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 2016 and
independent auditor's report

CONTENTS

Dear Shareholders, Clients and Partners!

2016 has undeniably been important for the development of AS "Norvik Banka" (the Bank). The Bank has shown strong progress in moving towards its established goals. The management considered 2016 to be a successful though challenging period on the way to ensuring the Bank's long-term and effective presence on the Latvian and international financial markets.

This has been an intensive period characterised by a focus on the introduction of a new balanced business model for differing client segments, product types and markets to facilitate the increase and diversification of the balance sheet and income generated, while ensuring compliance with all mandatory regulatory requirements,.

The Bank has seen net operating income and net profit before tax increase year-on-year, but seen a decrease in customer demand deposits. In 2016 the Bank has earned 51 million euro in net financial income (50 million euro for 2015), and this has contributed to a profit after tax of 9 million euro for the year (10 million euro loss for 2015). In 2016 the Group has earned 64 million euro in net financial income (62 million euro for 2015), and this has contributed to a profit after tax of 14 million euro for the year (12 million euro loss for 2015). However, Bank's customer deposits as at 31 December 2016 were at 686 million euro, a decrease of 155 million euro or 18% comparing to the previous year. This has been driven by a decline in international clients' deposits, and is a common pattern across the Latvian banking sector in 2016 for those banks serving international clients.

The global economic situation is still unclear, with significant changes in 2016 that will have long-term impacts that are hard to predict:

In 2016 financial markets globally were driven primarily by expectations of monetary policy modifications by leading central banks, as well as in reaction to unexpected outcomes of major votes such as the UK referendum on EU membership in June 2016 and the US presidential elections in November 2016. Soon after the US Federal Reserve began raising policy rates in December 2015, and amid renewed concerns by investors about the sustainability of China's transition to a new growth model resulted in the first half of February in multi-year lows for risk appetite, equity and commodity prices. These market jitters prompted the main central banks to extend their stimulus programs and liquidity support. In particular, the ECB's adoption of a range of additional monetary measures at its March meeting provided strong backing for Eurozone bond prices, both sovereign and corporate.

Market turbulence resumed in June, caused by the failure of most investors to correctly gauge the outcome of the UK referendum on EU membership on 23 June, leading to a dramatic surge in volatility in global currency markets. The unexpected outcome of the vote triggered a 12% drop in sterling's exchange rate, with the yen soaring to its highest level in 2.5 years. Except for the pound, all other assets recovered fairly quickly (the euro's correction against the dollar did not exceed 4%, and against a basket of currencies it stayed some 3% stronger versus its year-end 2015 levels). The US stock market was least affected by the Brexit vote, with the S&P 500 index staging a rapid recovery and returning to fresh all-time highs. Europe's Euro Stoxx 600 lagged, driven by an outflow of capital and concerns over the banking sector. Emerging market bonds, in Russia in particular, were a key beneficiary of the capital outflows from European equities.

Latvia's real GDP growth in 2016 is estimated at approximately 1.5%, below the 2015 outturn of 2.7%. The slowdown was driven by weaker exports (due mainly to lower demand from Russia and EU countries) alongside a decline in the use of EU funds for investment purposes. Price pressures remained low in the first half of 2016, reflecting subdued household and investment demand, but rose sharply in the second half, as higher energy and imported food prices boosted headline inflation to 2.2% at year-end 2016 and further to 2.9% in January 2017, the highest level in nearly 5 years. Analysts at the Bank of Latvia expect inflation to stay close to 3% in 2017, above the Eurozone target of 2%.

Latvia's labour market continues to improve, with the unemployment rate falling from 9.9% in 2015 to 9.4% in 2016. Credit to households and non-financial companies rose slightly in December 2016, by 1.5% year-on-year. According to the IMF assessment published in December 2016, the banking system continues to be well capitalized and liquid. The country's public finances are well balanced, in compliance with EU fiscal rules and the domestic fiscal discipline law, ensuring prudent fiscal management and debt sustainability. Latvia's fiscal stance is modestly expansionary (structural fiscal deficit was at 1.1% of GDP in 2016) which is warranted by the fact that the small negative output gap has yet to close.

A projected pick-up in economic growth both in the Eurozone and in Russia, alongside the potential easing of EU sanctions on Russia and of Russia’s own restrictions, should support both Latvia’s foreign trade and investment growth.

Taking into account the above, and at the same time internal optimisation of the business lines, in the first half of 2016 the Bank opened two new corporate centres in Riga: a key centre for servicing resident clients at 11 Raiņa Bulvāris, as well as the head office and centre for servicing international and VIP clients at 15 Elizabetes Street. Along with the Bank’s presence in the centre of the capital city, it also succeeded in keeping the position of the industry’s leader in terms of geographic coverage in Latvia by offering convenient and comprehensive services in 63 client service centres in 16 Latvian cities, including the Kurzeme region’s biggest client service centre in Liepaja. Supporting local healthcare and science, the bank was present at the opening of the medical centre Medvision in April 2016, the financing of which the Bank played a key role.

In the past year the Bank offered its clients both new products and new improved services. To illustrate, Norvik Prime, the offer includes a Gold category Mastercard credit card and offers cash-back of up to 5% on purchases made in restaurants and cafes around the world.

The Russian economy in 2016 continued to adjust after the 2014-2015 recession caused by the twin shocks of lower oil prices and Western economic sanctions. Last year’s turnaround was driven by the recovery in commodity prices against the backdrop of prudent monetary and fiscal policies. The decline in Russia’s real GDP slowed to 0.2% year-on-year in 2016 compared to 2.7% in 2015, according to the latest official estimates. The turnaround was driven by the manufacturing sector, with industrial production registering a 1.1% year-on-year increase last year, including a 1.9% year-on-year increase in the fourth quarter of 2016. Strong manufacturing PMI data in early 2017 point to a substantial pick-up in industrial output and domestic orders. At the same time, consumer demand continued to lag, with retail sales down 5.2% year-on-year (including by 4.8% in the fourth quarter). With external demand for Russia’s products likely to pick up only gradually, this year’s growth trajectory will be determined largely by the pace of recovery in investment demand and household consumption (which is closely tracking real incomes).

Norvik Banka set itself the goal to become the most digitally advanced bank in Northern Europe, and the following steps were taken in the last year: in 2016 clients were introduced to a new version of our internet bank e-Norvik – a more user-friendly and visually compelling online offering; moreover, the Bank launched a special Norvik Chat platform for professional communication between the Bank’s foreign-exchange dealers and clients, the online bank e-Norvik 2.0 for smartphones, as well as started offering its clients a modern and user-friendly tool for authentication – SMS-PIN. Additionally, in November 2016 the Bank became the major supporter of the Baltic Digital Freedom Festival with its Norvik Investors Lounge, which, along with the festival’s guests, was honoured by the presence of the Latvian President Raimonds Vējonis and the former Estonian President Toomas Hendrik Ilves.

In 2016 the Bank began its ambitious project to develop its business model in the Private Banking sector. The initiative to establish the Private Banking & Wealth Management business was defined by the Bank’s shareholders in 2015, and in 2016 the Bank started forming the Private Banking business model on a practical level. The long-term goal of Private Banking is to combine efforts in the field of customer service in the domestic and international markets (for both resident and non-resident clients). The service model is aimed at the protection and augmentation of clients’ capital and taking care of their family members. This model is focused on building long-term relationships with the client with a view to servicing the next generations by the Bank’s private bankers. The key to attractiveness of this business model is consolidation of a classical service model, offering investment solutions, lifestyle management services, corporate loyalty programs, and servicing of the client’s business. All the above is to be achieved through the experience and high level of expertise of the Bank’s employees, and their striving to exceed the client’s expectations. Year-on-year increase in non-interest commission income by 27.4% shows confidence in the correctness of the chosen business model.

In July 2016 an open-end alternative investment fund Norvik CIS Fixed Income Absolute Return Fund was registered. The Bank plans to keep developing offers to invest in its investment funds, in particular, in real estate funds, financial instrument funds, debt and equity instruments and derivatives. To manage the funds, the Bank exploits the experience of its staff, as well as of the analysts of its subsidiary Norvik Banka UK Limited (Great Britain).

The Bank took part in a number of international financial conferences, in particular, Intax Forum Ukraine, FINRetail, etc., as well as supported several social events, for instance, Riga music and art festival Piens and opening of an exhibition of photographs in Moscow.

The Bank's clients and partners will be pleased to know that the Bank has achieved very positive progress in the Winergy legal case in 2016: attachments have been removed from the property owned by SIA Winergy, in particular, from nine wind turbines, one substation, and total funds of 4 million euros; additionally, the operational cash flows from selling the alternative energy produced by the wind turbines has been released.

On 17 February 2016 the Bank Group's company AS Norvik Ieguldījumu Pārvaldes Sabiedrība on behalf of the closed-end investment fund (SIF) Nākotnes Īpašumu Fonds acquired the assets related to the alternative energy sector, including: the shares of several companies (including SIA Winergy); all of the wind turbines owned by SIA Winergy, as well as the land and substation owned by the firm. The Bank is the sole owner of the shares of SIF Nākotnes Īpašumu Fonds, while the sole manager of the fund is the Bank's subsidiary AS Norvik Ieguldījumu Pārvaldes Sabiedrība. SIF Nākotnes Īpašumu Fonds is included in the Bank's consolidated group.

During 2016, all of the civil cases court proceedings were terminated in relation to SIA Winergy.

As of 31 December 2016, all of the cash flows from the sale of alternative energy produced by the wind turbines was released, the attachments were released from 9 wind turbines and the substation, as well funds of 1.97 million euros to meet SIA Winergy's obligations towards the state budget and to cover court costs incurred by JSC "Norvik Banka".

As of today, SIA Winergy and the Bank have concluded a debt restructuring agreement, according to which in 2016 SIA Winergy settled successfully its obligations towards the Bank in accordance with the approved payment schedules. SIA Winergy's net cash flow earned as a result of its day-to-day business is more than 4 million euros per annum, and will enable the company to discharge all of its loan obligations in full and pay the interest income provided for by the loan agreements.

2016 was a very positive year in this long-winded (sic) legal case.

The first half of 2016 saw significant changes to the Latvian legislation and regulation in the sphere of anti-money laundering / countering the financing of terrorism [AML], positive in the sense of reducing the systemic risk in the non-resident client portfolios, and transactional business lines. Aside from the implementation of these new requirements, the Bank also underwent an independent AML audit by the US company Navigant Consulting, Inc. The results of this audit were received in August 2016; the Bank was rated highly in terms of its AML culture, training and competence of the team, as well as internal audit; and in October the Bank signed an agreement on the implementation of the Siron® system with FICO-Tonbeller a global leader in the development of modern technology solutions for financial institutions aimed at monitoring suspicious transactions and fraud.

Despite global pressure on many banks in this sphere, the Bank has managed to open 10 additional US dollar correspondent accounts in 2016.

The 2nd tier pension plan management business (AS Norvik Ieguldījumu Pārvaldes Sabiedrība, Norvik IPS) continued to demonstrate positive dynamics in 2016, generating significant profits owing to the Bank's wide client service network and successful investment management team that ensured higher profitability than the overall market. As of 31 December 2016, the number of participants of pension plans managed by Norvik IPS reached 80 151 persons (2015 – 79 034 persons), while the assets under management increased to 104.94 million euros (2015 –86.33 million euros), an annual increase of 21.5%, the average assets under management per participant increasing by 19.9% respectively.

For the subsidiary bank in Russia (ПАО "Норвик Банк"), 2016 was yet another endurance test in the circumstances of permanent fluctuations in the Russian and global economies. Internal stability and conservatism was the key to a successful year. All of the normative requirements set by the Central Bank of the Russian Federation are being met with large margins. At present, the bank in Russia is represented in five Russian regions with 35 offices all of which demonstrated positive financial results in 2016; every month up to 50 thousand clients visit the bank's branches and more than 14 thousand legal entities are serviced there. In 2017 the branch network is to be expanded further in the Russian regions.

From the Bank's balance sheet, key highlights are as follows:

- Total assets as at 31 December 2016 was 878 million euro, a decrease of 127 million euro comparing to 31 December 2015, this was driven mainly by the outflow of customer deposits noted above.
- The loan customer's portfolio at the end of 2016 amounted to 241 million euro (5 million euro decrease over the full-year 2016).
- In 2016 subordinated bonds were issued for 10 million euro.
- The liquidity ratio at the end of reporting period was 59.45 % (31 December 2015 – 64.22%).

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

From the Group's balance sheet the key difference comparing to the Bank's balance sheet is in the total assets, which, as at 31 December 2016, was 1 002 million euro, a decrease of 128 million euro comparing to 31 December 2015, this was driven mainly by the outflow of customer deposits noted above.

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

- Net interest income for 2016 decreased to 11 million euro compared to 17 million euro for 2015.
- Net commission income for 2016 showed an increase of 12.9 % in spite of increased external pressures and decreased transaction volumes, increasing to 19 million euro compared to 17 million euro for 2015.
- In the first half of 2016 the Visa Inc. share buyback transaction was completed, wherein the Bank booked 10.7 million euro to net gains from sales of available for sale financial assets.
- In 2016 an additional impairment charge on loan & investment portfolio was made for 11 million euro (compared to 28 million euro for 2015).

The Bank's net profit before tax 2016 was thereby 10 million euro (compared to a net loss before tax of 9 million euro for 2015).

From the Group's income statement, key highlights are as follows:

- Net interest income for 2016 decreased to 16 million euro compared to 25 million euro for 2015.
- Net commission income for 2016 remained on the same level as in 2015 – 26 million euro.
- In 2016 an additional impairment charge on loan & investment portfolio was made for 2 million euro (compared to 26 million euro impairment loss for 2015).

The Group's net profit before tax for 2016 was thereby 16 million euro (compared to a net loss before tax of 13 million euro for 2015).

In the reporting year, the remuneration to the Bank's chartered auditor PricewaterhouseCoopers SIA was calculated in the amount of 330.1 thousand euro, in particular:

- audit of the annual/semi-annual report – 284 thousand euro;
- other auditing tasks – 7 thousand euro;
- tax consultations – 38.60 thousand euro;
- other tasks – 0.5 thousand euro

The amount of remuneration of members of the Supervisory Council and of the Management Board and total amounts of transactions concluded with the Bank are given in Note 42 to the report. The Bank has no obligations related to pension payments to the former members of the Supervisory Council and of the Management Board.

The Bank's comprehensive income in the reporting period was 17 711 thousand euro, while the comprehensive losses accumulated in the previous periods were 44 007 thousand euro.

From the equity/capital position, key highlights are as follows:

- The Bank capital adequacy ratio as of 31 December 2016 was 21.44% - compared to 16.65% as of December 2015, and the minimum regulatory requirement of 13.7%.
- The Group's capital adequacy ratio as of 31 December 2016 was 14.80% - compared to 11.49% as of December 2015, and the minimum regulatory requirement of 10.5%.

According to the approved strategy, the Bank plans to keep its niche on the financial market, as well as to attract new clients by offering quality service and new products and expanding the variety of its offers in other geographical regions. The Bank will keep operating in accordance with the strategy with respect to the commission income related, in particular, to the transaction business which covers foreign exchange transactions, payment services and asset management.

During the reporting period dividends were not paid, and in 2017 distribution of the reporting period's profit also is not planned.

The increases in capital and liquid resources enabled the Bank to focus on business expansion, in Latvia and abroad, retail resident and corporate international clients. The Bank continues to work on improving the equity/capital position to meet its strategic goals.

One of the key tasks in the Bank's daily operation is qualitative assessment and management of risks, most importantly: credit, market and liquidity risks (*Information on risks the Bank/Group is subject to is given in Note 7 of the financial statements*). The Bank constantly monitors the adequacy of its liquidity ensuring the Bank's mandatory ability to meet its obligations towards depositors and creditors under varying conditions in the economic environment. The Bank's management improves and enhances the efficiency of policies, approaches, procedures in the field of lending and operations on financial markets, decreasing the Bank's and the Group's exposure to inherent risks in these operations.

An audit on compliance with the requirements of both the "Law on the Prevention of Laundering the Proceeds from Criminal Activity (Money Laundering) and of Terrorist Financing" and "Regulations for Enhanced Customer Due Diligence" in the Bank's activity was performed by the FCMC in the fourth quarter of 2016. The results of the audit have not been received by the date of approval of attached financial statements (see Note 39).

In the coming period, the Bank plans to focus on the digital space, covering new technologies and innovation, offering new products for online foreign currency exchange, an improved mobile solution for all services, and remote access in a user-friendly manner 24/7. Further to this, the management has started to offer products for high net worth individuals, under a new team formed in the first half of the year for Private Banking.

From the end of the reporting period to the date of publication of the more than 2 million euros of the seized funds became available to SIA Winergy and were transferred from the blocked account to the settlement account opened with AS Norvik Banka – significant positive news.

"Norvik Banka" 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. Reg. No. 40003072918. The legal address of JSC "Norvik Banka" is 15-2 Elizabetes Street, Riga, LV-1010 Latvia. Information on composition of the Group and on investments in the capital of the subsidiaries is available in Note 3 of the financial statements.

Supervisory Council and Management Board changes and composition at 31 December 2016 are presented on page 8 of the financial statements.

At the start of 2016 the Group employed 1 484 members of staff (Bank 605), and as of 31 December 2016 the Group employed 1 589 members of staff (Bank 619).

The Group's management expresses gratitude to its customers, partners, employees and shareholders for their trust, cooperation and loyalty in the further development of the Bank.

Loyalty rewards!

Chairman of the Supervisory Council
G.Guselnikov

Chairman of the Management Board
O.R.Bramwell

Riga 31 March 2017

SUPERVISORY COUNCIL AND MANAGEMENT BOARD

Supervisory Council as at 31 December 2016

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
A.Ruselis	Member of the Supervisory Council	15/05/2015

During the reporting period the following persons resigned from their position:
- Member of the Supervisory Council P.M.Odintsov

Management Board as at 31 December 2016

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
S.Gorashchenko	Member of the Management Board	30/09/2014
D.Kalmykov	Member of the Management Board	05/08/2016

During the reporting period, the following persons resigned from their position:
- Member of the Management Board A.Peshkov

During the reporting period, the following persons were appointed:
- Member of the Management Board D.Kalmykov

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 31 March 2017

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 2016 and the results of its operations and cash flows for the financial year ended 31 December 2016, as well as the financial position of the Bank as of 31 December 2016 and the results of its operations and cash flows for the financial year ended 31 December 2016.

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 2016 set out on pages 11 to 109. 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 31 March 2017

CONSOLIDATED AND SEPARATE INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

		2016		2015	
		Group	Bank	Group	Bank
	Notes	EUR'000	EUR'000	EUR'000	EUR'000
Interest and similar income		35 180	18 415	47 308	23 326
Interest and similar expense		(19 358)	(7 772)	(21 999)	(6 737)
Net interest income	8	**15 822**	**10 643**	**25 309**	**16 589**
Fee and commission income	9	29 988	22 724	29 524	20 538
Fee and commission expense	9	(4 222)	(3 693)	(4 119)	(3 676)
Dividend income		27	27	22	2 382
Net trading income	10	15 413	9 923	6 343	10 581
Net gain/(loss) from sales of available-for-sale financial assets	11	7 058	11 283	4 988	3 313
Other operating income	12	29 161	1 748	29 153	1 618
Other operating expense	12	(16 347)	(1 922)	(20 812)	(2 530)
Administrative expenses	13	(50 948)	(27 913)	(56 722)	(29 260)
Depreciation and amortization		(5 575)	(1 674)	(3 441)	(964)
Changes in fair value of investment property	26	(6 469)	83	3 789	(346)
Result of acquisition of subsidiary	25	6 164	-	-	-
Impairment loss on available for sale financial assets	21	(3 113)	(7 063)	-	(14 987)
Impairment loss on assets held for sale		(189)	-	(219)	12
Impairment loss on tangible fixed assets	27	(497)	(138)	(1 174)	131
Impairment loss on held-to-maturity financial assets		(5)	(5)	(39)	(39)
Impairment loss on other assets		(1 210)	-	-	-
Impairment loss on financial assets	20	855	(3 988)	(25 640)	(12 770)
Net profit/loss before tax		**15 913**	**10 035**	**(13 038)**	**(9 408)**
Corporate income tax	14	(1 953)	(608)	664	(987)
Profit/loss for the year		**13 960**	**9 427**	**(12 374)**	**(10 395)**
Attributable to:					
Equity holders of the parent		13 866		(12 323)	
Non-controlling interests		94		(51)	
Basic and Diluted Earnings per share (EUR)	37	0.06		(0.06)	

The accompanying notes on pages 18 to 109 form an integral part of these consolidated and separate financial statements.

