20 202	11 742	7 429	**42 495**
Trading financial assets	1 514	28 465	66 566	-	**96 545**
Derivative financial instruments	764	-	55	-	**819**
Loans to and receivables from customers	128 263	69 087	76 752	369	**274 471**
Available-for-sale financial assets	26 124	73 255	-	-	**99 379**
Held to maturity financial assets	492	18 991	-	-	**19 483**
Prepaid corporate income tax	-	-	175	177	**352**
Investment property	92 577	-	-	-	**92 577**
Tangible fixed assets	110 644	-	265	36	**110 945**
Goodwill	10 265	-	-	-	**10 265**
Intangible assets	5 966	-	5	4	**5 975**
Assets held for sale	5 756	-	-	-	**5 756**
Other assets	18 560	1 327	7 743	620	**28 250**
Total assets	**598 209**	**214 794**	**177 299**	**11 564**	**1 001 866**
Liabilities and equity					
Due to the central bank and other banks	398	1 485	5 479	1	**7 363**
Derivative financial instruments	316	2	-	-	**318**
Customer deposits	334 652	264 492	175 238	13 777	**788 159**
Subordinated debt	18 811	22 033	-	-	**40 844**
Debt securities	24 373	14 476	-	-	**38 849**
Deferred tax liabilities	1 831	-	1 361	271	**3 463**
Other liabilities	15 831	178	4 651	19	**20 679**
Total liabilities	**396 212**	**302 666**	**186 729**	**14 068**	**899 675**
Share capital and reserves	101 239	-	-	-	**101 239**
Non-controlling interests	-	-	952	-	**952**
Total liabilities and equity	**497 451**	**302 666**	**187 681**	**14 068**	**1 001 866**
Net balance sheet long/(short) position	**100 758**	**(87 872)**	**(10 382)**	**(2 504)**	
Spot foreign-exchange contracts long/(short) position	(125 149)	115 091	5 037	5 021	
Swap foreign-exchange contracts long/(short) position	(927)	(17 405)	19 313	(981)	
Forward foreign-exchange contracts long/(short) position	(1 301)	722	1 305	(726)	
Net open long/(short) currency position	**(26 619)**	**10 536**	**15 273**	**810**	
Currency open position in % from capital as of 31/12/2016		**8.17**	**11.84**		

The sensitivity analysis for the Group’s foreign currency exchange risk is presented in the following tables: the analysis calculates the effect of a reasonable possible movement of the currency rate against the EUR with all other variables held constant on the income statement.

Possible currency rate fluctuations have been set to 10% (10% in 2016) for USD. The reason for the same volatility estimation for USD is the forecast for 2018. The exposure in RUB did have the effect on the Bank and the Group equity while assets and liabilities of ПАО "Норвик банк" were included into the Group. At the reporting date assets and liabilities of ПАО "Норвик банк" are classified as discontinued operations; the entity is excluded from the consolidation at the reporting date, therefore the effect on the Bank and the Group equity has not been assessed.

	31.12.2017			31.12.2016		
Group *Currency*	**Change in currency rate %**	**Effect on income statement EUR'000**	**Effect on equity EUR'000**	**Change in currency rate %**	**Effect on income statement EUR'000**	**Effect on equity EUR'000**
USD	10	2 620	-	10	1 053	(33)
	(10)	(2 620)	-	(10)	(1 053)	27
RUB	15	(163)	-	15	2 291	6 449
	(15)	163	-	(15)	(2 291)	(4 767)

The tables below indicate the currencies to which the Bank had significant exposure as of 31 December 2017 and as of 31 December 2016 on its bank and trading monetary assets and liabilities and its forecasted cash flows:

As at 31 December 2017 - Bank	EUR	USD	RUB	Other currencies	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Assets					
Cash and due from the central bank	121 814	3 167	865	6 131	**131 977**
Loans to and receivables from banks	3 185	41 006	2 357	7 207	**53 755**
Derivative financial instruments	384	-	-	-	**384**
Loans to and receivables from customers	157 897	55 084	583	89	**213 653**
Available-for-sale financial assets	231 656	86 593	-	-	**318 249**
Held to maturity financial assets	-	16 705	-	-	**16 705**
Investment property	6 150	-	-	-	**6 150**
Tangible fixed assets	37 302	-	-	-	**37 302**
Intangible assets	1 114	-	-	-	**1 114**
Assets held for sale	445	-	-	-	**445**
Other assets	3 676	1 285	11	4 387	**9 359**
Total assets	**563 623**	**203 840**	**3 816**	**17 814**	**789 093**
Liabilities and equity					
Due to the central bank and other banks	17	2 042	3	-	**2 062**
Derivative financial instruments	1 199	-	-	-	**1 199**
Customer deposits	394 942	243 264	9 501	14 586	**662 293**
Subordinated debt	7 510	13 799	-	-	**21 309**
Debt securities	24 373	12 723	-	-	**37 096**
Deferred tax liabilities	-	-	-	-	**-**
Other liabilities	3 780	97	194	152	**4 223**
Total liabilities	**431 821**	**271 925**	**9 698**	**14 738**	**728 182**
Share capital and reserves	60 911	-	-	-	**60 911**
Total liabilities and equity	**492 732**	**271 925**	**9 698**	**14 738**	**789 093**
Net balance sheet long/(short) position	**70 891**	**(68 085)**	**(5 882)**	**3 076**	
Spot foreign-exchange contracts long/(short) position	(17 744)	20 155	483	(2 894)	
Swap foreign-exchange contracts long/(short) position	(55 312)	54 295	1 518	(501)	
Forward foreign-exchange contracts long/(short) position	(521)	(446)	1 382	(415)	
Net open long/(short) currency position	**(2 686)**	**5 919**	**(2 499)**	**(734)**	
Currency open position in % from capital as of 31/12/2017		**7.21**	**3.04**		

As at 31 December 2016 - Bank	EUR	USD	RUB	Other currencies	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Assets					
Cash and due from the central bank	193 385	2 760	1 028	2 828	**200 001**
Loans to and receivables from banks	3 042	18 956	6 428	7 288	**35 714**
Derivative financial instruments	763	-	-	-	**763**
Loans to and receivables from customers	170 751	65 948	4 159	359	**241 217**
Available-for-sale financial assets	259 955	73 255	-	-	**333 210**
Held to maturity financial assets	492	18 991	-	-	**19 483**
Investment property	6 308	-	-	-	**6 308**
Tangible fixed assets	35 532	-	-	-	**35 532**
Intangible assets	948	-	-	-	**948**
Assets held for sale	541	-	-	-	**541**
Other assets	3 151	1 258	24	26	**4 459**
Total assets	**674 868**	**181 168**	**11 639**	**10 501**	**878 176**
Liabilities and equity					
Due to the central bank and other banks	398	1 489	5 479	1	**7 367**
Derivative financial instruments	316	2	-	-	**318**
Customer deposits	393 614	260 672	18 060	13 992	**686 338**
Subordinated debt	18 811	16 845	-		**35 656**
Debt securities	24 373	14 476	-	-	**38 849**
Deferred tax liabilities	792	-	-	-	**792**
Other liabilities	3 859	145	22	14	**4 040**
Total liabilities	**442 163**	**293 629**	**23 561**	**14 007**	**773 360**
Share capital and reserves	104 816	-	-	-	**104 816**
Total liabilities and equity	**546 979**	**293 629**	**23 561**	**14 007**	**878 176**
Net balance sheet long/(short) position	**127 889**	**(112 461)**	**(11 922)**	**(3 506)**	
Spot foreign-exchange contracts long/(short) position	(125 149)	115 092	5 036	5 021	
Swap foreign-exchange contracts long/(short) position	(877)	1 603	255	(981)	
Forward foreign-exchange contracts long/(short) position	(1 301)	722	1 305	(726)	
Net open long/(short) currency position	**562**	**4 956**	**(5 326)**	**(192)**	
Currency open position in % from capital as of 31/12/2016		**3.71**	**3.99**		

As of 31 December 2017 the Bank's open position was 7.61% of the Tier 1 and Tier 2 of the capital (2016: 4.44%).

The analysis of sensitivity of the Bank to the foreign currency exchange risk is presented in the following tables. The analysis shows the effect of a reasonable possible movement of the currency rate against EUR, with all other variables held constant, on the income statement.

	31.12.2017			31.12.2016		
Bank *Currency*	**Change in currency rate %**	**Effect on income statement EUR'000**	**Effect on equity EUR'000**	**Change in currency rate %**	**Effect on income statement EUR'000**	**Effect on equity EUR'000**
USD	10	592	-	10	496	(32)
	(10)	(592)	-	(10)	(496)	26
RUB	15	(375)	-	15	799	7 714
	(15)	375	-	(15)	(799)	(5 701)

Operational risk

Operational risk is a risk of direct or indirect losses that may arise as a result of incorrectly established business processes, as well as due to inefficiency of internal control procedures, technological failures, unauthorized activities performed by the personnel, or as a result of influence of external events, and includes a legal risk.

The Group has developed a complex operational risk management system, which classifies all operational risk incidents, determines procedures for identifying and measuring the operational risk, as well as the operational risk management and reporting system. The Group has a database of operational risk incidents.

The operational risk is managed in accordance with the Group's Operational Risk Management Policy. The main principles of the policy and operational risk management principles are as follows:

a) clearly described and defined procedures and job descriptions of the Bank's employees and their precise observance thereof;

b) segregation of authority of the Bank's employees in the process of fulfilment of their functional duties;

c) involvement of the Risk Management Department in the development of new products and the introduction of changes to the existing ones;

d) organization of training for the Bank's personnel, incl. seminars which cover the analysis of mistakes and errors most often committed by the employees and explanation of methods for correcting these errors;

e) regular training and education is conducted to employees in key operational risk areas;

f) regular audits of internal control processes;

g) preparation of operational risk reports to the Council, Management Board, Chief Risk Officer, and Vice Presidents;

h) operational risk control on a daily basis and registration of incidents in an online database for further analysis;

i) regular audits performed by the Internal Audit, including the audits IT systems performed by the IT systems' auditor.

Additionally, the Group applies the following procedures for mitigation of the operational risk:

- access rights to information systems are severely restricted, user actions are controlled;
- access rights to client information are also restricted;
- data back-ups are performed, backed-up data is stored;

- Group’s property, transport and fixed assets are insured.

The Risk Management Department is responsible for measuring and reporting on the Group and the Bank’s operational risk. The risk level is analyzed and reported as follows:

- reports on significant operational risk incidents – to the Board and the Chief Risk Officer monthly; to the Council – quarterly;
- semi-annual reports – to the Board, Chief Risk Officer and Vice Presidents

The Group uses the basic indicator approach to calculate operational risk capital requirements for the capital adequacy calculation purposes.

Money laundering and terrorist financing risk (AML)

The Bank and the Group manage AML risk in compliance with the “Money laundering and terrorism preventing and sanctions compliance Policy”. The policy establishes the basic principles regarding customer identification, customer due diligence and record keeping. By means of this policy the Bank has set the following goals regarding customer and financial transactions compliance:

1) to create an efficient internal control system so that the Bank is able to fulfill all requirements set in the effective regulatory acts of the Republic of Latvia regarding the prevention of money laundering and terrorism financing;
2) to minimize to the utmost all possible risks and losses that are related to money laundering and terrorism financing that can detrimentally affect the Bank’s activity;
3) to standardize, as best as possible, the Bank’s practice to international best practice standards in the field of the prevention of money laundering and terrorism financing;
4) to enhance the knowledge and competence of Bank employees regarding customer and financial transactions compliance, and the prevention of money laundering and terrorism financing.

Policy and procedures are based on EU and Latvian legislation, as well as the FCMC regulations, and are based on properly identifying customers and beneficial owners (for corporate customers), using a risk-based approach to assess the type of client or transactions involved, collecting and analyzing information of the client's banking transactions, and regularly reviewing the client's files and activities.

In 2017, Norvik Banka was continuously working on strengthening its AML policies and corporate governance in the field of AML. Norvik Banka has implemented recommendations of US/BSA audit which was completed in 2016 creating a US/BSA-proof AML environment, aligned with local regulatory requirements. Norvik Banka also focused on implementations of requirements on new legislative acts and recommendations of FCMC.

In order to strengthen AML IT support, Norvik Banka has bought external IT vendor the 3rd-party AML IT solution “Siron” from FICO-Tonbeller solution Siron that has full functionality for sanction screening, KYC and transaction monitoring. In May 2017 Siron was fully implemented. Additionally, in mid-2017 Norvik Banka has acquired the enhanced sanctions analysis and lists from one of the world’s leading business-to-business data and content provider - Accuity (Reed Consulting Business International).

Norvik Banka pays special attention to AML training of its employees and provided both internal and external training for its employees including international ACAMS certificates.

8. NET INTEREST INCOME

	2017		2016	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Interest and similar income	**14 673**	**15 348**	**18 090**	**18 415**
Loans to and receivables from customers	11 025	11 754	13 170	13 567
Trading securities	24	-	58	3
Available-for-sale securities	2 896	2 896	4 225	4 225
Held-to-maturity financial assets	331	331	351	351
Loans to and receivables from banks	287	286	206	203
Other	110	81	80	66
Interest and similar expense	**8 009**	**8 072**	**7 768**	**7 772**
Customer deposits	2 218	2 409	1 904	2 067
Subordinated deposits	1 886	1 886	2 155	2 155
Subordinated debt securities	2 256	2 256	2 156	2 156
Payments in the Deposit Guarantee Fund	895	895	895	895
Deposits from banks	626	626	499	499
Other	128	-	159	-
Net interest income	**6 664**	**7 276**	**10 322**	**10 643**

As at 31 December 2017 Bank's and Group's interest income accrued on impaired loans to customers amounted to 798 thousand euro and 729 thousand euro (Bank 2016: 688 thousand euro and Group 2016: 2 268 thousand euro).

