**Joint Stock Company**
**"NORVIK BANKA"**

Interim Financial Report for the six month period ended 30 June 2016
Condensed Interim Consolidated and Separate Financial Statements

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## REPORT OF THE CHAIRMAN OF THE SUPERVISORY COUNCIL AND THE CHAIRMAN OF THE MANAGEMENT BOARD

Dear Shareholders, Clients and Partners,

The first six months of 2016 have been an intense period for Norvik Banka, with the focus on ensuring a balanced business model across markets, customer segments, and by product to ensure in the new regulatory paradigm the Bank meets all its mandatory regulatory requirements, but still grows its income streams in a diversified manner.

The Bank has seen like-for-like revenue increases year-on-year, but seen a decrease in customer demand deposits. For the first half of 2016 the Bank has earned 30.0 million euro in net financial income (23.8 million euro for the same period 2015), and this has led to a profit of 7.7 million euro for the first half of the year (5.8 million euro for the same period 2015). However, customer deposits as at 30 June 2016 were at 727.2 million euro, a drop from 840.9 million euro compared 31 December 2015, or 13.5%. This is driven by international clients' deposits, and is a pattern across the Latvian financial services market for those banks serving international clients.

On the micro level, the first half of 2016 has seen significant changes to the Latvian legislation and regulation in the sphere of anti-money laundering / counter terrorism-financing [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 after the reporting period (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 through to December 2016 the Bank is implementing the Siron KYC/AML/Embargo suite of solutions from FICO-Tonbeller. The system-wide results of their audit are due for release at the end of October 2016.

Taking into account global pressure on many banks in this sphere, the Bank has opened four additional US dollar correspondent accounts in the reporting period, and two more in the third quarter of 2016.

On a macro-level, renewed concerns about the sustainability of China's growth rebalancing, soon after the US Federal Reserve began raising policy rates in December 2015, led to a fresh market scare in early 2016. Risk appetite, equity and commodity prices all hit multi-year lows in the first half of February, prompting 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 jitters 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 remarkable surge in volatility in global currency markets. The unexpected outcome of the vote triggered a 12% collapse in the 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 the basket of currencies it stayed some 3% stronger than its end-2015 levels). The US stock market has been 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, and at the end of July was still 2% below the levels of 23 June in Euro terms (and down 7% year-to-date). Emerging market bonds, in Russia in particular, have been a key beneficiary of the capital outflows from European equities.

In the first half of the year, the Bank opened two new corporate centres in Riga, at Raina Boulevard 11 and Elizabetes Street 15, the former as the centre for servicing resident clients, and the latter as corporate headquarters and service centre for VIP and international clients. The Bank has maintained its status as the industry leader in terms of geographic coverage in Latvia by offering a convenient and complete service near clients' homes or offices, with 63 service centres in 16 cities including the largest client service centre in the Kurzeme region in Liepaja. In support of local healthcare and science, the Bank was at the opening of the Medvision Centre in April 2016 for which it had played a key role in financing.

The subsidiary credit institution in Russia (ПАО "Норвик Банк") continues to offer its universal products to its regional clientele, both individuals and small-medium size regional corporations. For the first half of 2016 the net profit from this subsidiary bank was 4.5 million euro.

## REPORT OF THE CHAIRMAN OF THE SUPERVISORY COUNCIL AND THE CHAIRMAN OF THE MANAGEMENT BOARD

In regards to the Russian economy, the Russian rouble continues to track oil prices closely, but has been increasingly outperforming oil since markets regained ground in the late first quarter 2016 and benefited from portfolio rebalancing post-Brexit vote. Having touched a recent low of 93 against the euro in late January, the rouble has been appreciating fairly steadily, except during the oil-related weakness in late July, and was trading close to 70 at the end of the third quarter. Given the positive outcome of the OPEC meeting in Algeria for oil market prospects, it appears likely that the rouble will remain well supported against both the dollar and the euro in the remainder of the year, with RUB staying within the recent 70-75 range against EUR through end-2016 (likely closer to its weaker range at year-end, due to the seasonal pattern, i.e. at around 74).

As had been noted in the financial statements for 2015, and in the Management Letter in Response to the Independent Auditors' Report, there were a number of issues that have now seen resolution in the first half of 2016. Those remaining are related to the on-going legal battle with the Bank's subsidiary SIA Winergy. All other issues have been resolved through the semi-annual audit process.

With regards to the SIA Winergy case, the bank notes the meaningful positive progress that has been achieved in the legal case, of which the bank had previously disclosed information in its annual reports. Over the two months, part of attachments has been removed from the property owned by the company, in particular, from three physical wind turbines, one substation, and seized cash flows; additionally, future cash flows have been released from whole wind park (consisting of nine wind turbines). The bank is grateful of the work completed by the Prosecutor's Office in this respect.

At present SIA Winergy and the Bank have a debt restructuring agreement concluded, according to which the released cash flows have already been directed towards repayment of the interest accrued and partial payment of the principal amount of the loan. The company's net cash flow earned as a result of its economic activity exceeds four million euro per annum and will allow the company to discharge all loan liabilities in full and pay the interest income provided for by the loan agreement.

It should be taken into consideration that some parts of the company's assets are still under seizure. The Bank together with the company is working actively on a complete release of the assets in the nearest future. However, the Bank, being the affected party, will in any case regain the full right to these assets as soon as the legal proceedings end, as the said assets have been attached for the sole purpose of compensating the Bank's (as the affected party's) proprietary interests.

The Bank contracted to value the underlying business (wind-power generation) with independent valuator from international consulting firm, and the results of this market valuation in conjunction with the structure of the cash flows, and Bank estimates for realisable returns on investment from such a business, has led the Bank to reverse impairment in amount of 1 million euro and has allowed to exclude from the capital adequacy calculation correction in amount of 12 million euro.

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

- Total assets as at 30 June 2016 was 904.4 million euro, a decrease of 101.2 million euro comparing to 31 December 2015, this was driven mainly by the outflow of customer deposits noted above.
- The loan portfolio at the end of June 2016 amounted to 236.4 million euro (a 9.4 million euro decrease over 6 months 2016).
- In the first half of 2016 subordinated bonds were issued for 9.4 million euro.
- The liquidity ratio at the end of reporting period was 62.27% (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 Bank's income statement, key highlights are as follows:

- Net interest income for the first half of 2016 decreased to 5.6 million euro compared to 9.5 million euro for the same period 2015.

## REPORT OF THE CHAIRMAN OF THE SUPERVISORY COUNCIL AND THE CHAIRMAN OF THE MANAGEMENT BOARD

- Net commission income for the first half of 2016 showed an increase of 16.6% in spite of increased external pressures and decreased transaction volumes, increasing to 9.6 million euro compared to 8.2 million euro for the same period 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 the first half of 2016 an additional impairment charge on loan & investment portfolio was made for 7.5 million euro (compared to 3.0 million euro for the same period 2015).

The net operating income for the first half of 2016 was thereby 15.5 million euro (compared to a net operating income of 9.2 million euro for the same period 2015).

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

- The Bank capital adequacy ratio as of 30 June 2016 was **18.64%** - significantly higher than 16.65% as of December 2015, and 14.87% as of June 2015.
- Group's capital adequacy ratio as of 30 June 2016 was **12.56%** - significantly higher than 11.49% as of December 2015, and 11.04% as of June 2015.

The increases in capital and liquid resources enabled the Bank to diversify its total assets to focus on increasing returns on investment securities in the capital markets unit. The Bank continues to work on improving the equity/capital position to meet its strategic goals.

The management of the Bank consider the first half of 2016 to be a successful, if challenging, start to the year and a step towards ensuring the Bank's long-term, effective presence in the Latvian and international financial markets. In the coming period, the Bank plans to focus on the digital space, covering new technologies and innovation, offering new products for currency exchange online, an improved mobile solution for all services, and remote access in a user-friendly manner 24/7. Further to this, the management have started to offer products for high net worth individuals, under a new team formed in the first half of the year for Private Banking.

At the start of 2016 Group employed 1 484 members of staff (Banka 605), and as of 30 June 2016 Group employed 1 370 members of staff (Banka 613).

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<br>G.Guselnikov | Chairman of the Management Board<br>O.R.Bramwell |

Riga, 20 October 2016

## SUPERVISORY COUNCIL AND MANAGEMENT BOARD

**Supervisory Council as at 30 June 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 |
| P.M.Odintsov | Member of the Supervisory Council | 20/07/2014 |

**Management Board as at 30 June 2016**

| Name | Position | Date of initial appointment |
|---|---|---|
| O.R.Bramwell | Chairman of the Management Board | 19/12/2013 |
| A.Kutyavin | Member of the Management Board | 29/12/2015 |
| A.Verbicka | Member of the Management Board | 10/11/2015 |
| S.Gorashchenko | Member of the Management Board | 30/09/2014 |

During the reporting period the following person resigned the position:
- Member of the Management Board A.Peshkov

On 5 August 2016 D.Kalmykov was appointed in the Management Board.

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, 20 October 2016

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY

The Management of JSC "NORVIK BANKA" (the Bank) is responsible for preparing the Condensed Interim Consolidated and Separate Financial Statements of the Group and the Bank.

The Condensed Interim Consolidated and Separate Financial Statements are prepared in accordance with source documents and present fairly the financial position of the Group as of 30 June 2016 and the results of its operations and cash flows for the six month period ended 30 June 2016, as well as the financial position of the Bank as of 30 June 2016 and the results of its operations and cash flows for the six month period ended 30 June 2016.

The management confirms that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the Condensed Interim Consolidated and Separate Financial Statements on pages 10 to 57. The management also confirms that the Condensed Interim Consolidated and Separate Financial Statements have been prepared in accordance with International Accounting Standard (IAS) 34 "Interim Financial Reporting" as adopted by the EU and on a going concern basis.

JSC "NORVIK BANKA" 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, the Regulations of the Financial and Capital Markets Commission (FCMC), Bank of Latvia and other legislation of the Republic of Latvia.

On behalf of the Supervisory Council and Management Board:

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

Riga, 20 October 2016

Translation from Latvian original*

# INDEPENDENT AUDITOR'S REPORT

**To the Shareholders of AS Norvik Banka**

**Report on the Interim Condensed Financial Statements**

We have audited the accompanying interim condensed consolidated financial statements of AS Norvik Banka and its subsidiaries (the Group) and the interim condensed standalone financial statements of AS Norvik Banka (the Bank), hereinafter referred to as interim condensed financial statements on pages 10 to 57 of the accompanying report, which comprise the interim condensed statements of financial position as at 30 June 2016, the interim condensed income statements, statements of comprehensive income, changes in equity and cash flows for the 6 months ended on 30 June 2016 and notes, comprising a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Interim Condensed Financial Statements*

Management is responsible for the preparation of these interim condensed financial statements in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of interim condensed financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these interim condensed financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the interim condensed financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the interim condensed financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of interim condensed financial statements in accordance with International Accounting Standard 34 "Interim Financial Reporting" 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the interim condensed financial statements.

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

*Basis for Qualification*

1) As at 31 December 2015, when assessing the values of certain assets, which are located in the Russian Federation and the value of which are set 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. This matter was referred to in the audit report on the 31 December 2015 financial statements.