The consolidated and separate financial statements on pages 11 to 109 were approved by the Supervisory Council and Management Board on 31 March 2017:

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 2016

		2016		2015	
		Group	Bank	Group	Bank
	Notes	EUR'000	EUR'000	EUR'000	EUR'000
Profit/loss for the year		**13 960**	**9 427**	**(12 374)**	**(10 395)**
Items that will not be reclassified subsequently to profit or loss:					
Gain on revaluation of property, net of tax	27	1 307	374	2 249	1 196
Deferred tax relating to revaluated tangible fixed assets		46	46	34	34
		1 353	**420**	**2 283**	**1 230**
Items that may be reclassified subsequently to profit or loss:					
Translation gain/(loss) from foreign operations					
Translation gain/(loss) arising during the year		14 599	-	(3 140)	-
		14 599	-	**(3 140)**	-
Available- for-sale financial assets					
Revaluation		(3 021)	12 084	14 817	(4 386)
Impairment loss	21	3 113	7 063	-	14 987
Net (gain) from sales of available-for-sale financial assets	11	(7 058)	(11 283)	(4 988)	(3 313)
		(6 966)	**7 864**	**9 829**	**7 288**
Other comprehensive income		**8 986**	**8 284**	**8 972**	**8 518**
Total comprehensive income/(losses) for the year		**22 946**	**17 711**	**(3 402)**	**(1 877)**
Attributable to:					
Equity holders of the parent		22 647		(3 198)	
Non-controlling interests		299		(204)	

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The consolidated and separate financial statements on pages 11 to 109 were approved by the Supervisory Council and Management Board on 31 March 2017:

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 2016

		31.12.2016		31.12.2015	
	Note	Group	Bank	Group	Bank
		EUR'000	EUR'000	EUR'000	EUR'000
Assets					
Cash and balances with the central banks	15	214 554	200 001	45 360	30 626
Loans to and receivables from banks	16	42 495	35 714	197 421	192 844
Trading financial assets	17	96 545	-	67 370	109
Derivative financial instruments	18	819	763	1 809	1 806
Loans to and receivables from customers	19	274 471	241 217	314 306	245 888
Available-for-sale financial assets	21	99 379	333 210	253 782	476 089
Held-to-maturity financial assets	23	19 483	19 483	19 802	19 802
Prepaid corporate income tax		352	-	252	-
Investment property	26	92 577	6 308	106 642	6 225
Tangible fixed assets	27	110 945	35 532	65 158	19 859
Goodwill	22	10 265	-	10 265	-
Intangible assets	24	5 975	948	395	351
Assets held for sale	28	5 756	541	1 796	541
Other assets	29	28 250	4 459	45 868	11 520
Total assets		**1 001 866**	**878 176**	**1 130 226**	**1 005 660**
Liabilities					
Due to the central bank and other banks	31	7 363	7 367	1 913	1 831
Derivative financial instruments	18	318	318	347	319
Customer deposits	32	788 159	686 338	957 972	840 913
Subordinated deposits	33	40 844	35 656	38 135	38 135
Subordinated debt securities	34	38 849	38 849	28 354	28 354
Deferred tax liabilities	14	3 463	792	2 743	773
Other liabilities	35	20 679	4 040	21 517	8 230
Total liabilities		**899 675**	**773 360**	**1 050 981**	**918 555**
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		6 697	4 488	5 456	4 379
Revaluation reserve of available-for-sale financial assets		(1 298)	10 635	5 668	2 771
Revaluation reserve of foreign currency translation		(17 066)	-	(31 222)	-
Accumulated losses		(18 206)	(41 419)	(32 421)	(51 157)
Total equity attributable to equity holders of the Bank		**101 239**	**104 816**	**78 593**	**87 105**
Non-controlling interests	21	952	-	652	-
Total equity		**102 191**	**104 816**	**79 245**	**87 105**
Total liabilities and equity		**1 001 866**	**878 176**	**1 130 226**	**1 005 660**

Off-balance sheet items					
Commitments and contingencies					
Contingent liabilities		8 957	3 276	13 000	3 730
Commitments		21 261	5 182	18 428	12 493
Total commitments and contingencies	39	**30 218**	**8 458**	**31 428**	**16 223**
Return on assets (ROA), %		1.31	1.00	(1.08)	(1.05)

The accompanying notes on pages 18 to 109 form an integral part of these consolidated and separate financial statements.

The consolidated and separate financial statements on pages 11 to 109 were approved by the Supervisory Council and Management Board on 31 March 2017:

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 2016

Group	Note	Share capital	Reserve	Revaluation reserve of tangible fixed assets, net of tax	Revaluation reserve of available-for-sale financial assets	Revaluation reserve of foreign currency translation	Accumula-ted losses	Total	Non-controlling interests	Total Groups' equity
		Attributable to shareholders of the Bank								
		EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
As at 31 December 2014		**123 101**	**10**	**3 380**	**(4 161)**	**(28 211)**	**(20 329)**	**73 790**	**856**	**74 646**
Revaluation of available-for-sale financial assets	21	-	-	-	9 829	-	-	**9 829**	-	**9 829**
Foreign currency translation of foreign subsidiaries*		-	-	-	-	(3 011)	-	**(3 011)**	(129)	**(3 140)**
Deferred tax relating to revaluated tangible fixed assets		-	-	34	-	-	-	**34**	**-**	**34**
Revaluation of tangible fixed assets, net of tax	27	-	-	2 273	-	-	-	**2 273**	(24)	**2 249**
Other comprehensive income		**-**	**-**	**2 307**	**9 829**	**(3 011)**	**-**	**9 125**	**(153)**	**8 972**
Loss for the year		-	-	-	-		(12 323)	**(12 323)**	(51)	**(12 374)**
Total comprehensive income for the year		**-**	**-**	**2 307**	**9 829**	**(3 011)**	**(12 323)**	**(3 198)**	**(204)**	**(3 402)**
Amortization of revaluation reserve of tangible fixed assets, net of tax		-	-	(231)	-	-	231	**-**	**-**	**-**
Increase of share capital		8 001	-	-	-	-	-	**8 001**	**-**	**8 001**
As at 31 December 2015		**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**
Deferred tax relating to revaluated tangible fixed assets		-	-	46	-	-	-	**46**	-	**46**
Revaluation of tangible fixed assets, net of tax	27	-	-	1 299	-	-	-	**1 299**	8	**1 307**
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, net of tax		-	-	(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**

* 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 2016

Bank	Note	Share capital EUR'000	Reserve EUR'000	Revaluation reserve of tangible fixed assets, net of tax EUR'000	Revaluation reserve of available-for-sale financial assets EUR'000	Accumu-lated losses EUR'000	Total EUR'000
As at 31 December 2014		**123 101**	**10**	**3 380**	**(4 517)**	**(40 952)**	**81 022**
Revaluation of available- for-sale financial assets	21	-	-	-	7 288	-	**7 288**
Deferred tax relating to revaluated tangible fixed assets		-	-	34	-	-	**34**
Revaluation of tangible fixed assets	27	-	-	1 196	-	-	**1 196**
Other comprehensive income		-	-	**1 230**	**7 288**	-	**8 518**
Profit (loss) for the year		-	-	-	-	(10 395)	**(10 395)**
Total comprehensive income for the year		-	-	**1 230**	**7 288**	**(10 395)**	**(1 877)**
Amortization of revaluation reserve of tangible fixed assets, net of tax		-	-	(231)	-	231	-
Merger of subsidiary company		-	-	-	-	(41)	**(41)**
Increase of share capital		8 001	-	-	-	-	**8 001**
As at 31 December 2015		**131 102**	**10**	**4 379**	**2 771**	**(51 157)**	**87 105**
Revaluation of available- for-sale financial assets	21	-	-	-	7 864	-	**7 864**
Deferred tax relating to revaluated tangible fixed assets		-	-	46	-	-	**46**
Revaluation of tangible fixed assets, net of tax	27	-	-	374	-	-	**374**
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, net of tax		-	-	(311)	-	311	-
As at 31 December 2016		**131 102**	**10**	**4 488**	**10 635**	**(41 419)**	**104 816**

The accompanying notes on pages 18 to 109 form an integral part of these consolidated and separate financial statements.

The consolidated and separate financial statements on pages 11 to 109 were approved by the Supervisory Council and Management Board on 31 March 2017:

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 2016

		2016		2015	
		Group	Bank	Group	Bank
	Note	EUR’000	EUR’000	EUR’000	EUR’000
Cash flow from operations					
Profit/loss before corporate income tax		15 913	10 035	(13 038)	(9 408)
Adjustments for:					
Depreciation of intangible and tangible fixed assets and write off		6 191	2 289	4 418	1 111
(Decrease)/increase in provisions for impairments losses on financial investments	20	(666)	4 283	26 143	13 274
Impairment loss on other assets		1 210	-	-	-
Interest income		(35 180)	(18 415)	(47 308)	(23 326)
Interest expense		19 358	7 772	21 999	6 737
Dividend income		(27)	(27)	(22)	(2 382)
Impairment of tangible fixed assets		842	399	1 174	(131)
Reversal of impairment loss on tangible fixed assets		(345)	(261)	-	-
Impairment losses on assets held for sale		189	-	219	(12)
Impairment losses of held to maturity financial assets		5	5	39	39
Impairment losses of available-for-sale financial assets		3 113	7 063	-	14 987
Acquisition of subsidiary	25	(6 164)	-	-	-
(Profit)/loss from available-for-sale financial assets	11	(7 058)	(11 283)	(4 988)	(3 313)
(Profit)/loss from foreign exchange revaluation	10	7 670	7 639	4 344	1 057
Non-realized (profit)/loss from investment property	26	6 469	(83)	(3 789)	346
Operating cash flow before changes in operating assets and liabilities		**11 520**	**9 416**	**(10 809)**	**(1 021)**
Decrease/(increase) in loans and receivables to banks		(1 128)	(2 330)	485	564
Decrease/(increase) in trading financial assets		(29 173)	109	(4 015)	10 072
Decrease/(increase) in derivatives financial assets		990	1 043	(900)	(978)
Decrease/(increase) in loans and receivables to customers		27 094	2 754	32 170	(23 756)
Decrease/(increase) in assets held for sale		-	-	1 294	5
Decrease/(increase) in other assets		11 624	7 022	(14 341)	(5 005)
Increase/(decrease) in due to banks		4 951	5 037	(491)	(7 540)
Increase/(decrease) in customer deposits		(164 272)	(154 570)	(96 143)	(12 048)
Increase/(decrease) in derivatives financial liabilities		(29)	(1)	(539)	(507)
Increase/(decrease) in other liabilities		(817)	(4 184)	241	1 726
Cash generated from (used in) operating activities		**(139 240)**	**(135 704)**	**(93 048)**	**(38 488)**
Interest received		35 382	15 722	39 379	24 718
Interest (paid)		(18 440)	(7 280)	18 448	5 878
Dividend received		27	27	22	2 382
Corporate income tax (paid)		(1 441)	(608)	(999)	-
Net cash generated from (used in) operating activities		**(123 712)**	**(127 843)**	**(36 198)**	**(5 510)**

CONSOLIDATED AND SEPARATE CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

		2016		2015	
		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, 27	(11 406)	(6 006)	(11 058)	(3 294)
Sale of intangible and tangible fixed assets	24, 27	298	-	19 934	-
Decrease/ (increase) in held-to-maturity financial assets		314	314	(1 402)	(1 402)
Acquisition of investment property	26	(6 839)	-	(5 749)	-
Sale of investment property	26	3 704	-	8 088	-
Merger of subsidiary		-	-	-	(41)
Decrease in available-for-sale financial assets		386 405	390 816	864 468	882 053
(Increase) in available-for-sale financial assets		(239 532)	(241 255)	(884 171)	(908 363)
Net cash generated from (used in) investing activities		**132 944**	**143 869**	**(9 890)**	**(31 047)**
Cash generated from (used in) financing activities					
Debt securities issued		10 491	10 491	24 023	24 023
Increase in share capital		-	-	8 001	8 001
Increase in subordinated deposits		420	420	5 635	5 635
(Decrease) in subordinated deposits		(3 311)	(3 311)	(6 630)	(2 353)
Net cash generated from (used in) financing activities		**7 600**	**7 600**	**31 029**	**35 306**
Net increase/(decrease) in cash and cash equivalents		**16 832**	**23 626**	**(15 059)**	**(1 251)**
Cash and cash equivalents at the beginning of the period		241 166	223 095	283 173	250 104
Effect of exchange changes on cash and cash equivalents		(3 753)	(13 772)	(26 948)	(25 758)
Cash and cash equivalents at the end of the period	38	**254 245**	**232 949**	**241 166**	**223 095**

The accompanying notes on pages 18 to 109 form an integral part of these consolidated and separate financial statements.

The consolidated and separate financial statements on pages 11 to 109 were approved by the Supervisory Council and Management Board on 31 March 2017:

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 has 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.

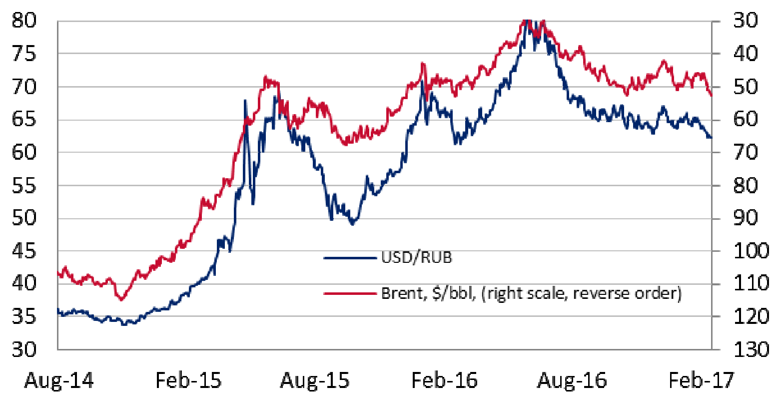
These financial statements were prepared based on the going concern assumption.

2. OPERATING ENVIRONMENT OF THE GROUP

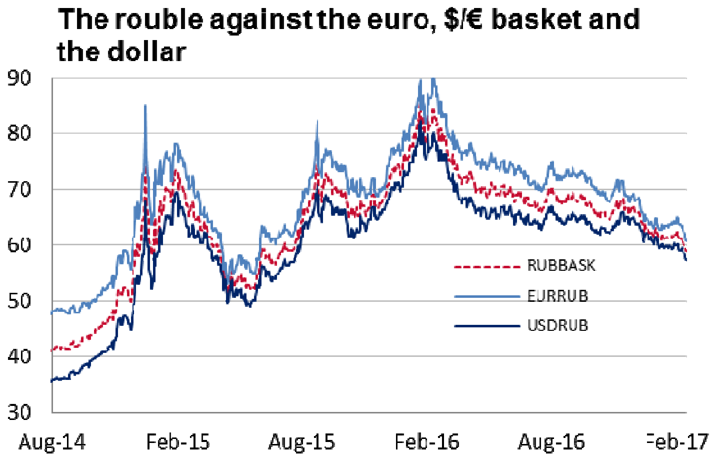
Exposure to the Russian Federation

For most of 2016, the rouble continued to track oil prices closely. However, since markets regained ground in late Q1, the rouble has been increasingly outperforming oil, benefiting from fresh portfolio inflows including post-Brexit vote. Having touched a recent low of 83 against the dollar (93 against the euro) in late January 2016, the rouble subsequently appreciated fairly steadily, except during the oil-related weakness in late July. Following the sharp increases in oil prices following the supply cut agreements within OPEC and between OPEC and other oil producers in October-November, the pace of rouble appreciation picked up. Over the course of 2016, the rouble gained 15% against the dollar (to 61.5 at end-December) and 18% against the euro (to 64.7).

USD/RUB, oil prices (Brent)



Source: Bloomberg.



Source: Bloomberg.

As of 31 December 2016 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 151 591 thousand euro (as of 31 December 2015 was 139 966 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 and full related exposure, both core and non-core. In 2016 the Bank retained a major part of assets of Russian origin, in particular:

1) a subsidiary enterprise – in 2014 "Вятка-банк" ОАО (Russia) was acquired which provides a full range of services of a commercial bank; balance sheet value of investments in Bank's available for sale financial assets ПАО "Норвик Банк" (renamed in 2015) as of 31 December 2016 was 53.6 million euro and as of 31 December 2015 was 43.1 million euro;
2) closed investment fund Nākotnes Īpašumu Fonds including assets located in Russia with book value of 29 178 thousand euro (as of 31 December 2015 was 17 633 thousand euro).
3) loans and accounts receivable granted to Russian developers of commercial real estate with the total exposure of 95.2 million as of 31 December 2016 and 85.2 million euro as of 31 December 2015, including hotels, operating in several major Russian cities:

	31.12.2016	31.12.2015
	EUR'000	EUR'000
Moscow and Moscow region	43 724	31 650
Perm	7 690	7 684
Kirov	17 737	16 099
Yekaterinburg	18 840	18 408
Tomsk	7 211	11 381
Total net exposure	**95 202**	**85 222**

The amount of the Group's and the Bank's deposits of which the end holders are residents of Russia are respectively 199.7 and 36.2 million euro or approximately 25.3% and 5.0% of the entire deposit base as of 31 December 2016. As of 31 December 2015 the Group's and the Bank's deposits of which the end holders are residents of Russia were respectively 218.5 and 80.7 million euro or approximately 22.8% and 9.3% of the entire deposit base.

The following asset is included in the total exposure to the Russian Federation. In 2014, the Bank/Group gained support from the Bank's major shareholder in the form of unfinished construction of the hotel Hilton Mozhaisk Borodino Hotel & Spa – 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 on the territory of 9 hectares. There are 6 swimming pools in the hotel, 3 of which are lidos, and one of them – a year-round pool, as well as a Spa and wellness centre, recreation area which includes bowling and billiards, a fitness centre and several restaurants. There are also sports facilities and playgrounds on the territory of the complex, as well as 3 conference halls of various formats and a multifunctional hall for 300 persons which can hold both sporting events and conferences and banquets with a large number of invited guests. At the Bank level, the respective balance is reflected in "Loans to and receivables from clients" in the amount of 11 million euro and in "Available for sale financial assets" in the amount of 15 million euro. At the Group level, it is reflected in the "Investment property" section in the amount of 26 million euro in value terms.

In 2016, owing to the Bank's 100% financing of finishing the construction the value of the facility increased: according to the appraisal by independent appraiser Baker Tilly Russaudit, as of the end of 2016 the value of the facility was RUB 1 688 million, which at the exchange rate on 31 December 2016 was 26 million euro. According to the schedule, the main construction works are to be completed by 01 July 2017, the site is to be commissioned during July 2017.

The Russian economy, its development, rouble exchange fluctuations which started in the second half of 2014 and continued in 2015 exercised a significant influence over the changes in the balance sheet items of both the Bank and the Group. The end of 2016 saw rouble appreciation: as of 31 December 2016 the exchange rate was 64.30 roubles against 1 euro (as of 31 December 2015 was 80.6736).