9. FEE AND COMMISSION INCOME AND EXPENSE

	2017		2016	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Account services and money transfer fees	18 712	18 723	16 362	16 373
Payment cards	3 449	3 449	3 872	3 872
Asset management fees	2 055	-	1 597	-
Commission for public utility payments	904	904	1 020	1 020
Cash withdrawal	584	584	461	461
Brokerage services on securities	516	518	618	621
Commission on letters of credit and collection	172	172	139	139
Fiduciary activities (Note 30)	855	855	30	31
Other	839	835	206	207
Fee and commission income	**28 086**	**26 040**	**24 305**	**22 724**
Payment cards	2 963	2 963	2 305	2 305
Services of correspondent banks	954	954	953	953
Securities purchase and brokerage services	331	331	431	431
Other	35	18	18	4
Fee and commission expense	**4 283**	**4 266**	**3 707**	**3 693**

10. NET TRADING INCOME

	2017		2016	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Profit/(loss) from trading financial assets net	**(65)**	**(47)**	**(237)**	**(211)**
Bonds and other fixed income securities	***(18)***	***-***	***42***	***68***
Net trading profit/(loss)	(63)	-	76	76
Fair value adjustment	45	-	(34)	(8)
Shares and other non- fixed income securities	***(47)***	***(47)***	***(279)***	***(279)***
Net trading profit/(loss)	(47)	(47)	(279)	(279)
Fair value adjustment		-	-	-
Profit/(loss) from derivative instruments and foreign exchanges trading net	**(2 832)**	**(2 742)**	**17 435**	**17 773**
Net trading profit/(loss)	(2 321)	(2 231)	19 505	19 843
Fair value adjustment	(511)	(511)	(2 070)	(2 070)
Foreign exchange translation gains less loses	**11 744**	**13 252**	**(4 798)**	**(7 639)**
Net trading income	**8 847**	**10 463**	**12 400**	**9 923**

11. NET GAIN OR LOSS FROM SALES OF AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2017		2016	
	Group EUR’000	Bank EUR’000	Group EUR’000	Bank EUR’000
Bonds and other fixed income securities	1 702	1 702	590	590
Investments in equities	(1)	(233)	(4 276)	(51)
Non fixed income securities (shares)	-	-	10 744	10 744
Total	**1 701**	**1 469**	**7 058**	**11 283**

These are the amounts transferred from equity to the income statement on the derecognition of available-for-sale financial instruments.

12. OTHER OPERATING INCOME AND EXPENSES

	2017		2016	
	Group EUR’000	Bank EUR’000	Group EUR’000	Bank EUR’000
Typography	23 671	-	18 240	-
Alternative energy production	5 885	-	5 343	-
Rent of investment property	1 293	512	1 870	512
Other	1 553	1 467	3 089	1 236
Other operating income	**32 402**	**1 979**	**28 542**	**1 748**
Production costs	16 471	-	13 435	-
Loan recovery expenses	429	429	1 039	1 039
Net loss on sale of real estate	455	-	245	-
Membership fees	860	832	893	878
Other	160	104	682	5
Other operating expense	**18 375**	**1 365**	**16 294**	**1 922**

13. ADMINISTRATIVE EXPENSES

	2017		2016	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Personnel expense	**24 900**	**16 489**	**22 136**	**14 818**
Personnel remuneration	17 626	11 783	16 261	11 054
Supervisory Council and Management Board remuneration	2 826	1 602	1 899	970
Social security contributions	4 448	3 104	3 976	2 794
Other expense	**21 668**	**16 949**	**16 831**	**13 095**
Professional services	8 285	8 055	5 682	4 341
Computer repair and communications	1 636	1 378	1 430	1 241
Public utilities and maintenance	2 251	1 042	1 778	337
Value added tax	1 709	1 213	1 172	1 133
Penalties	1 378	1 329	92	2
Rent	777	568	853	625
Real estate tax	748	136	901	98
Business trips	841	208	953	202
Security	494	375	539	410
Advertising	938	684	460	333
Other administrative expenses	2 611	1 961	2 971	4 373
Total	**46 568**	**33 438**	**38 967**	**27 913**

During the 2017 the average number of employees in the Group and the Bank was 1 513 (including 561 in ПАО "Норвик Банк"), 4 Supervisory Council and 5 Management Board members and 620 employees, 4 Supervisory Council and 5 Management Board members, respectively.

During the 2016 the average number of employees in the Group and the Bank was 1 516, 3 Supervisory Council and 4 Management Board members and 616 employees, 3 Supervisory Council and 4 Management Board members, respectively.

The Bank pays State compulsory social security contributions for state pension insurance and to the state funded pension scheme in accordance with Latvian legislation. State funded pension scheme is a defined contribution plan under which the Bank pays fixed contributions determined by the law and it will have no legal or constructive obligations to pay further contributions if the state pension insurance system or state funded pension scheme are not able to settle their liabilities to employees. According to the rulings of the Cabinet of Ministers of the Republic of Latvia 71,99% (2016: 69.99%) of the social security contributions are used to finance state funded pension scheme.

Short-term employee benefits, including salaries and state compulsory social security contributions, bonuses and paid vacation benefits, are included in Administrative expenses on an accrual basis.

The remuneration to the Bank's sworn auditor SIA PricewaterhouseCoopers in the reference year was calculated in the amount of 298 thousand euro, in particular:

- audit of the annual/semi-annual report – 296 thousand euro;
- non-audit fees – 2 thousand euro.

14. CORPORATE INCOME TAX

a) Components of corporate income tax charge	2017		2016	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Corporate income tax expense for the year	24	-	1 144	-
Corporate income tax paid abroad	583	583	608	608
Change in deferred tax assets	216	-	(216)	-
Change in deferred tax liability	(966)	-	(278)	-
Total	**(143)**	**583**	**1 258**	**608**

b) Reconciliation of accounting profit to tax charge

	2017		2016	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Profit before taxation	**(32 237)**	**(43 331)**	**13 788**	**10 035**
Expected corporate income tax (15%)	(4 836)	(6 500)	2 068	1 505
Tax effect of:				
(Untaxed income)/non-deductible expense	4 532	6 568	(1 273)	(1 125)
The tax paid abroad	583	583	370	370
Effect of different tax rates of subsidiaries operating in other jurisdictions	(116)	-	53	-
The previous tax period adjustments	-	-	(51)	-
From subsidiary disposal		-		-
Other	95	-	233	-
Tax losses carried forward	(401)	(68)	(142)	(142)
Total	**(143)**	**583**	**1 258**	**608**
Effective tax rate	**0%**	**-1%**	**9%**	**6%**

As at 31 December 2017 the Bank had accumulated tax losses of 44 546 thousand euro.
Transitional provisions of the law provide that taxpayers will be able to utilise the unused tax losses accumulated by 31 December 2017 during next 5 taxation years for reducing the tax payable on distributed profits by no more than 50% each year.

Expected corporate income tax has been calculated in accordance to Latvian income tax rate in 2017 (15%).
Effect of different tax rates of subsidiaries operating in other jurisdictions appeared due to 20% income tax rate in Armenia and Russia; and 20% in the United Kingdom; 12.5% in Cyprus.

c) Reconciliation of prior year deferred tax balance with that of current period is as follows:

	2017		2016	
	Group EUR’000	**Bank EUR’000**	**Group EUR’000**	**Bank EUR’000**
Deferred tax assets at the beginning of year	216	-	-	-
Deferred tax assets increase/(decrease) for the year recognized in income statement	(216)	-	216	-
Deferred tax assets at the year end	**-**	**-**	**216**	**-**
Deferred tax liability at the beginning of year	1 692	-	1 970	-
Deferred tax liability (decrease) for the year	(957)	-	(286)	-
Deferred tax liability (decrease) due to changes in the legislation	(609)	-	-	-
Foreign exchange	(9)	-	8	-
Deferred tax liability at the year end	**117**	**-**	**1 692**	**-**
Deferred tax recognized directly in other comprehensive income at the beginning of year	1 771	792	773	773
Deferred tax recognized directly in other comprehensive income increase/(decrease) for the year, net	(1 771)	(792)	34	19
Deferred tax recognised on business combination	-	-	964	-
Deferred tax recognized directly in other comprehensive income at the year end	**-**	**-**	**1 771**	**792**
Total	**117**	**-**	**3 463**	**792**

d) The deferred tax included in the balance sheet and changes recorded in the income statement are as follows:

Group	2017		2016	
	Deferred tax asset EUR’000	Deferred tax liability EUR’000	Deferred tax asset EUR’000	Deferred tax liability EUR’000
Loans to customers	-	(149)	460	(354)
Depreciation and amortization	15	-	8	(4 446)
Change in fair value of investment property	-	56	62	
Tax loss carry-forwards	-	-	6 069	-
Accruals for vacations	6	-	87	-
Not recognized deferred tax	-	-	-	(4 233)
Derivative financial instruments	-	-	-	(11)
Assets held for sale	-	-	60	-
Trading financial assets	-	-	466	-
Other	-	(45)	356	-
Total mutual off setting of assets/(liabilities)	**21**	**(138)**	**7 568**	**(9 044)**
Net deferred tax assets/(liabilities)	**-**	**(117)**	**216**	**(1 692)**
Deferred tax recognized directly in other comprehensive income	**-**	**-**	**-**	**(1 771)**
Total	**-**	**(117)**	**-**	**(3 463)**

Bank	2017		2016	
	Deferred tax assets EUR’000	Deferred tax liability EUR’000	Deferred tax assets EUR’000	Deferred tax liability EUR’000
Depreciation and amortization	-	-	-	(2 625)
Tax loss carry-forwards	-	-	6 066	-
Not recognized deferred tax	-	-	-	(4 233)
Total mutual off setting of asset/(liability)	**-**	**-**	**6 066**	**(6 858)**
Net deferred tax asset/(liability)	**-**	**-**	**-**	**(792)**

15. CASH AND BALANCES WITH THE CENTRAL BANKS

	31.12.2017		31.12.2016	
	Group EUR’000	Bank EUR’000	Group EUR’000	Bank EUR’000
Cash	14 939	14 938	19 304	11 027
Due from the central banks	117 039	117 039	195 250	188 974
Total	**131 978**	**131 977**	**214 554**	**200 001**

Balances with the Bank of Latvia represent funds held in the Bank’s clearing account. In accordance with the regulations set by the Bank of Latvia the Bank’s average monthly correspondent account balance should not be less than the amount of the statutory reserve which is calculated on the basis of the balance of liabilities included in the reserve base as at the end of each month. As at 31

December 2017 the amount of the statutory reserve of the Bank was 6 278 thousand euro (31 December 2016: 6 415 thousand euro). Bank is compliant with this regulation.

16. LOANS TO AND RECEIVABLES FROM BANKS

	31.12.2017		31.12.2016	
	Group EUR’000	Bank EUR’000	Group EUR’000	Bank EUR’000
Demand placements with:	**40 466**	**40 180**	**39 691**	**32 948**
Banks of Latvia	527	523	458	458
Banks of OECD countries	27 242	27 242	22 258	22 206
Banks of other countries	12 697	12 415	16 975	10 284
Loans to and receivables from:	**13 575**	**13 575**	**2 804**	**2 766**
Banks of Latvia	-	-	633	633
Banks of OECD countries	12 510	12 510	69	69
Banks of other countries	1 065	1 065	2 102	2 064
Total	**54 041**	**53 755**	**42 495**	**35 714**

As at 31 December 2017 the Group and the Bank have the following amounts pledged: 65 thousand euro for guaranties (31 December 2016: 134 thousand euro); nil thousand euro for POS-terminal payments (31 December 2016: 633 thousand euro), 1 million euro for Forex deals (31 December 2016: 2 million); and nil thousand euro for payment system (31 December 2016: 38 thousand euro and nil).
As at 31 December 2017 the Group and the Bank loans and receivables to banks were not past due nor impaired.

In 2017 the Bank’s average effective interest rates were: USD 0.61%, EUR (0.37)%, RUB 7.54%, GBP 0.04%; in 2016: USD 0.13%, EUR (0.32)%, RUB 7.39%, GBP 0%.

17. TRADING FINANCIAL ASSETS

	31.12.2017		31.12.2016	
	Group EUR’000	Bank EUR’000	Group EUR’000	Bank EUR’000
Trading bonds and other fixed income securities	-	-	**96 544**	**-**
OECD country bonds	-	-	550	-
Other country bonds	-	-	95 994	-
Trading shares and other non- fixed income securities	-	-	**1**	**-**
OECD country shares	-	-	-	-
Other country shares	-	-	1	-
Total	-	-	**96 545**	**-**

18. DERIVATIVE FINANCIAL INSTRUMENTS

The tables below present the fair value of the Group’s and Bank’s derivatives held for trading. Derivative financial instruments are accounted as assets or liabilities together with their notional amounts. The notional amounts are the gross amount of a derivative's underlying assets. For FX derivative notional amounts are calculated based on Regulation No 575/2013 of the European Parliament and of the Council regulation on calculation of capital adequacy. The notional amounts indicate the volume of transactions outstanding at the year end.

Group	31.12.2017			31.12.2016		
	Assets EUR'000	Liabilities EUR'000	Notional amount EUR'000	Assets EUR'000	Liabilities EUR'000	Notional amount EUR'000
Foreign exchange contracts						
Swaps	362	1 195	132 212	753	307	152 373
Forwards	22	4	3 245	66	9	2 568
Other derivatives						
Options	-	-	-	-	2	1 755
Total	**384**	**1 199**	**135 457**	**819**	**318**	**156 696**

Bank	31.12.2017			31.12.2016		
	Assets EUR'000	Liabilities EUR'000	Notional amount EUR'000	Assets EUR'000	Liabilities EUR'000	Notional amount EUR'000
Foreign exchange contracts						
Swaps	362	1 195	132 212	697	307	133 260
Forwards	22	4	3 245	66	9	2 568
Other derivatives						
Options	-	-	-	-	2	1 755
Total	**384**	**1 199**	**135 457**	**763**	**318**	**137 583**

19. LOANS TO AND RECEIVABLES FROM CUSTOMERS

	31.12.2017		31.12.2016	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Net loans to:	**154 731**	**195 804**	**246 576**	**214 606**
Private companies	69 351	111 131	206 627	192 907
Individuals	17 577	16 831	52 342	20 167
Finance companies	109 105	109 105	37 576	37 434
Allowance for impairment losses (Note 20)	(41 302)	(41 263)	(49 969)	(35 902)
Receivables from:	**17 849**	**17 849**	**27 895**	**26 611**
Finance companies	17 849	17 849	27 895	26 611
Individuals	-	-	67	-
Allowance for impairment losses (Note 20)	-	-	(67)	-
Total loans to and receivables from customers, net	**172 580**	**213 653**	**274 471**	**241 217**

	31.12.2017		31.12.2016	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Geographical segmentation of loans and receivables				
Net loans to:	**154 731**	**195 804**	**246 576**	**214 606**
Residents of Latvia	50 569	74 566	49 723	81 098
Residents of OECD countries	17	16	924	26
Residents of other countries	145 447	162 485	245 898	169 384
Allowance for impairment losses (Note 20)	(41 302)	(41 263)	(49 969)	(35 902)
Receivables from:	**17 849**	**17 849**	**27 895**	**26 611**
Residents of Latvia	2	2	2	2
Residents of OECD countries	14 197	14 197	18 092	16 880
Residents of other countries	3 650	3 650	9 868	9 729
Allowance for impairment losses (Note 20)	-	-	(67)	-
Total loans to and receivables from customers, net	**172 580**	**213 653**	**274 471**	**241 217**

	31.12.2017		31.12.2016	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Analysis of loans by type				
Industrial loans	76 872	120 993	90 216	127 210
Mortgage loans	46 878	53 765	54 224	63 608
Commercial loans	4 027	4 101	53 886	3 437
Credit card balances	2 695	2 695	17 508	3 379
Consumer loans	1 391	1 389	8 555	1 734
Finance leases	10 607	529	7 646	804
Reverse Repo transactions	848	848	899	899
Other	11 413	11 484	13 642	13 535
Net loans to customers	**154 731**	**195 804**	**246 576**	**214 606**

The Group has received securities at fair value 1 235 thousand euro (at 31 December 2016: 1 380 thousand euro) as collateral for reverse repo deals and the Group is permitted to sell or repledge them. As at 31 December 2017 they have not been sold or repledged (at 31 December 2016: nil euro).