   If the Group and the Bank would have applied the correct RUB/EUR exchange rate at 31 December 2015, the Group's statement of financial position line item "Investment properties" and the Bank's statement of financial position line item "Available-for-sale-securities" would be reduced by EUR 4,449 thousand, the Group's and the Bank's statement of financial position line item "Loans to and receivables from customers" would be reduced by EUR 3,957 thousand and accumulated losses would be increased by EUR 8,406 thousand as at 31 December 2015 and the Group's and the Bank's net profit before tax for the 6 months ended 30 June 2016 would have increased by EUR 8,406 thousand.

2) As at 31 December 2015 the Group's and the Bank's statement of financial position line item "Loans to and receivables from customers" included net loans to wind energy sector of EUR 44,041 thousand and a receivable of EUR 4,469 thousand. The Group and the Bank has not recognised any impairment charge in the 6 months ending 30 June 2016. In the 6 months to 30 June 2016, as noted in Note 2, there have been a number of positive changes to this exposure. We were unable to determine the recoverable amount of these loans as at 31 December 2015 and therefore we were unable to determine the amount of the impairment, if any, that should have been recognised in the Group's and the Bank's statement of financial position line item "Loans to and receivables from customers" and accumulated losses as at 31 December 2015 and the effect on the income statement for the 6 months ended 30 June 2016. This matter was referred to in the audit report on the 31 December 2015 financial statements.

* 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.

3) As at 31 December 2015 the Group's statement of financial position line item "Investment properties" included investment in hotel operation in Russia in the amount of EUR 20,118 and the Bank's 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 Bank's statement of financial position line item "Available for sale financial assets" included investment in the hotel operations in Russia of EUR 10,425 thousand. The hotel is not put into operation yet. The Group and the Bank recognised an impairment charge of EUR 3,450 thousand in the 6 months ending 30 June 2016. We were unable to determine the recoverable amount of the hotel operations as at 31 December 2015 therefore we were unable to determine the amount of the impairment that should have been recognised in the Group's statement of financial position line item "Investment properties" and the Bank's statement of financial position line item "Loans to and receivables from customers" and the Bank's statement of financial position line item "Available for sale financial assets", and accumulated losses as at 31 December 2015 and the effect on the income statement for the 6 months ended 30 June 2016 thereon. This matter was referred to in the audit report on the 31 December 2015 financial statements.

4) As at 31 December 2015 the Group's and the Bank's 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 Group and the Bank received repayment on those loans of EUR 3,200 thousand and recognised a reversal of impairment of EUR 1,940 thousand in the 6 months ending 30 June 2016. We were unable to determine the recoverable amount of the hotel operations as at 31 December 2015 therefore we were unable to determine the amount of the impairment, if any, that should have been recognised in the Group's and the Bank's statement of financial position line item "Loans to and receivables from customers" and accumulated losses as at 31 December 2015 and the effect on the Group's and the Bank's income statement for the 6 months ended 30 June 2016. This matter was referred to in the audit report on the 31 December 2015 financial statements.

*Qualified Opinion*

In our opinion, except for the effect of the matters described in the *Basis for Qualification* paragraph 1) and except for the possible effect of the matters described in the *Basis for Qualification* paragraphs 2) to 4), the interim condensed consolidated financial statements of the Group and the interim condensed standalone financial statements of the Bank are prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union.

*Emphasis of Matter*

We draw attention to Note 2 paragraph "Going concern consideration" to these interim condensed financial statements describing the material uncertainties related to the need to successfully implement the Bank's approved strategy. This, along with other matters as described in Note 2, indicates the existence of a material uncertainty, which may cast significant doubt about the ability of the Group and the Bank to continue as a going concern. Our opinion is not qualified in respect of this matter.

**Report on Other Legal and Regulatory Requirements**

We have read the Report of the Chairman of the Supervisory Council and the Chairman of the Management Board of the Group and the Bank set out on pages 3 to 5 of the accompanying interim report for the 6 months ended 30 June 2016 and did not identify material inconsistencies between the financial information contained in the Report of the Chairman of the Supervisory Council and the Chairman of the Management Board of the Group and the Bank and that contained in the interim condensed financial statements for the 6 months ended 30 June 2016.

**Other matter**

The comparative information for the income statements, statements of comprehensive income, changes in equity and cash flows, and related explanatory notes, for the 6 months ended 30 June 2015 has been neither audited nor reviewed.

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

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

Riga, Latvia
20 October 2016

## CONDENSED INTERIM INCOME STATEMENTS

| | | 30.06.2016 | | 30.06.2015 (unaudited) | |
|---|---|---|---|---|---|
| | | Group | Bank | Group | Bank |
| | Notes | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| Interest and similar income | | 17 955 | 9 193 | 25 694 | 12 951 |
| Interest and similar expense | | (9 740) | (3 640) | (11 800) | (3 469) |
| **Net interest income** | 3 | **8 215** | **5 553** | **13 894** | **9 482** |
| Fee and commission income | | 14 472 | 11 255 | 14 910 | 9 843 |
| Fee and commission expense | | (1 921) | (1 687) | (1 998) | (1 639) |
| **Net fee and commission income** | 4 | **12 551** | **9 568** | **12 912** | **8 204** |
| Dividend income | | 21 | 21 | 12 | 12 |
| Net trading profit/(loss) from bonds and shares | | 205 | ( 124) | 624 | ( 307) |
| Fair value adjustment of bonds and shares | | 807 | ( 8) | 1 935 | 538 |
| Profit/(loss) from derivative instruments and foreign exchanges trading, net | | 5 866 | 4 048 | 6 370 | 6 329 |
| Profit/(loss) from revaluation of open position, net | | 1 475 | 162 | (2 091) | (1 525) |
| Net gain or (loss) from sales of available-for-sale financial assets | 5 | 7 409 | 10 789 | 912 | 1 045 |
| **Net financial income** | | **36 549** | **30 009** | **34 568** | **23 778** |
| Other operating income | 6 | 12 639 | 861 | 15 144 | 894 |
| Other operating expense | | (6 821) | (1 174) | (10 467) | (1 108) |
| Administrative expenses | | (24 436) | (13 506) | (27 851) | (13 868) |
| *Personnel expenses* | | *(14 598)* | *(7 489)* | *(16 183)* | *(6 601)* |
| *Other expenses* | | *(9 838)* | *(6 017)* | *(11 668)* | *(7 267)* |
| Depreciation and amortization | | (2 646) | ( 721) | (1 745) | ( 486) |
| **Net operating income** | | **15 285** | **15 469** | **9 649** | **9 210** |
| Impairment of investment property | 15 | (3 450) | - | (2 605) | - |
| Result of acquisition of subsidiary | 14 | 6 165 | - | - | - |
| Impairment loss of available for sale financial assets | 12 | (1 600) | (3 388) | - | - |
| Reverse of impairment loss on assets held for sale | | - | - | 4 | 4 |
| Impairment loss on held-to-maturity financial assets | | ( 5) | ( 5) | - | - |
| Impairment losses on financial assets | 11 | (8 039) | (10 338) | (5 549) | (3 752) |
| Reverse of impairment losses on financial assets | 11 | 18 273 | 6 275 | 2 511 | 763 |
| **Impairment charge** | | **11 344** | **(7 456)** | **(5 639)** | **(2 985)** |
| **Net profit before tax** | | **26 629** | **8 013** | **4 010** | **6 225** |
| Corporate income tax | | (1 183) | ( 295) | (1 794) | ( 462) |
| **Profit** | | **25 446** | **7 718** | **2 216** | **5 763** |
| **Attributable to:** | | | | | |
| Equity holders of the parent | | 25 336 | | 2 157 | |
| Non-controlling interests | | 110 | | 59 | |

The accompanying notes on pages 17 to 57 form an integral part of these condensed interim consolidated and separate financial statements.

The condensed interim consolidated and separate financial statements on pages 10 to 57 were approved by the Supervisory Council and Management Board on 20 October 2016:

| | |
|---|---|
| Chairman of the Supervisory Council<br>G.Guselnikov | Chairman of the Management Board<br>O.R.Bramwell |

## CONDENSED INTERIM STATEMENTS OF COMPREHENSIVE INCOME

| | | 30.06.2016 | | 30.06.2015 (unaudited) | |
|---|---|---|---|---|---|
| | | Group | Bank | Group | Bank |
| | Notes | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| **Profit** | | 25 446 | 7 718 | 2 216 | 5 763 |
| ***Items that may be reclassified subsequently to profit or loss:*** | | | | | |
| Translation gain from foreign operations | | | | | |
| Translation gain from arising during the reporting period | | 4 567 | - | 10 171 | - |
| | | 4 567 | - | 10 171 | - |
| Available- for-sale financial assets | | | | | |
| Revaluation, net of tax | | 344 | 10 896 | 3 559 | 13 140 |
| Net (gain) from sales of available-for-sale financial assets | 5 | (7 409) | (10 789) | ( 912) | (1 045) |
| | | (7 065) | 107 | 2 647 | 12 095 |
| **Other comprehensive income, net of tax** | | (2 498) | 107 | 12 818 | 12 095 |
| **Total comprehensive income** | | 22 948 | 7 825 | 15 034 | 17 858 |
| Attributable to: | | | | | |
| Equity holders of the parent | | 22 753 | | 14 846 | |
| Non-controlling interests | | 195 | | 188 | |

The accompanying notes on pages 17 to 57 form an integral part of these condensed interim consolidated and separate financial statements.