The key positive factor for the Russian currency was definitely the increase in oil prices in 2016. In mid-November, the Brent crude oil price went up by more than 10 dollars per barrel – in expectation of and in response to the proration agreement reached by oil-producing countries in Vienna on November 30. Notwithstanding the fact that in contrast to 2014 the oil price is substantially lower, but from the lows of the beginning of 2016 the Brent crude oil price went up by more than 80% - from approx. 30 dollars per barrel in January to 55 dollars in December.

The rising price of oil attracted investors to the Russian market which also contributed to the strengthening of the Russian currency. Moreover, the appreciation of rouble was also facilitated by both the inflation fall to 5.6% and macroeconomic upturn.

However, despite the rouble appreciation the Bank/Group's management have made a decision to decrease exposure to Russia. At present, active work is in progress related to the asset sale and loan refinancing.

Sensitivity analysis

As of 31 December 2016 the Bank's balance sheet position "Loans to and receivables from customers" includes a net exposure of 45.0 million euro to **wind energy industry** (Group's balance sheet positions "Tangible fixed assets" respectively 40 million euro and "Intangible assets" – 5 million euro). 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:

WACC (Weighted Average Cost of Capital) rate for existing wind park – 7.46%;

WACC (Weighted Average Cost of Capital) rate for developing wind park – 8.22%;

*Electricity sales price – 110 EUR/MWh.

But if WACC 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 WACC 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 2016 the Bank’s and the Group’s balance sheet position “Loans to and receivables from customers” includes an exposure of 16.1 million euro to **other real estate (multi-story car parking)** in Russia. The Group’s management has assessed the recoverable amount of this exposure on the basis of the valuation of independent valuation expert. The key assumptions used in this valuation are as follows:

NOI (Net Operating Income) per year – EUR 1 437 213;

Capitalization rate –7%.

If NOI (Net Operating Income) and capitalization rate were changed by 1 %, the collateral value would be changed by 2.5 million euro.

If NOI (Net Operating Income) decreased and at the same time Capitalization rate increased, this might further lead to creation of provisions for this loan in amount of 1 million euro. But if NOI increased and at the same time Capitalization rate decreased, it would not influence total Bank’s and Group’s amount of provision, because the provisions would not be necessary for this loan.

As of 31 December 2016 the Bank’s and the Group’s balance sheet position “Loans to and receivables from customers” includes a net exposure of 66.8 million euro to **hotel operations** in Russia. 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 76 to EUR 260;
**Occupancy rate – from 50% to 71%;
***Discount rate – from 17.8% to 21.7%, capitalization rate – 13.3%.
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 4.5 million euro.

As of 31 December 2016 the Bank’s and the Group’s balance sheet position “Loans to and receivables from customers” includes a net exposure of 38.1 million euro to **commercial property** in Russia. 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 150 to EUR 552;
Sale price per sq. m. – from EUR 2 300 to EUR 5 310;
***Discount rate – from 15.3% to 17.3%; capitalization rate - from 7.0% to 13.0%.

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, this might further lead to the increase of provisions for loans by 0.09 million euro. 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.

Of the decreasing of amount of collateral might further lead to increase of provisions for loans by 0.09 million euro. But if amount of collateral increased this would allow to reverse provisions for loans by 2.9 million euro.

As of 31 December 2016 the Bank’s and the Group’s balance sheet position “Loans to and receivables from customers” includes an exposure of 13.8 million euro to **Processing business** in Russia. The Bank’s management has assessed the recoverable amount of this exposure on the basis on the valuation of independent valuation expert. Key assumptions used in this valuation are as follows:

NOI (Net Operating Income) per year – EUR 904 930;
Capitalization rate – 19.05%;
***Discount rate – 23.3%.

If NOI (Net Operating Income) is changed by 5% and Capitalization rate - by 1%, the collateral valuations would be changed by 0.5 million euro.

If NOI decreased and at the same time Capitalization rate increased, this might not further lead to the creation of provisions for this loan.

If NOI increased and at the same time Capitalization rate decreased, it would not influence on the total amount of Bank's and Group's provisions.

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

*** Occupancy rate for hotels have not changed, because it relates to the indicator of ADR and the reduction of the ADR increases Occupancy rate.*

**** The Discount rates have not changed, because there are no significant reasons to increase the risks of the Russian economy for the next year.*

Fluctuation of the Russian rouble 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 2016 the Bank's and the Group's balance sheet position "Loans to and receivables from customers" includes a net exposure of 120 million euro to **loans for assets in Russia**.

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.

Loans to *processing business* and *other real estate* are not impaired.

3. SIGNIFICANT ACCOUNTING PRINCIPLES

Basis of preparation

The accompanying financial statements are presented in the official currency of Latvia in thousands of euro ("EUR'000").

The consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union (the "EU").

The consolidated and separate financial statements have been prepared under the historical cost convention except for available for sale securities including investments in subsidiaries and investment property which are measured at fair value and real estate included in the tangible fixed assets carried at revalued amounts. Other financial assets and liabilities are carried at amortized cost in accordance with the effective interest rate method.

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 2015.

The following new and amended IFRS and interpretations as adopted by EU became effective in 2016, but had no significant impact on the operations of the Group and the Bank and these financial statements:

Amendments to IFRS 11 "Joint Arrangements" – Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016).

Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" - Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after 1 January 2016).

Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture" – regarding bearer plants (effective for annual periods beginning on or after 1 January 2016).

Amendments to IAS 27 "Separate Financial Statements" - Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016).

Amendments to IAS 1 "Presentation of financial statements" regarding disclosure initiative (effective for annual periods beginning on or after 1 January 2016).

Amendments to IFRS 10 "Consolidated financial statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in associates and joint ventures" – Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016).

Annual improvements to IFRS's 2014 (effective for annual periods beginning on or after 1 January 2016). The amendments include changes that affect 4 standards:

- IFRS 5 "Non-current assets held for sale and discontinued operations",
- IFRS 7 "Financial instruments: Disclosures" with consequential amendments to IFRS 1,
- IAS 19 "Employee benefits", and
- IAS 34 "Interim financial reporting".

Amendments to IAS 19 "Employee benefits plans" regarding defined benefit plans (effective for annual periods beginning on or after 1 February 2015).

Annual improvements to IFRS's 2012 (effective for annual periods beginning on or after 1 February 2015). These amendments include changes that affect 6 standards:

- IFRS 2 "Share-based payment",
- IFRS 3 "Business Combinations",
- IFRS 8 "Operating segments",
- IAS 16 "Property, plant and equipment" and IAS 38 "Intangible assets", and
- IAS 24 "Related party disclosures".

Certain new standards and interpretations have been published that become effective for the accounting periods beginning on 1 January 2017 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.

Management of the Group and the Bank believes that IFRS 9 will have a significant impact on the Bank and on the Group especially in relation to loan impairment including a one off charge to equity on adoption of IFRS 9. As of the date of issuance of these financial statements the impact was not yet been estimated, as, at present, it is impossible to determine reliably which instruments will be in the Bank/Group's portfolio and how they will be classified. Currently the Bank/Group evaluates what kind of changes are to be made in the accounting policy and accounting software, as well as in the control and reporting procedures.

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

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, not yet endorsed in the EU);

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, not yet endorsed in the EU);

Amendments to IAS 7 "Statement of Cash Flows" – Disclosure initiative (effective for annual periods beginning on or after 1 January 2017, not yet endorsed in the EU);

Amendments to IFRS 15 "Revenue from Contracts with Customers" (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU);

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, not yet endorsed in the EU);

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);
Amendments to IAS 40 "Investment Property" - Transfers (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU).
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, where the impact was not yet estimated.

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:

Name	Holding company name	Accumulated equity interest (%), 31.12.2016	Accumulated equity interest (%), 31.12.2015	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
ACCOUNTING LAB SIA	Norvik Ieguldījumu Pārvaldes Sabiedrība AS	100	100	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Professional, scientific and tehchnical activities	40103259956
ПАО Норвик Банк	AS Norvik Banka	97.75	97.75	RU	610000, г. Киров (обл.), Преображенская, дом 4.,Россия	Financial service activities	1024300004739
NORVIK EURASIA AIF AS	AS Norvik Banka	100	100	LV	Rīga, Elizabetes 15-1, LV-1010	Financial service activities	40103934446
SPORT LEASING SIA	AS Norvik Banka	100	100	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Financial service activities	40203018685
OLERINIA LIMITED	AS Norvik Banka	100	100	CY	Limassol, Agiou Andreou, 332 Patrician chambers, Lemesos,3035	Financial service activities	HE329149
ALLURINE LIMITED	AS Norvik Banka	100	100	CY	Limassol, Agiou Andreou, 332 Patrician chambers, Lemesos,3035	Financial service activities	HE329342
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
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

Name	Holding company name	Accumulated equity interest (%), 31.12.2016	Accumulated equity interest (%), 31.12.2015	Country	Address	Economic sector	Registration number
KRASTA SIA	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	100	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Real estate activities	40103669801
SEASTONE SIA	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	100	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Manufacture of chemicals and chemical products	40103679763
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	Real estate 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
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

Name	Holding company name	Accumulated equity interest (%), 31.12.2016	Accumulated equity interest (%), 31.12.2015	Country	Address	Economic sector	Registration number
UKU INVESTMENTS SIA	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	0	LV	Rīga, E.Birznieka-Upīša 20A-25, LV-1050	Real estate activities	40103551673
WINERGY SIA	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	0	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	0	LV	Rīga, E.Birznieka-Upīša 20A-25, LV-1050	Real estate activities	40003769469
NORWIND SIA	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	0	LV	Rīga, E.Birznieka-Upīša 20A-8, LV-1050	Financial service activities	40103966460
EYESURF LIMITED	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	0	CY	Cyprus, Limassol, Agiou Andreou,332 Patrician CH, 3035	Financial service activities	HE 343592
Орион ООО *	EYESURF LIMITED	99.9999975	0	RU	г.Москва, ул.Шаболовка д.10, 1190049	Real estate activities	5077746753497
MADORA SIA *	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	0	100	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Real estate activities	40103214354
DAYS SIA*	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	0	100	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Real estate activities	50103219851
SERENITY SIA*	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	0	100	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Real estate activities	40103296045
LANATA SIA *	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	0	100	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Real estate activities	40103214284
HOMELINK SIA	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	100	100	LV	Rīga, E.Birznieka-Upīša 21, LV-1011	Real estate activities	40103220172
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
WIND ONE OU *	Norvik IPS AS SIF Nākotnes Īpašumu Fonds	0	0	EE	Tartu, MNT 7-7, Estonia, 10145	Financial service activities	12023503

* 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 and derivatives. 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”, “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
- 脈ℓ 槓塡ȣ 兌箇緋 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 amount 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 in the balance sheet at the lower of the two values: at the net sale value or the cost price. The cost price 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 26 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 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 decided to carry its land and buildings at revalued amounts. 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

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.

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.
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 position "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 completeness of a transaction at the balance sheet date. The stage of completeness 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
- expenses 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 position "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 a 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 provision 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 taxation is provided for temporary differences arising between the carrying amount of an asset or liability in the balance sheet and its tax base according to taxation legislation. The deferred taxation asset or liability is calculated based on the tax rates that are expected to apply when the temporary differences reverse. When an overall deferred tax asset arises this is only recognized in the financial statements where its recoverability is foreseen with reasonable certainty.

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 to 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.

Foreign currency translation

Transactions and balances

The 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 2016	31 December 2015
USD/ EUR	1.0541	1.0887
RUB/EUR	64.30	80.6736

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 management have carefully analyzed the conditions impacting the Group's and the Bank's ability to continue as a going concern. The Management considers that the key risks which can substantially impact the Group's and the Bank's operations and financial position are:

- its exposure to Russia and in particular the currency risk of this (please see Note 2 "Exposure to the Russian Federation" and "Sensitivity analysis");
- the ultimately realised amounts from significant investment properties and loans. (please see Note 2 "Sensitivity analysis");
- compliance with regulatory requirements including ensuring the Bank has sufficient regulatory capital (please see Note 6 "Capital adequacy and further plans" and 41 "Capital adequacy")

The Group's and the Bank's ability to continue as a going concern is substantially dependent on the successful management of the aforementioned risks. 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, 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. 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 need to successfully implement the Bank's approved Strategy in the short and medium term which in turn depends on the Bank being able to reduce its exposures to non-core assets in the short term, and ensure it earns sufficient profit from its core banking activities. In turn the fulfilment of the Bank's core-business strategy is dependent on the easing of the regulatory oversight enforced by the FCMC.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recognized in 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

Valuation of investment properties using income capitalisation method. Investment property is 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) was blocked on the account opened by the Bank with the Deutsche Bank Trust Company Americas due to a Rule B court order (based on the alter ego claim, i.e. not a direct claim against the Bank) of the New York Court. The direct claim (against the plaintiff in the USA case) was examined in front of the UK Arbitration Court as a result and on the basis of previous Bank's requests and applications this amount as of 31 December 2016 was reduced to 1 206 thousand USD (equivalent to 1 086 thousand euro). Observing and guided by the precaution principle, making the capital adequacy calculation the Bank/Group applies capital correction for the amount of 663 thousand USD (equivalent to 629 thousand euro). At present this case is in a USA court in the process of pre-trial investigation under which the plaintiff requested from the Bank a number of documents without observing the provision of the Credit Institutions Law regarding the request of information, and as of 31 December 2016 the plaintiff did not perform any activities aimed at due compliance with the said laws and regulations. Additionally, the Bank filed with the US court a motion of dismissal because of undue jurisdiction and on rejection of the plaintiff's presented proofs under its claim towards the Bank which do not comply with the procedural rules and requirements of the US. The Bank's lawyers in USA consider that there is a high possibility that the court will take a decision about forum non convenience regarding the US jurisdiction and, consequently, the case should be dismissed or consideration thereof has to be moved to Latvia by initiating new legal proceedings, whilst complying with all procedural rules. The US court could take a possible decision under this case in October 2017.

(b)
As of 31 December 2016 total loan gross exposure of the Bank to the alternative energy sector was 52 million euro. This amount is based now on issued loans to *SIA Winergy* and its group companies.

Starting in 2013, the Bank initiated a number of legal proceedings related to its exposure to the alternative energy sector because of *SIA Winergy,* its group companies and shareholders fraudulent actions aimed to avoid due fulfilment of its obligations towards the Bank. The scope of legal proceedings included, inter alia, various claims and different applications to the state courts for protection of Bank's interests and securing pledge assets from undue disposure by putting arrests.

As of 31 December 2016 the Group's company AS Norvik Ieguldījumu pārvaldes sabiedrība, acting on behalf of the closed-end fund Nākotnes Īpašumu Fonds (hereinafter – SIF Nākotnes Īpašuma Fonds), is the sole shareholder of SIA Winergy.

During the first half of 2016 all legal proceedings under the civil cases affecting the Group's companies related to the alternative energy sector were completed, and in the second half of 2016 one of the criminal cases was ended.

In 2016 the hearing of the initiated criminal proceedings, under which the Bank was recognised as the only affected party, proceeded. A number of decisions to remove seizures towards the property were adopted during this period thus facilitating significantly the commercial activity of the Group`s companies and allowing looking positively towards their activity in the future. As of 31 December 2016 the cash flow generated by sale of alternative energy produced by wind power stations was fully released, the seizures towards all power stations and substation were removed, the funds in the total amount of approx. 2 million euro were released (during 2016) to fulfil SIA Winergy obligations towards the state budget and compensate the Bank`s expenses related to legal proceedings. At the beginning of 2017 one more seizure has been removed from 2 million euro which at present has already been credited to the company's current account.
In the context of consideration of the criminal proceedings the Bank keeps taking measures aimed at the complete removal of property seizures.

In view of all of the above, as well as considering the settlement of the civil cases, significant progress in the consideration of the criminal proceeding under which the Bank has been recognised as the only affected party, dismissal of one of the criminal proceedings and removal of seizures from the generated cash flow made it possible to discharge the loan obligations towards the Bank in 2016, in particular, to repay the principal amount in the amount of 1.7 million euro and interest in the amount of 586 thousand euro.

Moreover, at present the Bank has been conducting negotiations on the sale of the said assets with a number of investors who have stated their willingness to acquire the assets. Thus, the Group plans to obtain a positive result of the negotiations in the nearest future.

At the request of the Bank’s management, an independent valuator from an international consulting firm made a business valuation of the assets which served as a pledge for the loans issued by the Bank:

- large park with installed power 20.7 mWh;
- development park with a planned additional power 31.23 mWh;
- small park with installed power 1.75 mWh.

The value of three specified business objects is based on the following essential parameters:

- the expected annual electricity price index within the range from 1.3 to 2.3%;
- WACC rate within the range of 6.46% - 8.46% – for large and small parks, and within the range of 7.22% - 9.22% – for the development park.

In the Bank’s financial statements for 2016 the Bank’s management determined the fair value for the energy sector’s assets at 45 million euro. Based on the evaluation of the recoverable amount of the energy sector’s assets, the capital correction (recognised previously in the amount of 12 million euro) was restored during the period of 2016, whilst reserves created during the previous reporting periods were reduced by 2 095 thousand euro. As of 31 December 2016 the impairment of the said loans was equal to 7 million euro.

6. CAPITAL ADEQUACY AND FURTHERS PLANS

In 2016 the Group carried out activities provided for by the capital strengthening plan as a result of which the Group’s capital adequacy ratio improved.

Moreover, in 2016 the Bank presented to the Financial and Capital Market Commission a capital strengthening plan in which the Bank listed a number of development scenarios. For each of the scenarios the Bank determined a degree of probability of implementation thereof. The Bank also emphasised one of the scenarios which it considered to be the most probable. The key positions of this scenario were:

- reverse of provisions and capital correction for energy sector loans (assessment: high probability);

- earning of more than EUR 10 million worth income from selling Visa Europe shares (assessment: high probability);

- measures aimed at the reduction of the requirements towards the assets in the Russian Federation;

- net positive income in the first half of 2016.

A positive event in 2016 was SIA Winergy’s joining the Group as a result of contribution of the minority shareholder. Moreover, the year 2016 saw significant progress in the legal proceedings related to the recovery of the loans granted to SIA Winergy (for details see the Legal Proceedings sections). As already described in Note 5, seizures were removed from a part of the property owned by SIA Winergy. The company is able to generate more than 4 million euro of net cash flow per annum which is then used to repay the principal amount and interest payments. The positive changes allowed the Bank to provide the Financial and Capital Market Commission with sufficient arguments proving the borrower’s creditworthiness and, respectively, a possibility to reduce the amounts of the previously made reserves and fully restore the capital correction. The Bank’s management made a decision to sell the asset. Upon removal of the seizures, more investors expressed their interest in acquiring the asset. As a result of the sale of the asset the Group will be able to reduce the load and increase the capital adequacy ratio of the Bank/Group.

A considerable part of the Bank/Group’s assets is situated in the Russian Federation. In recent years significant rouble volatility could be observed which had a major impact on the Bank’s/Group’s financial performance in the previous periods. The Bank’s management made a decision to reduce this exposure. Therefore one of the Bank’s main tasks for the year 2016 was to refinance the loans issued against security of immovable property located in Russia, as well as to sell the Group’s assets located in Russia. The process initiated in 2016 yielded results. Potential investors expressed interest in acquiring and refinancing of the assets, negotiations are in progress.

Reduction of the exposure will allow mitigating the risks from the slump of the exchange rate and, consequently, will have positive impact on the Bank/Group’s capital adequacy ratio.

The Bank keeps using the subordinated capital – during 2016 the balance sheet value of the subordinated deposits and subordinated bonds increased from 66 million euro to 75 million euro.