As at 31 December 2017 the Group and the Bank have the following amounts pledged: 5 796 thousand euro for card transactions (at 31 December 2016: 7 266 and 6 055 thousand euro); 5 853 thousand euro for Forex deals (at 31 December 2016: 5 438 and 5 391 thousand euro); and nil thousand euro for payment system (at 31 December 2016: 26 and nil thousand euro).

During 2017 the Bank's average effective interest rates were: USD 9.36%, EUR 4.04%, RUB 4.73%, GBP 12.16%; in 2016: USD 12.90%, EUR 4.12%, RUB 8.33%, GBP 6.31%.

	31.12.2017		31.12.2016	
Finance leases	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Gross investments	**11 867**	**581**	**8 384**	**893**
Within 1 year	1 017	179	1 108	391
From 1 year to 5 years	3 630	402	3 231	502
More than 5 years	7 220	-	4 045	-
Unearned income	**1 260**	**52**	**738**	**89**
Within 1 year	185	33	134	46
From 1 year to 5 years	514	19	306	43
More than 5 years	561		298	**-**
Present value of minimum lease payments	**10 607**	**529**	**7 646**	**804**
Within 1 year	832	146	974	345
From 1 year to 5 years	3 116	383	2 925	459
More than 5 years	6 659	-	3 747	-

	31.12.2017				
	Over-collaterised loans		Under-collaterised loans		
Group	Net amount of loans	Fair value of collateral	Net amount of loans	Fair value of collateral	Total Loans
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Analysis of loans by type					
Industrial loans	71 092	78 558	5 780	5 014	**76 872**
Mortgage loans	44 762	53 848	2 116	1 399	**46 878**
Commercial loans	4 011	16 019	16	-	**4 027**
Credit card balances	4	56	2 691	-	**2 695**
Consumer loans	48	243	1 343	17	**1 391**
Finance leases	10 607	16 517	-	-	**10 607**
Reverse Repo transactions	848	1 235	-	-	**848**
Other	10 811	12 355	602	114	**11 413**
Net loans to customers	**142 183**	**178 831**	**12 548**	**6 544**	**154 731**

	31.12.2017				
	Over-collateralised loans		Under-collateralised loans		
Bank	Net amount of loans	Fair value of collateral	Net amount of loans	Fair value of collateral	Total Loans
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Analysis of loans by type					
Industrial loans	104 862	123 658	16 131	5 844	**120 993**
Mortgage loans	51 648	71 217	2 117	1 399	**53 765**
Commercial loans	4 085	14 960	16	-	**4 101**
Credit card balances	4	56	2 691	-	**2 695**
Consumer loans	46	242	1 343	17	**1 389**
Finance leases	529	874	-	-	**529**
Reverse Repo transactions	848	1 236	-	-	**848**
Other	10 811	11 560	673	114	**11 484**
Net loans to customers	**172 833**	**223 803**	**22 971**	**7 374**	**195 804**

	31.12.2016				
	Over-collateralised loans		Under-collateralised loans		
Group	Net amount of loans	Fair value of collateral	Net amount of loans	Fair value of collateral	Total Loans
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Analysis of loans by type					
Industrial loans	21 203	36 483	69 013	52 317	**90 216**
Mortgage loans	11 509	19 459	42 715	40 230	**54 224**
Commercial loans	31 563	75 777	22 323	5 686	**53 886**
Credit card balances	192	483	17 316	977	**17 508**
Consumer loans	2 883	3 398	5 672	653	**8 555**
Finance leases	7 567	11 099	79	30	**7 646**
Reverse Repo transactions	899	1 380	-	-	**899**
Other	2 317	3 235	11 325	10 055	**13 642**
Net loans to customers	**78 133**	**151 314**	**168 443**	**109 948**	**246 576**

	31.12.2016				
	Over-collateralised loans		Under-collateralised loans		
Bank	Net amount of loans	Fair value of collateral	Net amount of loans	Fair value of collateral	Total Loans
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Analysis of loans by type					
Industrial loans	58 562	76 827	68 648	52 317	**127 210**
Mortgage loans	20 912	37 946	42 696	40 230	**63 608**
Commercial loans	3 436	15 790	1	-	**3 437**
Credit card balances	9	27	3 370	-	**3 379**
Consumer loans	70	525	1 664	20	**1 734**
Finance leases	725	1 241	79	30	**804**
Reverse Repo transactions	899	1 380	-	-	**899**
Other	2 394	3 063	11 141	10 054	**13 535**
Net loans to customers	**87 007**	**136 799**	**127 599**	**102 651**	**214 606**

20. IMPAIRMENT LOSSES ON FINANCIAL ASSETS

The following table presents an analysis of the change in allowance account for impairment of financial assets.

Group	At 1 January 2017	Impairment charge/ (release)	Written off	Foreign exchange	Reclassification to discontinued operations	At 31 December 2017
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Industrial loans	**18 576**	12 717	(1 389)	(261)	(3 306)	**26 337**
Commercial loans	**8 353**	18	(259)	(167)	(6 201)	**1 744**
Consumer loans	**8 917**	(245)	(606)	-	(2 562)	**5 504**
Credit cards	**8 792**	(59)	(169)	(7)	(6 457)	**2 100**
Finance leasing	**131**	(25)	(48)	-	-	**58**
Mortgage loans	**4 893**	1 350	(721)	(61)	-	**5 461**
Other loans	**307**	-	-	(14)	(195)	**98**
Provisions for loans	**49 969**	**13 756**	**(3 192)**	**(510)**	**(18 721)**	**41 302**
Provisions for receivables	**67**	-	**-**	-	(67)	**-**
Other provisions	**284**	162	(56)	1	(162)	**229**
Total	**50 320**	**13 918**	**(3 248)**	**(509)**	**(18 950)**	**41 531**

Group	Individual impairment	Collective impairment	Total	Gross amount of financial assets individually determined to be impaired before deducting any individually assessed impairment allowance
At 31 December 2017	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**
Industrial loans	26 337	-	**26 337**	79 379
Commercial loans	1 743	1	**1 744**	4 151
Consumer loans	5 474	30	**5 504**	6 049
Credit cards	2 077	23	**2 100**	2 308
Finance leasing	58	-	**58**	579
Mortgage loans	5 417	44	**5 461**	12 130
Other loans	98	-	**98**	97
Provisions for loans	**41 204**	**98**	**41 302**	**104 693**
Provisions for receivables	-	-	**-**	-
Other provisions	229	-	**229**	248
Total	**41 433**	**98**	**41 531**	**104 941**

Group	At 1 January 2016	Impairment charge/ (release)	Written off	Foreign exchange	Reclassification to discontinued operations	At 31 December 2016
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Industrial loans	**25 221**	71	(7 351)	795	(160)	**18 576**
Commercial loans	**9 158**	(1 064)	(1 597)	1 253	603	**8 353**
Consumer loans	**9 072**	(405)	(501)	548	203	**8 917**
Credit cards	**12 255**	4	(4 471)	2 261	(1 257)	**8 792**
Finance leasing	**431**	80	(380)	-	-	**131**
Mortgage loans	**778**	4 477	(385)	23	-	**4 893**
Other loans	**2 211**	(1 464)	(313)	34	(161)	**307**
Provisions for loans	**59 126**	**1 699**	**(14 998)**	**4 914**	**(772)**	**49 969**
Provisions for receivables	**1 940**	(1 940)	**-**	9	58	**67**
Other provisions	**991**	150	(1 007)	11	139	**284**
Total	**62 057**	**(91)**	**(16 005)**	**4 934**	**(575)**	**50 320**

Group	Individual impairment	Collective impairment	Total	Gross amount of financial assets individually determined to be impaired before deducting any individually assessed impairment allowance
At 31 December 2016	EUR'000	EUR'000	EUR'000	EUR'000
Industrial loans	18 576	-	18 576	44 325
Commercial loans	8 234	119	8 353	27 677
Consumer loans	8 637	280	8 917	9 796
Credit cards	8 156	636	8 792	10 006
Finance leasing	131	-	131	879
Mortgage loans	4 783	110	4 893	12 445
Other loans	306	1	307	346
Provisions for loans	**48 823**	**1 146**	**49 969**	**105 474**
Provisions for receivables	67	-	67	67
Other provisions	279	5	284	279
Total	**49 169**	**1 151**	**50 320**	**105 820**

Group	2017	2016
	EUR'000	EUR'000
Result from impairment losses	**(13 694)**	**280**
Increase in allowance (loans)	(15 418)	(14 677)
Released from allowance (loans)	1 500	14 768
Recovery of previously written-off assets	224	189

The following table presents an analysis of the change in allowance account for impairment of financial assets.

Bank	At 1 January 2017 EUR'000	Impairment charge/ (release) EUR'000	Written off EUR'000	Foreign exchange EUR'000	At 31 December 2017 EUR'000
Industrial loans	**15 228**	2 439	(1 390)	(261)	**16 016**
Commercial loans	**2 193**	(41)	(242)	(167)	**1 743**
Consumer loans	**6 355**	(251)	(600)	-	**5 504**
Credit cards	**2 335**	(59)	(169)	(7)	**2 100**
Finance leasing	**130**	(25)	(47)	-	**58**
Mortgage loans	**9 549**	6 202	-	(7)	**15 744**
Other loans	**112**	-	-	(14)	**98**
Provisions for loans	**35 902**	**8 265**	**(2 448)**	**(456)**	**41 263**
Other provisions	**35**	37	(56)	(3)	**13**
Total	**35 937**	**8 302**	**(2 504)**	**(459)**	**41 276**

Bank At 31 December 2017	Individual impairment EUR'000	Collective impairment EUR'000	Total EUR'000	Gross amount of financial assets individually determined to be impaired before deducting any individually assessed impairment allowance EUR'000
Industrial loans	16 016	-	**16 016**	79 379
Commercial loans	1 743	-	**1 743**	4 151
Consumer loans	5 474	30	**5 504**	6 049
Credit cards	2 077	23	**2 100**	2 308
Finance leasing	58	-	**58**	579
Mortgage loans	15 744	-	**15 744**	29 999
Other loans	98	-	**98**	98
Provisions for loans	**41 210**	**53**	**41 263**	**122 563**
Other provisions	13	**-**	**13**	13
Total	**41 223**	**53**	**41 276**	**122 576**

Bank	At 1 January 2016 EUR'000	Impairment charge/ (release) EUR'000	Written off EUR'000	Foreign exchange EUR'000	At 31 December 2016 EUR'000
Industrial loans	**22 439**	29	(7 351)	111	**15 228**
Commercial loans	**4 770**	(1 024)	(1 597)	44	**2 193**
Consumer loans	**7 039**	(397)	(287)	-	**6 355**
Credit cards	**2 626**	4	(296)	1	**2 335**
Finance leasing	**431**	80	(381)	-	**130**
Mortgage loans	**616**	8 931	-	2	**9 549**
Other loans	**1 838**	(1 463)	(226)	(37)	**112**
Provisions for loans	**39 759**	**6 160**	**(10 138)**	**121**	**35 902**
Provisions for receivables	**1 940**	(1 915)	**(25)**	**-**	**-**
Other provisions	**540**	38	(531)	(12)	**35**
Total	**42 239**	**4 283**	**(10 694)**	**109**	**35 937**

Bank At 31 December 2016	Individual impairment EUR'000	Collective impairment EUR'000	Total EUR'000	Gross amount of financial assets individually determined to be impaired before deducting any individually assessed impairment EUR'000
Industrial loans	15 228	-	**15 228**	64 499
Commercial loans	2 193	-	**2 193**	4 802
Consumer loans	6 332	23	**6 355**	7 169
Credit cards	2 320	15	**2 335**	2 573
Finance leasing	130	-	**130**	879
Mortgage loans	9 549	-	**9 549**	28 378
Other loans	112	-	**112**	112
Provisions for loans	**35 864**	**38**	**35 902**	**108 412**
Other provisions	35	-	**35**	35
Total	**35 899**	**38**	**35 937**	**108 447**

Bank	2017 EUR'000	2016 EUR'000
Result from impairment losses	**(8 078)**	**(3 988)**
Increase from impairment (loans)	(16 685)	(16 669)
Released from impairment	8 383	12 386
Recovery of previously written-off assets	224	295

21. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	31.12.2017		31.12.2016	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Bonds and other fixed income securities	**128 616**	**128 616**	**89 040**	**89 040**
Latvia	10 370	10 370	4 977	4 977
OECD country bonds	73 768	73 768	28 730	28 730
Other country bonds	44 478	44 478	55 333	55 333
Shares and other non-fixed income securities	**13 943**	**146 331**	**10 339**	**161 930**
Funds registered in Latvia	4 995	137 383	-	151 591
Funds registered in EU countries	5 102	5 102	7 288	7 288
Other non-fixed income securities (OECD country residents)	3 846	3 846	3 051	3 051
Investments in subsidiaries	**-**	**43 302**	**-**	**82 240**
Bank (Other country residents)	-	31 814	-	53 618
Financial institutions (LR residents)	-	3	-	14 864
Financial institutions (OECD country residents)	-	9 765	-	10 684
Financial institutions (other country residents)	-	1 720	-	3 074
Total	**142 559**	**318 249**	**99 379**	**333 210**

The Bank/Group treats available-for-sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists.
During 2017 and 2016 the Bank/Group recognized impairment losses regarding its investments:

	31.12.2017		31.12.2016	
	Group	**Bank**	**Group**	**Bank**
Investment in:	**EUR’000**	**EUR’000**	**EUR’000**	**EUR’000**
Norvik Malta Sicav Plc	2 548	2 548	2 166	2 166
Nākotnes Īpašumu Fonds	-	13 988	-	3 950
ПАО "Норвик Банк"	-	26 810	-	-
Tatfondbank	-	-	947	947
"NORVIK” liquidation Universal Credit Organization CJSC	-	471	-	-
Total	**2 548**	**43 817**	**3 113**	**7 063**

The following table presents an analysis of the change in revaluation reserve of Available-for-sale financial assets:

	Group	**Bank**
	EUR’000	**EUR’000**
At 31 December 2015	**5 668**	**2 771**
Revaluation	(3 021)	12 084
Impairment loss reclassified to income statement	3 113	7 063
Net (gain) or loss from sales of available-for-sale financial assets	(7 058)	(11 283)
At 31 December 2016	**(1 298)**	**10 635**
Revaluation	91	(43 088)
Impairment loss reclassified to income statement	2 548	43 817
Net (gain) or loss from sales of available-for-sale financial assets	(1 701)	(1 469)
At 31 December 2017	**(360)**	**9 895**

As at 31 December 2017 and 2016 the Bank had the following investments in subsidiaries:

Company	Country	Business profile	Balance value (EUR'000) as at 31 December 2017	Bank's share capital (%) as at 31 December 2017	Balance value (EUR'000) as at 31 December 2016	Bank's share capital (%) as at 31 December 2016
ПАО "Норвик Банк"	RU	Financial services	31 814	97.75	53 618	97.75
Coleum INC Limited	CY	Financial services	-	100	-	0
"Sport Leasing" SIA	LV	Financial services	3	100	3	100
"NORVIK" liquidation Universal Credit Organization CJSC	AM	Financial services	1 720	100	3 074	100
"Norvik Banka UK" Limited	GB	Financial services	9 765	100	10 684	100
"NORVIK APDROŠINĀŠANAS BROKERIS" SIA	LV	Insurance brokerage services	-	100	-	100
AS "NORVIK EURASIA AIF"	LV	Financial services	-	0	14 861	100
"Allurine" Limited	CY	Financial services	-	0	-	100
"Olerinia" Limited	CY	Financial services	-	0	-	100
Total			**43 302**		**82 240**	

In October 2017 Bank has liquidated its subsidiary AS "NORVIK EURASIA AIF". As the result Bank has recognized losses in amount 218 thousand euro.

The following table provides information about subsidiary that has non-controlling interest that is material to the Group:

	Subsidiary	Place of business	Proportion of non-controlling interest and voting rates	Profit/(loss) attributable to non-controlling interest EUR'000	Accumulated non-controlling interest in the subsidiary EUR'000
31.12.2017	ПАО "Норвик Банк"	Russia	2.25%	33	854
31.12.2016	ПАО "Норвик Банк"	Russia	2.25%	94	952

22. GOODWILL

Under IAS 36 *"Impairment of Assets"* goodwill is reviewed for impairment at each balance sheet date or more frequently when there are indications that impairment may have occurred. If such indications exist the Bank estimates the recoverable amount of goodwill. In case if the carrying amount of goodwill is greater than its estimated recoverable amount an impairment loss of goodwill is recognized in the Group's consolidated income statement.

As a result of acquisition on ПАО "Норвик Банк" in 2014, the Group recognized goodwill of 9 858 thousand euro. In 2017 Share Purchase Agreement was concluded regarding the sale of the shares of ПАО "Норвик Банк" and as a result in February 2018 the Bank lost control over the subsidiary. Since the sales price does not cover the value of net assets including goodwill, the impairment loss in full amount of recognised goodwill was recognized in the Group's consolidated income statement (see Note 28).

23. HELD-TO-MATURITY FINANCIAL ASSETS

	31.12.2017		31.12.2016	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Bonds and other fixed income securities				
OECD country bonds	16 705	16 705	19 483	19 483
Total	**16 705**	**16 705**	**19 483**	**19 483**

As at 31 December 2017 the Bank has 16 705 thousand euro pledged for Forex deals (in 2016: 18 990 thousand euro).

24. INTANGIBLE ASSETS

	31.12.2017		31.12.2016	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Software	1 084	1 054	853	826
Other intangible assets	5 241	60	5 122	122
Net book value of other intangible assets	**6 325**	**1 114**	**5 975**	**948**

The following table shows the changes in the Group's and Bank's intangible assets for the year ended 31 December 2017 and 31 December 2016:

Group	**Software**	**Other intangible assets**	**Total**
EUR `000			
Cost			
At 31 December 2016	**3 302**	**5 122**	**8 424**
Additions	525	536	**1 061**
Disposals	(13)	(417)	**(430)**
Foreign exchange	(3)	-	**(3)**
At 31 December 2017	**3 811**	**5 241**	**9 052**
Amortization			
At 31 December 2016	**2 449**	**-**	**2 449**
Charge	294	-	**294**
Disposals	(14)	-	**(14)**
Foreign exchange	(2)	-	**(2)**
At 31 December 2017	**2 727**	**-**	**2 727**
Net book value			
At 31 December 2016	**853**	**5 122**	**5 975**
At 31 December 2017	**1 084**	**5 241**	**6 325**

Group	Software	Other intangible assets	Total
EUR `000			
Cost			
At 31 December 2015	**2 599**	**43**	**2 642**
Additions	747	5 140	**5 887**
Disposals	(45)	(61)	**(106)**
Foreign exchange	1	**-**	**1**
At 31 December 2016	**3 302**	**5 122**	**8 424**
Amortization			
At 31 December 2015	**2 247**	**-**	**2 247**
Charge	246	-	**246**
Disposals	(44)	-	**(44)**
At 31 December 2016	**2 449**	**-**	**2 449**
Net book value			
At 31 December 2015	**352**	**43**	**395**
At 31 December 2016	**853**	**5 122**	**5 975**

Bank	Software	Other intangible assets	Total
EUR`000			
Cost			
At 31 December 2016	**4 012**	**122**	**4 134**
Additions	508	355	**863**
Disposals	(13)	(417)	**(430)**
At 31 December 2017	**4 507**	**60**	**4 567**
Amortization			
At 31 December 2016	**3 186**	**-**	**3 186**
Charge	281	-	**281**
Disposals	(14)	-	**(14)**
At 31 December 2017	**3 453**	**-**	**3 453**
Net book value			
At 31 December 2016	**826**	**122**	**948**
At 31 December 2017	**1 054**	**60**	**1 114**

Bank	Software	Other intangible assets	Total
EUR`000			
Cost			
At 31 December 2015	**3 284**	**43**	**3 327**
Additions	739	141	**880**
Disposals	(11)	(62)	**(73)**
At 31 December 2016	**4 012**	**122**	**4 134**
Amortization			
At 31 December 2015	**2 976**	**-**	**2 976**
Charge	220	-	**220**
Disposals	(10)	-	**(10)**
At 31 December 2016	**3 186**	**-**	**3 186**
Net book value			
At 31 December 2015	**308**	**43**	**351**
At 31 December 2016	**826**	**122**	**948**

25. INVESTMENT PROPERTY

Investment property is stated at fair value which has been determined close to reporting date based on valuation performed by independent, professionally qualified valuator who has recent experience in valuing similar properties. The 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 following table shows the movement in the Group’s and Bank’s investment property for the year ended 31 December 2017:

	Group EUR’000	Bank EUR’000
As at 31 December 2015	**106 642**	**6 225**
Additions	6 839	-
Reclassification to discountinued operations	609	-
Disposal	(19 984)	-
Transfer	(1 778)	-
Net change in fair value	(7 078)	83
Foreign exchange	7 327	-
As at 31 December 2016	**92 577**	**6 308**
Additions	1 467	-
Disposal	(4 354)	-
Derecognition	(4)	-
Reclassification to discountinued operations	(174)	-
Net change in fair value	(18 040)	(158)
Foreign exchange	(4 386)	-
As at 31 December 2017	**67 086**	**6 150**

Group's and Bank's investment properties types are following:

	31.12.2017		31.12.2016	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Unfinished constructions*	21 101	-	26 951	-
Land	23 410	-	26 324	-
Manufacturing facilities and warehouses	4 802	6 150	13 668	6 308
Office buildings	8 762	-	12 420	-
Apartments	5 467	-	5 526	-
Hotels and restaurants	492	-	2 444	-
Fuel station and oil depot	1 135	-	1 888	-
Other	1 917	-	3 356	-
Total	**67 086**	**6 150**	**92 577**	**6 308**

* Including unfinished construction of the hotel in Mozhaisk, Russia.

Group's investment property is stated at fair value. The valuation of Group's investment properties was performed by certified independent appraisers of the licensed companies. Based on the investment property object (type of asset, location, number of market transactions) various valuation methods were used – market evidence of transaction prices for similar properties, income method or discounted cash flow method.

Rental income from investment property earned by the Group/Bank amounted to 1 293 thousand euro (31 December 2016: 1 870 thousand euro) / 512 thousand euro (31 December 2016: 512 thousand euro). Direct operating expenses (including real estate tax) arising from investment property that generated rental income during the period by the Group/Bank amounted to 727 thousand euro (31 December 2016: 836 thousand euro) / 14 thousand euro (31 December 2016: 14 thousand euro). Direct operating expenses (including real estate tax) arising from investment property that did not generate rental income during the period by the Group amounted to 633 thousand euro (31 December 2016: 741 thousand euro). Part of Group's investment property is acquired by overtaking collateral from loans issued by the Bank.

As of 31 December 2017 the amount of overtaken collateral accounted as Group investment property was 115 thousand euro (31 December 2016: 167 thousand euro).

26. TANGIBLE FIXED ASSETS

	31.12.2017		31.12.2016	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Land and buildings	61 214	15 977	79 605	16 727
Historically significant buildings	16 099	16 099	16 391	16 391
Vehicles	174	167	306	204
Office equipment and other fixed	11 623	2 113	13 053	1 712
Prepayments for tangible fixed	3 942	2 946	1 444	498
Leasehold improvements	162	-	146	-
Net book value of tangible fixed assets	**93 214**	**37 302**	**110 945**	**35 532**

Group's tangible fixed asset's class Land and buildings are stated at revalued amount.

The valuation of Group's tangibles fixed assets were performed by certified independent appraisers of the licensed companies. Based on the object (type of asset, location, number of market transactions) various valuation methods were used – market evidence of transaction prices for similar properties, income method or discounted cash flow method.

The carrying amount of tangible fixed asset’s class *Land and buildings* had the assets been carried under the cost model would be 55 829 thousand euro for Group’s tangible fixed assets, 8 648 thousand euro for Bank’s tangible fixed assets (2016: 57 444 thousand euro for Group’s tangible fixed assets 9 010 thousand euro for Bank’s tangible fixed assets).

According to planning the repair works in the building in Riga, 21 E. Birznieka-Upīša Street finished in the third quarter of 2017. A part of the building is used as office space for the Bank’s employees, the other part – as a space for a co-working centre. The Bank keeps carrying both assets above under the Tangible fixed assets category, as the Bank keeps occupying a major part of the areas for the administrative purposes.

Part of Group’s tangible fixed assets is acquired by overtaking collateral from loans issued by the Bank. In 2017 there were no overtaken collaterals accounted as Group’s tangible fixed assets (2016: 40 000 thousand euro).

The following table shows the changes in the Group’s /Bank’s tangible fixed assets for the year ended 31 December 2017 and 31 December 2016:

Group EUR'000	Land and Buildings	Historically significant buildings	Vehicles	Office equipment and other fixed assets	Prepay-ments for tangible fixed assets	Leasehold improve-ments	Total
Historical cost/Revalued amount							
At 31 December 2016	**90 393**	**17 068**	**1 036**	**25 584**	**1 444**	**511**	**136 036**
Additions	-	271	11	1 557	3 500	248	**5 587**
Sale	-	-	-	(6)	-	-	**(6)**
Other changes	(43)	-	-	-	-	-	**(43)**
Revaluation	1 311	-	-	(1)	(17)	(228)	**1 065**
Reclassification to discountinued operations	(18 483)	-	(456)	(1 970)	-	-	**(20 909)**
Reclassification	-	-	(123)	(774)	(12)	12	**(897)**
Disposals	-	-	(47)	(431)	(971)	-	**(1 449)**
Foreign exchange	(1 517)	-	14	(198)	(2)	(40)	**(1 743)**
At 31 December 2017	**71 661**	**17 339**	**435**	**23 761**	**3 942**	**503**	**117 641**
Accumulated depreciation and impairment							
At 31 December 2016	**10 788**	**677**	**730**	**12 531**	**-**	**365**	**25 091**
Charge	2 018	563	58	2 393	-	16	**5 048**
Sale	-	-	-	(6)	-	-	**(6)**
Reclassification to discountinued operations	(2 737)	-	(406)	(1 824)	-	-	**(4 967)**
Reclassification	-	-	(59)	(407)	-	-	**(466)**
Impairment	158	-	-	-	-	-	**158**
Disposals	-	-	(47)	(397)	-	-	**(444)**
Foreign exchange	220	-	(15)	(152)	-	(40)	**13**
At 31 December 2017	**10 447**	**1 240**	**261**	**12 138**	**-**	**341**	**24 427**
Net book value							
At 31 December 2016	**79 605**	**16 391**	**306**	**13 053**	**1 444**	**146**	**110 945**
At 31 December 2017	**61 214**	**16 099**	**174**	**11 623**	**3 942**	**162**	**93 214**

Group EUR'000	Land and Buildings	Historically significant buildings	Vehicles	Office equipment and other fixed assets	Prepay-ments for tangible fixed assets	Leasehold improve-ments	Total
Historical cost/Revalued amount							
At 31 December 2015	**56 878**	**-**	**1 010**	**22 356**	**3 674**	**492**	**84 410**
Additions	39 491	3 757	-	1 843	4 180	10	**49 281**
Sale	-	-	(34)	(36)	(298)	-	**(368)**
Revaluation	2 114	-	-	(1)	-	-	**2 113**
Reclassification	(11 706)	13 311	-	1 811	(1 811)	-	**1 605**
Disposals	-	-	(34)	(819)	(4 306)	-	**(5 159)**
Foreign exchange	3 616	-	94	430	5	9	**4 154**
At 31 December 2016	**90 393**	**17 068**	**1 036**	**25 584**	**1 444**	**511**	**136 036**
Accumulated depreciation and impairment							
At 31 December 2015	**8 030**	**-**	**565**	**10 321**	**-**	**336**	**19 252**
Charge	1 876	278	67	2 465	-	20	**4 706**
Reclassification to discountinued operations	338	-	81	203	-	-	**622**
Sale	-	-	(34)	(36)	-	-	**(70)**
Impairment charge	441	399	-	2	-	-	**842**
Impairment reversal	(345)	-	-	-	-	-	**(345)**
Disposals	-	-	(33)	(808)	-	-	**(841)**
Foreign exchange	448	-	84	384	-	9	**925**
At 31 December 2016	**10 788**	**677**	**730**	**12 531**	**-**	**365**	**25 091**
Net book value							
At 31 December 2015	**48 848**	**-**	**445**	**12 035**	**3 674**	**156**	**65 158**
At 31 December 2016	**79 605**	**16 391**	**306**	**13 053**	**1 444**	**146**	**110 945**