The condensed interim consolidated and separate financial statements on pages 10 to 57 were approved by the Supervisory Council and Management Board on 20 October 2016:

Chairman of the Supervisory Council
G.Guselnikov

Chairman of the Management Board
O.R.Bramwell

## CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION

| | Note | 30.06.2016 Group EUR'000 | 30.06.2016 Bank EUR'000 | 31.12.2015 Group EUR'000 | 31.12.2015 Bank EUR'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and balances with the central bank | 7 | 96 371 | 82 701 | 45 360 | 30 626 |
| Loans to and receivables from banks | 8 | 59 324 | 46 060 | 197 421 | 192 844 |
| Trading financial assets | 9 | 78 400 | - | 67 370 | 109 |
| Derivatives financial instruments | | 853 | 852 | 1 809 | 1 806 |
| Loans to and receivables from customers | 10 | 277 536 | 236 441 | 314 306 | 245 888 |
| Available-for-sale financial assets | 12 | 243 577 | 478 825 | 253 782 | 476 089 |
| Held-to-maturity financial assets | 13 | 18 518 | 18 518 | 19 802 | 19 802 |
| Prepaid corporate income tax | | 325 | - | 252 | - |
| Investment property | 15 | 93 479 | 6 225 | 106 642 | 6 225 |
| Tangible fixed assets | | 108 605 | 28 363 | 65 158 | 19 859 |
| Goodwill and other intangible assets | 14 | 16 150 | 854 | 10 660 | 351 |
| Assets held for sale | | 1 770 | 541 | 1 796 | 541 |
| Other assets | | 33 294 | 5 036 | 45 868 | 11 520 |
| **Total assets** | | **1 028 202** | **904 416** | **1 130 226** | **1 005 660** |
| **Liabilities** | | | | | |
| Due to the central bank and other banks | 16 | 934 | 2 079 | 1 913 | 1 831 |
| Derivatives financial instruments | | 343 | 253 | 347 | 319 |
| Customer deposits | 17 | 820 134 | 727 200 | 957 972 | 840 913 |
| Subordinated debt | 18 | 41 221 | 36 280 | 38 135 | 38 135 |
| Debt securities | 19 | 37 713 | 37 713 | 28 354 | 28 354 |
| Deferred tax liabilities | | 3 564 | 750 | 2 743 | 773 |
| Other liabilities | | 22 077 | 5 188 | 21 517 | 8 230 |
| **Total liabilities** | | **925 986** | **809 463** | **1 050 981** | **918 555** |
| **Equity attributable to equity holders of the Bank** | | | | | |
| Share capital | 20 | 131 102 | 131 102 | 131 102 | 131 102 |
| Reserves | | 10 | 10 | 10 | 10 |
| Revaluation reserve of tangible fixed assets, net of tax | | 5 461 | 4 246 | 5 456 | 4 379 |
| Revaluation reserve of available-for-sale financial assets, net of tax | | (1 397) | 2 878 | 5 668 | 2 771 |
| Revaluation reserve of foreign currency translation | | (26 878) | - | (31 222) | - |
| (Accumulated losses) | | (6 929) | (43 283) | (32 421) | (51 157) |
| **Total equity attributable to equity holders of the Bank** | | **101 369** | **94 953** | **78 593** | **87 105** |
| Non-controlling interests | | 847 | - | 652 | - |
| **Total equity** | | **102 216** | **94 953** | **79 245** | **87 105** |
| **Total liabilities and equity** | | **1 028 202** | **904 416** | **1 130 226** | **1 005 660** |

| | Note | 30.06.2016 Group EUR'000 | 30.06.2016 Bank EUR'000 | 31.12.2015 Group EUR'000 | 31.12.2015 Bank EUR'000 |
|---|---|---|---|---|---|
| **Off-balance sheet items** | | | | | |
| **Commitments and contingencies** | | | | | |
| Contingent liabilities | | 11 276 | 4 084 | 13 000 | 3 730 |
| Commitments | | 19 171 | 5 436 | 18 428 | 12 493 |
| **Total commitments and contingencies** | 22 | **30 447** | **9 520** | **31 428** | **16 223** |

The accompanying notes on pages 17 to 57 form an integral part of these condensed interim consolidated and separate financial statements.

The condensed interim consolidated and separate financial statements on pages 10 to 57 were approved by the Supervisory Council and Management Board on 20 October 2016:

Chairman of the Supervisory Council
G.Guselnikov

Chairman of the Management Board
O.R.Bramwell

## CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY

| Group | Attributable to shareholders of the Bank | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Reserve | Revaluation reserve of tangible fixed assets, net of tax | Revaluation reserve of available-for-sale financial assets, net of tax | Revaluation reserve of foreign currency translation | Accumulated losses | Total | Non-controlling interests | Total Groups' equity |
| | 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, | - | - | - | 2 647 | - | - | 2 647 | - | 2 647 |
| Foreign currency translation of foreign | - | - | - | - | 10 042 | - | 10 042 | 129 | 10 171 |
| **Other comprehensive income** | - | - | - | 2 647 | 10 042 | - | 12 689 | 129 | 12 818 |
| Profit / (loss) | - | - | - | - | - | 2 157 | 2 157 | 59 | 2 216 |
| **Total comprehensive income** | - | - | - | 2 647 | 10 042 | 2 157 | 14 846 | 188 | 15 034 |
| Amortization of revaluation reserve of tangible fixed assets, net of tax | - | - | ( 115) | - | - | 115 | - | - | - |
| Changes in deferred tax liabilities | - | - | 17 | - | - | - | 17 | - | 17 |
| As at 30 June 2015 (unaudited) | 123 101 | 10 | 3 282 | (1 514) | (18 169) | (18 057) | 88 653 | 1 044 | 89 697 |
| Revaluation of available-for-sale financial assets, | - | - | - | 7 182 | - | - | 7 182 | - | 7 182 |
| Foreign currency translation of foreign | - | - | - | - | (13 053) | - | (13 053) | ( 258) | (13 311) |
| Revaluation of tangible fixed assets, net of tax | - | - | 2 273 | - | - | - | 2 273 | ( 24) | 2 249 |
| **Other comprehensive income** | - | - | 2 273 | 7 182 | (13 053) | - | (3 598) | ( 282) | (3 880) |
| Profit / (loss) | - | - | - | - | - | (14 480) | (14 480) | ( 110) | (14 590) |
| **Total comprehensive income** | - | - | 2 273 | 7 182 | (13 053) | (14 480) | (18 078) | ( 392) | (18 470) |
| Amortization of revaluation reserve of tangible fixed assets, net of tax | - | - | ( 116) | - | - | 116 | - | - | - |
| Changes in deferred tax liabilities | - | - | 17 | - | - | - | 17 | - | 17 |
| 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, | - | - | - | (7 065) | - | - | (7 065) | - | (7 065) |
| Foreign currency translation of foreign | - | - | 138 | - | 4 344 | - | 4 482 | 85 | 4 567 |
| **Other comprehensive income** | - | - | 138 | (7 065) | 4 344 | - | (2 583) | 85 | (2 498) |
| Profit / (loss) | - | - | - | - | - | 25 336 | 25 336 | 110 | 25 446 |
| **Total comprehensive income** | - | - | 138 | (7 065) | 4 344 | 25 336 | 22 753 | 195 | 22 948 |
| Amortization of revaluation reserve of tangible fixed assets, net of tax | - | - | ( 156) | - | - | 156 | - | - | - |
| Changes in deferred tax liabilities | - | - | 23 | - | - | - | 23 | - | 23 |
| As at 30 June 2016 | 131 102 | 10 | 5 461 | (1 397) | (26 878) | (6 929) | 101 369 | 847 | 102 216 |

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

## CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY

| Bank | 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, net of tax EUR'000 | Accumulated 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, net of tax | - | - | - | 12 095 | - | 12 095 |
| **Other comprehensive income** | - | - | - | 12 095 | - | 12 095 |
| Profit / (loss) | - | - | - | - | 5 763 | 5 763 |
| **Total comprehensive income** | - | - | - | 12 095 | 5 763 | 17 858 |
| Amortization of revaluation reserve of tangible fixed assets, net of tax | - | - | ( 115) | - | 115 | - |
| Changes in deferred tax liabilities | - | - | 17 | - | - | 17 |
| **As at 30 June 2015 (unaudited)** | 123 101 | 10 | 3 282 | 7 578 | (35 074) | 98 897 |
| Revaluation of available- for-sale financial assets, net of tax | - | - | - | (4 807) | - | (4 807) |
| Revaluation of tangible fixed assets, net of tax | - | - | 1 196 | - | - | 1 196 |
| **Other comprehensive income** | - | - | 1 196 | (4 807) | - | (3 611) |
| Profit / (loss) | - | - | - | - | (16 158) | (16 158) |
| **Total comprehensive income** | - | - | 1 196 | (4 807) | (16 158) | (19 769) |
| Amortization of revaluation reserve of tangible fixed assets, net of tax | - | - | ( 116) | - | 116 | - |
| Changes in deferred tax liabilities | - | - | 17 | - | - | 17 |
| 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, net of tax | - | - | - | 107 | - | 107 |
| **Other comprehensive income** | - | - | - | 107 | - | 107 |
| Profit / (loss) | - | - | - | - | 7 718 | 7 718 |
| **Total comprehensive income** | - | - | - | 107 | 7 718 | 7 825 |
| Amortization of revaluation reserve of tangible fixed assets, net of tax | - | - | ( 156) | - | 156 | - |
| Changes in deferred tax liabilities | - | - | 23 | - | - | 23 |
| **As at 30 June 2016** | 131 102 | 10 | 4 246 | 2 878 | (43 283) | 94 953 |

The accompanying notes on pages 17 to 57 form an integral part of these condensed interim consolidated and separate financial statements.

The condensed interim consolidated and separate financial statements on pages 10 to 57 were approved by the Supervisory Council and Management Board on 20 October 2016:

Chairman of the Supervisory Council
G.Guselnikov

Chairman of the Management Board
O.R.Bramwell

## CONDENSED INTERIM STATEMENTS OF CASH FLOWS

| | | 30.06.2016 | | 30.06.2015 (unaudited) | |
|---|---|---|---|---|---|
| | | Group | Bank | Group | Bank |
| | Note | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| **Cash flow from operations** | | | | | |
| Profit before corporate income tax | | 26 629 | 8 013 | 4 010 | 6 225 |
| Depreciation of intangible and tangible fixed assets and write off | | 4 574 | 3 114 | 2 992 | 512 |
| Increase in provisions for impairments losses on financial investments | 11 | (10 145) | 4 152 | 3 209 | 3 160 |
| Interest (income) | 3 | (17 955) | (9 193) | (25 694) | (12 951) |
| Interest expence | 3 | 9 740 | 3 640 | 11 800 | 3 469 |
| Dividend (income) | | ( 21) | ( 21) | ( 12) | ( 12) |
| Impairment losses of assets held for sale | | - | - | ( 4) | ( 4) |
| Impairment losses of held to maturity financial assets | | 5 | 5 | - | - |
| Impairment loss of available for sale financial assets | | 1 600 | 3 388 | - | - |
| Acquisition of subsidiary | 14 | (6 165) | - | - | - |
| (Profit)/loss from available-for-sale financial assets | 5 | (7 409) | (10 789) | ( 912) | (1 045) |
| (Profit)/loss from foreign exchange revaluation | | (1 475) | ( 162) | 2 092 | 1 525 |
| Non-realized (profit)/loss from investment property | 15 | 3 450 | - | 2 605 | - |
| **Operating cash flow before changes in operating assets and liabilities** | | **2 828** | **2 147** | **86** | **879** |
| Decrease/(increase) in loans and receivables to banks | | (1 148) | (2 353) | (15 077) | ( 111) |
| Decrease/(increase) in trading financial assets | | (11 030) | 109 | 5 393 | 9 801 |
| Decrease/(increase) in derivatives financial assets | | 956 | 954 | ( 93) | ( 174) |
| Decrease/(increase) in loans and receivables to customers | | 15 926 | (3 771) | 21 086 | 10 061 |
| Decrease/(increase) in assets held for sale | | - | - | 837 | 5 |
| Decrease/(increase) in other assets | | 18 583 | 6 189 | (6 970) | (1 963) |
| Increase/(decrease) in due to banks | | ( 979) | 248 | ( 748) | (7 562) |
| Increase/(decrease) in customer deposits | | (133 058) | (113 279) | (12 382) | (12 138) |
| Increase/(decrease) in derivatives financial liabilities | | ( 4) | ( 66) | ( 512) | ( 452) |
| Increase/(decrease) in other liabilities | | (3 611) | (3 043) | 2 305 | ( 641) |
| **Cash generated from (used in) operating activities** | | **(111 537)** | **(112 865)** | **(6 075)** | **(2 295)** |
| Interest received | | 17 817 | 7 911 | 24 759 | 10 237 |
| Interest (paid) | | (9 579) | (4 074) | (11 607) | (3 460) |
| Dividend received | | 21 | 21 | 12 | 12 |
| Corporate income tax (paid) | | ( 425) | - | (1 309) | - |
| **Net cash generated from (used in) operating activities** | | **(103 703)** | **(109 007)** | **5 780** | **4 494** |
| **Cash generated from (used in) investing activities** | | | | | |
| Acquisition of intangible and tangible fixed assets | | (6 759) | (6 621) | ( 893) | ( 253) |
| Sale of intangible and tangible fixed assets | | - | - | 3 | - |
| Decrease/(increase) in held-to-maturity financial assets | | 1 279 | 1 279 | ( 903) | ( 903) |
| Acquisition of investment property | 15 | (4 445) | - | (2 440) | - |
| Sale of investment property | 15 | 1 088 | - | 1 347 | - |
| Decrease in available-for-sale financial assets | | 182 733 | 187 177 | 123 541 | 123 258 |
| (Increase) in available-for-sale financial assets | | (168 241) | (177 556) | (202 919) | (202 954) |
| **Net cash generated from (used in) investing activities** | | **5 655** | **4 279** | **(82 264)** | **(80 852)** |
| **Cash generated from (used in) financing activities** | | | | | |
| Debt securities issued | | 9 359 | 9 359 | 23 243 | 23 243 |
| Cash generated from/(used in) subordinated debt net | | (1 855) | (1 855) | 680 | 4 337 |
| **Net cash generated from (used in) financing activities** | | **7 504** | **7 504** | **23 923** | **27 580** |
| **Net increase/(decrease) in cash and cash equivalents** | | **(90 544)** | **(97 224)** | **(52 561)** | **(48 778)** |
| Cash and cash equivalents at the beginning of the period | 21 | 241 166 | 223 095 | 283 173 | 250 104 |
| Effect of exchange changes on cash and cash equivalents | | 2 310 | 162 | 3 176 | (1 525) |
| **Cash and cash equivalents at the end of the period** | 21 | **152 932** | **126 033** | **233 788** | **199 801** |