According to the Basel III standard, the use of the Tier II capital to determine eligible capital for the exposures restrictions is limited to a half of the amount of Tier I capital in 2016 and to one third of Tier I capital in 2017. However, at present the Bank does not plan to increase Tier II capital and includes planned reduction of the subordinated deposits in the capital strengthening plan.

As in the previous years, in 2016 the Bank carried out successful transactions related to investments and trading in securities. As a result, overall income from these transactions in 2016 amounted to 11 million euro.

During 2016 one of the key tasks was disposal of taken-over assets. The book value of the assets sold in 2016 was 3 777 thousand euro: 5 companies (in instalments) and 13 real estate items were sold. Free resources are channelled into getting additional profit by the Bank.

One of the major events of the year 2016 was a planned payment of compensation to the members of Visa Europe, which took place in the second quarter 2016, as a result of which the company Visa Inc acquired Visa Europe. As a result of the transaction the Bank received funds in the amount of 7.8 million euro and preferred shares of the company Visa Inc valued, according to the Bank’s estimates, at 3 million euro. Furthermore, the Bank/Group is entitled to additional income based on the rules prescribed by VISA Inc. These amounts have been considered when assessing a fair value of the Bank/Group’s investment and included in the other comprehensive income of the Bank/Group.

During 2016 the Bank received on its balance sheet two real estate items as a liquidation quota, in particular, from the subsidiary SIA E15 – a real estate item in Riga, 15 Elizabetes Street worth 6.75 million euro (September 2016), and from the subsidiary Allurine Ltd – a real estate item in Riga, 11 Raiņa Boulevard, worth 5.5 million euro (March 2016). The Bank uses these real estate items for its own needs, in particular, as office space for the Bank’s employees. In the freed premises in Riga, 21 E. Birznieka-Upīša Street, a co-working centre will be situated (commissioning is planned for the fourth quarter 2017).
The Bank’s capital adequacy ratio as of the end of 2016 was 21.44% (the Group’s capital adequacy ratio was 14.80%).

In 2017 the Bank plans to follow its previously agreed strategy in relation to the corporate and retail lending, i.e. to take a conservative stance towards credit risk management.

The Bank keeps searching for investors to increase its equity capital which is a key element of Tier I capital and functions as a basis for business expansion. Additional Tier I capital will allow gaining additional profit.

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”) 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 and Financial Risks Management and Control 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 equal to 1% of the borrowings (at the end of 2016 and 2015).

The Financial Risk Management and Control 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 and submits reports to the management. The Risk Management Department measures and monitors the liquidity risk, as well as performs liquidity stress testing and submits stress testing results to the Board and the Supervisory Council.

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:

	2016	2015
	%	%
31 December	59.45	64.22
Average during the period	61.46	62.98
Highest	66.58	66.43
Lowest	57.44	57.35

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 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 deferred contractual maturity, except for demand deposits the breakdown of the maturity of which corresponds to the Group's experience related to the actual term of holding of such deposits.

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	Other 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	**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**	

Group As at 31 December 2015	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	Other EUR'000	Total EUR'000
Financial assets								
Cash and balances with the central bank	45 360	-	-	-	-	-	-	**45 360**
Loans to and receivables from banks	194 056	2 000	28	-	-	-	1 337	**197 421**
Trading financial assets	7 590	37 404	14 514	5 876	1 985	1	-	**67 370**
Derivatives financial instruments	1 809	-	-	-	-	-	-	**1 809**
Loans to and receivables from customers	20 935	14 154	72 745	27 661	108 745	33 607	36 459	**314 306**
Available-for-sale financial assets	229 580	-	-	-	7 531	16 671	-	**253 782**
Held-to-maturity financial assets	-	-	-	-	6 023	-	13 779	**19 802**
Other assets	1 795	-	-	-	-	-	3 638	**5 433**
Non-financial assets								
Prepaid corporate income tax	-	-	123	-	129	-	-	**252**
Investment property	-	-	-	-	-	-	106 642	**106 642**
Tangible fixed assets	-	-	-	-	-	-	65 158	**65 158**
Goodwill	-	-	-	-	-	-	10 265	**10 265**
Intangible assets	-	-	-	-	-	-	395	**395**
Assets held for sale	-	-	-	1 796	-	-	-	**1 796**
Other assets	18 346	15 389	468	4 502	132	1 482	116	**40 435**
Total assets	**519 471**	**68 947**	**87 878**	**39 835**	**124 545**	**51 761**	**237 789**	**1 130 226**
Financial liabilities								
Due to the central bank and other banks	1 909	-	-	-	4	-	-	**1 913**
Derivatives financial instruments	296	51	-	-	-	-	-	**347**
Customer deposits	194 465	71 520	74 533	85 868	524 476	5 163	1 947	**957 972**
Subordinated deposits	-	1 700	326	1 547	29 208	5 354	-	**38 135**
Subordinated debt securities	-	-	-	-	24 023	4 331	-	**28 354**
Other liabilities	9 071	-	-	-	-	-	228	**9 299**
Non-financial liabilities								
Deferred tax liabilities	-	-	-	-	-	-	2 743	**2 743**
Other liabilities	4 301	1 680	154	1 314	4 769	-	-	**12 218**
Total liabilities	**210 042**	**74 951**	**75 013**	**88 729**	**582 480**	**14 848**	**4 918**	**1 050 981**
Off-balance sheet items	27 551	-	-	-	-	-	-	**27 551**
Net liquidity	**281 878**	**(6 004)**	**12 865**	**(48 894)**	**(457 935)**	**36 913**	**232 871**	
Cumulative liquidity	**281 878**	**275 874**	**288 739**	**239 845**	**(218 090)**	**(181 177)**	**51 694**	

Bank	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 years and over	Other	Total
As at 31 December 2016	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**	**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	**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**	

Bank As at 31 December 2015	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	Other EUR'000	Total EUR'000
Financial assets								
Cash and balance with the central bank	30 626	-	-	-	-	-	-	**30 626**
Loans to and receivables from banks	189 540	2 000	-	-	-	-	1 304	**192 844**
Trading financial assets	-	-	109	-	-	-	-	**109**
Derivative financial instruments	1 806	-	-	-	-	-	-	**1 806**
Loans to and receivables from customers	16 624	2 863	51 931	18 254	89 794	32 833	33 589	**245 888**
Available-for-sale financial assets	229 580	-	-	-	7 531	238 978	-	**476 089**
Held to maturity financial assets	-	-	-	-	6 023	-	13 779	**19 802**
Other assets	3 125	-	-	-	-	-	3 638	**6 763**
Non-financial assets								
Investment property	-	-	-	-	-	-	6 225	**6 225**
Tangible fixed assets	-	-	-	-	-	-	19 859	**19 859**
Intangible assets	-	-	-	-	-	-	351	**351**
Assets held for sale	-	-	-	541	-	-	-	**541**
Other assets	4 641	-	-	-	-	-	116	**4 757**
Total assets	**475 942**	**4 863**	**52 040**	**18 795**	**103 348**	**271 811**	**78 861**	**1 005 660**
Financial liabilities								
Due to the central bank and other banks	1 827	-	-	-	4	-	-	**1 831**
Derivative financial instruments	268	51	-	-	-	-	-	**319**
Customer deposits	176 032	52 253	38 798	48 105	507 254	194	18 277	**840 913**
Subordinated deposits	-	1 700	326	1 547	29 208	5 354	-	**38 135**
Subordinated debt securities	-	-	-	-	24 023	4 331	-	**28 354**
Other liabilities	5 059	-	-	-	-	-	228	**5 287**
Non-financial liabilities								
Deferred tax	-	-	-	-	-	-	773	**773**
Other liabilities	2 263	-	-	680	-	-	-	**2 943**
Total liabilities	**185 449**	**54 004**	**39 124**	**50 332**	**560 489**	**9 879**	**19 278**	**918 555**
Off-balance sheet items	12 340	-	-	-	-	-	-	**12 340**
Net liquidity	**278 153**	**(49 141)**	**12 916**	**(31 537)**	**(457 141)**	**261 932**	**59 583**	
Cumulative liquidity	**278 153**	**229 012**	**241 928**	**210 391**	**(246 750)**	**15 182**	**74 765**	

MATURITY ANALYSIS OF FINANCIAL LIABILITIES

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

The amounts of the liabilities presented in the table are contractual undiscounted cash flows.

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 debt	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**
Commitments	21 261	-	-	-	-	-	**21 261**
Total	**30 218**	**-**	**-**	**-**	**-**	**-**	**30 218**

Financial liabilities As at 31 December 2015 - 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	1 913	-	-	-	-	-	**1 913**
Derivative financial instruments	(1 738)	40	-	-	-	-	**(1 698)**
- Contractual amounts payable	*366 724*	*661*	-	-	-	-	***367 385***
- Contractual amounts receivable	*(368 462)*	*(621)*	-	-	-	-	***(369 083)***
Customer deposits	160 167	115 710	77 200	87 353	528 051	17 801	**986 282**
Subordinated deposits	-	2 091	396	1 622	38 152	8 778	**51 039**
Subordinated debt securities	7	718	11	-	23 319	4 300	**28 355**
Other financial liabilities	9 299	-	-	-	-	-	**9 299**
Total undiscounted financial liabilities	**169 648**	**118 559**	**77 607**	**88 975**	**589 522**	**30 879**	**1 075 190**
Financial guarantees	12 908	-	-	-	-	-	**12 908**
Other contingent liabilities	92	-	-	-	-	-	**92**
Commitments	18 428	-	-	-	-	-	**18 428**
Total	**31 428**	-	-	-	-	-	**31 428**

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**
Derivative 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 in issue	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**
Commitments	5 182	-	-	-	-	-	**5 182**
Total	**8 458**	-	-	-	-	-	**8 458**

Financial liabilities As at 31 December 2015 - 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	1 830	-	-	-	-	-	**1 830**
Derivatives financial instruments	(1 767)	40	-	-	-	-	**(1 727)**
- Contractual amounts payable	*362 568*	*661*	-	-	-	-	***363 229***
- Contractual amounts receivable	*(364 335)*	*(621)*	-	-	-	-	***(364 956)***
Customer deposits	142 217	94 312	54 273	48 677	508 723	992	**849 194**
Subordinated deposits	-	2 091	396	1 622	38 152	8 778	**51 039**
Subordinated debt securities	7	718	11	-	23 319	4 300	**28 355**
Other financial liabilities	5 287	-	-	-	-	-	**5 287**
Total undiscounted financial liabilities	**147 574**	**97 161**	**54 680**	**50 299**	**570 194**	**14 070**	**933 978**
Financial guarantees	3 638	-	-	-	-	-	**3 638**
Other contingent liabilities	92	-	-	-	-	-	**92**
Commitments	12 493	-	-	-	-	-	**12 493**
Total	**16 223**	-	-	-	-	-	**16 223**

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.

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**
Commitments	21 261	-	-	-	-	-	**21 261**
Total	**30 218**	-	-	-	-	-	**30 218**

Financial liabilities As at 31 December 2015 - 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	1 913	-	-	-	-	-	**1 913**
Derivative financial instruments	(1 738)	40	-	-	-	-	**(1 698)**
- Contractual amounts payable	*366 724*	*661*	-	-	-	-	***367 385***
- Contractual amounts receivable	*(368 462)*	*(621)*	-	-	-	-	***(369 083)***
Customer deposits	681 553	103 063	67 007	78 590	38 268	17 801	**986 282**
Subordinated deposits	-	2 091	396	1 622	38 152	8 778	**51 039**
Subordinated debt securities	7	718	11	-	23 319	4 300	**28 355**
Other financial liabilities	9 299	-	-	-	-	-	**9 299**
Total undiscounted financial liabilities	**691 034**	**105 912**	**67 414**	**80 212**	**99 739**	**30 879**	**1 075 190**
Financial guarantees	12 908	-	-	-	-	-	**12 908**
Other contingent liabilities	92	-	-	-	-	-	**92**
Commitments	18 428	-	-	-	-	-	**18 428**
Total	**31 428**	-	-	-	-	-	**31 428**

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**
Derivative 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 in issue	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**
Commitments	5 182	-	-	-	-	-	**5 182**
Total	**8 458**	-	-	-	-	-	**8 458**

Financial liabilities As at 31 December 2015 - 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	1 830	-	-	-	-	-	**1 830**
Derivatives financial instruments	(1 767)	40	-	-	-	-	**(1 727)**
- Contractual amounts payable	*362 568*	*661*	-	-	-	-	***363 229***
- Contractual amounts receivable	*(364 335)*	*(621)*	-	-	-	-	***(364 956)***
Customer deposits	644 391	83 902	44 568	40 009	35 332	992	**849 194**
Subordinated deposits	-	2 091	396	1 622	38 152	8 778	**51 039**
Subordinated debt securities	7	718	11	-	23 319	4 300	**28 355**
Other financial liabilities	5 287	-	-	-	-	-	**5 287**
Total undiscounted financial liabilities	**649 748**	**86 751**	**44 975**	**41 631**	**96 803**	**14 070**	**933 978**
Financial guarantees	3 638	-	-	-	-	-	**3 638**
Other contingent liabilities	92	-	-	-	-	-	**92**
Commitments	12 493	-	-	-	-	-	**12 493**
Total	**16 223**	**-**	-	-	-	-	**16 223**

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 minimisation 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 Council approves 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.

	31.12.2016		31.12.2015	
	Group	**Bank**	**Group**	**Bank**
	EUR'000	**EUR'000**	**EUR'000**	**EUR'000**
Credit risk exposure relating to on-balance sheet assets	**538 773**	**632 069**	**859 923**	**943 301**
Loans to and receivables from banks	42 495	35 714	197 421	192 844
Trading financial assets	96 545	-	67 370	109
Derivative financial instruments	819	763	1 809	1 806
Loans to and receivables from customers	274 471	241 217	314 306	245 888
Available-for-sale financial assets	99 379	333 210	253 782	476 089
Held-to-maturity financial assets	19 483	19 483	19 802	19 802
Other financial assets	5 581	1 682	5 433	6 763
Credit risk exposure relating to off-balance sheet items	**30 218**	**8 458**	**31 428**	**16 223**
Contingent liabilities	8 957	3 276	13 000	3 730
Commitments	21 261	5 182	18 428	12 493
Maximum exposure	**568 991**	**640 527**	**891 351**	**959 524**

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 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**

At 31 December 2015 – 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	**95 618**	**440 033**	**195 648**	**128 624**	**859 923**
Loans to and receivables from banks	1 284	186 817	6 784	2 536	**197 421**
Trading financial assets	-	1 130	66 131	109	**67 370**
Derivative financial instruments	391	401	108	909	**1 809**
Loans to and receivables from customers	87 646	20 393	118 129	88 138	**314 306**
Available-for-sale financial assets	5 344	207 587	4 073	36 778	**253 782**
Held-to-maturity financial assets	-	19 802	-	-	**19 802**
Other financial assets	953	3 903	423	154	**5 433**
Credit risk exposure relating to off-balance sheet items	7 008	390	23 009	1 021	**31 428**
Total	**102 626**	**440 423**	**218 657**	**129 645**	**891 351**

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**

At 31 December 2015 - 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	**254 210**	**437 718**	**104 535**	**146 838**	**943 301**
Loans to and receivables from banks	1 284	186 327	3 448	1 785	**192 844**
Trading financial assets	-	-	-	109	**109**
Derivative financial instruments	391	401	105	909	**1 806**
Loans to and receivables from customers	87 764	19 086	53 386	85 652	**245 888**
Available-for-sale financial assets	163 818	208 199	47 173	56 899	**476 089**
Held to maturity financial assets	-	19 802	-	-	**19 802**
Other financial assets	953	3 903	423	1 484	**6 763**
Credit risk exposure relating to off-balance sheet items	7 013	390	7 800	1 020	**16 223**
Total	**261 223**	**438 108**	**112 335**	**147 858**	**959 524**

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:

	31.12.2016		31.12.2015	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Credit risk exposure relating to on-balance sheet assets	**538 773**	**632 069**	**859 923**	**943 301**
Financial services	111 466	283 627	135 758	309 826
Banks	94 754	112 705	229 506	252 363
Processing industry	82 140	67 354	69 467	54 640
Governments	73 758	60 263	231 825	212 125
Private individuals	33 708	11 027	37 154	13 540
Trade	20 734	807	19 010	3 410
Transport	19 637	18 328	26 759	28 687
Building	15 956	297	9 856	1
Other	86 620	77 661	100 588	68 709
Credit risk exposure relating to off-balance sheet items	30 218	8 458	31 428	16 223
Total	**568 991**	**640 527**	**891 351**	**959 524**

The additional information about the financial asset types is also presented in Notes 16, 17, 18, 19, 21 and 23.

Collateral and other loan 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, incl. 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 should be limited up to 45% 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.

Generally, loans in ПАО "Норвик Банк", are granted against the pledge of liquid immovable property geographically situated in the regions of the Bank's presence, the pledge of vehicles, more rarely – the pledge of manufacturing equipment. In rare cases trading stock is accepted as a pledge. Owners and beneficiaries' guarantee is a must; the only exceptions are state-owned companies and cooperative societies. Unsecured loans (in terms of material collaterals) are granted in case of:

- budget and contract lending,

- granting overdrafts (loans are granted against receipts to a settlement account),
- microlending (amounts up to 500 thousand roubles), where risks are covered by increased profitability of a product.

Under some lending programmes private individuals can receive loans without pledging.