Bank EUR'000	Land and Buildings	Historically significant buildings	Vehicles	Office equipment and other fixed assets	Prepay-ments for tangible fixed assets	Total
Historical cost/Revalued amount						
At 31 December 2016	**23 880**	**17 068**	**437**	**6 370**	**498**	**48 253**
Additions	-	271	11	1 062	3 419	**4 763**
Other changes	(43)	-	-	-	-	**(43)**
Disposals	-	-	(47)	(424)	(971)	**(1 442)**
At 31 December 2017	**23 837**	**17 339**	**401**	**7 008**	**2 946**	**51 531**
Accumulated depreciation and impairment						
At 31 December 2016	**7 153**	**677**	**233**	**4 658**	**-**	**12 721**
Charge	707	563	48	630	-	**1 948**
Disposals	-	-	(47)	(393)	-	**(440)**
At 31 December 2017	**7 860**	**1 240**	**234**	**4 895**	**-**	**14 229**
Net book value						
At 31 December 2016	**16 727**	**16 391**	**204**	**1 712**	**498**	**35 532**
At 31 December 2017	**15 977**	**16 099**	**167**	**2 113**	**2 946**	**37 302**

Bank EUR'000	Land and Buildings	Historically significant buildings	Vehicles	Office equipment and other fixed assets	Prepay-ments for tangible fixed assets	Total
Historical cost/Revalued amount						
At 31 December 2015	**24 205**	**-**	**468**	**5 523**	**1 626**	**31 822**
Additions	295	16 008	-	1 661	3 178	**21 142**
Revaluation	440	-	-	-	-	**440**
Reclassification	(1 060)	1 060	-	-	-	**-**
Disposals	-	-	(31)	(814)	(4 306)	**(5 151)**
At 31 December 2016	**23 880**	**17 068**	**437**	**6 370**	**498**	**48 253**
Accumulated depreciation and impairment						
At 31 December 2015	**6 740**	**-**	**214**	**5 009**	**-**	**11 963**
Charge	674	278	50	452	-	**1 454**
Impairment charge	-	399	-	-		**399**
Impairment reversal	(261)	-	-	-	-	**(261)**
Disposals	-	-	(31)	(803)	-	**(834)**
At 31 December 2016	**7 153**	**677**	**233**	**4 658**	**-**	**12 721**
Net book value						
At 31 December 2015	**17 465**	**-**	**254**	**514**	**1 626**	**19 859**
At 31 December 2016	**16 727**	**16 391**	**204**	**1 712**	**498**	**35 532**

Revaluation reserve of tangible fixed assets included in equity and is not distributable to shareholders.

27. ASSETS HELD FOR SALE

Under the Assets Held for Sale category the Bank/Group presents real estate items which served as collateral for issued loans but then were disposed of to settle the clients' obligations.

Management approved a plan to sell all real estates obtained as a loan collateral in amount of 1 143 thousand euro (2016: 5 756 thousand euro) for Group and in amount of 445 thousand euro (2016: 541 thousand euro) for Bank. The Group is actively marketing these assets and expects the sale to complete by 31 December 2018.

28. DISCONTINUED OPERATIONS

Discontinued Operation relate to a subsidiary ПАО "Норвик Банк" (Russian Federation) that is disposed from the Group by sale in 2018. These assets are carried at fair value less costs to sell. Fair value is the amount of the discounted sale amount determined in the asset sale agreement.
Below are the details of the assets and liabilities:

	2017	2016
Disposal ASSETS	**205 037**	**224 359**
Cash and balances with the central bank	12 692	14 552
Loans to and receivables from banks	16 730	6 373
Trading financial assets	89 424	95 442
Derivatives financial instruments	2	55
Loans to and receivables from customers	69 240	73 929
Prepaid corporate income tax	162	175
Investment property	174	1 053
Tangible fixed assets	11 100	17 691
Assets held for sale	4 808	4 246
Other assets	705	985
Goodwill	-	9 858
LIABILITIES	**172 343**	**169 418**
Customer deposits	170 235	162 430
Subordinated debt	-	5 188
Other liabilities	2 108	1 800
Equity	**(16 071)**	**1 322**
Revaluation reserve of tangible fixed assets, net of tax	1 491	1 653
Revaluation reserve of foreign currency translation	(7 275)	(5 751)
Fixed assets reserve amortization	45	37
Retained earnings	4 469	3 095
Profit/(loss) for the year	(15 654)	1 336
Total equity attributable to equity holders of the Bank	**(16 924)**	**370**
Non-controlling interests	**853**	**952**

Statement of profit or loss:

	2017	2016
Net interest income	4 480	5 500
Net fee and commission income	5 015	5 168
Net trading income	3 504	3 013
Net other operating income / (-) expenses	(7)	565
Administrative expenses	(13 362)	(12 604)
Impairment losses	(5 342)	482
Goodwill impairment	(9 858)	-
Profit or (-) loss before tax	**(15 570)**	**2 124**
Tax expenses	(51)	(694)
Profit/(loss) for the year	**(15 621)**	**1 430**
Non-controlling interests	33	94
Attributable to:		
Equity holders of the owners of the parent	**(15 654)**	**1 336**

Cash flow information of the discontinued operations:

	2017	2016
Net cash inflow/ (outflow) from operating activities	7 708	(1 043)
Net cash inflow/(outflow) from investing activities	35	(54)
Net cash (outflow) from financing activities	(7 600)	-
Net increase in cash generated by the subsidiary	**143**	**(1 097)**

In 2017, ПАО "Норвик Банк" paid to the Bank dividends for the amount of 2 840 thousand euro (2016 nil).

Based on the Share Purchase Agreement conducted in February 2018, the Bank sold 85% of it's investment in ПАО "Норвик Банк (Russian Federation) to the majority shareholder of the Bank. Therefore as at 31 December 2017 this investment has been classified as a "Discontinued Operations".

29. OTHER ASSETS

	31.12.2017		31.12.2016	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Financial assets:				
Spot deals	179	179	399	399
Cards transactions	509	508	48	48
Other receivables	2 422	1 090	5 134	1 235
Non-financial assets:				
Inventories	4 583	-	4 985	-
Deferred expenses	1 048	816	1 254	972
VAT	479	76	3 283	51
Accrued income	1 964	554	2 063	169
Deferred tax assets	-	-	216	-
Other receivables *	15 366	6 136	10 868	1 585
Total	**26 550**	**9 359**	**28 250**	**4 459**

As of 31 December 2017 there were encumbered amounts among the Financial assets "Other receivables" of the Bank/Group:

- 1 341 thousand euro were arrested on SIA Winergy’s account, see Note 5 (in 2016: 3 372 thousand euro);
- 1 005 thousand euro were arrested on the account held with Deutsche Bank Trust Company Americas (in 2016: 1 143 thousand euro).

As of 31 December 2017 there were encumbered amounts among the Non-financial assets “Other receivables” of the Bank/Group: 91 thousand euro were pledged for communal and communication services (in 2016: 96 thousand euro).

* As of 31 December 2017 there is impaired assets in amount of 13 thousand euro fully impaired.

30. MANAGED TRUST ASSETS AND LIABILITIES

	31.12.2017		31.12.2016	
	Group EUR’000	Bank EUR’000	Group EUR’000	Bank EUR’000
Managed trust assets	**49 589**	**49 589**	**3 961**	**3 961**
Loans	49 589	49 589	3 961	3 961
Managed trust liabilities	**49 589**	**49 589**	**3 961**	**3 961**
Private companies	49 589	49 589	3 961	3 961

The financial statements disclose assets and liabilities held by the Bank on behalf of clients. Mentioned assets and liabilities are accounted at carrying value in the off-balance sheet. The Group does not carry credit interest rate or any other risk associated with these managed assets. The Bank receives commission fee for rendering of trust services to clients (see Note 9).

31. DUE TO THE CENTRAL BANK AND OTHER BANKS

	31.12.2017		31.12.2016	
	Group EUR’000	Bank EUR’000	Group EUR’000	Bank EUR’000
Demand deposits	**475**	**478**	**7 359**	**7 363**
Banks registered in Latvia	445	445	6 268	6 268
Banks registered in OECD countries	9	9	11	11
Banks registered in other countries	21	24	1 080	1 084
Term deposits	**1 584**	**1 584**	**4**	**4**
Banks registered in Latvia	1 584	1 584	-	-
Banks registered in OECD countries	-	-	4	4
Total	**2 059**	**2 062**	**7 363**	**7 367**

During 2017 the Bank’s average effective interest rates for a bank’s term deposits were: USD 0.27%, RUB 8.2%, in 2016: USD 0.01%, RUB 6.37%.

32. CUSTOMER DEPOSITS

	31.12.2017		31.12.2016	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Current accounts	**460 547**	**463 103**	**525 975**	**492 804**
Private companies	334 731	337 287	356 754	338 358
Individuals	123 922	123 922	165 977	152 301
Public organizations	893	893	1 778	1 040
Government companies	311	311	873	512
Local government	690	690	593	593
Fixed-term deposits	**152 921**	**199 190**	**261 898**	**193 534**
Private companies	12 454	58 723	21 981	76 789
Individuals	140 266	140 266	238 404	116 515
Public organizations	201	201	331	230
Government companies	-	-	1 182	-
Promissory notes issued	**-**	**-**	**286**	**-**
Demand	-	-	286	-
Total	**613 468**	**662 293**	**788 159**	**686 338**

	31.12.2017		31.12.2016	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Geographical segmentation of customer deposits				
Current accounts	**460 547**	**463 103**	**525 975**	**492 804**
Residents of Latvia	102 520	104 969	109 700	111 367
Residents of OECD countries	130 716	130 740	114 474	114 680
Residents of other countries	227 311	227 394	301 801	266 757
Fixed-term deposits	**152 921**	**199 190**	**261 898**	**193 534**
Residents of Latvia	144 482	190 751	118 185	176 801
Residents of OECD countries	1 085	1 085	1 134	1 134
Residents of other countries	7 354	7 354	142 579	15 599
Promissory notes issued	**-**	**-**	**286**	**-**
Residents of other countries	-	-	286	-
Total	**613 468**	**662 293**	**788 159**	**686 338**

During 2017 the Bank's average effective interest rates for term deposits were: EUR 0.53%, USD 0.11%, RUB 0.2%, GBP 0.01%, CHF 0.01%; in 2016: EUR 0.41%, USD 0.10%, RUB 0.82%, GBP 0.02%, CHF 0.01%.

33. SUBORDINATED DEPOSITS

As at 31 December 2017 and 2016 subordinated debt lenders were as follows:

31.12.2017		Group			Bank		
Lenders:	Currency	EUR'000	Rate %	Maturity	EUR'000	Rate %	Maturity
Residents	EUR	1 664	2.70 - 6	2018-2024	1 664	2.70 - 6	2018-2024
Residents	USD	2 773	4 - 7	2019-2020	2 773	4 - 7	2019-2020
Non-residents	EUR	5 847	2.75 - 6	2018-2025	5 847	2.75 - 6	2018-2025
Non-residents	USD	11 025	4 - 6	2018-2024	11 025	4 - 6	2018-2024
Total		**21 309**			**21 309**		

31.12.2016		Group			Bank		
Lenders:	Currency	EUR'000	Rate %	Maturity	EUR'000	Rate %	Maturity
Residents	EUR	2 364	3.85 - 7	2017-2022	2 364	3.85 - 7	2017-2022
Residents	USD	5 384	4 - 7	2017-2020	5 384	4 - 7	2017-2020
Non-residents	EUR	16 447	4 - 7	2017-2025	16 447	4 - 7	2017-2025
Non-residents	USD	16 649	4 - 12	2017-2040	11 461	4 - 7	2017-2024
Total		**40 844**			**35 656**		

34. SUBORDINATED DEBT SECURITIES

As at 31 December 2017 and 2016 the Group's and the Bank's subordinated debt securities were as follows:

31.12.2017

ISIN	Currency	Date of issue	Date of maturity	Coupon rate %	Principal amount EUR'000	Accrued coupon amount EUR'000	Total EUR'000
LV0000801389	EUR	08.08.2014	08.08.2022	6	2 000	18	2 018
LV0000801397	EUR	24.10.2014	24.10.2021	6	1 000	11	1 011
LV0000801637	EUR	19.12.2014	19.12.2022	6	1 300	3	1 303
LV0000801660	USD	27.02.2015	27.02.2020	6.2	12 090	632	12 722
LV0000801678	EUR	27.02.2015	27.02.2020	6	10 000	7	10 007
LV0000802031	EUR	10.03.2016	10.03.2022	6	10 000	35	10 035
						Total:	**37 096**

31.12.2016

ISIN	Currency	Date of issue	Date of maturity	Coupon rate %	Principal amount EUR'000	Accrued coupon amount EUR'000	Total EUR'000
LV0000801389	EUR	08.08.2014	08.08.2022	6	2 000	18	2 018
LV0000801397	EUR	24.10.2014	24.10.2021	6	1 000	11	1 011
LV0000801637	EUR	19.12.2014	19.12.2022	6	1 300	3	1 303
LV0000801660	USD	27.02.2015	27.02.2020	6.2	13 756	719	14 475
LV0000801678	EUR	27.02.2015	27.02.2020	6	10 000	7	10 007
LV0000802031	EUR	10.03.2016	10.03.2022	6	10 000	35	10 035
						Total:	**38 849**

Mentioned subordinated debt securities are unlisted.

35. OTHER LIABILITIES

	31.12.2017		31.12.2016	
	Group EUR’000	Bank EUR’000	Group EUR’000	Bank EUR’000
Financial liabilities				
Spot deals	255	255	1 207	1 207
Payments collected on behalf of public utilities services providers	109	109	88	88
Cards transactions	17	17	590	120
Other	3 880	342	6 277	499
Non-financial liabilities				
Accrued liabilities	1 312	812	1 674	694
Accrued expenses	2 646	2 335	2 160	1 387
Deferred income	3 446	205	3 696	3
Other	6 548	148	4 987	42
Total	**18 213**	**4 223**	**20 679**	**4 040**

36. SHARE CAPITAL

	31.12.2017		31.12.2016	
	Quantity`000	EUR’000	Quantity`000	EUR’000
Registered and paid – in share capital	**218 504**	**131 102**	**218 504**	**131 102**

Voting rights correspond to number of registered shares.