**CONDENSED INTERIM STATEMENTS OF CASH FLOWS**

The accompanying notes on pages 17 to 57 form an integral part of these condensed interim consolidated and separate financial statements.

The condensed interim consolidated and separate financial statements on pages 10 to 57 were approved by the Supervisory Council and Management Board on 20 October 2016:

| | |
|---|---|
| Chairman of the Supervisory Council<br>G.Guselnikov | Chairman of the Management Board<br>O.R.Bramwell |

## EXPLANATORY NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

### 1. GENERAL INFORMATION

JSC "NORVIK BANKA" ("the Bank") is a joint stock company incorporated in the Republic of Latvia acting in accordance with Latvian legislation and Licence No. 30 issued by the Bank of Latvia on 27 April 1992.

The legal address of JSC "NORVIK BANKA" 15-2 Elizabetes Street, Riga, LV-1010 Latvia.

The Bank has 63 customers servicing centres. The main banking activities are local and international money transfers, issue of loans, securities operations and foreign currency transactions.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying condensed interim financial statements are presented in thousands of euro ('EUR').

The condensed interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting" as adopted by the European Union (the "EU").

The accounting policies used in the preparation of these interim condensed financial statements are consistent with those used in the annual financial statements of the Group and the Bank for the year ended 31 December 2015 which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Corporate income tax is recognised in each interim period based on the best estimate of the weighted average effective annual income tax rate expected for the full financial year. If the estimate of the weighted average effective annual income tax rate changes, amounts accrued for income tax expense in one interim period may have to be adjusted in a subsequent interim period of that financial year. Interim period income tax expense is accrued using the tax rate that would be applicable to expected total annual earnings, that is, the estimated average annual effective income tax rate is applied to the pre-tax income of the interim period.

*Significant accounting judgments and estimates*

The presentation of condensed interim financial statements in conformity with IAS 34 as adopted by the EU requires the entity to make estimates and assumptions that affect the recognised amounts for assets, liabilities and disclosure of contingent assets and liabilities as of the period-end date as well as recognised income and expenses for the reporting period. The resulting accounting estimates may differ from related actual results. In the reporting period there where no changes in significant estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised 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 probably sources of uncertainty existing in the current financial and economical market are consistent with those used in preparation of the 2015 financial statements. Key sensitivities relating to material assets are disclosed in Note 2 under Sensitivity analysis.

***Adoption of new revised standards and interpretations***

**The following new and amended IFRS and interpretations became effective in the first part of 2016, but have no significant impact on the operations of the bank and these condensed interim financial statements:**

- Amendment to IFRS 11 "Joint arrangements" on acquisition of an interest in a joint operation;
- Amendments to IAS 16 "Property, plant and equipment" and IAS 41 "Agriculture" regarding bearer plants;
- Amendment to IAS 16 "Property, plant and equipment", IAS 38 "Intangible assets" on depreciation and amortisation;
- Amendments to IAS 27 "Separate financial statements" on the equity method;
- Amendments to IAS 1 "Presentation of financial statements" regarding disclosure initiative;

- Annual improvements 2014. The amendments include changes that affect 4 standards.

**Certain new standards and interpretations have been published that become effective for the accounting periods beginning after 1 July 2016 or later periods or are not yet endorsed by the EU:**

- IFRS 14, "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016, not yet endorsed in the EU);

- Amendments to IFRS 10 "Consolidated financial statements", IAS 28 "Investments in associates and joint ventures" (effective for annual periods beginning on or after 1 January 2016);

- Amendments to IAS 7 "Statement of Cash Flows" (effective for annual periods beginning on or after 1 January 2017, 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 2018);

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

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

- IFRS 9 "Financial instruments" (effective for annual periods beginning on or after 1 January 2018). IFRS 9 impact on financial statements is expected to have a significant impact on Bank and Group. The Group is currently estimating its impact;

- IFRS 16 "Leasing" (effective for annual periods beginning on or after 1 January 2019, not yet endorsed in the EU);

The Management of the Group and the Bank has disclosed the evaluation of these new standards and interpretations (if any) on the financial statements for 2015. Further detailed evaluation is in progress, the results of which will be disclosed in the financial statements for the year ended 31 December 2016.

*Foreign currency translation*

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

| | 30 June 2016 | 31 December 2015 | 30 June 2015 |
|---|---|---|---|
| USD | 1.1102 | 1.0887 | 1.1189 |
| RUB | 71.5200 | 80.6736 | 62.3550 |

*Operating environment of the Group and Going concern*

(a) Going concern considerations

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

- compliance with the minimum capital adequacy requirements and other regulatory compliance requirements.
- legal proceedings connected to alternative energy sector;
- exposure to Russia;

The Bank's ability to continue as a going concern is substantially dependent on the successful management of the aforementioned risks and the ongoing strengthening of its capital adequacy position. 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 of 30 September 2016, considering the included profit made in the first half of 2016, the ratio of adequacy of the Bank/Group's Tier One capital complies with the regulatory minimum level of the tier one capital (8.50%), and as such the Group has met the previously agreed plan for strengthening its capital.

A key factor in meeting the minimum level of Tier One capital for the Group was both the reversal of provisions and capital corrections for energy sector loans, following the positive legal and operating developments of this exposure during 2016 and the income earned from the sale of the Group's Visa Europe shares.

The Bank is confident that it can continue running as a Going Concern:

- The Bank maintains sufficient liquid assets (with a daily liquidity ratio of over 60% on average) to meet its obligations
- That the current capital base is sufficient to meet any further external shocks, and that the total capital of the Group and Bank is higher than that required (with buffer) by the various European regulatory agencies
- The Group maintains a conservative view on lending to both corporate and retail segments
- The Group continues to reduce its non-profile asset base, freeing up resources for re-investment in higher-yield assets
- The Group plans to reduce its exposure to Russia over time which would reduce volatility from the balance sheet subject to market conditions this will be done without significant losses
- The future profitability is sufficient to cover any externally-driven additional mark-downs on loans and non-profile other assets

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 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 related to the need to successfully implement the Bank's approved Strategy which in turn depends on the Bank being able to reduce the exposures to its non-core business, and ensure sufficient profitability from its core banking activities. In turn the fulfilment of the Bank's core-business strategy is dependent on the removal of the remaining restrictions imposed by the FCMC.

(b) Exposure to Russian Federation

The following section discloses the Bank's operations in the Russian Federation and full related exposure, both core and non-core. As of 30 June 2016 there were the following assets of Russian origin:

1) a subsidiary enterprise – in 2014 "Вятка-банк" OAO (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 30 June 2016was 51.1 million euro and as of 31 December 2015 was 43.1 million euro;
2) a subsidiary enterprise – Landowner OOO - owner of investment property. Investment in subsidiary book value as of 30 June 2016 was 12.8 million euro and as of 31 December 2015 was 10.4 million euro;
3) a subsidiary enterprise – Orion OOO - owner of investment property. Investment in subsidiary book value as of 30 June 2016 was 12.1 million euro and as of 31 December 2015 was 12.8 million euro;
4) loans and accounts receivable granted to Russian developers of commercial real estate with the total exposure of 102.5 million euro as of 30 June 2016 and 92.4 million euro as of 31 December 2015, including hotels, operating in several major Russian cities;

| | 30.06.2016 | 31.12.2015 |
|---|---|---|
| | Exposure | Exposure |
| | EUR'000 | EUR'000 |
| Moscow and Moscow region | 50 822 | 38 858 |
| Perm | 7 688 | 7 684 |
| Kirov | 14 504 | 16 099 |
| Yekaterinburg | 18 922 | 18 408 |
| Tomsk | 7 270 | 11 381 |
| Kirovo-Chepetsk | 3 337 | - |
| **Total** | **102 543** | **92 430** |

5) other loans related to Russia Federation - book value as of 30 June 2016 was 13.9 million euro and as of 31 December 2015 was 13.1 million euro.

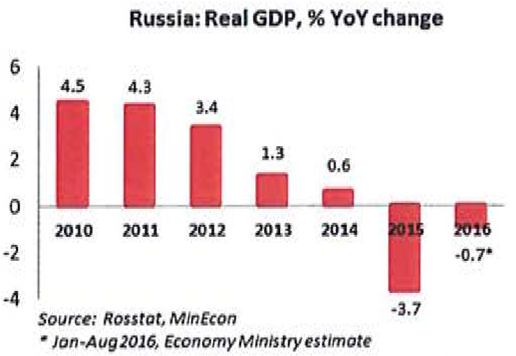
The amount of the Group's and Bank's deposits of which holders are residents of Russia are 219.6 and 67.8 million euro respectively or approximately 27% and 9% of the entire deposit base as of 30 June 2016. As of 31 December 2015 Group's and Bank's deposits of which holders are residents of Russia were 218.5 and 80.7 million euro respectively or approximately 22.8% and 9.3% of the entire deposit base.