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 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 2016 and 31 December 2015:

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 net loans to and receivables from customers	**54 334**	**90 216**	**54 005**	**8 515**	**17 686**	**899**	**7 646**	**13 643**	**27 895**	**274 839**

31.12.2016	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:	**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***
91 to 180 days overdue	-	-	-	-	-	-	-	-	-	**-**
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 net loans to and receivables from customers	**63 608**	**127 210**	**3 437**	**1 592**	**3 342**	**899**	**804**	**13 535**	**26 611**	**241 038**

31.12.2015

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:	**41 830**	**27 220**	**53 224**	**7 364**	**18 172**	**548**	**87**	**6 598**	**31 697**	**186 740**
Loans over 10 million to private companies	*31 646*	*10 627*	-	-	-	-	-	-	-	***42 273***
Loans from 2 to 10 million to private companies	-	*8 979*	*18 104*	-	-	-	-	-	*20 036*	***47 119***
Loans less than 2 million to private companies	*6 950*	*7 467*	*35 120*	-	*26*	*291*	*86*	*3 425*	*11 661*	***65 026***
Consumer loans and credit cards balances to private individuals	-	-	-	*5 120*	*18 146*	-	-	-	-	***23 266***
Mortgage loans to private individuals	*3 234*	-		-	-	-		-	-	***3 234***
Other loans to private individuals	-	*147*	-	*2 244*	-	*257*	*1*	*3 173*	-	***5 822***
Past due but not impaired	**18 116**	**-**	**730**	**802**	**2 826**	**-**	**-**	**415**	**-**	**22 889**
less than 30 days overdue	*11 851*	-	-	*329*	*160*	-	-	*11*	-	***12 351***
31 to 60 days overdue	*3 801*	-	*43*	*26*	*205*	-	-	*9*	-	***4 084***
61 to 90 days overdue	*20*	-	*184*	*13*	*210*	-	-	*99*	-	***526***
91 to 180 days overdue	*86*	-	-	*128*	*502*	-	-	*15*	-	***731***
over 180 days overdue	*2 358*	-	*503*	*306*	*1 749*	-	-	*281*	-	***5 197***
Impaired individual	**1 105**	**78 244**	**18 386**	**10 042**	**9 867**	**-**	**431**	**10 841**	**36 446**	**165 362**
less than 30 days overdue	*267*	*52 390*	*9 129*	*780*	*6*	-	*5*	*10 125*	*36 446*	***109 148***
31 to 60 days overdue	*46*	-	*1 051*	*224*	-	-	*14*	-	-	***1 335***
61 to 90 days overdue	-	*186*	-	-	*1*	-	-	-	-	***187***
91 to 180 days overdue	-	*15*	*1 340*	-	*1*	-	*8*	*194*	-	***1 558***
over 180 days overdue	*792*	*25 653*	*6 866*	*9 038*	*9 859*	-	*404*	*522*	-	***53 134***
(Provisions)	(623)	(22 629)	(8 550)	(8 672)	(9 748)	-	(431)	(2 123)	(1 940)	**(54 716)**
Total net loans to and receivables from customers	**60 428**	**82 835**	**63 790**	**9 536**	**21 117**	**548**	**87**	**15 731**	**66 203**	**320 275**

31.12.2015

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:	**48 363**	**17 501**	**16 297**	**889**	**3 202**	**548**	**87**	**3 268**	**31 697**	**121 852**
Loans over 10 million to private companies	*31 646*	*10 627*		-	-	-	-	-		***42 273***
Loans from 2 to 10 million to private companies	*7 208*	*3 406*	*13 744*	-	-	-	-	-	*20 036*	***44 394***
Loans less than 2 million to private companies	*6 933*	*3 321*	*2 549*	-	*27*	*291*	*86*	*268*	*11 661*	***25 136***
Consumer loans and credit cards balances to private individuals	-	-	-	*889*	*3 175*	-	-	-	-	***4 064***
Mortgage loans to private individuals	*2 576*	-		-	-	-		-	-	***2 576***
Other loans to private individuals	-	*147*	*4*	-	-	*257*	*1*	*3 000*	-	***3 409***
Past due but not impaired	**16 251**	**-**	**543**	**294**	**150**	**-**	**-**	**290**	**-**	**17 528**
less than 30 days overdue	*11 609*	-	-	*283*	*150*	-	-	-	-	***12 042***
31 to 60 days overdue	*3 645*	-	*43*	-	-	-	-	-	-	***3 688***
61 to 90 days overdue	-	-	-	-	-	-	-	*90*	-	***90***
91 to 180 days overdue	-	-	-	*11*	-	-	-	-	-	***11***
over 180 days overdue	*997*	-	*500*	-	-	-	-	*200*	-	***1 697***
Impaired individual	**1 099**	**75 469**	**12 597**	**8 340**	**2 888**	**-**	**431**	**10 556**	**36 446**	**147 826**
less than 30 days overdue	*268*	*50 030*	*5 308*	*12*	-	-	*5*	*10 120*	*36 446*	***102 189***
31 to 60 days overdue	*46*	-	*1 051*	*223*	-	-	*14*	-	-	***1 334***
91 to 180 days overdue	-	-	*1 339*	-	-	-	*8*	*194*	-	***1 541***
over 180 days overdue	*785*	*25 439*	*4 899*	*8 105*	*2 888*	-	*404*	*242*	-	***42 762***
(Provisions)	(616)	(22 439)	(4 770)	(6 977)	(2 600)	-	(431)	(1 838)	(1 940)	**(41 611)**
Total net loans to and receivables from customers	**65 097**	**70 531**	**24 667**	**2 546**	**3 640**	**548**	**87**	**12 276**	**66 203**	**245 595**

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 amount of forborne loans of Bank and Group as of 31 December 2016 is 24 822 and 19 671 thousand euro (2015: 34 533 and 39 300 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 2016 and 31 December 2015 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 2016 and 31 December 2015 is as follows:

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	Loans to and receivables from customers	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**	**210 813**	**99 379**	**19 483**	**5 581**	**689 669**
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*	*210 813*	*10 339*	-	*5 581*	***250 580***
Past due not impaired (No rating)	-	-	-	-	7 375	-	-	-	**7 375**
Impaired (No rating)	-	-	-	-	106 319	-	-	-	**106 319**
(Provisions)	-	-	-	-	(50 036)	-	-	-	**(50 036)**
Total net assets	**214 554**	**42 495**	**96 545**	**819**	**274 471**	**99 379**	**19 483**	**5 581**	**753 327**

31.12.2016

Bank, EUR’000	Cash and balances with the central bank	Loans to and receivables from banks	Trading financial assets	Derivatives financial instruments	Loans to and receivables from customers	Available-for-sale financial assets	Held-to-maturity financial assets	Other financial assets	Total
Neither past due nor impaired	**200 001**	**35 714**	**-**	**763**	**163 094**	**333 210**	**19 483**	**1 682**	**753 947**
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*	*163 094*	*244 170*	-	*1 682*	***422 135***
Past due not impaired (No rating)	-	-	-	-	5 396	-	-		**5 396**
Impaired (No rating)	-	-	-	-	108 629	-	-	35	**108 664**
(Provisions)	-	-	-	-	(35 902)	-	-	(35)	**(35 937)**
Total net assets	**200 001**	**35 714**	**-**	**763**	**241 217**	**333 210**	**19 483**	**1 682**	**832 070**

31.12.2015

Group, EUR’000	Cash and balances with the central bank	Loans to and receivables from banks	Trading financial assets	Derivatives financial instruments	Loans to and receivables from customers	Available-for-sale financial assets	Held-to-maturity financial assets	Other financial assets	**Total**
Neither past due nor impaired	**45 360**	**197 421**	**67 370**	**1 809**	**186 740**	**253 782**	**19 802**	**5 250**	**777 534**
From Aaa to Aa3	*-*	*35*	*-*	*-*	*-*	*188 817*	*18 372*	*-*	***207 224***
From A1 to A3	*17 684*	*160 644*	*-*	*-*	*-*	*2 975*	*-*	*-*	***181 303***
From Baa1 to Baa3	*-*	*25 778*	*9 813*	*-*	*-*	*9 427*	*-*	*-*	***45 018***
From Ba1 to Ba3	*8 274*	*5 902*	*40 421*	*-*	*-*	*15 940*	*487*	*-*	***71 024***
From B1 to B3	*-*	*1 005*	*7 684*	*-*	*-*	*9 733*	*943*	*-*	***19 365***
From Caa1 and lower	*-*	*6*	*-*	*-*	*-*	*-*	*-*	*-*	***6***
No rating	*19 402*	*4 051*	*9 452*	*1 809*	*186 740*	*26 890*	*-*	*5 250*	***253 594***
Past due not impaired (No rating)	-	-	-	-	22 889	-	-	-	**22 889**
Impaired (No rating)	-	-	-	-	165 743	-	-	723	**166 466**
(Provisions)	-	-	-	-	(61 066)	-	-	(540)	**(61 606)**
Total net assets	**45 360**	**197 421**	**67 370**	**1 809**	**314 306**	**253 782**	**19 802**	**5 433**	**905 283**

31.12.2015

Bank, EUR’000	Cash and balances with the central bank	Loans to and receivables from banks	Trading financial assets	Derivatives financial instruments	Loans to and receivables from customers	Available-for-sale financial assets	Held-to-maturity financial assets	Other financial assets	**Total**
Neither past due nor impaired	**30 626**	**192 844**	**109**	**1 806**	**121 852**	**476 089**	**19 802**	**6 580**	**849 708**
From Aaa to Aa3	*-*	*35*	*-*	*-*	*-*	*188 817*	*18 372*	*-*	***207 224***
From A1 to A3	*17 684*	*160 644*	*-*	*-*	*-*	*2 975*	*-*	*-*	***181 303***
From Baa1 to Baa3	*-*	*25 778*	*109*	*-*	*-*	*9 427*	*-*	*-*	***35 314***
From Ba1 to Ba3	*-*	*3 337*	*-*	*-*	*-*	*15 940*	*487*	*-*	***19 764***
From B1 to B3	*-*	*319*	*-*	*-*	*-*	*9 733*	*943*	*-*	***10 995***
From Caa1 and lower	*-*	*6*	*-*	*-*	*-*	*-*	*-*	*-*	***6***
No rating	*12 942*	*2 725*	*-*	*1 806*	*121 852*	*249 197*	*-*	*6 580*	***395 102***
Past due not impaired (No rating)	-	-	-	-	17 528	-	-		**17 528**
Impaired (No rating)	-	-	-	-	148 207	-	-	723	**148 930**
(Provisions)	-	-	-	-	(41 699)	-	-	(540)	**(42 239)**
Total net assets	**30 626**	**192 844**	**109**	**1 806**	**245 888**	**476 089**	**19 802**	**6 763**	**973 927**

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 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 2015.

The sensitivity of the income statement 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 equity is calculated by revaluating available-for-sale financial assets (debt securities) held as of 31 December 2016 and is based on the assumption that there are parallel shifts in the yield curve discounting future cash flows by amended interest rate. 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 2016 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. Additionally, the effect of profit/losses will occur if one of the debt securities from held-to-maturity portfolio matures at its announced call date in 2017 at fixed price: the impairment losses, being as the difference between amortised value and call price, could be 2 thousand euro.

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 2015). 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 including ПАО "Норвик Банк" (formerly "Вятка-банк" ОАО (Russia) into the Group in 2014 the sensitivity to the RUB is also assessed. Possible parallel interest rate shift in basis points for RUB has been set to 300 bps relying on the history during 2014-2016 and the forecast for 2017.

At 31 December 2016		Bank	Group	Sensitivity of equity				
	Increase in basis points	Sensitivity of net interest income	Sensitivity of net interest income	0 to 6 months	6 months to 1 year	More than 1 year	Total	Sensitivity of income statement
Currency		EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	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 of equity				
	Decrease in basis points	Sensitivity of net interest income	Sensitivity of net interest income	0 to 6 months	6 months to 1 year	More than 1 year	Total	Sensitivity of income statement
Currency		EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	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 2015		Bank	Group	Sensitivity of equity				
	Increase in basis points	Sensitivity of net interest income	Sensitivity of net interest income	0 to 6 months	6 months to 1 year	More than 1 year	Total	Sensitivity of income statement
Currency		EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
EUR	100	(1 710)	(1 554)	(10)	-	(125)	(135)	(47)
USD	100	(1 496)	(1 380)	(307)	(436)	(621)	(1 364)	(595)
RUB	300	(212)	280	-	-	-	-	-

At 31 December 2015		Bank	Group	Sensitivity of equity				
	Decrease in basis points	Sensitivity of net interest income	Sensitivity of net interest income	0 to 6 months	6 months to 1 year	More than 1 year	Total	Sensitivity of income statement
Currency		EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
EUR	(100)	1 710	1 554	10	-	125	135	47
USD	(100)	1 496	1 380	307	436	621	1 364	595
RUB	(300)	212	(280)	-	-	-	-	-

Currency risk

Currency risk is the risk that the fair value of a financial instrument will fluctuate due to changes in foreign currency exchange rates. The Policy of Control over Large Exposures and the Financial Risk Management and Control Policy govern the currency 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. Relating to the subsidiary bank in Russia, the national requirements for the foreign currency open positions are similar. During the 2015 and 2016 the Bank complied with those limits.

Additionally, stop-loss and limits on the dealer's positions are set by the Assets and Liabilities Committee. To avoid losses arising from adverse changes in exchange rates, the Capital Market Division continuously manages open positions and supervises compliance with the set limits. The Risk Management Department controls compliance with set limits daily and measures currency risk monthly.

The methods employed in the analysis of currency risk sensitivity have remained unchanged compared to year 2015.

The table below indicates the currencies to which the Group had significant exposure as of 31 December 2016 and as of 31 December 2015 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 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**		
As at 31 December 2015 - Group					
Net open long/(short) currency position	**(20 390)**	**8 179**	**9 373**	**2 838**	
Currency open position in % from capital as of 31/12/2015		**8.27**	**9.48**		

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 2015) for USD. The reason for the same the same volatility estimation for USD is EUR/USD volatility during the year 2016. The exposure in RUB does have the effect on the Bank and the Group equity since the inclusion of ПАО “Норвик банк” (formerly “Вятка-банк” OAO, Russia) into the Group in 2014. Possible currency rate fluctuations have been set to 15% for RUB (20% in 2015). The reason for such volatility estimation for RUB is based on the historical data in 2016, the RUB/EUR rate at the end of 2016 and the forecast for 2017.

	31.12.2016			31.12.2015		
Group	**Change in currency rate**	**Effect on income statement**	**Effect on equity**	**Change in currency rate**	**Effect on income statement**	**Effect on equity**
Currency	%	**EUR’000**	**EUR'000**	%	**EUR’000**	**EUR'000**
USD	10	1 053	(33)	10	818	(31)
	(10)	(1 053)	27	(10)	(818)	25
RUB	15	2 291	6 449	15	1 406	7 289
	(15)	(2 291)	(4 767)	(15)	(1 406)	(5 462)

The table below indicates the currencies to which the Bank had significant exposure as of 31 December 2016 and as of 31 December 2015 on its bank and trading monetary assets and liabilities and its forecasted cash flows:

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 at 31 December 2015 - Bank					
Net open long/(short) currency position	**6 083**	**1 880**	**(8 566)**	**603**	
Currency open position in % from capital as of 31/12/2015		**1.76**	**8.00**		

As of 31 December 2016 the Bank’s open position was 4.44% of the Tier 1 and Tier 2 of the capital (2015: 8.1%).

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.

	31.12.2016			31.12.2015		
Bank	**Change in currency rate**	**Effect on income statement**	**Effect on equity**	**Change in currency rate**	**Effect on income statement**	**Effect on equity**
Currency	**%**	**EUR’000**	**EUR'000**	**%**	**EUR’000**	**EUR'000**
USD	10	496	(32)	10	188	(31)
	(10)	(496)	26	(10)	(188)	25
RUB	15	799	7 714	15	1 285	3 983
	(15)	(799)	(5 701)	(15)	(1 285)	(5 697)

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, unauthorised 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) organisation 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 analysed 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.

8. NET INTEREST INCOME

	2016		2015	
	Group	**Bank**	**Group**	**Bank**
	EUR'000	**EUR'000**	**EUR'000**	**EUR'000**
Interest and similar income	**35 180**	**18 415**	**47 308**	**23 326**
Loans to and receivables from customers	23 001	13 567	28 589	14 174
Trading securities	7 249	3	8 666	226
Available-for-sale securities	4 225	4 225	7 874	7 874
Held-to-maturity financial assets	351	351	405	405
Loans to and receivables from banks	273	203	1 101	580
Other	81	66	673	67
Interest and similar expense	**19 358**	**7 772**	**21 999**	**6 737**
Customer deposits	12 185	2 067	16 303	1 718
Subordinated deposits	2 748	2 155	2 199	2 199
Subordinated debt securities	2 156	2 156	1 454	1 454
Payments in the Deposit Guarantee Fund	1 611	895	1 911	1 364
Deposits from banks	499	499	12	2
Other	159	-	120	-
Net interest income	**15 822**	**10 643**	**25 309**	**16 589**

As at 31 December 2016 Group interest income accrued on impaired loans to customers amounted to 2 268 thousand euro (2015: 2 331 thousand euro). As at 31 December 2016 Bank interest income accrued on impaired loans to customers amounted to 688 thousand euro (2015: 1 223 thousand euro).

9. FEE AND COMMISSION INCOME AND EXPENSE

	2016		2015	
	Group	Bank	Group	Bank
	EUR’000	EUR’000	EUR’000	EUR’000
Account services and money transfer fees	19 813	16 373	16 787	13 766
Payment cards	5 505	3 872	7 523	3 799
Asset management fees	1 597	-	853	-
Commission for public utility payments	1 021	1 020	1 300	1 299
Cash withdrawal	793	461	1 475	537
Brokerage services on securities	618	621	728	738
Commission on letters of credit and collection	139	139	171	171
Fiduciary activities	30	31	23	23
Other	472	207	664	205
Fee and commission income	**29 988**	**22 724**	**29 524**	**20 538**
Payment cards	2 527	2 305	2 246	1 988
Services of correspondent banks	1 105	953	1 377	1 209
Securities purchase and brokerage services	560	431	473	473
Other	30	4	23	6
Fee and commission expense	**4 222**	**3 693**	**4 119**	**3 676**

10. NET TRADING INCOME

	2016		2015	
	Group	Bank	Group	Bank
	EUR’000	EUR’000	EUR’000	EUR’000
Profit/(loss) from trading financial assets net	**1 077**	**(211)**	**2 165**	**449**
Bonds and other fixed income securities	***1 356***	***68***	***2 272***	***547***
Net trading profit/(loss)	882	76	1 213	14
Fair value adjustment	474	(8)	1 059	533
Shares and other non- fixed income securities	***(279)***	***(279)***	***(107)***	***(98)***
Net trading profit/(loss)	(279)	(279)	(331)	(237)
Fair value adjustment	-	-	224	139
Profit/(loss) from derivative instruments and foreign exchanges trading net	**22 006**	**17 773**	**8 522**	**11 189**
Net trading profit/(loss)	24 076	19 843	6 785	9 395
Fair value adjustment	(2 070)	(2 070)	1 737	1 794
Foreign exchange translation gains less loses	**(7 670)**	**(7 639)**	**(4 344)**	**(1 057)**
Net trading income	**15 413**	**9 923**	**6 343**	**10 581**

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

	2016		2015	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Bonds and other fixed income securities	590	590	3 785	3 785
Investments in equities	(4 276)	(51)	1 203	(472)
Non fixed income securities (shares)	10 744	10 744	-	-
Total	**7 058**	**11 283**	**4 988**	**3 313**

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

	2016		2015	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Typography	18 240	-	17 885	-
Alternative energy production	5 343	-	-	-
Rent of investment property	1 885	512	2 418	512
Penalties	800	261	734	247
Other	2 893	975	8 116	859
Other operating income	**29 161**	**1 748**	**29 153**	**1 618**
Production costs	13 435	-	14 691	-
Loan recovery expenses	1 040	1 039	2 060	2 060
Net loss of sale of real estate	245	-	802	3
Membership fees	893	878	464	458
Other	734	5	2 795	9
Other operating expense	**16 347**	**1 922**	**20 812**	**2 530**

13. ADMINISTRATIVE EXPENSES

	2016		2015	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Personnel expense	**29 831**	**14 818**	**34 530**	**16 296**
Personnel remuneration	22 414	11 054	23 439	11 196
Supervisory Council and Management Board remuneration	2 026	970	5 266	2 452
Social security contributions	5 391	2 794	5 825	2 648
Other expense	**21 117**	**13 095**	**22 192**	**12 964**
Professional services	5 933	4 341	5 748	2 815
Computer repair and communications	3 030	1 241	2 074	1 272
Public utilities and maintenance	2 035	337	1 863	321
Rent	1 322	625	1 692	707
Value added tax	1 254	1 133	1 948	1 571
Real estate tax	1 205	98	695	87
Business trips	1 039	202	1 330	177
Security	675	410	804	412
Advertising	653	333	774	432
Other administrative expenses	3 971	4 375	5 264	5 170
Total	**50 948**	**27 913**	**56 722**	**29 260**

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.

During the 2015 the average number of employees in the Group and the Bank was 1 564, 5 Supervisory Council and 6 Management Board members and 630 employees, 5 Supervisory Council and 6 Management Board members, respectively.