As at 31 December 2017 and 2016 accordingly the Bank’s shareholders were as follows:

	31.12.2017			31.12.2016		
Shareholder (residence)	Number of shares	% of total shares	Paid up share capital EUR’000	Number of shares	% of total shares	Paid up share capital EUR’000
G. Guselnikov (LV)	83 705 780	38.309	50 224	83 705 780	38.309	50 224
G. Guselnikov* (LV)	125 985 339	57.658	75 591	125 985 339	57.658	75 591
Other (each individually less than 5%)	8 812 381	4.033	5 287	8 812 381	4.033	5 287
Total	**218 503 500**	**100**	**131 102**	**218 503 500**	**100**	**131 102**

** indirectly (in accordance with Article 33.[1] (1) 8) of the Credit Institution Law)*

As of 31 December 2017 and 2016, the Bank was ultimately controlled by Mr G.Guselnikov.

37. PROFIT/LOSS PER SHARE

Earnings per share are based on net profit attributable to ordinary equity holders of the parent divided by the weighted average number of issued shares. As of 31 December 2017 and 2016 there is no difference between basic and diluted earnings per share calculation.

	Group 31.12.2017	Group 31.12.2016
Net profit/loss (EUR'000)	(47 748)	12 436
Weighted average number of ordinary shares ('000)	218 504	218 504
Profit /loss per share (EUR)	**(0.22)**	**0.06**

38. CASH AND CASH EQUIVALENTS

	31.12.2017		31.12.2016	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Cash and balances due on demand from the Central Banks	131 978	131 977	214 554	200 001
Balances due from other banks with original maturity of 3 months or less	52 717	52 431	39 691	32 948
Total	**184 695**	**184 408**	**254 245**	**232 949**

39. COMMITMENTS AND CONTINGENCIES

	31.12.2017		31.12.2016	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Contingent liabilities	**3 249**	**3 249**	**8 957**	**3 276**
Guarantees	3 249	3 249	8 957	3 276
Commitments	**3 553**	**3 556**	**21 261**	**5 182**
Unused credit lines	3 328	3 331	21 261	5 182
Letters of credit	225	225	-	-
Total off-balance sheet items gross	**6 802**	**6 805**	**30 218**	**8 458**

In the ordinary course of business the Group provides loan commitments, guarantees and letters of credit. The main purpose of these instruments is to ensure the availability of necessary funds for the clients. Guarantees and letters of credit that include irrevocable liabilities - the ones that the Bank will have to pay in the event of failure by the clients to meet their obligations to third parties - are assigned the same risk as for loans. Letters of credit in accordance with which the Bank has the right on behalf of the client to accept invoices from third parties are secured with goods being transported.

Unused part of credit lines is viewed as an obligation arising from credit lines. As regards the credit risk the Bank is potentially exposed to losses arising also from obligations under unused credit lines.

40. FAIR VALUE OF 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 Banks and the Group disclose the fair values of assets to compare them with the carrying amounts. Fair value of financial instruments is mostly determined based on prices quoted in an active market.

The following describes the methodologies and assumptions used to determine fair value for those financial instruments which are not recorded at fair value in the financial statements:
- for financial assets and liabilities that have a short term maturity (such as overdrafts money market deals with maturity less than 3 months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits current accounts without a specific maturity and subordinated debts with special conditions which permit for such debts to be eligible as tier 2 capital;
- the fair value of fixed rate financial assets and liabilities carried at amortized cost are estimated as the present value of future cash flows by discounting contractual cash flows using current rates at which similar loans (or attracted deposits) would be transacted by the Group with borrowers with similar credit ratings and/or collateral and for the same remaining maturities;
- no future loan losses adjustments related to future probable loan renegotiating or early repayment considered.

The fair values were calculated for disclosure purposes only. The valuation techniques and assumptions described above provide a measurement of fair value of the Bank's and Group's financial instruments accounted for at amortized cost. However, because other institutions may use different methods and assumptions for their fair value estimation such fair value disclosures cannot necessarily be compared from one financial institution to another.

Changes in fair value are recognized in comprehensive income and equity in position "Revaluation reserve of available-for-sale financial assets net of tax". Net gain or loss from sales is recognized in Income Statement position "Net gain or loss from sales of available-for-sale financial assets".

Fair value of real estate (tangible assets - Land and building, Investment property) is determined based on valuator reports done by independent certified valuators.

The following tables show a comparison by class of the Group's and Bank's carrying values and fair values of the assets and liabilities and show an analysis of the Group's and Bank's assets and liabilities recorded at fair value between those whose fair value is based on quoted market prices those involving valuation techniques where all the model inputs are observable in the market and those where the valuation techniques involves the use of non-market observable inputs. Held to maturity financial assets are presented in this table for illustrative purposes only, on the balance sheet such investments are presented at amortized cost.

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

The Bank and the Group use various sources for determining the fair value of assets and liabilities, which fall under the following three-level hierarchy:

- Level 1: quoted prices in active markets; the level covers liquid securities (bonds and shares), standardised exchange traded derivatives (options) and cash;

- Level 2: models determining the fair value using the data which have a significant effect on the fair value using market data; the level covers securities that do not have an active market (VISA Inc preferential shares), over-the-counter market derivatives (forward, swap), foreign exchange transactions, due to/from other banks with maturity less than 3 months, customers deposits -
  Level 3: other methods for determination of the fair value under which the data are used which have impact on the fair value but without using the market data; the level covers loans, investments in funds, subordinated debts and debt securities and real estate, witch value is determined by an independent valuators using the market data.

(a) Financial instruments not measured at fair value

Group	Carrying value	Level 1	Level 2	Level 3	Total fair value
				31.12.2017	
	EUR’000	EUR’000	EUR’000	EUR’000	EUR’000
Financial assets					
Cash and cash equivalents	131 978	14 939	117 039	-	**131 978**
Due from other banks	54 041	-	54 041	-	**54 041**
Loans and advanced from customers	172 580	-	-	186 087	**186 087**
Held-to-maturity financial assets	16 705	16 672			**16 672**
Other financial assets	3 110	-	-	3 110	**3 110**
Financial liabilities					**-**
Due to the central bank and other banks	2 059	-	2 059	-	**2 059**
Customer deposits	613 468		613 949	-	**613 949**
Subordinated deposits	21 309	-	-	21 309	**21 309**
Subordinated debt securities	37 096	-	-	37 096	**37 096**
Other financial liabilities	4 261	-	-	4 261	**4 261**

Bank	Carrying value	Level 1	Level 2	Level 3	Total fair value
				31.12.2017	
	EUR’000	EUR’000	EUR’000	EUR’000	EUR’000
Financial assets					
Cash and cash equivalents	131 977	14 938	117 039	-	**131 977**
Due from other banks	53 755	-	53 755	-	**53 755**
Loans and advanced from customers	213 653	-	-	220 523	**220 523**
Held-to-maturity financial assets	16 705	16 672	-	-	**16 672**
Other financial assets	1 777	-	-	1 777	**1 777**
Financial liabilities					**-**
Due to the central bank and other banks	2 062	-	2 062	-	**2 062**
Customer deposits	662 293	-	663 010	-	**663 010**
Subordinated deposits	21 309	-	-	21 309	**21 309**
Subordinated debt securities	37 096	-	-	37 096	**37 096**
Other financial liabilities	723	-	-	723	**723**

				31.12.2016	
Group	**Carrying value**	**Level 1**	**Level 2**	**Level 3**	**Total fair value**
	EUR'000	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**
Financial assets					
Cash and cash equivalents	214 554	19 304	195 250	-	**214 554**
Due from other banks	42 495	-	42 495	-	**42 495**
Loans and advanced from customers	274 471	-	-	284 253	**284 253**
Held-to-maturity financial assets	19 483	19 648	-	-	**19 648**
Other financial assets	5 581	-	-	5 581	**5 581**
Financial liabilities					
Due to the central bank and other banks	7 363	-	7 363	-	**7 363**
Customer deposits	788 159	-	788 606	-	**788 606**
Subordinated deposits	40 844	-	-	40 844	**40 844**
Subordinated debt securities	38 849	-	-	38 849	**38 849**
Other financial liabilities	8 162	-	-	8 162	**8 162**

				31.12.2016	
Bank	**Carrying value**	**Level 1**	**Level 2**	**Level 3**	**Total fair value**
	EUR'000	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**
Financial assets					
Cash and cash equivalents	200 001	11 026	188 975	-	**200 001**
Due from other banks	35 714	-	35 714	-	**35 714**
Loans and advanced from customers	241 217	-	-	244 503	**244 503**
Held-to-maturity financial assets	19 483	19 648	-	-	**19 648**
Other financial assets	1 682	-	-	1 682	**1 682**
Financial liabilities					
Due to the central bank and other banks	7 367	-	7 367	-	**7 367**
Customer deposits	686 338	-	686 898	-	**686 898**
Subordinated deposits	35 656	-	-	35 656	**35 656**
Subordinated debt securities	38 849	-	-	38 849	**38 849**
Other financial liabilities	1 914	-	-	1 914	**1 914**

(b) Financial instruments measured at fair value

As at 31 December 2017- Group	Level 1 EUR'000	Level 2 EUR'000	Level 3 EUR'000	Total EUR'000
Financial assets	**128 616**	**9 139**	**5 188**	**142 943**
Derivative financial instruments	-	384	-	384
Available-for-sale financial assets	128 616	8 755	5 188	142 559
Financial liabilities	**-**	**1 199**	**-**	**1 199**
Derivative financial instruments	-	1 199	-	1 199

As at 31 December 2016 - Group	Level 1 EUR'000	Level 2 EUR'000	Level 3 EUR'000	Total EUR'000
Financial assets	**185 585**	**3 784**	**7 374**	**196 743**
Trading financial assets	96 545	-	-	96 545
Derivative financial instruments	-	819	-	819
Available-for-sale financial assets	89 040	2 965	7 374	99 379
Financial liabilities	**2**	**316**	**-**	**318**
Derivative financial instruments	2	316	-	318

As at 31 December 2017 - Bank	Level 1 EUR'000	Level 2 EUR'000	Level 3 EUR'000	Total EUR'000
Financial assets	**128 616**	**9 139**	**180 878**	**318 633**
Derivative financial instruments	-	384	-	384
Available-for-sale financial assets	128 616	8 755	180 878	318 249
Financial liabilities	**-**	**1 199**	**-**	**1 199**
Derivative financial instruments	-	1 199	-	1 199

As at 31 December 2016 - Bank	Level 1 EUR'000	Level 2 EUR'000	Level 3 EUR'000	Total EUR'000
Financial assets	**89 040**	**3 728**	**241 205**	**333 973**
Derivative financial instruments	-	763	-	763
Available-for-sale financial assets	89 040	2 965	241 205	333 210
Financial liabilities	**2**	**316**	**-**	**318**
Derivatives financial instruments	2	316	-	318

As of 31 December 2015, the Bank and the Group included VISA Europe investment in the Level 3, namely used non-market data to determine the value of the said investment. The value was determined in the amount of 11.3 million euro. In the first half of 2016, VISA Europe shares were replaced with VISA Inc preferential shares. In the future, there is a possibility to replace VISA Inc preferential shares with VISA Inc ordinary shares which served as the basis for inclusion of this instrument in the category 2, respectively, to determine the value of the preference shares of VISA Inc Bank and the Group uses market data, namely, the ordinary shares of VISA Inc. The value of the said investment was determined in the amount of 3 million euro.

The following table shows changes of Level 3 during 2016 and 2017:

Assets available-for-sale	**Group**	**Bank**
	Level 3	**Level 3**
EUR'000		
At 31 December 2015	**24 202**	**246 509**
Acquisition	-	9 718
Derecognition	(5 344)	(25 775)
Transfer into level 3	569	569
Transfer out of level 3	(10 744)	(10 744)
Impairment loss	(3 113)	(7 063)
Net profit (loss) from sales	6 468	10 693
Fair value adjustment	(4 664)	17 298
At 31 December 2016	**7 374**	**241 205**
Derecognition	-	(14 960)
Impairment loss	(2 548)	(31 968)
Net profit (loss) from sales	(1)	(233)
Fair value adjustment	363	(13 166)
At 31 December 2017	**5 188**	**180 878**

(c) Non-financial assets and liabilities measured at fair value

As at 31 December 2017- Group	**Level 1 EUR'000**	**Level 2 EUR'000**	**Level 3 EUR'000**	**Total EUR'000**
Tangible assets (Land and buildings)	-	-	61 214	61 214
Assets held for sale (subsidiary)	-	-	205 037	205 037
Assets held for sale	-		1 143	1 143
Investment property	-	-	67 086	67 086
Liabilities related to assets held for sale	-	-	172 343	172 343

As at 31 December 2016- Group	**Level 1 EUR'000**	**Level 2 EUR'000**	**Level 3 EUR'000**	**Total EUR'000**
Tangible assets (Land and buildings)	-	-	79 605	79 605
Assets held for sale	-	-	5 756	5 756
Investment property	-	-	92 577	92 577

As at 31 December 2017- Bank	**Level 1 EUR'000**	**Level 2 EUR'000**	**Level 3 EUR'000**	**Total EUR'000**
Tangible assets (Land and buildings)	-	-	15 977	15 977
Assets held for sale	-	-	445	445
Investment property	-	-	6 150	6 150

As at 31 December 2016- Bank	**Level 1 EUR'000**	**Level 2 EUR'000**	**Level 3 EUR'000**	**Total EUR'000**
Tangible assets (Land and buildings)	-	-	16 727	16 727
Assets held for sale	-	-	541	541
Investment property	-	-	6 308	6 308

Non-recurring fair value measurements

Fair value of the Assets held for sale is determined based on values identified by the certified independent valuators. To determine fair value comparable transactions method was used.
Fair value of Discontinued operations (subsidiary ПАО "Норвик Банк”) is determined based on sales price per Share Purchase Agreement.

41. CAPITAL ADEQUACY CALCULATION

The Group’s and the Bank’s capital adequacy calculations for the 31 December 2017 and 2016 have been made in accordance with the requirements of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (CRR).
For credit risk, credit valuation adjustment and market risk requirements calculations the Bank and the Group use a Standard approach and term method for general risk capital requirement for bonds.
For the operational risk capital requirement calculation the Bank uses the Basic indicator approach.