(c) Economic and conditions of the Russian Federation– macroeconomic situation and forecast

**Russia's near-term economic prospects continue to be determined primarily by demand and prices for its core export products, particularly oil.** The 32% increase in oil prices over the first three quarters of 2016, including a 76% jump since the January 2016 low, supported hydrocarbon export receipts and profitability of the energy sector. Although oil price volatility remained high throughout this year, exchange rate flexibility and declining inflation have allowed Russia's exporters to preserve most of the competitiveness gains achieved in 2014-2015. By sticking to its hawkish monetary policy stance, the central bank has gained credibility, including for its end-2017 inflation target, while foregoing near-term support for the economy. Russia's growth outlook for 2017, while dependent on commodity prices and the pace of global recovery, is modestly favourable under plausible scenarios, thanks to low base effects, declining inflation and a recovery in domestic demand.

**Russia's economy in Q3 2016 continued to recover from recessionary trends observed in the previous couple of years.** In year-on-year terms, the decline in GDP appears to have bottomed out. Real GDP was flat year-on-year in August and is estimated to have declined 0.7% over January-August 2016. This compares to the 0.9% YoY drop over H1 2016. In seasonally-adjusted terms, on government estimates, real GDP rose by 0.3%

MoM in August, having stayed near zero in the previous three months. From the production side, growth resumed in the energy sector, metallurgy, chemicals, pulp and paper and food sectors. Industrial output rose 0.7% YoY in August (and 0.4% YoY year-to-date) and was up 0.5% MoM in seasonally-adjusted terms. Agricultural output rose 6.0% YoY in August (and 0.5% MoM in seasonally-adjusted terms); it was up 3.4% YoY over the first 8 months of 2016.

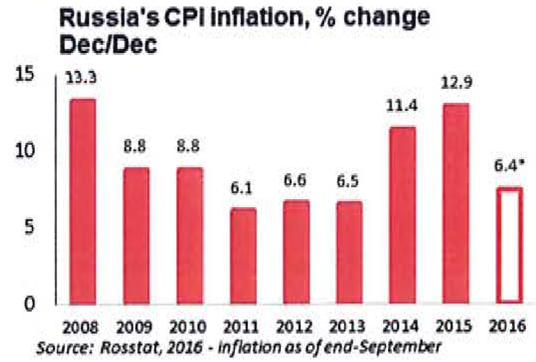


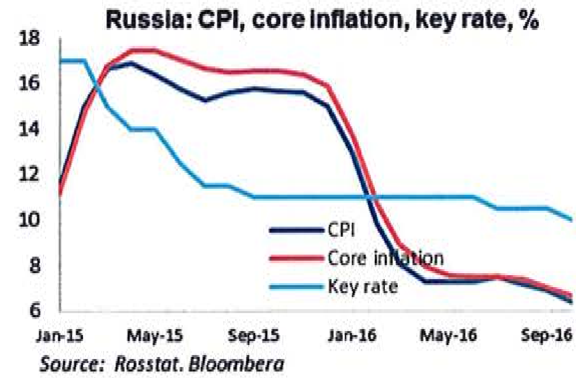


Russia's PMI data for September point to further recovery in the manufacturing sector. Headline manufacturing PMI in September rose to 51.1, the highest level since November 2014. The improvement was due to higher output and new orders components (the latter rose to 52.4 versus 51.8 in August). The central bank's latest estimates suggest that GDP will decline between 0.3% and 0.7% YoY in 2016.
Consumer demand remains subdued. Real retail sales contracted 5.1% YoY in August and was down 5.7% YoY over the first 8 months of 2016. Real wages fell 1.0% YoY in August, to drop 0.3% in January-August 2016.
Given the strength of oil prices and the favouralbe outlook for new orders in manufacturing, we project that postitive growth momentum will continue in Q4 2016, limiting real GDP decline to 0.5% YoY in 2016.



**Russia's inflation declined further in Q3, to 6.4% YoY in September, from 6.9% in August and 7.2% in July.** The continuing disinflation process should be attributed to the central bank's relatively tight monetary policy and sluggish domestic demand. The gap between headline inflation and the key rate (10.0%) remains above 350 bps. However, the central bank is now set to keep rates on hold until Q1 2017 at the earliest, following a surprisingly hawkish policy statement in mid-September. We currently expect inflation to be close to 5.6% at end-2016.



**Russia's central bank has revised its original forecast for Q2 2016 current account surplus down to $1.5bn, from $3.4bn estimated three months ago.** On the 4-quarter rolling basis, the current account surplus in Q2 2016 has been scaled down to $36.6bn (3.0% of GDP) from 3.1% of GDP earlier, compared to 4.0% of GDP in Q1. The revisions were due mainly to a higher deficit in the services trade balance. Given the seasonal pattern, quarterly current account balance has likely deteriorated further in Q3.

The government revised its full-year 2016 budget projections in September, allowing federal budget deficit to increase to 3.7% of GDP (or 4.5% excluding privatization reciepts from revenue). Large-scale social payments in early 2017 would preclude early easing of monetary policy next year.

**During Q3 2016 the rouble fluctuated in a relatively narrow range of 62-65 against the dollar** and appreciated to 62 in early October when oil prices reached a 4-month high of $52.5/bbl. At the current level of oil prices, the most likely outcome for the rouble at the end of the year is 63-65 against the dollar. Since OPEC's unexpected agreement in late September 2016, the rouble appreciated about 3% (oil prices rose more than 13%). Scope for further RUB appreciation is limited as the CBR may start replenishing reserves via interventions at RUB level stronger than 60.

**USD/RUB, EUR/RUB**


*Source: Bloomberg.*

**The rouble against the dollar, oil prices $/bbl**


*Source: Bloomberg.*

**Russia: macroeconomic forecast**

**Russia's near-term economic prospects will remain sensitive to the prevailing oil price levels.** Projecting oil prices credibly in the medium term remains a challenging task, thus it is appropriate in our view to consider a number of scenarios for oil prices while developing Russia's macroeconomic forecasts. The favourable outcome of the OPEC meeting in Algiers in September has created strong support for oil prices at about $45/bbl (Brent). We are therefore inclined to use a scenario with average Brent oil price of $47.5/bbl as our base-case (probability 40%), while assigning a 30% probability to a higher oil price scenario ($55/bbl or stronger). A scenario with a $40/bbl oil assumption is less likely in our view (25%), with some 5% probability left for an extremely weak oil price scenario (of about $25/bbl). These scenarios are summarized in the table below.

| Russian Federation Year | 2016 | 2017 scenarios | | | |
|---|---|---|---|---|---|
| **Oil (Brent), $/bbl (year average)** | **45** | **25** | **40** | **47.5** | **55** |
| Real GDP, % change | -0.5 | -1.0 | 0.4 | 1.0 | 1.4 |
| USD/RUB (year average) | 67.1 | 80.0 | 68.5 | 65.5 | 62.5 |
| Inflation annual, % change Dec/Dec | 5.6 | 6.3 | 4.7 | 4.2 | 3.8 |
| Current account balance, $bn | 32.4 | 22.0 | 29.0 | 38.0 | 50.0 |
| Key policy rate, year-end, % | 10.0 | 10.0 | 9.0 | 8.5 | 8.0 |
| Interbank 91-180 days, % | 10.5 | 10.7 | 9.5 | 9.0 | 8.5 |
| Interbank rates 181 day - 1 year, % | 10.7 | 10.9 | 9.7 | 9.2 | 8.7 |
| FX reserves, year-end, $bn | 379 | 360 | 394 | 399 | 404 |
| Budget balance, % GDP | -4.2 | -6.0 | -3.0 | -2.6 | -2.1 |
| *Memorandum:* | | | | | |
| EUR/USD | 1.12 | 1.05 | 1.10 | 1.12 | 1.15 |
| EUR/RUB | 75.2 | 84.0 | 75.4 | 73.4 | 71.9 |

*Source: Norvik Banka Research*

**Outlook for rouble-denominated assets is closely linked to the prospects of the currency's movements against key benchmark currencies.** While projecting the rouble's exchange rate over a distant period has become far less reliable following the introduction of a free float (since 10 November 2014) and the imposition of Western sanctions against Russian entities in 2014, the evolution of Russia's monetary and fiscal policy since then has allowed ourselves to make a number of important assumptions:

1. The rouble's movements in 2017 are likely to reflect primarily longer-term trends such as rebalancing of Russia's external account, rather than merely near-term changes in oil prices.

2. The risk of sudden adverse developments for the rouble (such as new trade restrictions or financial sanctions) has diminished but did not disappear completely. Notwithstanding this risk, our medium-term forecasts for RUB call for its further gradual appreciation against the basket (and the euro).
3. The rouble's exchange rate against the euro is not a key currency pair and would be determined by the rouble's moves against the basket and the dollar (which is the focus for most investors in Russia).
4. We expect the euro's to be broadly stable against the dollar on average over the next year, at about 1.12. Under alternative plausible scenarios, the euro would stay in the 1.10-1.15 range against the dollar. In an unlikely scenario (5% in total) of a surge in US inflation and aggressive FOMC tightening, we would expect the euro to weaken to about 1.05 against the dollar.

**Based on our current projections for average RUB exchange rate of 65.5 versus USD in 2017, and broadly unchanged EURUSD at 1.12, we project EURRUB exchange rate of about 73.4, with only modest variations under the forecasts for oil prices of either $40/bbl or $55/bbl, thanks in part to the fact that the dollar tends to strengthen during periods of weak oil prices.**
*In an extreme scenario for oil prices crashing to about $25/bbl and staying low throughout 2017 (5% probability, in our view), the Rouble's exchange rate is likely to move towards 80 against the US Dollar and 84 against the Euro.*

(d) Capital adequacy and Further Plans
In the year 2016, the Group conducted activities under the plan for strengthening of the capital, which at the moment has led to the improvement of the Group's capital adequacy.

In the first half of the year 2016, the Bank submitted to the Financial Capital and Market Commission the plan for strengthening of the capital. In this plan, the Bank provided several development scenarios. The Group determined the level of probability of each scenario. The scenarios believed to be the most probable was selected. The main positions of this scenario are:
- return of accumulations and corrections of the capital in regard to the energy sector's loans (assessed as with high probability);
- acquisition of income in the amount of 10 million euro on sale of *Visa Europe* share (assessed as with high probability );
- measures to reduce exposure of the assets in Russia;
- income of the first half of the year 2016.

In the first half of the year 2016, significant positive changes took place in regard to return of the energy sector's loans. As it was already described in Note 2, the attachment from part of the property owned by company SIA *Winergy* was removed. The company is able to generate more than 4 million euro of net cash flow per year, which will be directed to the loans repayment and interest payments. Positive changes gave the possibility for the Bank to present sufficient arguments to the FCMC, which confirm creditworthiness of the borrower and, accordingly, the possibility to reduce the amount of the previously made accumulations and full reverse of the capital corrections.

One of the Bank's main tasks for the year 2016 is refinancing of the loans granted against security of the immovable property located in Russia, as well as sale of the assets located in Russia. This will positively affect and will allow protecting against further sharp fall of the rouble rate, which may influence the operating results of the Bank.
The management of the Bank currently is closely involved with the implementation of these activities.

The Bank keeps using the subordinated capital – during 2016 the balance sheet value of the subordinated deposits and subordinated bonds increased from 66.5 million euro to 74.0 million euro.