14. CORPORATE INCOME TAX

a) Components of corporate income tax charge	2016		2015	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Corporate income tax expense for the year	1 839	-	417	-
Corporate income tax paid abroad	608	608	987	987
Change in deferred tax assets	(216)	-	-	-
Change in deferred tax liability	(278)	-	(2 068)	-
Total	**1 953**	**608**	**(664)**	**987**

b) Reconciliation of accounting profit to tax charge

	2016		2015	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Profit before taxation	**15 913**	**10 035**	**(13 038)**	**(9 408)**
Expected corporate income tax (15%)	2 387	1 505	(1 956)	(1 411)
Tax effect of:				
(Untaxed income)/non-deductible expense	(897)	(1 125)	2 946	2 867
The tax paid abroad	370	370	987	987
Effect of different tax rates of subsidiaries operating in other jurisdictions	53	-	(223)	-
The previous tax period adjustments	(51)	-	-	-
Other	233	-	-	-
Tax losses carried forward	(142)	(142)	(2 418)	(1 456)
Total	**1 953**	**608**	**(664)**	**987**
Effective tax rate	**12%**	**6%**	**5%**	**-10%**

Expected corporate income tax has been calculated in accordance to Latvian income tax rate in 2016 (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:

	2016		2015	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Deferred tax assets at the beginning of year	-	-	-	-
Deferred tax assets increase/(decrease) for the year recognized in income statement	216	-	-	-
Deferred tax assets at the year end	**216**	**-**	**-**	**-**
Deferred tax liability at the beginning of year	1 970	-	2 409	-
Deferred tax liability increase/(decrease) for the year	(286)	-	(461)	-
Foreign exchange	8	-	22	-
Deferred tax liability at the year end	**1 692**	**-**	**1 970**	**-**
Deferred tax recognized directly in other comprehensive income at the beginning of year	773	773	596	596
Deferred tax recognized directly in other comprehensive income increase/(decrease) for the year, net	34	19	177	177
Deferred tax recognised on business combination	964	-	-	-
Deferred tax recognized directly in other comprehensive income at the year end	**1 771**	**792**	**773**	**773**
Total	**3 463**	**792**	**2 743**	**773**

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

Group	2016 Deferred tax asset	2016 Deferred tax liability	2015 Deferred tax asset	2015 Deferred tax liability
	EUR'000	EUR'000	EUR'000	EUR'000
Loans to customers	460	(354)	-	(986)
Depreciation and amortization	8	(4 446)	-	(1 770)
Change in fair value of investment property	62		108	-
Tax loss carry-forwards	6 069	-	5 294	-
Accruals for vacations	87	-	166	-
Not recognized deferred tax	-	(4 233)	-	(4 864)
Derivative financial instruments	-	(11)	-	-
Assets held for sale	60	-	-	-
Trading financial assets	466	-	-	-
Other	356	-	183	(101)
Total mutual off setting of assets/(liabilities)	**7 568**	**(9 044)**	**5 751**	**(7 721)**
Net deferred tax assets/(liabilities)	**216**	**(1 692)**	**-**	**(1 970)**
Deferred tax recognized directly in other comprehensive income	**-**	**(1 771)**	**-**	**(773)**
Total	**216**	**(3 463)**	**-**	**(2 743)**

Bank	2016 Deferred tax assets	2016 Deferred tax liability	2015 Deferred tax assets	2015 Deferred tax liability
	EUR'000	EUR'000	EUR'000	EUR'000
Depreciation and amortization	-	(2 625)	-	(2 381)
Tax loss carry-forwards	6 066	-	6 309	-
Not recognized deferred tax	-	(4 233)	-	(4 701)
Total mutual off setting of asset/(liability)	**6 066**	**(6 858)**	**6 309**	**(7 082)**
Net deferred tax asset/(liability)	**-**	**(792)**	**-**	**(773)**

15. CASH AND BALANCES WITH THE CENTRAL BANKS

	31.12.2016 Group	31.12.2016 Bank	31.12.2015 Group	31.12.2015 Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Cash	19 304	11 027	19 402	12 942
Due from the central banks	195 250	188 974	25 958	17 684
Total	**214 554**	**200 001**	**45 360**	**30 626**

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 2016 the amount of the statutory reserve of the Bank was 6 415 thousand euro (31 December 2015: 8 482 thousand euro). Bank is compliant with this regulation.

Balances with the Bank of Russia represent funds held in the Bank's correspondent account. In accordance with the regulations set by the Bank of Russia, the Bank's average monthly balance on the correspondent account must not be less than the amount of the statutory reserve calculated on the basis of the average monthly balance of liabilities included in the reserve base. As of 31 December 2016 the amount of the statutory reserve of the Bank was 1 231 thousand euro (31 December 2015: 892 thousand euro). The Bank is compliant with this regulation.

16. LOANS TO AND RECEIVABLES FROM BANKS

	31.12.2016		31.12.2015	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Demand placements with:	**39 691**	**32 948**	**132 580**	**130 391**
Banks of Latvia	458	458	1 104	1 104
Banks of OECD countries	22 258	22 206	126 544	126 054
Banks of other countries	16 975	10 284	4 932	3 233
Loans to and receivables from:	**2 804**	**2 766**	**64 841**	**62 453**
Banks of Latvia	633	633	180	180
Banks of OECD countries	69	69	60 273	60 273
Banks of other countries	2 102	2 064	4 388	2 000
Total	**42 495**	**35 714**	**197 421**	**192 844**

As at 31 December 2016 the Group and the Bank have the following amounts pledged: 134 thousand euro for guaranties (31 December 2015: 568 thousand euro); 633 thousand euro for POS-terminal payments (31 December 2015: 736 thousand euro), 2 million euro for Forex deals (31 December 2015: nil); 38 and nil thousand euro for payment system (31 December 2015: nil).
As at 31 December 2016 the Group and the Bank loans and receivables to banks were not past due nor impaired.

In 2016 the Bank's average nominal interest rates were: USD 0.13%, EUR (0.32)%, RUB 7.39%, GBP 0%; in 2015: USD 0.10%, EUR 0.02%, RUB 12.39%, GBP 0.03%.

17. TRADING FINANCIAL ASSETS

	31.12.2016		31.12.2015	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Trading bonds and other fixed income securities	**96 544**	-	**67 369**	**109**
OECD country bonds	550	-	569	-
Other country bonds	95 994	-	66 800	109
Trading shares and other non- fixed income securities	**1**	-	**1**	-
Other country shares	1	-	1	-
Total	**96 545**	**-**	**67 370**	**109**

18. DERIVATIVE FINANCIAL INSTRUMENTS

The table below presents 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.

	31.12.2016			31.12.2015		
Group	Assets	Liabilities	Notional amount	Assets	Liabilities	Notional amount
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Foreign exchange contracts						
Swaps	753	307	152 373	1 798	269	70 874
Forwards	66	9	2 568	-	74	790
Other derivatives						
Options	-	2	1 755	11	4	113
Total	**819**	**318**	**156 696**	**1 809**	**347**	**71 777**

	31.12.2016			31.12.2015		
Bank	Assets	Liabilities	Notional amount	Assets	Liabilities	Notional amount
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Foreign exchange contracts						
Swaps	697	307	133 260	1 795	241	66 044
Forwards	66	9	2 568	-	74	790
Other derivatives						
Options	-	2	1 755	11	4	113
Total	**763**	**318**	**137 583**	**1 806**	**319**	**66 947**

19. LOANS TO AND RECEIVABLES FROM CUSTOMERS

	31.12.2016		31.12.2015	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Net loans to:	**246 576**	**214 606**	**248 103**	**179 685**
Private companies	206 627	192 907	232 803	181 455
Individuals	52 342	20 167	59 817	23 380
Finance companies	37 576	37 434	14 609	14 609
Allowance for impairment losses (Note 20)	(49 969)	(35 902)	(59 126)	(39 759)
Receivables from:	**27 895**	**26 611**	**66 203**	**66 203**
Finance companies	27 895	26 611	68 143	68 143
Individuals	67	-	-	-
Allowance for impairment losses (Note 20)	(67)	-	(1 940)	(1 940)
Total loans to and receivables from customers, net	**274 471**	**241 217**	**314 306**	**245 888**

	31.12.2016		31.12.2015	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Geographical segmentation of loans and receivables				
Net loans to:	**246 576**	**214 606**	**248 103**	**179 685**
Residents of Latvia	49 723	81 098	116 302	116 421
Residents of OECD countries	924	26	1 500	188
Residents of other countries	245 898	169 384	189 427	102 835
Allowance for impairment losses (Note 20)	(49 969)	(35 902)	(59 126)	(39 759)
Receivables from:	**27 895**	**26 611**	**66 203**	**66 203**
Residents of Latvia	2	2	2	2
Residents of OECD countries	18 092	16 880	18 982	18 982
Residents of other countries	9 868	9 729	49 159	49 159
Allowance for impairment losses (Note 20)	(67)	-	(1 940)	(1 940)
Total loans to and receivables from customers, net	**274 471**	**241 217**	**314 306**	**245 888**

	31.12.2016		31.12.2015	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Analysis of loans by type				
Industrial loans	90 216	127 210	80 243	70 531
Mortgage loans	54 224	63 608	60 273	65 097
Commercial loans	53 886	3 437	63 182	24 667
Credit card balances	17 508	3 379	18 735	3 739
Consumer loans	8 555	1 734	9 392	2 740
Finance leases	7 646	804	87	87
Reverse Repo transactions	899	899	548	548
Other	13 642	13 535	15 643	12 276
Net loans to customers	**246 576**	**214 606**	**248 103**	**179 685**

In February 2016 the Group lost control over certain investments. In the result the Group derecognised investment property and the Bank derecognised Available for sale investment with fair value 15 076 thousand euro and instead recognized a loan at initial fair value of 15 076 thousand euro according to IAS 39.

The Group has received securities at fair value 1 380 thousand euro (at 31 December 2015: 1 975 thousand euro) as collateral for reverse repo deals and the Group is permitted to sell or repledge them. As at 31 December 2016 they have not been sold or repledged (at 31 December 2015: nil euro).

As at 31 December 2016 the Group and the Bank have the following amounts pledged: 7 266 and 6 055 thousand euro for card transactions (at 31 December 2015: 6 003 thousand euro); 5 438 and 5 391 thousand euro for Forex deals (at 31 December 2015: 4 350 thousand euro); 26 and nil thousand euro for payment system (at 31 December 2015: nil).

During 2016 the Bank's average nominal interest rates were: USD 12.90%, EUR 4.12%, RUB 8.33%, GBP 6.31%; in 2015: USD 10.64%, EUR 4.48%, RUB 29.96%, GBP 4.41%.

	31.12.2016		31.12.2015	
	Group	Bank	Group	Bank
Finance leases	EUR'000	EUR'000	EUR'000	EUR'000
Gross investments	**8 384**	**893**	**98**	**98**
Within 1 year	1 108	391	44	**44**
From 1 year to 5 years	3 231	502	54	**54**
More than 5 years	4 045	-	-	**-**
Unearned income	**738**	**89**	**11**	**11**
Within 1 year	134	46	9	**9**
From 1 year to 5 years	306	43	2	**2**
More than 5 years	298	-	-	**-**
Present value of minimum lease payments	**7 646**	**804**	**87**	**87**
Within 1 year	974	345	35	35
From 1 year to 5 years	2 925	459	52	52
More than 5 years	3 747	-	-	-

	31.12.2016		31.12.2015	
	Group	Bank	Group	Bank
	EUR’000	EUR’000	EUR’000	EUR’000
Analysis of loans by collateral				
Real estate	165 764	183 774	111 764	92 459
Movable property	29 079	24 265	71 544	60 713
Securities (bonds and shares)	8 354	1 235	727	724
Deposit	164	9	13 132	13 106
Other (unsecured)	43 215	5 323	50 936	12 683
Net loans to customers	**246 576**	**214 606**	**248 103**	**179 685**

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 31 December 2015	Impariment charge/ (release)	Written off	Foreign exchange	At 31 December 2016
	EUR’000	EUR’000	EUR’000	EUR’000	EUR’000
Industrial loans	**25 221**	(89)	(7 351)	795	**18 576**
Commercial loans	**9 158**	(461)	(1 597)	1 253	**8 353**
Consumer loans	**9 072**	(202)	(501)	548	**8 917**
Credit cards	**12 255**	(1 253)	(4 471)	2 261	**8 792**
Finance leasing	**431**	80	(380)	-	**131**
Mortgage loans	**778**	4 477	(385)	23	**4 893**
Other loans	**2 211**	(1 625)	(313)	34	**307**
Provisions for loans	**59 126**	**927**	**(14 998)**	**4 914**	**49 969**
Provisions for receivables	**1 940**	(1 882)	**-**	9	**67**
Other provisions	**991**	289	(1 007)	11	**284**
Total	**62 057**	**(666)**	**(16 005)**	**4 934**	**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	At 31 December 2014	Impariment charge/ (release)	Written off	Foreign exchange	At 31 December 2015
	EUR’000	EUR’000	EUR’000	EUR’000	EUR’000
Industrial loans	**19 684**	8 149	(2 424)	(188)	**25 221**
Commercial loans	**7 958**	6 824	(5 082)	(542)	**9 158**
Consumer loans	**12 428**	1 033	(4 080)	(309)	**9 072**
Credit cards	**9 164**	5 260	(761)	(1 408)	**12 255**
Finance leasing	**442**	(2)	(9)	-	**431**
Mortgage loans	**685**	377	(297)	13	**778**
Other loans	**477**	1 769	-	(35)	**2 211**
Provisions for loans	**50 838**	**23 410**	**(12 653)**	**(2 469)**	**59 126**
Provisions for receivables	**-**	1 940	**-**	**-**	**1 940**
Other provisions	**520**	793	(378)	56	**991**
Total	**51 358**	**26 143**	**(13 031)**	**(2 413)**	**62 057**

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 2015	EUR’000	EUR’000	EUR’000	EUR’000
Industrial loans	22 629	2 592	**25 221**	78 245
Commercial loans	8 550	608	**9 158**	18 385
Consumer loans	8 672	400	**9 072**	10 035
Credit cards	9 748	2 507	**12 255**	10 051
Finance leasing	431	-	**431**	431
Mortgage loans	623	155	**778**	1 105
Other loans	2 123	88	**2 211**	10 841
Provisions for loans	**52 776**	**6 350**	**59 126**	**129 093**
Provisions for receivables	1 940	**-**	**1 940**	36 446
Other provisions	991	-	**991**	1 175
Total	**55 707**	**6 350**	**62 057**	**166 714**

Group	2016	2015
	EUR’000	EUR’000
Result from impairment losses	**855**	**(25 640)**
Increase in allowance (loans)	(16 943)	(36 240)
Released from allowance (loans)	17 609	10 097
Recovery of previously written-off assets	189	503

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

Bank	At 31 December 2015	Impariment charge/ (release)	Written off	Foreign exchange	At 31 December 2016
	EUR'000	EUR'000	EUR'000	EUR'000	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	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	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	At 31 December 2014	Impariment charge/ (release)	Written off	Foreign exchange	Reorganiza-tion	At 31 December 2015
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Industrial loans	**18 228**	6 439	(2 424)	196	-	**22 439**
Commercial loans	**8 861**	2 973	(4 947)	178	(2 295)	**4 770**
Consumer loans	**11 354**	(218)	(4 097)	-	-	**7 039**
Credit cards	**3 281**	100	(761)	6	-	**2 626**
Finance leasing	-	1	-	-	430	**431**
Mortgage loans	**608**	208	(204)	4	-	**616**
Other loans	**160**	1 664	-	14	-	**1 838**
Provisions for loans	**42 492**	**11 167**	**(12 433)**	**398**	**(1 865)**	**39 759**
Provisions for receivables	-	1 940	-	-	-	**1 940**
Other provisions	**482**	167	(165)	56	-	**540**
Total	**42 974**	**13 274**	**(12 598)**	**454**	**(1 865)**	**42 239**

Bank	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 2015	EUR'000	EUR'000	EUR'000	EUR'000
Industrial loans	22 439	-	**22 439**	75 469
Commercial loans	4 770	-	**4 770**	12 597
Consumer loans	6 977	62	**7 039**	8 340
Credit cards	2 600	26	**2 626**	2 888
Finance leasing	431	-	**431**	431
Mortgage loans	616	-	**616**	1 099
Other loans	1 838	-	**1 838**	10 556
Provisions for loans	**39 671**	**88**	**39 759**	**111 380**
Provisions for receivables	1 940	-	**1 940**	36 446
Other provisions	540	-	**540**	723
Total	**42 151**	**88**	**42 239**	**148 549**

Bank	2016	2015
	EUR'000	EUR'000
Result from impairment losses	**(3 988)**	**(12 770)**
Increase from impairment (loans)	(16 669)	(14 939)
Released from impairment	12 386	1 665
Recovery of previously written-off assets	295	504

21. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	31.12.2016		31.12.2015	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Bonds and other fixed income securities	**89 040**	**89 040**	**229 579**	**229 579**
Latvia	4 977	4 977	-	-
OECD country bonds	28 730	28 730	196 259	196 259
Other country bonds	55 333	55 333	33 320	33 320
Shares and other non-fixed income securities	**10 339**	**161 930**	**18 859**	**158 825**
Funds registered in Latvia	-	151 591	-	139 966
Funds registered in EU countries	7 288	7 288	7 531	7 531
Other non-fixed income securities (OECD country residents)	3 051	3 051	11 328	11 328
Investments in subsidiaries	**-**	**82 240**	**5 344**	**87 685**
Bank (Other country residents)	-	53 618	-	43 099
Financial institutions (LR residents)	-	14 864	-	23 852
Financial institutions (OECD country residents)	-	10 684	-	612
Financial institutions (other country residents)	-	3 074	-	4 447
Private companies (LR residents)	-	-	5 344	-
Private companies (other country residents)	-	-	-	15 675
Total	**99 379**	**333 210**	**253 782**	**476 089**

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 2016 and 2015 the Bank/Group recognized impairment losses regarding its investments:

	31.12.2016		31.12.2015	
	Group	Bank	Group	Bank
Investment in:	EUR'000	EUR'000	EUR'000	EUR'000
Norvik Malta Sicav Plc	2 166	2 166	-	-
Nākotnes Īpašumu Fonds	-	3 950	-	13 864
Tatfondbank	947	947	-	-
"Балтикс" ООО	-	-	-	1 123
Total	**3 113**	**7 063**	**-**	**14 987**

On March 3 2017, the Central Bank of the Russian Federation (Bank of Russia) revoked the banking license from the public joint-stock company Tatfondbank or PJSC Tatfondbank (Reg. No. 3058).
As of 31 December 2016 the Bank held bonds of PJSC Tatfondbank with nominal value of 1 million dollar. Considering this fact, the Bank/Group has decided to fully impair these assets as at 31 December 2016.

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

	Group EUR'000	Bank EUR'000
At 31 December 2014	**(4 161)**	**(4 517)**
Revaluation	14 817	(4 386)
Impairment loss	-	14 987
Net (gain) or loss from sales of available-for-sale financial assets	(4 988)	(3 313)
At 31 December 2015	**5 668**	**2 771**
Revaluation	(3 021)	12 084
Impairment loss	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**

As at 31 December 2016 and 2015 the Bank had the following investments in subsidiaries:

Company	Country	Business profile	Balance value (EUR'000) as at 31 December 2016	Bank's share capital (%) as at 31 December 2016	Balance value (EUR'000) as at 31 December 2015	Bank's share capital (%) as at 31 December 2015
ПАО "Норвик Банк"	RU	Financial services	53 618	97.75	43 099	97.75
AS "NORVIK ieguldījumu pārvaldes sabiedrība"	LV	Financial services	-	0	8 848	100
"Sport Leasing" SIA	LV	Financial services	3	100	-	0
"NORVIK" liquidation Universal Credit Organization CJSC	AM	Financial services	3 074	100	4 447	100
"Norvik Banka UK" Limited	GB	Financial services	10 684	100	612	100
"NORVIK APDROŠINĀŠANAS BROKERIS" SIA	LV	Insurance brokerage services	-	100	-	100
AS "NORVIK EURASIA AIF"	LV	Financial services	14 861	100	15 004	100
"Allurine" Limited	CY	Financial services	-	100	5 578	100
"Olerinia" Limited	CY	Financial services	-	100	6 693	100
"Балтикс" ООО *	RU	Transportation and storage	-	0	3 404	0
Total			**82 240**		**87 685**	

* The company is included in the Bank's consolidation group as the Bank controls the entity in accordance with IFRS 10 paragraph 6.