The Group’s and the Bank’s risk weighted assets as of 31 December 2017 has been calculated as follows:

		Group	Group	Bank	Bank
31.12.2017	**Notional risk level**	**Exposure**	**Risk weighted assets**	**Exposure**	**Risk weighted assets**
ASSETS	**%**	**EUR’000**	**EUR’000**	**EUR’000**	**EUR’000**
Central governments or central banks	0%	228 697	-	228 697	-
	50%	2 560	1 280	2 560	1 280
	100%	4 505	4 505	4 505	4 505
	150%	2 920	4 380	2 920	4 380
Institutions	20%	46 367	9 273	46 363	9 273
	50%	29	15	29	15
Corporates	20%	5	1	5	1
	50%	54	27	54	27
	100%	140 116	140 116	133 921	133 921
	150%	5 943	8 915	5 780	8 670
Retail	75%	3 327	2 495	3 327	2 495
Exposures in default	100%	29 680	29 680	29 680	29 680
	150%	51 520	77 280	50 772	76 158
Collective investments undertakings (CIU)	100%	5 102	5 102	96 610	96 610
	150%	4 995	7 493	4 995	7 493
Equity	100%	88 733	88 733	47 148	47 148
Other items	0%	14 049	-	14 048	-
	20%	889	177	889	177
	100%	272 051	272 051	64 943	64 943
Total assets and off-balance sheet items		**901 542**	**651 523**	**737 246**	**486 776**

The Group's and Bank's risk weighted assets as of 31 December 2016 has been calculated as follows:

31.12.2016	Notional risk level	Group Exposure	Group Risk weighted assets	Bank Exposure	Bank Risk weighted assets
ASSETS	**%**	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**
Central governments or central banks	0%	235 622	-	235 622	-
	50%	3 749	1 875	3 749	1 875
	100%	14 199	14 199	7 923	7 923
	150%	1 943	2 915	1 943	2 915
Regional governments or local authorities	100%	12 491	12 491	-	-
Public sector entities	100%	11 520	11 520	10 605	10 605
Institutions	20%	21 423	4 285	21 372	4 274
	50%	526	263	525	262
	100%	180	180	180	180
Corporates	20%	138	28	138	28
	50%	111	55	111	55
	100%	320 776	320 776	247 724	247 724
	150%	7 578	11 367	6 831	10 247
Retail	75%	4 157	3 118	4 157	3 118
Exposures in default	100%	3 203	3 203	1 169	1 169
	150%	8 216	12 323	4 812	7 218
Collective investments undertakings (CIU)	100%	7 289	7 289	116 533	116 533
Equity	100%	91 842	91 842	60 566	60 566
Other items	0%	19 304	-	11 026	-
	20%	2 846	569	2 846	569
	100%	110 788	110 788	64 054	64 054
Total assets and off-balance sheet items		**877 901**	**609 086**	**801 886**	**539 315**

	31.12.2017		31.12.2016	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Tier 1				
Paid up capital instruments	131 102	131 102	131 102	131 102
Other reserves	10	10	10	10
Retained earnings	(27 341)	(41 079)	(38 106)	(50 846)
Profit or loss	(35 891)	(43 914)	10 764	9 427
Accumulated other comprehensive income	(13 007)	14 793	(5 989)	15 123
Value adjustments due to the requirements for prudent valuation	(228)	(254)	(286)	(201)
Goodwill	(407)	-	(10 265)	(9 858)
Other intangible assets	(1 120)	(1 114)	(956)	(948)
Deferred tax assets	-	-	(216)	-
Other transitional adjustments	(1 277)	(2 959)	(2 952)	(6 048)
Expected loss from loans	(3 805)	(3 805)	(421)	(421)
Tier 1 capital	**48 036**	**52 780**	**82 685**	**87 340**

	31.12.2017		31.12.2016	
Tier 2	**Group EUR'000**	**Bank EUR'000**	**Group EUR'000**	**Bank EUR'000**
Paid up capital instruments and subordinated loans	33 172	33 172	46 706	46 706
Expected loss from loans	(3 805)	(3 805)	(421)	(421)
Tier 2 capital	**29 367**	**29 367**	**46 285**	**46 285**
Own funds	**77 403**	**82 147**	**128 970**	**133 625**

	31.12.2017		31.12.2016	
Summary	**Group EUR'000**	**Bank EUR'000**	**Group EUR'000**	**Bank EUR'000**
Credit risk capital requirement	52 122	38 942	48 727	43 145
Credit valuation adjustment	19	19	-	-
Market risks capital requirement	738	500	11 529	476
Operational risk requirement	6 608	6 691	9 435	6 243
Total capital ratio	**10.41%**	**14.24%**	**14.80%**	**21.44%**
Tier 1 capital ratio	**6.46%**	**9.15%**	**9.49%**	**14.01%**

Capital ratios after subsidiary disposal as of 30 April 2018	**Group**	**Bank**
Total capital ratio	13.76%	14.72%
Tier 1 capital ratio	8.78%	9.78%

Since FCMC applies increased capital requirements to the banks involved in non-resident deposit servicing, the Total capital adequacy ratio (including capital buffers 2.5%) for the Bank is set at the level of 14.0% and for the Group is set at a level 13.55%, Tier 1 capital adequacy ratio (including capital buffers 2.5%) for the Bank is set at the level of 11.125% and for the Group is set at a level 10.788%. Thus, the Bank complies the required minimum on total capital adequacy ratio at the individual level as of 31 December 2017.

The capital ratios improved after the sale of the subsidiary in February 2018 and new requirements were set by FCMC for the Group after the year end, i.e., Tier 1 capital ratio of 8.29% by 30 April 2018 and 10.79% by 30 September 2018. As at 30 April 2018 the Group and the Bank fulfilled the Tier 1 and total capital ratio requirements.

The above is based on internal reports of the Bank, provided to key management of the Bank.

42. RELATED PARTIES

Related parties are shareholders which have control or significant influence over the management policy of the Group, key management - members of the Supervisory Council and the Management Board, other related parties - senior level executives, their immediate family members and undertakings over which they have a controlling interest as well as associated companies of the Group. Assets and liabilities in relation to related parties are as follows:

Group	31.12.2017 Interest rate (minimal / maximal) %	31.12.2017 Amount EUR’000	31.12.2017 Off-balance sheet items EUR’000	31.12.2017 Total EUR’000	31.12.2016 Interest rate (minimal / maximal) %	31.12.2016 Total EUR’000
Assets		**2 319**	**222**	**2 541**		**3 777**
Loans and receivables, gross		**2 319**	**222**	**2 541**		**3 805**
Key management and shareholder	0 - 26	608	116	724	0 - 23	**2 090**
Other related parties	0 - 24	1 711	106	1 817	0 - 24	**1 715**
Impairment losses on loans and receivables		**-**	**-**	**-**		**(28)**
Key management and shareholder		-	-	-		**(24)**
Other related parties		-	-	-		**(4)**
Liabilities		**856**	**-**	**856**		**3 495**
Deposits		**856**	**-**	**856**		**1 016**
Key management and shareholder	0	437	-	437	0	**310**
Other related parties	0 - 0.1	419	-	419	0 - 10	**706**
Subordinated deposits		-	-	-		**1 468**
Key management		-	-	-	6	**50**
Other related parties		-	-	-	6 - 7	**1 418**
Subordinated debt securities		-	-	-		**1 011**
Other related parties		-	-	-	6	**1 011**

Bank	31.12.2017 Interest rate (minimal / maximal) %	31.12.2017 Amount EUR’000	31.12.2017 Off-balance sheet items EUR’000	31.12.2017 Total EUR’000	31.12.2016 Interest rate (minimal / maximal)	31.12.2016 Total EUR’000
Assets		**43 934**	**225**	**44 159**		**46 924**
Loans and receivables, gross		**54 262**	**225**	**54 487**		**58 577**
Key management and shareholder	0 - 26	608	116	**724**	4 - 23	**820**
Subsidiaries	0 - 24	51 943	3	**51 946**	0 - 24	**56 201**
Other related parties	0 - 24	1 711	106	**1 817**	0 - 24	**1 556**
Impairment losses on loans and receivables		(10 328)	-	**(10 328)**		**(11 653)**
Subsidiaries		(10 328)	-	**(10 328)**		**(11 653)**
Liabilities		**49 683**	-	**49 683**		**63 755**
Deposits		**49 683**	-	**49 683**		**61 276**
Key management and shareholder	0	437	-	**437**	0	**260**
Subsidiaries	0 - 1.48	48 827	-	**48 827**	0 - 1.75	**60 618**
Other related parties	0 - 0.1	419	-	**419**	0 - 0.1	**398**
Subordinated deposits		**-**	**-**	**-**		**1 468**
Key management		-	-	**-**	6	**50**
Other related parties		-	-	**-**	6 - 7	**1 418**
Subordinated debt securities		-	-	**-**		**1 011**
Other related parties		-	-	**-**	6	**1 011**

As at 31 December 2017 the amount of the Bank’s exposure transactions with related parties is 7 398 thousand euro or 10.5% of the sum of eligible capital. According to the Law on Credit Institutions of the Republic of Latvia the total amount of exposure transactions with persons that are associated with the Bank may not exceed 15% of the eligible capital of the Bank.

Transactions between related parties are based on standard interest rates offered by the Bank. The following table presents income and expense resulting from the above-mentioned related parties' transactions and personnel remuneration:

	2017		2016	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Key management, other senior executives and shareholder remuneration	(1 951)	(1 786)	(2 139)	(1 202)
Interest income	121	860	84	781
Interest expense	(122)	(313)	(150)	(313)
Dividend income	-	2 840	-	-
Fee and commission income	30	60	16	29
Fee and commission expenses	(1)	(1)	(1)	(1)
Other operating income	142	1 256	24	1 048
Other operating expenses	-	-	-	(10)
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	-	(233)	-	(51)
Impairment (-) or reversal of impairment on financial assets not measured at fair value through profit or loss, net	-	(14 458)	-	(3 950)
Provisions (-) or reversal of provisions	-	(2 262)	-	(11 546)
Gains or (-) losses on financial assets and liabilities held for trading, net	9	102	6	337
Other administrative expenses	-	(1 686)	-	(2 449)
Total	**(1 772)**	**(15 621)**	**(2 160)**	**(17 327)**

43. SUBSEQUENT EVENTS

In February 2018, the Group lost control of the former subsidiary of ПАО "Норвик Банк” (Russian Federation) to the majority shareholder of the Bank. This transaction was concluded within the framework of the policy of the Group for the reduction of exposure in the Russian Federation. The sale of the subsidiary resulted in a significant reduction in the burden on the Group's capital, and as a result, it improved the Group's capital adequacy ratio.

FCMC Council on February 23, 2018. extraordinary meeting, taking into account that the European Central Bank (ECB) has not issued an instruction to cancel payment restriction imposed by the regulators on February 18, 2018 has determined that ABLV Bank AS has become on occurrence of unavailability of deposits. On March 05, 2018 ABLV Bank submitted a draft voluntary liquidation plan application to the FCMC. The aim of the liquidation measures is to satisfy all claims of clients and creditors in full. The Bank plans to recover the remaining funds of ABLV Bank AS in the amount of 3 021 thousand USD, but, on a precautionary basis, provision was made for 1 001 thousand USD.

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Translation from Latvian original*

INDEPENDENT AUDITOR'S REPORT

To the shareholders of AS Norvik Banka

Report on the audit of the consolidated and separate financial statements

Our qualified opinion

In our opinion, except for the effect of the matter described in paragraph 1, and possible effect of the matters described in paragraph 2 in the *Basis for qualified opinion* section of our report, the separate financial statements of AS Norvik Banka (the "Bank") and the consolidated financial statements of the Bank and its subsidiaries (the "Group") set out on pages 17 to 127 of the accompanying annual report, give a true and fair view of the financial position of the Group and the Bank as at 31 December 2017, and of the financial performance and the cash flows of the Group and the Bank for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union (IFRSs).

What we have audited

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

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

Basis for qualified opinion

1) The Group and the Bank did not recognize sufficient provisions for loan impairment of EUR 4,663 thousand and EUR 9,819 thousand, respectively, and reduction by the Group in value of investment property of EUR 5,156 thousand as at 31 December 2016. Adjustments for these matters were included in the 2017 consolidated and separate Income Statements. As such the consolidated and separate loss before tax and loss after tax for the year ended 31 December 2017 were overstated by EUR 9,819 thousand and EUR 8,346 thousand respectively. Equally, the consolidated and separate profit before tax and profit after tax for the year ended 31 December 2016 were overstated by EUR 9,819 thousand and EUR 8,346 thousand respectively. Our opinion on the 2016 financial statements was qualified in respect of this matter.

2) a) As at 31 December 2017 the Group's balance sheet line item "Assets held for sale (subsidiary)" represents total assets of EUR 205,037 thousand and line item "Liabilities related to assets held for sale" contains total liabilities of EUR 172,343 thousand of the Bank's Russian bank subsidiary sold after the year end. As we were unable to carry out audit procedures on the subsidiary we have been unable to determine if any adjustment of these assets held for sale is required as at 31 December

2017. We were also unable to verify the disclosures in Note 28 to the financial statements "Discontinued operations".

b) The consolidated income statement for the year ended 31 December 2017 includes loss from discontinued operations of EUR 15,621 thousand. As we were unable to carry out audit procedures on the subsidiary we were unable to obtain sufficient appropriate audit evidence about the loss from discontinued operations for the year ended 31 December 2017 and the related disclosures in Note 28 to the financial statements "Discontinued operations".

c) As at 31 December 2017 the Bank's balance sheet line item "Available-for-sale financial assets" includes investment in the Bank's Russian subsidiary of EUR 31,814 thousand which is valued at the fair value of the consideration receivable from the sale of the subsidiary. As we were unable to carry out audit procedures on the subsidiary we have been unable to determine if the fair value of the consideration receivable represents the fair value of the subsidiary as at 31 December 2017.

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

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

Independence

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

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

The fees for the non-audit services that we have provided to the Group and the Bank, in the period from 1 January 2017 to 31 December 2017, are disclosed in the Note 13 to the financial statements.