According to the Basel III standards, the use of the Tier II capital to determine capital adequacy is limited to 50% of Tier I capital in 2016. However, such form of capital is important and maintains further development of the business. The ratio between Tier II capital (not considering half-yearly yield) and Tier I capital as of the first half of 2016 was 79% at the Group's level and 70% at the Bank's level.

In 2016 the Bank pursued systematically its policy related to the disposal of taken-over assets, and it remains one of the main tasks in future. Free resources, in their turn, will be channelled into earning additional profit by the Bank.

According to the approved strategy, the Bank plans to keep its niche on the financial market, as well as to attract a new audience of customers by offering innovative products and expanding the variety of its offers in other geographical regions. The Bank keeps 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.

In accordance with the approved strategy in relation to the corporate and retail lending the Bank keeps adhering to a conservative stance towards credit risk management.

As stated in previous reporting periods, the Bank follows the pre-approved plan aimed at exiting the Armenian market by liquidating the subsidiary Norvik liquidation Universal Credit Organization CJSC. The subsidiary's capital decreased by 458.7 thousand euro in 2016, and the investment amount as of 30 June 2016 was 3.9 million euro. The impact on the Group's financials is not considered significant.

At present, the Bank has two real estate items entered in the books as a liquidation quota: from the subsidiary SIA *E15* – a real estate item in Riga, Elizabetes Street 15, valued at 6.75 million euro (September 2016), and from the subsidiary *Allurine* Ltd – a real estate item in Riga, Raiņa Boulevard 11, valued at 5.5 million euro (March 2016).

In July 2016 an open-end alternative investment fund *NORVIK CIS Fixed Income Absolute Return Fund* was registered. For the fund management purposes the Bank uses its personnel's experience, in particular, the experience of analysts of the subsidiary *Norvik Banka UK Limited* (United Kingdom).

One of the major events of the first six months was the Bank's planned receipt of compensation to the members of Visa Europe, which took place in the second quarter 2016 under the transaction, as a result of which the company *Visa Inc* acquired the company 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* in the amount of 3 million euro. The amount received is reflected in the profit and loss statement of the Bank/Group.

A market share in the pension asset management business (under the management of AS *Norvik Ieguldījumu Pārvaldes Sabiedrība, Norvik IPS*) keeps demonstrating growth owing to a wide customer servicing network and good management results. The amount of the 2nd tier funds managed by *Norvik IPS* was 93.4 million euro in June 2016, and at present is 100.5 million euro (in December 2015 – 86.3 million euro). Such a size of the managed portfolio in the first half of 2016 allowed *Norvik IPS* to earn a commission income in the amount of 0.5 million euro.

Capital adequacy ratio of the Bank/Group as of the end of June 2016 was 18.64%/12.56% (considering the inclusion of profit gained in the first half 2016 in the calculation of the capital adequacy ratio – 19.83%/13.68%). As of 30 September 2016, the amount of high risk assets decreased significantly; thus, considering the included profit gained in the first half 2016, the Bank/Group's Tier I capital adequacy ratio will meet the requirements set by the laws and regulations.

The Bank is continually searching for investors to increase its equity capital which is the key element of the Tier I capital and functions as a basis for business expansion. Additional Tier I capital will offer an opportunity of gaining additional profit by means of investing in financial instruments and will have positive impact on the attraction of new customers and, thus, on the Capital.

*Sensitivity analysis*

As at 30 June 2016 the Bank's balance sheet position "Loans to and receivables from customers" includes a net exposure of 45 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 based on the enterprise value determined by an independent valuation expert. Key assumptions used in valuation:
NWC (Net working capital) rate – from 9,12% to 5,3%
WACC (weighted average cost of capital) rate for existing wind park – 7.46%
WACC rate for developing wind park – 8,22%
Electricity sales price – 110 EUR/MWh
If WACC rate would decrease to 6.46%, the enterprise value would increase to 49 million euro. This would allow to reverse provisions in the amount of 4 million euro in the Bank's balance sheet.

As at 30 June 2016 the Bank's and the Group's balance sheet position "Loans to and receivables from customers" includes a net exposure of 49 825 thousand euro and 41 114 thousand euro respectively to **hotel operations** in Russia. The Group's management has assessed the recoverable amount of these exposures based on the valuations of independent valuation experts. Key assumptions used in these valuations:
Room rate – from EUR 70 to EUR 130
Occupancy rate – from 55% to 65%
Discount rate – from 15% to 20,3%
Capitalization rate – 13,3%
If these assumptions are changed by 5%, the collateral valuations would change by 8%.
This might further lead to increase or reversal of provisions for loans in the amount of up to 8% of collateral value.

As at 30 June 2016 the Bank's and the Group's balance sheet position "Loans to and receivables from customers" includes a net exposure of 34 050 thousand euro to **commercial property** in Russia. The Group's management has assessed the recoverable amount of these exposures based on the valuations of independent valuation experts. Key assumptions used in these valuations:
Year rent rate per sq. m. – from EUR 420 to EUR 520
Vacancy rate – from 17,5% to 20,5%
Discount rate – from 13% to 18%
Capitalization rate – from 10,3% to 11,04%
If these assumptions are changed by 5%, the collateral valuations would change by 10%.
This might further lead to increase or reversal of provisions for loans in the amount of up to 10% of collateral value.

As at 30 June 2016 the Bank's and the Group's balance sheet position "Loans to and receivables from customers" includes a net exposure of 18 667 thousand euro to **other real estate** in Russia. The Group's management has assessed the recoverable amount of these exposures based on the valuations of independent valuation experts. Key assumptions used in these valuations:
Year rent rate per sq. m. – from EUR 170 to EUR 220
Vacancy rate – from 10% to 15%
Discount rate – from 15,75% to 20%
Capitalization rate –from11,75% to 14,25%
If these assumptions are changed by 5 %, the collateral valuations would change by 7%.

This might further lead to increase or reversal of provisions for loans in the amount of up to 7% of collateral value.

As at 30 June 2016 the Bank’s and the Group’s balance sheet position “Loans to and receivables from customers” includes a net exposure of 13 944 thousand euro to **processing business** in Russia. The Bank’s management has assessed the recoverable amount of these exposures based on the valuations of independent valuation experts. Key assumptions used in these valuations:
EBITDA margin – from 28% to 36,4%
Net profit margin – from 21,6 to 27%
NWC rate – 13,63%
Discount rate – 23,34%
Capitalization rate – 19,07%
If these assumptions are changed by 5%, the collateral valuations would change by 8%.
This might further lead to increase or reversal of provisions for loans in the amount of up to 8% of collateral value.

Fluctuation of the Russian ruble might have significant impact on the Bank’s and Group’s assets and liabilities as well as on income statement positions.

*Goodwill*

Under IAS 36 “Impairment of Assets” goodwill is reviewed for impairment once a year 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. There was no impairment identified in 2015 and in 6 months 2016.

*Basis of Consolidation*

The consolidated financial statements include all subsidiaries which are those companies in which the Group directly or indirectly has an interest of more than half of the voting rights or otherwise has power to exercise control over operations. Control is achieved where the company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities. The subsidiaries are consolidated from the date on which effective control is acquired by the Group and are no longer consolidated from the date of loss of control.

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

## EXPLANATORY NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

| Norvik Group 30.06.2016 | | | | | | |
|---|---|---|---|---|---|---|
| Name | Holding company name | Accumulated equity interest (%) | Country | Address | Economic sector | Registration number |
| Norvik liquidation Universal Credit Organisation CJSC | AS Norvik Banka | 100 | AM | Yerevan, 12 Saryan str. | Financial service activities | NR. 14 |
| Norvik Apdrošināšanas Brokeris SIA | AS Norvik Banka | 100 | LV | Rīga, E.Birznieka-Upīša 21 | Insurance brokerage services | 40003950355 |
| Norvik Banka UK Limited | AS Norvik Banka | 100 | GB | London, 46/48 Grosvenor Gardens, 1st floor | Financial service activities | 8940522 |
| Norvik Ieguldījumu Pārvaldes Sabiedrība AS | Norvik Banka UK Limited | 100 | LV | Rīga, E.Birznieka-Upīša 21 | Financial service activities | 40003411599 |
| Accounting LAB SIA | Norvik Ieguldījumu Pārvaldes Sabiedrība AS | 100 | LV | Rīga, E.Birznieka-Upīša 21 | Professional, scientific and tehchnical activities | 40103259956 |
| ПАО Норвик Банк | AS Norvik Banka | 97.75 | RU | 610000, г. Киров (обл.), Преображенская, дом 4. | Financial service activities | 1024300004739 |
| Norvik Eurasia AIF AS | AS Norvik Banka | 100 | LV | Rīga, Elizabetes 15-1, LV-1010 | Financial service activities | 40103934446 |
| Olerinia Limited | AS Norvik Banka | 100 | CY | Kyvelis 11, Rania court, Agioi Omologites, 1087, Nicosia | Financial service activities | HE329149 |
| E15 SIA | AS Norvik Banka | 100 | LV | Rīga, Elizabetes 15-2, LV-1010 | Real estate activities | 40103813496 |
| Allurine Limited | AS Norvik Banka | 100 | CY | 2 Romanou Street,TLAIS TOWER,6th Floor,Flat/office 601,1070 Nicosia | Financial service activities | HE329342 |
| Norvik IPS AS SIF Nākotnes Īpašumu Fonds | AS Norvik Banka | 100 | LV | Rīga, E.Birznieka-Upīša 21 | Financial service activities | 40003411599 |
| Magnum Estate SIA | Norvik IPS AS SIF Nākotnes Īpašumu Fonds | 100 | LV | Rīga, E.Birznieka-Upīša 21 | Real estate activities | 40103295514 |
| Пресес Намс Балтия ООО | Magnum Estate SIA | 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 | 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 | LV | Rīga, E.Birznieka-Upīša 21 | Real estate activities | 40003370229 |
| Ostas 1 SIA | Norvik IPS AS SIF Nākotnes Īpašumu Fonds | 100 | LV | Rīga, E.Birznieka-Upīša 21 | Real estate activities | 40003934350 |
| Top Estate SIA | Norvik IPS AS SIF Nākotnes Īpašumu Fonds | 100 | LV | Rīga, E.Birznieka-Upīša 21 | Real estate activities | 40103220007 |
| Lat Estate SIA | Norvik IPS AS SIF Nākotnes Īpašumu Fonds | 100 | LV | Rīga, E.Birznieka-Upīša 21 | Real estate activities | 40103214388 |
| Lanora SIA | Norvik IPS AS SIF Nākotnes Īpašumu Fonds | 100 | LV | Rīga, E.Birznieka-Upīša 21 | Real estate activities | 40103214316 |
| Gauja CS SIA | Norvik IPS AS SIF Nākotnes Īpašumu Fonds | 100 | LV | Rīga, E.Birznieka-Upīša 21 | Real estate activities | 40103658723 |
| Pilnskalna 911 SIA | Norvik IPS AS SIF Nākotnes Īpašumu Fonds | 100 | LV | Rīga, E.Birznieka-Upīša 21 | Real estate activities | 40103667035 |