In 2016 the Bank sold its subsidiary AS "Norvik ieguldījumu pārvaldes sabiedrība" to the subsidiary "Norvik Banka UK" Limited. The said transaction did not affect the composition of the Group.

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	Accumulated non-controlling interest in the subsidiary
				EUR'000	EUR'000
31.12.2016	ПАО "Норвик Банк"	Russia	2.25%	94	952
31.12.2015	ПАО "Норвик Банк"	Russia	2.25%	(75)	652

ПАО "Норвик Банк" balance	31.12.2016	31.12.2015
	EUR'000	EUR'000
Assets	**212 818**	**173 805**
Cash and balances with the central bank and other banks	20 929	18 078
Trading financial assets	95 497	66 134
Loans to and receivables from customers	71 687	68 775
Tangible assets	18 744	14 853
Other assets	5 961	5 965
Liabilities	**170 525**	**143 743**
Deposits	168 725	143 014
Trading financial liabilities	-	28
Other liabilities	1 800	701
Profit/(loss)	4 194	(3 339)
Total comprehensive income	**20 435**	**12 644**

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.

Impairment test for goodwill relating to subsidiary ПАО "Норвик Банк"

During 2014 the Group recognized goodwill of 9 858 thousand euro on acquisition.

The recoverable amount of the assets, including goodwill, has been determined based on value-in-use calculation. This calculation uses pre-tax cash flow projections based on financial budget for the next reporting year approved by the management and further forecast covering a five-year period in total.

The key assumptions used for value-in-use calculations in 2016 are as follows:

- EBITDA: 6 169 thousand euro in 2017 and afterwards increase of EBIDTA average 10.3% per year;
- Discount rate (WACC): 14.66%.

Total net carrying value of assets of the Group tested for impairment is 53 618 thousand euro, which included non-current assets (incl. goodwill) and net working capital. Based on the management assessment, the recoverable amount calculated based on value in use exceeded the above mentioned carrying value for 1 033 thousand euro.

Management determined EBITDA, CAPEX, Discount rate (WACC) over the five-year forecast period to be the most sensitive key assumptions. The annual EBITDA, CAPEX, Discount rate (WACC) are based on the

Group’s past performance, year 2016 actual performance, year 2017 approved budget and the management’s expectations of market development.

The following individual change in each of the key assumptions would make recoverable amount approximate its carrying amount as of 31 December 2016:

- Decrease in EBITDA for 1% in 2017 and afterwards;
- CAPEX increase for 4.5% in 2017 and afterwards;
- Increase in discount rate (WACC) to 14.87%.

As a result, there was no impairment made for the carrying amount of the goodwill, as at 31 December 2016.

23. HELD-TO-MATURITY FINANCIAL ASSETS

	31.12.2016		31.12.2015	
	Group	Bank	Group	Bank
	EUR’000	EUR’000	EUR’000	EUR’000
Bonds and other fixed income securities				
OECD country bonds	19 483	19 483	19 802	19 802
Total	**19 483**	**19 483**	**19 802**	**19 802**

As at 31 December 2016 the Bank has 18 990 thousand euro pledged for Forex deals (in 2015: 13 779 thousand euro.)

24. INTANGIBLE ASSETS

	31.12.2016		31.12.2015	
	Group	Bank	Group	Bank
	EUR’000	EUR’000	EUR’000	EUR’000
Intangible assets	5 853	826	352	308
Prepayment for other intangible assets	122	122	43	43
Net book value of other intangible assets	**5 975**	**948**	**395**	**351**

The following table shows the changes in the Group’s and Bank’s intangible assets for the year ended 31 December 2016 and 31 December 2015:

Group	Intangible assets	Prepayments for other intangible assets	Total
EUR `000			
Historical cost			
At 31 December 2015	**2 599**	**43**	**2 642**
Additions	5 747	140	**5 887**
Disposals	(45)	(61)	**(106)**
Foreign exchange	1		**1**
At 31 December 2016	**8 302**	**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	**5 853**	**122**	**5 975**

Group	Intangible assets	Prepayments for other intangible assets	Total
EUR `000			
Historical cost			
At 31 December 2014	**2 469**	**-**	**2 469**
Additions	138	89	**227**
Disposals	(9)	(46)	**(55)**
Foreign exchange	1	**-**	**1**
At 31 December 2015	**2 599**	**43**	**2 642**
Amortization			
At 31 December 2014	**2 114**	**-**	**2 114**
Charge/correction	139	-	**139**
Disposals	(6)	-	**(6)**
At 31 December 2015	**2 247**	**-**	**2 247**
Net book value			
At 31 December 2014	**355**	**-**	**355**
At 31 December 2015	**352**	**43**	**395**

Bank	Intangible assets	Prepayments for other intangible assets	Total
EUR`000			
Historical 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**

Bank	Intangible assets	Prepayments for other intangible assets	Total
EUR`000			
Historical cost			
At 31 December 2014	**3 153**	**-**	**3 153**
Additions	133	89	**222**
Disposals	(2)	(46)	**(48)**
At 31 December 2015	**3 284**	**43**	**3 327**
Amortization			
At 31 December 2014	**2 863**	**-**	**2 863**
Charge	115	-	**115**
Disposals	(2)	-	**(2)**
At 31 December 2015	**2 976**	**-**	**2 976**
Net book value			
At 31 December 2014	**290**	**-**	**290**
At 31 December 2015	**308**	**43**	**351**

25. ACQUISITION OF SUBSIDIARY

In February 2016 the Group, in particular, SIF "Nākotne Īpašuma Fonds", acquired 100% of the shares of *Ansager Global Limited* based on agreement with minority shareholder. *Ansager Global Limited* as of the moment of inclusion thereof in the Group, owned the following companies related to the energy business: 100% of SIA "Winergy" (LV) shares (united with subsidiaries SIA "Venti" (LV), SIA "Stribog" (LV), SIA "Njord" (LV)); 100% of "Wind One OU" (EE) shares; 100% of SIA "Arsenal Energy" (LV) shares; 100% of

SIA "Ošmaļi Energy" (LV) shares; 100% of "Ihor Holdings Ltd" (CY) shares; 100% of SIA "Uku Investments" (LV) shares.

As of 31 December 2016, the companies Ansager Global Limited, Ihor Holdings Ltd, SIA Ošmaļi Energy, SIA Arsenal Energy left the Group. The companies SIA Venti, SIA Stribog, SIA Njord were added to SIA Winergy by merging.

Subsidiaries acquired:	**Principal activity**	**Date of acquisition**	**Proportion of voting equity interests acquired**	**Consideration transferred, EUR'000**
Winergy group (Consolidation)	Alternative energy production (wind turbines)	17.02.2016	100.00%	-

	Winergy group
Fair value of assets and liabilities acquired	**EUR'000**
Assets	**52 109**
Current assets	**149**
Cash and cash equivalent	149
Non-current assets	**51 960**
Plant and equipment	40 000
Intangible assets	5 000
Other assets	6 960
Liabilities	**(45 945)**
Current liabilities	**(40 809)**
Due to banks	(40 809)
Non-current liabilities	**(5 136)**
Deferred tax liabilities	(964)
Other liabilities	(4 172)
Total	**6 164**
Consideration	**-**
Goodwill arising from acquisition	**6 164**

Fair value of the companies' fixed assets and intangible assets acquired by the Group was measured in accordance with the assessment conducted by the independent valuator from international consulting firm. The sum of assets and liabilities of the energy industry companies included in the Group is given above.

26. 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 2016:

	Group	Bank
	EUR’000	EUR’000
As at 31 December 2014	**121 675**	**6 571**
Additions	4 959	-
Renovation	790	-
Disposal	(8 088)	-
Derecognition	(146)	-
Transfer *	(11 908)	-
Net change in fair value	3 789	(346)
Foreign exchange	(4 429)	-
As at 31 December 2015	**106 642**	**6 225**
Additions	6 743	-
Renovation	96	-
Disposal **	(19 984)	-
Transfer	(1 778)	-
Net change in fair value	(6 469)	83
Foreign exchange	7 327	-
As at 31 December 2016	**92 577**	**6 308**

* Including two buildings (corporate centres in Riga at Raina Boulevard 11 and Elizabetes Street 15) reclassification from Investment property to Tangible fixed assets

** Including 15 076 thousand euro de-recognition due to loss of control (Note 19)

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

	31.12.2016		31.12.2015	
	Group	Bank	Group	Bank
	EUR’000	EUR’000	EUR’000	EUR’000
Unfinished constructions*	26 951	-	20 807	-
Land	26 324	-	29 053	-
Manufacturing facilities and warehouses	13 668	6 308	17 828	6 225
Office buildings	12 420	-	23 357	-
Apartments	5 526	-	6 109	-
Hotels and restaurants	2 444	-	2 433	-
Fuel station and oil depot	1 888	-	2 843	-
Recreation buildings	-	-	440	-
Other	3 356	-	3 772	-
Total	**92 577**	**6 308**	**106 642**	**6 225**

* 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, or a mix of the methods with respective weights assigned to each of them.

Rental income from investment property earned by the Group/Bank amounted to 1 885 thousand euro (31 December 2015: 2 418 thousand euro) / 512 thousand euro (31 December 2015: 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 875 thousand euro (31 December 2015: 1 157 thousand euro) / 14 thousand euro (31 December 2015: 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 741 thousand euro (31 December 2015: 213 thousand euro). Part of Group’s investment property is acquired by overtaking collateral from loans issued by the Bank.

As of 31 December 2016 the amount of overtaken collateral accounted as Group investment property was 167 thousand euro (31 December 2015: 59 059 thousand euro).

27. TANGIBLE FIXED ASSETS

	31.12.2016		31.12.2015	
	Group EUR’000	Bank EUR’000	Group EUR’000	Bank EUR’000
Land and buildings	95 996	33 118	48 849	17 465
Vehicles	306	204	445	254
Office equipment and other fixed assets	13 053	1 712	12 035	514
Prepayments for tangible fixed assets	1 444	498	3 673	1 626
Leasehold improvements	146	-	156	-
Net book value of tangible fixed assets	**110 945**	**35 532**	**65 158**	**19 859**

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, or a mix of the methods with respective weights assigned to each of them.

The carrying amount of tangible fixed asset’s class *Land and buildings* had the assets been carried under the cost model would be 74 234 thousand euro for Group’s tangible fixed assets, 25 801 thousand euro for Bank’s tangible fixed assets (2015: 18 784 thousand euro for Group’s tangible fixed assets, 9 071 thousand euro for Bank’s tangible fixed assets)

In 2016 new Bank’s office premises were opened in Riga, 15 Elizabetes Street and 11 Raiņa Boulevard, so a part of the freed premises in Riga, 21a E. Birznieka-Upīša Street, was leased out. At present repair works in the building in Riga, 21 E. Birznieka-Upīša Street, are still in progress. Upon completion of the repair works a part of the building is to be used as office space for the Bank’s employees, the other part – as a space for a co-working centre. The commissioning is planned for the third quarter of 2017. 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.

As of 31 December 2016 the amount of taken over collateral accounted as Group’s tangible fixed assets was 40 000 thousand euro (2015: 6 308 thousand euro).

The following table shows the changes in the Bank's tangible fixed assets for the year ended 31 December 2016:

Bank	**Land and Buildings**	**Vehicles**	**Office equipment and other fixed assets**	**Prepayments for tangible fixed assets**	**Total**
EUR'000					
Historical cost/Revalued amount					
At 31 December 2015	**24 205**	**468**	**5 523**	**1 626**	**31 822**
Additions	16 303	-	1 661	3 178	**21 142**
Revaluation	440	-	-	-	**440**
Disposals		(31)	(814)	(4 306)	**(5 151)**
At 31 December 2016	**40 948**	**437**	**6 370**	**498**	**48 253**
Accumulated depreciation and impairment					
At 31 December 2015	**6 740**	**214**	**5 009**	**-**	**11 963**
Charge	952	50	452	-	**1 454**
Impairment charge	399	-	-	-	**399**
Impairment reversal	(261)	-	-	-	**(261)**
Disposals	-	(31)	(803)	-	**(834)**
At 31 December 2016	**7 830**	**233**	**4 658**	**-**	**12 721**
Net book value					
At 31 December 2015	**17 465**	**254**	**514**	**1 626**	**19 859**
At 31 December 2016	**33 118**	**204**	**1 712**	**498**	**35 532**

Bank	**Land and Buildings**	**Vehicles**	**Office equipment and other fixed assets**	**Prepayments for tangible fixed assets**	**Total**
EUR'000					
Historical cost/Revalued amount					
At 31 December 2014	**21 739**	**468**	**5 518**	**34**	**27 759**
Additions	1 060	-	330	1 682	**3 072**
Revaluation	1 406	-	-	-	**1 406**
Disposals	-	-	(325)	(90)	**(415)**
At 31 December 2015	**24 205**	**468**	**5 523**	**1 626**	**31 822**
Accumulated depreciation and impairment					
At 31 December 2014	**6 283**	**161**	**5 115**	**-**	**11 559**
Charge	588	53	208	-	**849**
Impairment reversal	(131)	-	-	-	**(131)**
Disposals	-	-	(314)	-	**(314)**
At 31 December 2015	**6 740**	**214**	**5 009**	**-**	**11 963**
Net book value					
At 31 December 2014	**15 456**	**307**	**403**	**34**	**16 200**
At 31 December 2015	**17 465**	**254**	**514**	**1 626**	**19 859**

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

28. 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 5 756 thousand euro (2015: 1 796 thousand euro) for Group and in amount of 541 thousand euro (2015: 541 thousand euro) for Bank. The Group is actively marketing these assets and expects the sale to complete by 31 December 2017.

29. OTHER ASSETS

	31.12.2016		31.12.2015	
	Group	Bank	Group	Bank
	EUR’000	EUR’000	EUR’000	EUR’000
Financial assets:				
Spot deals	399	399	727	727
Cards transactions	48	48	373	372
Other receivables	5 134	1 235	4 333	5 664
Non-financial assets:				
Inventories	4 985	-	1 826	-
Deferred expenses	1 254	972	1 430	1 007
VAT	3 283	51	2 929	24
Accrued income	2 063	169	670	241
Deferred tax assets	216	-	1 116	-
Other receivables	10 868	1 585	32 464	3 485
Total	**28 250**	**4 459**	**45 868**	**11 520**

As of 31 December 2016 there were encumbered amounts among the Other Assets of the Bank/Group:

- 3 372 thousand euro were arrested on SIA Winergy’s account, see Note 5 (in 2015: nil);
- 96 thousand euro were pledged for communal and communication services (in 2015: 116 thousand euro);
- 1 143 thousand euro were arrested on the account held with DEUTSCHE BANK TRUST COMPANY AMERICAS (in 2015: 3 638 thousand euro).

30. MANAGED TRUST ASSETS AND LIABILITIES

	31.12.2016		31.12.2015	
	Group	Bank	Group	Bank
	EUR’000	EUR’000	EUR’000	EUR’000
Managed trust assets	**3 961**	**3 961**	**2 188**	**2 188**
Loans	3 961	3 961	2 188	2 188
Managed trust liabilities	**3 961**	**3 961**	**2 188**	**2 188**
Private companies	3 961	3 961	2 188	2 188

The financial statements disclose assets and liabilities held by the Bank on behalf of clients. Mentioned assets and liabilities are accounted out of the Group balance. 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

	31.12.2016		31.12.2015	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Demand deposits	**7 359**	**7 363**	**1 809**	**1 827**
Banks registered in Latvia	6 268	6 268	1 486	1 486
Banks registered in OECD countries	11	11	26	26
Banks registered in other countries	1 080	1 084	297	315
Term deposits	**4**	**4**	**104**	**4**
Banks registered in OECD countries	4	4	4	4
Banks registered in other countries	-	-	100	-
Total	**7 363**	**7 367**	**1 913**	**1 831**

During 2016 the Bank's average nominal interest rates for a bank's term deposits were: USD 0.01%, RUB 6.37%, in 2015 for all currencies was 0%.

32. CUSTOMER DEPOSITS

	31.12.2016		31.12.2015	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Current accounts	**525 975**	**492 804**	**696 025**	**667 156**
Private companies	356 754	338 358	508 014	493 403
Individuals	165 977	152 301	181 989	171 860
Public organizations	1 778	1 040	4 326	986
Government companies	873	512	1 076	287
Local government	593	593	620	620
Fixed-term deposits	**261 898**	**193 534**	**261 947**	**173 757**
Private companies	21 981	76 789	27 660	40 863
Individuals	238 404	116 515	233 158	132 665
Public organizations	331	230	392	229
Government companies	1 182	-	737	-
Promissory notes issued	**286**	**-**	**-**	**-**
Demand	286	-	-	-
Total	**788 159**	**686 338**	**957 972**	**840 913**

	31.12.2016		31.12.2015	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Geographical segmentation of customer deposits				
Current accounts	**525 975**	**492 804**	**696 025**	**667 156**
Residents of Latvia	109 700	111 367	105 244	106 725
Residents of OECD countries	114 474	114 680	111 458	111 507
Residents of other countries	301 801	266 757	479 323	448 924
Fixed-term deposits	**261 898**	**193 534**	**261 947**	**173 757**
Residents of Latvia	118 185	176 801	106 270	128 023
Residents of OECD countries	1 134	1 134	2 024	2 024
Residents of other countries	142 579	15 599	153 653	43 710
Promissory notes issued	**286**	**-**	**-**	**-**
Residents of other countries	286	-	-	-
Total	**788 159**	**686 338**	**957 972**	**840 913**

During 2016 the Bank's average nominal interest rates for term deposits were: EUR 0.41%, USD 0.10%, RUB 0.82%, GBP 0.02%, CHF 0.01%; in 2015 EUR 0.30%, USD 0.10%, RUB 1.10%, GBP 0.07%, CHF 0.02%.

33. SUBORDINATED DEPOSITS

As at 31 December 2016 and 2015 subordinated debt lenders were as follows:

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
residents	EUR	16 447	4 - 7	2017-2025	16 447	4 - 7	2017-2025
residents	USD	16 649	4 - 12	2017-2040	11 461	4 - 7	2017-2024
Total		**40 844**			**35 656**		

31.12.2015		Group			Bank		
Lenders:	**Currency**	**EUR'000**	**Rate %**	**Maturity**	**EUR'000**	**Rate %**	**Maturity**
Residents	EUR	2 218	3.85 - 7	2016-2022	2 218	3.85 - 7	2016-2022
Residents	USD	4 876	4-7	2017-2020	4 876	4-7	2017-2020
Residents	GBP	136	3.85	2016	136	3.85	2016
residents	EUR	19 129	4-7	2016-2025	19 129	4-7	2016-2025
residents	USD	11 776	4-7	2016-2024	11 776	4-7	2016-2024
Total		**38 135**			**38 135**		

34. SUBORDINATED DEBT SECURITIES

As at 31 December 2016 and 2015 the Group's and the Bank's subordinated debt securities were as follows:

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	2014.08.08	2022.08.08	6	2 000	18	2 018
LV0000801397	EUR	2014.10.24	2021.10.24	6	1 000	11	1 011
LV0000801637	EUR	2014.12.19	2022.12.19	6	1 300	3	1 303
LV0000801660	USD	2015.02.27	2020.02.27	6.2	13 756	719	14 475
LV0000801678	EUR	2015.02.27	2020.02.27	6	10 000	7	10 007
LV0000802031	EUR	2016.03.10	2022.03.10	6	10 000	35	10 035
						Total:	**38 849**

31.12.2015

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	2	1 302
LV0000801660	USD	27.02.2015	27.02.2020	6.2	13 319	697	14 016
LV0000801678	EUR	27.02.2015	27.02.2020	6	10 000	7	10 007
						Total:	**28 354**

Mentioned subordinated debt securities are unlisted.