Material uncertainty related to going concern

We draw attention to "Going concern considerations" set out in Note 4 of the financial statements, which indicate the material uncertainties related to the Bank's need to increase its regulatory capital to comply with the minimum required levels and execute its Recovery Plan agreed with the Bank Regulator including implementing a revised strategy to replace a significant part of its non-resident customer business in response to recent changes in the Law on the Prevention of Money Laundering and Terrorism Financing of the Republic of

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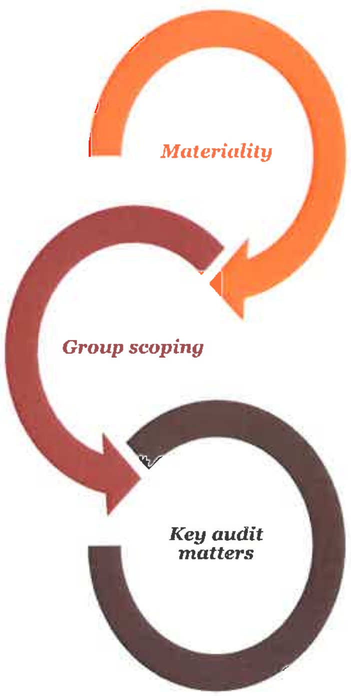
Latvia. This, along with other matters as described in Note 4, indicates that a material uncertainty exists that may cast significant doubt on the Bank's ability to continue as a going concern. Our opinion is not further qualified in respect of this matter.

Our audit approach

Overview



Overall Group and Bank materiality is EUR 805 thousand, which represents approximately 2.5% of loss before tax from continuing operations for the year ended 31 December 2017.

We conducted audit work in relation to separate financial information of the Bank.

We identified one material subsidiary component PAO Norvik Bank. However, we were unable to obtain sufficient appropriate audit evidence regarding its balances due to limitations imposed on our access to the subsidiary (assets held for sale, related liabilities and discontinued operations).

We conducted audit work in relation to the material balances and transactions of the other subsidiaries of the Bank included in the consolidation group as at 31 December 2017.

Valuation of unlisted available for sale financial assets (Bank).

Fair value of investment properties (Group).

Impairment of loans to and receivables from customers (Group and Bank).

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

Materiality

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

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

Overall Group and Bank materiality	Overall materiality applied to the Group and the Bank was EUR 805 thousand.
How we determined it	2.5% of loss before tax from continuing operations for the year ended 31 December 2017.
Rationale for the materiality benchmark applied	We chose loss before tax from continuing operations as the benchmark because, in our view, it is the benchmark which is of primary focus by the users of the financial statements, and is a generally accepted benchmark. We chose 2.5%, which is within the range of acceptable quantitative materiality thresholds for this benchmark.

We agreed with the Audit Committee that we would report to them the misstatements identified during our audit above EUR 40 thousand, as well as the misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our qualified opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matters described in the *Basis for qualified opinion* section and *Material uncertainty related to going concern* section above, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matters	*How our audit addressed the key audit matter*
Valuation of unlisted available for sale financial assets (Bank) Refer to Note 21 '*Available for sale financial assets*' of the financial statements. We focused on this area because '*Available for sale financial assets*' comprise 40% of the total assets of the Bank. Management makes subjective judgements when determining the fair value	We assessed whether the accounting policies of the Bank in relation to the valuation of available for sale financial assets are in compliance with IFRS. Shares and other non-fixed income securities include the Bank's investments in Nākotnes Īpašumu Fonds (Fund) registered in Latvia and controlled by the Bank (EUR 137,383 thousand), Funds registered in the EU (EUR 5,102 thousand), and other non-fixed income securities (EUR 3,846 thousand). The Fund's balances include EUR 40,108 thousand deposits with the Bank therefore we reconciled the

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of unlisted available for sale financial assets, as fair value is obtained from a variety of valuation techniques and inputs that are observable in the market and not observable in the market are used. Impairment losses recognised in 2017 on unlisted available for sale financial assets for the Bank were EUR 43,817 thousand. The unlisted available for sale financial assets comprise *shares and other non-fixed income securities* with carrying value of EUR 146,331 thousand and *investments in other subsidiaries* with carrying value of EUR 11,488 thousand. Fair value of shares and other non-fixed income securities is most commonly determined by reference to the fair value of the underlying investment property and other assets and liabilities. The management engaged certified independent appraisers to determine the fair value of investment properties. Based on the type of investment property various valuation methods are used – market evidence of transaction prices for similar properties, income method or discounted cash flow method. The most significant judgements made by the management in respect of valuation of available for sale assets are comparative market prices and discounted cash flows, including rent rates, expenses, growth rates and discount rates.	balances as per the Fund's records with those of the Bank. The remaining balance is mainly investments in unlisted shares. For a selected sample of investments we reviewed the independent valuations the Bank obtained in respect of the underlying investment properties and the underlying assets and liabilities. We involved our valuation specialists. We evaluated the independence, professional qualifications and experience of the valuators used by the Bank, and evaluated the adequacy of the valuation methods used. Where comparative market data was used, we evaluated whether the location, condition and other relevant attributes of the property are similar to those of the comparable assets used by valuators. We also performed our own search of comparable market data. Where valuation models were used, we evaluated the reasonableness of inputs into the valuation models – future cash flows, growth rates, discount rates. We also re-performed the calculation of fair values using discounted future cash flow models where it was considered necessary. For investments in other subsidiaries we verified fair value by either obtaining and reviewing independent valuation reports (similar procedures to those of shares and other non-fixed income securities described above have been performed). We verified the disclosures in the financial statements in respect of unlisted available for sale financial assets and found them appropriate. As a result of audit procedures that we performed we did not identify any material misstatements, but as described in point 2 (c) of the *Basis for qualified opinion* paragraph regarding valuation of investment in Russian subsidiary, we have been unable to determine if the fair value of the consideration receivable from its sale, that occurred after the end of the reporting period, represents the fair value of the subsidiary as at 31 December 2017.
Fair value of investment properties (Group) Refer to Note 25 'Investment	We assessed whether the Group's accounting policies in relation to the fair valuation of investment properties are in compliance with IFRSs.

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property' of the financial statements. Investment property as per consolidated financial statements mainly comprise underlying investment property held in the investments in funds controlled by the Bank (see *Valuation of unlisted available for sale financial assets* key audit matter). We focused on this area because the management makes subjective judgements when determining the fair value of investment properties, especially where the properties are of a type and location in which there is no active market currently. Therefore a variety of valuation techniques are used with inputs that are observable in the market and inputs that are not observable in the market. The management obtains reports from certified independent appraisers to assist them in determining the properties' fair values. Based on the type of investment property various valuation methods are used – market evidence of transaction prices for similar properties, income method or discounted cash flow method. The most significant judgements made by the management in respect of fair valuation of investment properties are comparative market prices and discounted cash flows, including rent rates, expenses, growth rate, etc.	We tested that on consolidation investment properties owned by the subsidiaries of the Fund of EUR 67,086 thousand have been appropriately recognised in the consolidated balance sheet as at 31 December 2017. For a selected sample of investment properties we reviewed the independent valuations the Bank obtained in respect of the underlying investment properties. We involved our valuation specialists. We evaluated the independence, professional qualifications and experience of the valuators used by the Bank, and evaluated the adequacy of the valuation methods used. Where comparative market data was used, we evaluated whether the location, condition and other relevant attributes of the property are similar to those of the comparable assets used by valuators. Where valuation models were used, we evaluated the reasonableness of inputs into the valuation models – future cash flows, growth rates, discount rates. We also performed our own search of comparable market data, as well as re-performed the calculation of fair values using discounted future cash flow models where it was considered necessary. We verified the disclosures in the financial statements in respect of investment properties and found them appropriate. No misstatements were identified in the balance sheet as at 31 December 2017. However, there was a misstatement in the prior year as described in the point 1 of the *Basis for qualified opinion* paragraph regarding insufficient reduction in value recognised on investment property by the Group of EUR 5,156 thousand as at 31 December 2016 which impacts the income statement for the year ended 31 December 2017.
Impairment of loans to and receivables from customers (Group and Bank)	We assessed whether the accounting policies in relation to the impairment of loans to customers are in compliance with IFRSs. We selected a sample of individually assessed loans and reviewed customer financial information, collateral data

Refer to Note 19 *"Loans to and receivables from customers'* and 'Note 20 '*Impairment losses on financial assets*' of the financial statements.

We focused on this area because *"Loans to and receivables from customers'* comprise 19% and 27% of the total assets of the Group and the Bank, respectively. The management makes subjective judgements over both timing of recognition of impairment and the estimation of the size of any such impairment. Impairment provisions on loans as at 31 December 2017 for the Group and the Bank were EUR 41,302 thousand and EUR 41,263 thousand respectively.

The amount of impairment provision for the loan portfolio is based on individual impairment assessment of individually significant loans and collective impairment assessment for other exposures with similar credit risk.

Individual impairment calculations are made through estimation of the difference between the loan's carrying amount and the present value of estimated future cash flows. The calculation of the present value of the estimated future cash flows of a collateralised loan reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Collective impairment provisions are assessed based on applying historical loss rates to the current portfolio. This involved determining the historic probability of default and the historic recoverable amounts on defaulted loans.

and other available information. We considered management assumptions and judgements regarding forecasts of future cash flows, valuations of underlying collaterals, as well as estimated timing of recovery of loans either through operating cash flows or from realisation of collateral.

The majority of individually assessed loans envisages full or significant part of the principal loan balance being repaid at the end of the loan term. Therefore, we paid particular attention to the anticipated future cash flows from customers and value of collaterals.

For a selected sample of individually assessed loans we reviewed the independent valuations that the Bank obtained in respect of the collaterals.

A significant part of collaterals is represented by real estate. In response to such collateralised loans our work included the following:

- We involved our valuation specialists. We evaluated the independence, professional qualifications and experience of the valuators used by the Bank, and evaluated the adequacy of valuation methods used.
- Where comparative market data was used, we evaluated whether the location, condition and other relevant attributes of the property are similar to those of the comparable assets used by valuators.
- Where valuation models were used, we evaluated the reasonableness of inputs into the valuation models – future cash flows, growth rates, occupancy rates and discount rates.
- We also performed our own search of comparable market data, as well as re-performed the calculation of fair values using discounted future cash flow models where it was considered necessary.

We paid particular attention to valuation of collateral for the large exposures. This included exposures to wind energy sector and Russian developers of commercial real estate, including hotels, operating in several major cities of Russia.

For the exposure to wind energy sector we reviewed the valuation prepared by an independent valuation firm, and reviewed reasonableness of planned electricity sales volumes, electricity sales price used and pre-tax discount rate used in the valuation model.

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The most significant judgements made by the management in respect of impairment of loans are estimates of future cash flows from customers and the realisable value of collaterals as the most significant part of total loan loss provisions are calculated on an individual basis.	For hotels we reviewed the valuation prepared by an independent valuation firm with a key focus on reasonableness of average daily rate per room, occupancy rates based on recent actual experience and discount rates. We re-performed the calculation of collective provisions for loans. We obtained information on the collectively assessed loans over the last 12 months and verified that the loss rate used by the Bank is consistent with the loss rate over the previous 12 months. We tested the extraction of data used in calculation of the collective provision for the "bucketing" into overdue bands and tested the completeness of loans grouped into homogenous groups. We read the disclosures in respect of impairment and credit risk. No misstatements were identified in the balance sheet as at 31 December 2017. However, there was a misstatement in the prior year as described in point 1 of the *Basis for qualified opinion* paragraph regarding insufficient provision for loans recognised by the Bank of EUR 9,819 thousand and the Group of EUR 4,663 thousand as at 31 December 2016 which impacts the income statement for the year ended 31 December 2017.

How we tailored our Group audit scope

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

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

Reporting on other information including the Report of the Chairman of the Council and the Chairman of the Management Board

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

- Report of the Chairman of the Supervisory Council and the Chairman of the Management Board as set out on pages 3 to 8 of the accompanying Annual Report;
- Consolidated Non-financial Statement as set out on pages 9 to 14 of the accompanying Annual Report,

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- Supervisory Council and Management Board as set out on page 15 of the accompanying Annual Report;
- Statement of Management's Responsibilities as set out on page 16 of the accompanying Annual Report;

(but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report.

Our opinion on the consolidated and separate financial statements does not cover the other information, including the Report of the Chairman of the Supervisory Council and the Chairman of the Management Board, Consolidated Non-financial Statement, Supervisory Council and Management Board and the Statement of Management's Responsibilities.

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

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

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

- the information given in the Report of the Chairman of the Supervisory Council and the Chairman of the Management Board, Supervisory Council and Management Board, and the Statement of Management's Responsibilities for the financial year for which the consolidated and separate financial statements are prepared is consistent with the consolidated and separate financial statements;
- the Report of the Chairman of the Supervisory Council and the Chairman of the Management Board has been prepared in accordance with the requirements of the Financial and Capital Market Commission Regulation No. 46 "Regulation on preparation of the annual report and consolidated annual report of credit institutions, investment brokerage companies and investment management companies"; and

Furthermore, in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Consolidated Non-financial statement, our responsibility is to report whether the Group has prepared the Consolidated Non-financial statement and whether the Consolidated Non-financial Statement is included in the Report of the Chairman of the Supervisory Council and the Chairman of the Management Board or prepared as a separate element of the Annual Report.

We hereby report that the Group has prepared a Consolidated Non-financial Statement, and it is prepared as a separate element of the Annual Report.

In addition, in light of the knowledge and understanding of the Group and the Bank and their environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Report of the Chairman of the Supervisory Council

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and the Chairman of the Management Board, Supervisory Council and Management Board, and the Statement of Management's Responsibilities, that we obtained prior to the date of this auditor's report. The Report of the Chairman of the Supervisory Council and the Chairman of the Management Board is materially misstated for the reasons specified in the *Basis for qualified opinion* section of our report.

Responsibilities of management and those charged with governance for the consolidated and separate financial statements

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

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

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

Auditor's responsibilities for the audit of the consolidated and separate financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of

accounting estimates and related disclosures made by management.

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

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

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

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

Consistency of the Additional Report to the Audit Committee

We confirm that our audit opinion on the consolidated and separate financial statements expressed in this report is consistent with the additional report to the Audit Committee of the Bank, which we issued on 8 June 2018 in accordance with Article 11 of the EU Regulation 537/2014.

Report on other legal and regulatory requirements

Appointment

We were first appointed as auditors of the Bank by shareholders' resolution on 27 May 2016. Our appointment has been renewed annually by shareholders' resolution representing a total period of uninterrupted engagement appointment of 2 years. Our appointment for the year ended 31 December 2017 was by resolution of general meeting of shareholders dated 29 June 2017.

PricewaterhouseCoopers SIA
Certified audit company
License No. 5

Ilandra Lejiņa
Certified auditor in charge
Certificate No.168

Member of the Board

Riga, Latvia
8 June 2018

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