## EXPLANATORY NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

| Name | Holding company name | Accumulated equity interest (%) | Country | Address | Economic sector | Registration number |
|---|---|---|---|---|---|---|
| Krasta SIA | Norvik IPS AS SIF Nākotnes Īpašumu Fonds | 100 | LV | Rīga, E.Birznieka-Upīša 21 | Real estate activities | 40103669801 |
| Seastone SIA | Norvik IPS AS SIF Nākotnes Īpašumu Fonds | 100 | LV | Rīga, E.Birznieka-Upīša 21 | Manufacture of chemicals and chemical products | 40103679763 |
| PNB Print SIA | Norvik IPS AS SIF Nākotnes Īpašumu Fonds | 100 | LV | Silakrogs Ropažu nov. LV2133, Jāņsili | Printing and reproduction of recorded media | 40103219845 |
| Baltijas Naftas Grupa SIA | Norvik IPS AS SIF Nākotnes Īpašumu Fonds | 100 | LV | Rīga, E.Birznieka-Upīša 21 | Wholesale trade, except of motor vehicles and motorcycles | 50103484321 |
| Visalia SIA | Norvik IPS AS SIF Nākotnes Īpašumu Fonds | 100 | LV | Rīga, E.Birznieka-Upīša 21 | Administrative and support service activities | 40103220115 |
| Acton SIA | Norvik IPS AS SIF Nākotnes Īpašumu Fonds | 100 | LV | Rīga, E.Birznieka-Upīša 21 | Real estate activities | 40103220030 |
| City Estates SIA | Norvik IPS AS SIF Nākotnes Īpašumu Fonds | 100 | LV | Rīga, E.Birznieka-Upīša 21 | Real estate activities | 40103219898 |
| Relocation SIA | Norvik IPS AS SIF Nākotnes Īpašumu Fonds | 100 | LV | Rīga, E.Birznieka-Upīša 21 | Real estate activities | 40103220079 |
| Solum Estate SIA | Norvik IPS AS SIF Nākotnes Īpašumu Fonds | 100 | LV | Rīga, E.Birznieka-Upīša 21 | Real estate activities | 40103295641 |
| Merkurs Rigante Pluss SIA | Norvik IPS AS SIF Nākotnes Īpašumu Fonds | 100 | LV | Rīga, Zemaišu 3 | Real estate activities | 40103283110 |
| Eko Forums Pluss SIA | Norvik IPS AS SIF Nākotnes Īpašumu Fonds | 100 | LV | Rīga , Mārupes 19 LV-1004 | Real estate activities | 40003884083 |
| Alfa Timber SIA | Norvik IPS AS SIF Nākotnes Īpašumu Fonds | 100 | LV | Rīga, Daugavgrīvas šoseja 8 | Manufacture of wood and of products of wood and cork, except furniture | 50103384551 |
| NBT Agro SIA | Norvik IPS AS SIF Nākotnes Īpašumu Fonds | 100 | LV | Rīga, E.Birznieka-Upīša 21 | Agriculture, foresty and fishing | 40103692121 |
| Ganību Dambis 27 SIA | Norvik IPS AS SIF Nākotnes Īpašumu Fonds | 100 | LV | Rīga, E.Birznieka-Upīša 21 | Real estate activities | 40103712269 |
| NBT Agro2 SIA | Norvik IPS AS SIF Nākotnes Īpašumu Fonds | 100 | LV | Rīga, E.Birznieka-Upīša 21 | Real estate activities | 40103217168 |
| NBT Energy SIA | Norvik IPS AS SIF Nākotnes Īpašumu Fonds | 100 | LV | Rīga, E.Birznieka-Upīša 21 | Real estate activities | 40103680940 |
| NBT1 Energy SIA | Norvik IPS AS SIF Nākotnes Īpašumu Fonds | 100 | LV | Rīga, E.Birznieka-Upīša 21 | Real estate activities | 40103688179 |
| NBT3 Energy SIA | Norvik IPS AS SIF Nākotnes Īpašumu Fonds | 100 | LV | Rīga, E.Birznieka-Upīša 21 | Real estate activities | 40103696477 |
| NBT5 Energy SIA | Norvik IPS AS SIF Nākotnes Īpašumu Fonds | 100 | LV | Rīga, E.Birznieka-Upīša 21 | Real estate activities | 40103713349 |
| A5 & M3 SIA | Norvik IPS AS SIF Nākotnes Īpašumu Fonds | 100 | LV | Rīga, E.Birznieka-Upīša 21 | Real estate activities | 40103713508 |
| IKSOV CJSC | Norvik IPS AS SIF Nākotnes Īpašumu Fonds | 100 | AM | Yerevan, 375010, Tpagricneri 9-55 | Financial service activities | 286.120.05894 |

## EXPLANATORY NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

| Name | Holding company name | Accumulated equity interest (%) | Country | Address | Economic sector | Registration number |
|---|---|---|---|---|---|---|
| Lan ltd | Norvik IPS AS SIF Nākotnes Īpašumu Fonds | 100 | AM | Yerevan, Zaqiyan 10/25 | Real estate activities | 286.110.06690 |
| Cecily Holdings Limited | Norvik IPS AS SIF Nākotnes Īpašumu Fonds | 100 | CY | 2, Sophouli Str., 8th floor, 1096 Nicosia | Financial service activities | HE 275512 |
| Landowner OOO | Cecily Holdings Limited | 100 | RU | Московская область, Можайский район, Борисовский с.о., дер. Заречье | Real estate activities | 1057747139306 |
| Ansager Global Limited | Norvik IPS AS SIF Nākotnes Īpašumu Fonds | 100 | VG | British Virgin Islands, Quijano Chambers, P.O.BOX 3159 Road Town, Tortola | Financial service activities | 1864525 |
| UKU investments SIA | Ansager Global Limited | 100 | LV | Rīga, E. Birznieka-Upīša 20A - 25 | Real estate activities | 40103551673 |
| Arsenal Energy SIA | Ansager Global Limited | 100 | LV | Rīga, E. Birznieka-Upīša 20A - 25 | Electricity supply | 40103639135 |
| Ošmaļi Energy SIA | Ansager Global Limited | 100 | LV | Rīga, E. Birznieka-Upīša 20A - 25 | Electricity supply | 41203046673 |
| Ihor Holdings Ltd | Ansager Global Limited | 100 | CY | Kyvelis,11 Rania Court, Flat/office 001 Agioi Omologites 1087, Nicosia | Financial service activities | HE 321718 |
| Trust Holding SIA | Ansager Global Limited | 100 | LV | Rīga, E. Birznieka-Upīša 20A - 25 | Real estate activities | 40003769469 |
| Norwind SIA | Ansager Global Limited | 100 | LV | Rīga, E. Birznieka-Upīša 20A - 8 | Financial service activities | 40103966460 |
| Winergy SIA | Ansager Global Limited | 100 | LV | Rīga, E. Birznieka-Upīša 20A - 25 | Electricity supply | 40103194486 |
| Venti SIA | Winergy SIA | 100 | LV | Rīga, E. Birznieka-Upīša 20A - 25 | Real estate activities | 40103377863 |
| Njord SIA | Winergy SIA | 100 | LV | Rīga, E. Birznieka-Upīša 20A - 25 | Real estate activities | 50103377831 |
| Stribog SIA | Winergy SIA | 100 | LV | Rīga, Palasta 10 | Real estate activities | 40103380100 |
| Орион ООО | Norvik IPS AS SIF Nākotnes Īpašumu Fonds | 99.99 | RU | 119049, г.Москва, Шаболовка 10 | Real estate activities | 5077746753497 |
| Madora SIA | Norvik IPS AS SIF Nākotnes Īpašumu Fonds | 100 | LV | Rīga, E.Birznieka-Upīša 21 | Real estate activities | 40103214354 |
| Days SIA | Norvik IPS AS SIF Nākotnes Īpašumu Fonds | 100 | LV | Rīga, E.Birznieka-Upīša 21 | Real estate activities | 50103219851 |
| Serenity SIA | Norvik IPS AS SIF Nākotnes Īpašumu Fonds | 100 | LV | Rīga, E.Birznieka-Upīša 21 | Real estate activities | 40103296045 |
| Lanata SIA | Norvik IPS AS SIF Nākotnes Īpašumu Fonds | 100 | LV | Rīga, E.Birznieka-Upīša 21 | Real estate activities | 40103214284 |
| Homelink SIA | Norvik IPS AS SIF Nākotnes Īpašumu Fonds | 100 | LV | Rīga, E.Birznieka-Upīša 21 | Real estate activities | 40103220172 |

*Seasonality of interim operations*

The Group's and the Bank's operations are not subject to seasonality.

*Legal proceedings*

(a)

3 961 thousand USD (equivalent to 3 638 thousand euro) was blocked on the account of the Bank opened in the Deutsche Bank Trust Company Americas (as specified previously in the Management reports to the annual reports for year 2014 and 2015).

As of 30 June 2016 on the basis of certain Bank's requests and applications this amount was reduced to 1 206 thousand USD (equivalent to 1 086 thousand euro). Observing and guided by precaution principle, making the capital adequacy calculation the Bank/Group used a capital correction for the amount of 663 thousand USD (equivalent to 597 thousand euro). This case in USA court now is in a pre-trial discovery process and plaintiff requested from the Bank a number of documents without observance of a Credit Institution's Law requirements regarding requests of information. The Bank's lawyers in USA considers that it will be difficult for the plaintiff to meet all procedural requirements regarding documents request and there is a high possibility that USA court will take a decision about *forum non conveniens* regarding USA jurisdiction and case will be dismissed. Bank supports such position and is planning to submit relevant motion to USA court.

(b)

In 2014 a process of liquidation of Norvik (Malta) Sicav Plc. and its sub-funds has been started. The investment in total value of 7 531 thousand euro is stated at fair value based on the latest available valuation reports by independent evaluators.

(c)

The amount of total Bank's and Group's gross exposure to the alternative energy sector loans on 30 June 2016 comprised 53 019 thousand euro.

On 17 February 2016 the Bank's subsidiary closed investment fund "Nākotnes Īpašumu Fonds" (hereinafter referred to as - SIF *Nākotnes Īpašuma Fonds*) acquired 100% shares of Ansager Global Limited.

During the first half of 2016 the legal proceedings on civil cases affecting the Group companies and related to the alternative energy sector companies have been completed.

In the first half of 2016 the hearing of criminal proceedings, within which the Bank has been recognised as the only "victim", proceeded. A number of decisions to remove seizures towards the Property have been adopted during this period thus facilitating significantly the Group's commercial activity and allowing looking positively towards its activity in the future. As of 30 June 2016 the cash flow generated by sale of alternative energy produced by wind power stations was fully released, the seizures towards 3 wind generators and substation were removed, the funds in the total amount of 1.97 million euro have been released to fulfil SIA "Winergy" obligations towards the state budget and compensate the Bank's expenses related to legal proceedings.

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 the above, the management of the Bank has a grounded reason to consider a good possibility to recover in 2016 the money granted in the form of loans as high, taking into account both settlement of civil cases and significant progress in the consideration of the criminal proceedings.