OTHER LIABILITIES

	31.12.2016		31.12.2015	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Financial liabilities				
Spot deals	1 207	1 207	515	515
Payments collected on behalf of public utilities services providers	88	88	69	69
Cards transactions	590	120	370	325
Other	6 277	499	8 345	4 378
Non-financial liabilities				
Accrued liabilities	1 674	694	1 283	680
Accrued expenses	2 160	1 387	2 196	1 855
Deferred income	3 696	3	1 931	4
Other	4 987	42	6 808	404
Total	**20 679**	**4 040**	**21 517**	**8 230**

36. SHARE CAPITAL

	31.12.2016		31.12.2015	
	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 2016 and 2015 accordingly the Bank’s shareholders were as follows:

	31.12.2016			31.12.2015		
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	69 926 787	32.003	41 956
G. Guselnikov* (LV)	125 985 339	57.658	75 591	120 656 539	55.219	72 394
D.D. Archer * (US)	-	-	-	19 107 793	8.745	11 465
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 2016 and 2015, 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 2016 and 2015 there is no difference between basic and diluted earnings per share calculation.

	Group 31.12.2016	Group 31.12.2015
Net profit/loss (EUR’000)	13 866	(12 323)
Weighted average number of ordinary shares (’000)	218 504	207 369
Profit /loss per share (EUR)	**0.06**	**(0.06)**

38. CASH AND CASH EQUIVALENTS

	31.12.2016		31.12.2015	
	Group EUR’000	**Bank EUR’000**	**Group EUR’000**	**Bank EUR’000**
Cash and balances due on demand from the Central Banks	214 554	200 001	45 360	30 626
Balances due from other banks with original maturity of 3 months or less	39 691	32 948	195 806	192 469
Total	**254 245**	**232 949**	**241 166**	**223 095**

39. COMMITMENTS AND CONTINGENCIES

	31.12.2016		31.12.2015	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Contingent liabilities	**8 957**	**3 276**	**13 000**	**3 730**
Guarantees	8 957	3 276	12 908	3 638
Other	-	-	92	92
Commitments	**21 261**	**5 182**	**18 428**	**12 493**
Unused credit lines	21 261	5 182	18 235	12 300
Letters of credit	-	-	193	193
Total off-balance sheet items gross	**30 218**	**8 458**	**31 428**	**16 223**

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.

In September 2016, a planned audit on the Bank's compliance with both the "Law on Prevention of Laundering of Proceeds from Criminal Activity (Money Laundering) and of Terrorist Financing" and "Regulations on Enhanced Customer Due Diligence" was started by the FCMC. At the date of the signing of these financial statements the process is on-going and the final report that covers the results of the inspection has not yet been obtained. Although this fact creates uncertainty about potential future impacts of the results of the inspection, the management of the Bank confirms that the Bank's ability to meet its obligations towards its customers and partners will not be affected by the results of the inspection. Essentially the Bank adheres to binding laws and regulations in its operations, specifically in terms of the prevention of money laundering and terrorist financing. The internal control system of the Bank is being constantly developed and improved, as well as the necessary tasks are complited in order to avoid any suspicious or unusual customer transactions in the Bank.

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.

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 and real estate, witch value is determined by an independent valuators using the market data;

- 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.

(a) Financial instruments not measured at fair value

Group	Carrying value	Level 1	Level 2	31.12.2016 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

Bank				31.12.2016	
	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

Group				31.12.2015	
	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	45 360	19 402	25 958	-	45 360
Due from other banks	197 421	-	197 421	-	197 421
Loans and advanced from customers	314 306	-	-	314 337	314 337
Held-to-maturity financial assets	19 802	19 802	-	-	19 802
Other financial assets	5 433	-	-	5 433	5 433
Financial liabilities					-
Due to the central bank and other banks	1 913	-	1 913	-	1 913
Customer deposits	957 972	-	959 688	-	959 688
Subordinated deposits	38 135	-	-	38 135	38 135
Subordinated debt securities	28 354	-	-	28 354	28 354
Other financial liabilities	9 299	-	-	9 299	9 299

Bank				31.12.2015	
	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	30 626	12 942	17 684	-	30 626
Due from other banks	192 844	-	192 844	-	192 844
Loans and advanced from customers	245 888	-	-	242 721	242 721
Held-to-maturity financial assets	19 802	19 802	-	-	19 802
Other financial assets	6 763	-	-	6 763	6 763
Financial liabilities					-
Due to the central bank and other banks	1 831	-	1 831	-	1 831
Customer deposits	840 913	-	840 908	-	840 908
Subordinated deposits	38 135	-	-	38 135	38 135
Subordinated debt securities	28 354	-	-	28 354	28 354
Other financial liabilities	5 287	-	-	5 287	5 287

(b) Financial instruments measured at fair value

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 2015 - Group	Level 1 EUR'000	Level 2 EUR'000	Level 3 EUR'000	Total EUR'000
Financial assets	**295 231**	**3 528**	**24 202**	**322 961**
Trading financial assets	65 640	1 730	-	67 370
Derivative financial instruments	11	1 798	-	1 809
Available-for-sale financial assets	229 580	-	24 202	253 782
Financial liabilities	**4**	**343**	**-**	**347**
Derivative financial instruments	4	343	-	347

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**
Derivative financial instruments	2	316	-	318

As at 31 December 2015- Bank	Level 1 EUR'000	Level 2 EUR'000	Level 3 EUR'000	Total EUR'000
Financial assets	**229 700**	**1 795**	**246 509**	**478 004**
Trading financial assets	109	-	-	109
Derivative financial instruments	11	1 795	-	1 806
Available-for-sale financial assets	229 580	-	246 509	476 089
Financial liabilities	**4**	**315**	**-**	**319**
Derivatives financial instruments	4	315	-	319

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 said investment was determined in the amount of 3 million euro.

The following table shows changes of Level 3 during 2015 and 2016:

Securities available-for-sale	**Group Level 3**	**Bank Level 3**
EUR'000		
At 31 December 2014	**8 730**	**244 680**
Acquisition	3 452	27 643
Sale	(453)	(18 039)
Impairment loss	-	(14 987)
Net profit (loss) from sales	1 203	(472)
Fair value adjustment	11 270	7 684
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**

(c) Non-financial assets measured at fair value

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)	-	95 996	-	95 996
Investment property	-	92 577	-	92 577

As at 31 December 2015- Group	Level 1 EUR'000	Level 2 EUR'000	Level 3 EUR'000	Total EUR'000
Tangible assets (Land and buildings)	-	48 849	-	48 849
Investment property	-	106 642	-	106 642

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)	-	33 118	-	33 118
Investment property	-	6 308	-	6 308

As at 31 December 2015- Bank	Level 1 EUR'000	Level 2 EUR'000	Level 3 EUR'000	Total EUR'000
Tangible assets (Land and buildings)	-	17 465	-	17 465
Investment property	-	6 225	-	6 225

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".

41. CAPITAL ADEQUACY CALCULATION

The Group's and the Bank's capital adequacy calculations for the 31 December 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 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 2016 has been calculated as follows:

		Group	Group	Bank	Bank
31.12.2016	**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%	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**

The Group's and Bank's risk weighted assets as of 31 December 2015 has been calculated as follows:

		Group	Group	Bank	Bank
31.12.2015	**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%	224 873	-	224 873	-
	20%	2 975	595	2 975	595
	50%	1 962	981	1 962	981
	100%	8 274	8 274	-	-
Regional governments or local authorities	100%	14 140	14 140	-	-
Public sector entities	100%	12 998	12 998	12 053	12 053
Institutions	20%	188 173	37 635	187 683	37 537
	50%	720	360	720	360
Corporates	20%	21	4	21	4
	50%	904	452	904	452
	100%	233 684	233 684	164 149	164 149
	150%	4 669	7 004	4 011	6 017
Retail	75%	5 280	3 960	5 280	3 960
Exposures in default	100%	17 842	17 842	17 353	17 353
	150%	9 214	13 821	6 623	9 934
Collective investment undertakings (CIU)	100%	7 531	7 531	141 349	141 349
Equity	100%	143 834	143 834	72 975	72 975
Other items	0%	19 972	-	13 521	-
	100%	129 030	129 030	91 867	91 867
Total assets and off-balance sheet items		**1 026 096**	**632 145**	**948 319**	**559 586**

	31.12.2016		31.12.2015	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Tier 1				
Paid up capital instruments	131 102	131 102	131 102	131 102
Other reserves	10	10	10	10
Retained earnings	(38 106)	(50 846)	(21 986)	(40 762)
Profit or loss	10 764	9 427	(16 468)	(10 395)
Accumulated other comprehensive income	(5 989)	15 123	(12 076)	7 150
Value adjustments due to the requirements for prudent valuation	(286)	(201)	-	-
Goodwill	(10 265)	(9 858)	(10 265)	(9 858)
Other intangible assets	(956)	(948)	(361)	(351)
Deferred tax assets	(216)	-	(1 122)	-
Other transitional adjustments	(2 952)	(6 048)	(5 014)	(4 290)
Minority interest	-	-	581	-
Expected loss from loans	(421)	(421)	(5 975)	(5 975)
Tier 1 capital	**82 685**	**87 340**	**58 426**	**66 631**

	31.12.2016		31.12.2015	
	Group	Bank	Group	Bank
Tier 2	EUR'000	EUR'000	EUR'000	EUR'000
Paid up capital instruments and subordinated loans	46 706	46 706	46 461	46 461
Expected loss from loans	(421)	(421)	(5 975)	(5 975)
Tier 2 capital	**46 285**	**46 285**	**40 486**	**40 486**
Own funds	**128 970**	**133 625**	**98 912**	**107 117**

	31.12.2016		31.12.2015	
	Group	Bank	Group	Bank
Summary	EUR'000	EUR'000	EUR'000	EUR'000
Credit risk capital	48 727	43 145	50 572	44 767
Market risks capital requirement	11 529	476	8 046	716
Operational risk	9 435	6 243	10 241	5 984
Total capital ratio	**14.80%**	**21.44%**	**11.49%**	**16.65%**
Tier 1 capital ratio	**9.49%**	**14.01%**	**6.79%**	**10.36%**

Since FCMC applies increased capital requirements to the banks involved in non-resident deposit servicing, the capital adequacy ratio for the Bank is set at the level of 13.7% and for the Group is set at a level 10.5% (minimum 8% plus 2.5% conservation buffer). Thus, the Bank fulfills the required minimum on total capital adequacy ratio and Tier 1 capital adequacy ratio at the individual and Group level. 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:

				31.12.2016	31.12.2015
	Interest rate (minimal / maximal)	Amount	Off-balance sheet items	Total	Total
Group	%	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**
Assets		**3 256**	**521**	**3 777**	**2 953**
Loans and receivables net		**3 256**	**521**	**3 777**	**2 953**
Key management and shareholder	0 - 23	1 716	350	**2 066**	**1 054**
Other related parties	0 - 24	1 540	171	**1 711**	**1 899**
Liabilities		**3 495**	**-**	**3 495**	**13 802**
Deposits		**1 016**	**-**	**1 016**	**11 368**
Key management and shareholder	0	310	**-**	**310**	**1 398**
Other related parties	0 - 10	706	**-**	**706**	**9 970**
Subordinated deposits		**1 468**	**-**	**1 468**	**1 423**
Key management	6	50	**-**	**50**	**50**
Other related parties	6 - 7	1 418	**-**	**1 418**	**1 373**
Subordinated debt securities		**1 011**	**-**	**1 011**	**1 011**
Other related parties	6	1 011	**-**	**1 011**	**1 011**

				31.12.2016	31.12.2015
	Interest rate (minimal / maximal)	Amount	Off-balance sheet items	Total	Total
Bank	%	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**
Assets		**44 634**	**2 290**	**46 924**	**17 147**
Loans and receivables net		**44 634**	**2 290**	**46 924**	**17 147**
Key management and shareholder	4 - 23	656	164	**820**	**674**
Subsidiaries	0 - 24	42 563	1 985	**44 548**	**14 866**
Other related parties	0 - 24	1 415	141	**1 556**	**1 607**
Liabilities		**63 755**	**-**	**63 755**	**33 398**
Deposits		**61 276**	**-**	**61 276**	**30 964**
Key management and shareholder	0	260	-	**260**	**1 385**
Subsidiaries	0 - 1.75	60 618	-	**60 618**	**24 813**
Other related parties	0 - 0.1	398	-	**398**	**4 766**
Subordinated deposits		**1 468**	**-**	**1 468**	**1 423**
Key management	6	50	-	**50**	**50**
Other related parties	6 - 7	1 418	-	**1 418**	**1 373**
		-		**-**	**-**
Subordinated debt securities		**1 011**	**-**	**1 011**	**1 011**
Other related parties	6	1 011	-	**1 011**	**1 011**

As at 31 December 2016 the amount of the Bank's exposure transactions with related parties is 7 369 thousand euro or 5.6% of the sum of tier 1 and tier 2 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 sum tier 1 and tier 2 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:

	2016		2015	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Key management, other senior executives and shareholder remuneration	(3 388)	(1 202)	(6 500)	(2 594)
Interest income	143	781	86	328
Interest expense	(156)	(313)	(1 432)	(181)
Dividend income	-	-	-	2 370
Fee and commission income	23	29	16	76
Fee and commission expenses	(1)	(1)	(1)	(1)
Other operating income	24	1 048	1	1 036
Other operating expenses	-	(10)	(2)	-
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	-	(51)	-	(472)
Impairment (-) or reversal of impairment on financial assets not measured at fair value through profit or loss, net	-	(3 950)	-	787
Provisions (-) or reversal of provisions	-	(11 546)	-	(14 987)
Gains or (-) losses on financial assets and liabilities held for trading, net	17	337	(37)	2 650
Other administrative expenses	(2)	(2 449)	-	(3 126)
Total	**(3 340)**	**(17 327)**	**(7 869)**	**(14 114)**

43. SUBSEQUENT EVENTS

As reported in Note 5, in 2016 the subsidiary – SIA Winergy – experienced significant changes related to its property. In early 2017, more than 2 million euros of the seized funds became available to SIA Winergy and were transferred from the blocked account to the settlement account opened with AS Norvik Banka.

On 27 March 2017 the Bank issued a press release stating that it was a party to an investor consortium examining the purchase of a stake in Sberbank Ukraine. As of the date of issuance of these financial statements there is no effect on the financial results of the Bank from this potential transaction

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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 matters described in paragraphs 1 and 2, and possible effect of the matters described in paragraphs 3, 4 and 5 in the *Basis for Qualified Opinion* section of our report, the consolidated financial statements of the Bank and its subsidiaries (the "Group") and the separate financial statements of AS Norvik Banka (the "Bank") set out on pages 11 to 109 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 2016, and of their financial performance and their cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

What we have audited

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

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

Basis for qualified opinion

1) As at 31 December 2015, when translating into euros amounts expressed in Russian Roubles, the Group and the Bank applied a RUB/EUR exchange rate different to the year-end exchange rate that should have been applied. If the Group and the Bank had applied the correct RUB/EUR exchange rate at 31 December 2015, the consolidated statement of financial position line item "Investment properties" and the separate statement of financial position line item "Available-for-sale financial assets" would have been reduced by EUR 4,449 thousand, the consolidated and the separate statement of financial position line item "Loans to and receivables from customers" would have been reduced by EUR 3,957 thousand and the line item "Accumulated losses" would have been increased by EUR 8,406 thousand as at 31 December 2015. Also the Group's and the Bank's net loss before tax for the year ended 31 December 2015 and net profit before tax in the consolidated and separate financial statements for the year ended 31 December 2016 would have both increased by EUR 8,406 thousand.

2) The Group and the Bank have not recognised sufficient provisions for impairment of loans and investment property as at 31 December 2016. As a result, the consolidated and separate statements of financial position line item "Loans to and receivables from customers" are overstated by EUR 4,663 thousand and EUR 9,819 thousand respectively, the consolidated financial statements line item "Investment property" is overstated by EUR 5,156 thousand and the consolidated and separate financial statements line item "Deferred tax liability" are both overstated by EUR 1,473 thousand as at 31 December 2016, and both the Group's and the Bank's profit before tax and profit after tax for the year ended 31 December 2016 are overstated by EUR 8,346 thousand.

3) As at 31 December 2015, the consolidated and separate statements of financial position line item "Loans to and receivables from customers" included an exposure to the wind energy sector of EUR 44,510 thousand. We were unable to obtain sufficient appropriate audit evidence in respect of this exposure as at 31 December 2015 due to the significant uncertainty around the outcome of the legal processes around the entities connected to this exposure at that time. As a result, we were unable to determine whether any adjustments were necessary in the consolidated and separate financial statements to the line items "Loans to and receivables from customers" and "Accumulated losses" as at 31 December 2015 and impairment charge for the years ended 31 December 2015 and 31 December 2016.

4) As at 31 December 2015, the consolidated statement of financial position line item "Investment properties" included investment in hotel operations in Russia in the amount of EUR 20,118 thousand. As at 31 December 2015 the separate statement of financial position line item "Loans to and receivables from customers" included net loan to hotel operations in Russia in the amount of EUR 7,208 thousand and the line item "Available for sale financial assets" included investment in hotel operations in Russia of EUR 10,425 thousand. The hotel had not commenced operating by the date of this report. No reliable valuation report on the fair value of these assets as at 31 December 2015 is available. Therefore, we were unable to obtain sufficient appropriate audit evidence over the recoverable amount of the hotel operations as at 31 December 2015. As a result, we were unable to determine the amount of adjustment that should have been recognised as at 31 December 2015 in the consolidated statement of financial position line items "Investment properties" and "Accumulated losses", and in the separate statement of financial position line items "Loans to and receivables from customers", "Available for sale financial assets" and "Accumulated losses". Therefore we were also unable to determine the adjustment to the impairment charge in both the consolidated and separate income statements for the years ended 31 December 2015 and 31 December 2016.

5) As at 31 December 2015, the consolidated and separate statement of financial position line item "Loans to and receivables from customers" included net loans to two operating hotels in Russia in the amount of EUR 34,506 thousand. The hotels are provided as collateral for these loans. No reliable valuation report on the fair value of these assets as at 31 December 2015 is available. Therefore, we were unable to obtain sufficient appropriate audit evidence over the recoverable amount of the hotel operations as at 31 December 2015. As a result, we were unable to determine the amount of the impairment, if any, that should have been recognised in the consolidated and separate statement of financial position line item "Loans to and receivables from customers" and "Accumulated losses" as at 31 December 2015 and the effects on the consolidated and separate income statements for the years ended 31 December 2015 and 31 December 2016.

We conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia. 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 the Republic of Latvia. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Material Uncertainty Relating to Going Concern

We draw attention to Note 4 paragraph "Going concern considerations" in the consolidated and separate financial statements, which indicates the material uncertainties related to the need to successfully implement the Bank's approved strategy. This, along with other matters as described in Note 4, indicates that a material uncertainty exists that may cast significant doubt on the Group's and the Bank's ability to continue as a going concern. Our opinion is not further qualified in respect of this matter.

Reporting on Other Information

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

- the Report of the Management, as set out on pages 3 to 8 of the accompanying annual report; and
- the Statement of Responsibility of the Management, as set out on page 10 of the accompanying annual report,

but does not include the consolidated and separate financial statements and our auditor's report thereon.

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

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. The other information 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 the 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 the 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 or 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 International Standards on Auditing adopted in the Republic of Latvia 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 International Standards on Auditing adopted in the Republic of Latvia, we exercise professional judgment and maintain professional skepticism 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 or the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves 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.

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

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

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

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

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

Ilandra Lejiņa
Certified auditor in charge
Certificate No. 168
Member of the Board

Riga, Latvia
3 April 2017

* This version of our report is a translation from the original, which was prepared in Latvian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.