Moreover, the Bank has received from a number of investors an offer to buy these assets upon completion of all legal procedures at a price exceeding the current amount of the debt. Thus, the Group sees a positive way to resolve this entire situation in the near future.

At the request of the Management, independent valuator from international consulting firm made business valuation of the Group's assets related to the energetic sector as of 30 June 2016:

- 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 from 1.3 to 2.3% per year;
- WACC rate in the range of 6.46% -8.46% -for large and small parks and in the range of 7.22% -9.22% - for the development park.

Business value is estimated from 35.6 - to 54.0 million euro with final central value of 44.6 million euro.
The independent valuator from international consulting firm- noted two important moments in business evaluation:

- the evaluation represents the results which were obtained according with the conservative approach and requirements of methodology;
- there is a high probability that the actual realization of business value may be higher than indicated in the evaluation.

In the valuation, valuators did not take into consideration ongoing legal proceeds.

In the Bank's 2016 semi-annual report the Bank's Management identified the fair value for energy sector's assets at 45 million euro. Based on valuation the Bank and the Group was able to reverse 12 million euro capital correction established for capital adequacy calculation as at 30 June 2016 and was able to reverse provisions created in previous periods by 963 thousand euro. After adjustments, the impairment on energy sector's assets exposure is still 8 million euro.

## 3. NET INTEREST INCOME

| | 30.06.2016 | | 30.06.2015 (unaudited) | |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| **Interest income** | **17 955** | **9 193** | **25 694** | **12 951** |
| Loans to and receivables from customers | 11 485 | 6 532 | 14 642 | 6 953 |
| Loans to and receivables from banks | 80 | 48 | 875 | 402 |
| Available-for-sale securities | 2 399 | 2 399 | 5 152 | 5 152 |
| Trading securities | 3 773 | 3 | 4 767 | 216 |
| Held-to-maturity financial assets | 178 | 178 | 195 | 195 |
| Other | 40 | 33 | 63 | 33 |
| **Interest expense** | **9 740** | **3 640** | **11 800** | **3 469** |
| Customer deposits | 6 177 | 939 | 8 317 | 826 |
| Deposits from banks | 142 | 142 | 513 | - |
| Subordinated debt | 1 384 | 1 094 | 1 072 | 1 072 |
| Payments in the Deposit Guarantee Fund | 876 | 448 | 1 250 | 954 |
| Debt securities | 1 017 | 1 017 | 617 | 617 |
| Other | 144 | - | 31 | - |
| **Net interest income** | **8 215** | **5 553** | **13 894** | **9 482** |

Decrease in net interest income is observed due to decrease in the amounts of the securities portfolio and the loan portfolio and due to fall in interest rates on the market.

EXPLANATORY NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

## 4. NET FEE AND COMMISSION INCOME

| | 30.06.2016 | | 30.06.2015 (unaudited) | |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| **Fee and commission income** | **14 472** | **11 255** | **14 910** | **9 843** |
| Account services and money transfer fees | 9 479 | 7 882 | 8 009 | 6 572 |
| Commission for public utility payments | 534 | 534 | 687 | 687 |
| Payment cards | 2 889 | 2 026 | 3 867 | 1 783 |
| Brokerage services on securities | 407 | 408 | 328 | 328 |
| Asset management fees | 484 | 8 | 919 | 9 |
| Cash withdrawal | 389 | 227 | 729 | 267 |
| Commission on letters of credit and collection | 43 | 43 | 97 | 97 |
| Other | 247 | 127 | 274 | 100 |
| **Fee and commission expense** | **1 921** | **1 687** | **1 998** | **1 639** |
| Payment cards | 702 | 588 | 1 065 | 937 |
| Services of correspondent banks | 399 | 379 | 579 | 492 |
| Securities purchase and brokerage services | 306 | 226 | 207 | 207 |
| Other | 514 | 494 | 147 | 3 |
| **Net fee and commission income** | **12 551** | **9 568** | **12 912** | **8 204** |

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

| | 30.06.2016 | | 30.06.2015 (unaudited) | |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| Bonds and other fixed income securities | 78 | 78 | 1 045 | 1 045 |
| Investments in subsidiaries | (3 413) | ( 33) | ( 133) | - |
| Non fixed income securities (shares) | 10 744 | 10 744 | - | - |
| **Total** | **7 409** | **10 789** | **912** | **1 045** |

## 6. OTHER OPEARTING INCOME

| | 30.06.2016 | | 30.06.2015 (unaudited) | |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| Rent of investment property | 1 143 | 257 | 1 951 | 256 |
| Typography | 8 186 | - | 9 797 | - |
| Penalties | 277 | 137 | 328 | 107 |
| Rent of premises | 64 | 57 | 90 | 88 |
| Other | 2 969 | 410 | 2 978 | 443 |
| **Total** | **12 639** | **861** | **15 144** | **894** |

## 7. CASH AND BALANCES WITH THE CENTRAL BANK

| | 30.06.2016 | | 31.12.2015 | |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| Cash | 19 205 | 13 057 | 19 402 | 12 942 |
| Due from the central bank | 77 166 | 69 644 | 25 958 | 17 684 |
| **Total** | **96 371** | **82 701** | **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 30 June 2016 the amount of the statutory reserve of the Bank was 7 544 thousand euro (31.12.2015: 8 482 thousand euro). Bank is compliant with this regulation.

## 8. LOANS TO AND RECEIVABLES FROM BANKS

| | 30.06.2016 | | 31.12.2015 | |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| **Demand placements with:** | **56 562** | **43 333** | **132 580** | **130 391** |
| Banks of the Republic of Latvia | 764 | 722 | 1 104 | 1 104 |
| Banks of the OECD countries | 31 486 | 28 572 | 126 544 | 126 054 |
| Banks of other countries | 24 312 | 14 039 | 4 932 | 3 233 |
| **Loans to and receivables from:** | **2 762** | **2 727** | **64 841** | **62 453** |
| Banks of the Republic of Latvia | 659 | 659 | 180 | 180 |
| Banks of the OECD countries | 66 | 66 | 60 273 | 60 273 |
| Banks of other countries | 2 037 | 2 002 | 4 388 | 2 000 |
| **Total** | **59 324** | **46 060** | **197 421** | **192 844** |

As at 30 June 2016 the Group and the Bank have the following amounts pledged: 68 thousand euro for guaranties (31.12.2015: 568 thousand euro); 659 thousand euro for POS-terminal payments (31.12.2015: 736 thousand euro), 2 million euro for Forex deals (31.12.2015: nil); 35 and nil thousand euro for payment system (31.12.2015: nil).

| | 30.06.2016 | | 31.12.2015 | |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| **Breakdown by rating:** | | | | |
| From Aaa to Aa3 | 438 | 438 | 35 | 35 |
| From A1 to A3 | 36 826 | 36 826 | 160 644 | 160 644 |
| From Baa1 to Baa3 | 10 509 | 2 596 | 25 778 | 25 778 |
| From Ba1 to Ba3 | 8 029 | 3 458 | 5 902 | 3 337 |
| From B1 to B3 | 642 | 188 | 1 005 | 319 |
| From Caa1 and lower | 100 | 100 | 6 | 6 |
| No rating | 2 780 | 2 454 | 4 051 | 2 725 |
| | **59 324** | **46 060** | **197 421** | **192 844** |

## 9. TRADING FINANCIAL ASSETS

| | 30.06.2016 | | 31.12.2015 | |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| **Trading bonds and other fixed income securities** | **78 399** | **-** | **67 369** | **109** |
| OECD country bonds | 548 | - | 569 | - |
| Other country bonds | 77 851 | - | 66 800 | 109 |
| **Trading shares and other non- fixed income securities** | **1** | **-** | **1** | **-** |
| Other country shares | 1 | - | 1 | - |
| **Total** | **78 400** | **-** | **67 370** | **109** |

## 10. LOANS TO AND RECEIVABLES FROM CUSTOMERS

| | 30.06.2016 | | 31.12.2015 | |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| **Net loans to:** | **241 134** | **201 258** | **248 103** | **179 685** |
| Private companies | 186 343 | 178 098 | 232 803 | 181 455 |
| Individuals | 60 615 | 21 798 | 59 817 | 23 380 |
| Finance companies | 37 172 | 37 172 | 14 609 | 14 609 |
| Allowance for impairment losses (Note11) | (42 996) | (35 810) | (59 126) | (39 759) |
| **Receivables from:** | **36 402** | **35 183** | **66 203** | **66 203** |
| Finance companies | 22 984 | 21 765 | 68 143 | 68 143 |
| Private companies | 13 418 | 13 418 | - | - |
| Allowance for impairment losses (Note11) | - | - | (1 940) | (1 940) |
| **Total loans to and receivables from customers, net** | **277 536** | **236 441** | **314 306** | **245 888** |

## EXPLANATORY NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

| | 30.06.2016 | | 31.12.2015 | |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| **Geographical segmentation of loans and receivables** | | | | |
| **Net loans to:** | **241 134** | **201 258** | **248 103** | **179 685** |
| Residents of Latvia | 51 994 | 80 904 | 116 302 | 116 421 |
| Residents of OECD countries | 27 | 17 | 1 500 | 188 |
| Residents of other countries | 232 109 | 156 147 | 189 427 | 102 835 |
| Allowance for impairment losses (Note11) | (42 996) | (35 810) | (59 126) | (39 759) |
| **Receivables from:** | **36 402** | **35 183** | **66 203** | **66 203** |
| Residents of Latvia | 2 | 2 | 2 | 2 |
| Residents of OECD countries | 16 102 | 14 949 | 18 982 | 18 982 |
| Residents of other countries | 20 298 | 20 232 | 49 159 | 49 159 |
| Allowance for impairment losses (Note11) | - | - | (1 940) | (1 940) |
| **Total loans to and receivables from customers, net** | **277 536** | **236 441** | **314 306** | **245 888** |

| | 30.06.2016 | | 31.12.2015 | |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| **Analysis of loans by type** | | | | |
| Mortgage loans | 54 466 | 60 872 | 60 273 | 65 097 |
| Industrial loans | 84 569 | 105 071 | 80 243 | 70 531 |
| Commercial loans | 52 791 | 15 513 | 63 182 | 24 667 |
| Consumer loans | 11 476 | 2 385 | 9 392 | 2 740 |
| Credit card balances | 18 461 | 3 569 | 18 735 | 3 739 |
| Reverse Repo transactions | 454 | 454 | 548 | 548 |
| Finance leases | 5 788 | 244 | 87 | 87 |
| Other | 13 129 | 13 150 | 15 643 | 12 276 |
| **Net loans to customers** | **241 134** | **201 258** | **248 103** | **179 685** |

In February 2016 the Group lost control over the 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.

As at 30 June 2016 the Group has received securities at fair value 1 611 thousand euro (at 31 December 2015: 1 975 thousand euro) as collateral for reverse repo deals and the Group is permitted to sell or re-pledge them. As at 30 June 2016 received securities have not been sold or re-pledged (at 31 December 2015 received securities have not been sold or re-pledged).

As at 30 June 2016 the Group and the Bank have the following amounts pledged: 7 113 and 5 960 thousand euro for card transactions (at 31.12.2015: 6 003 thousand euro); 2 995 and 2 953 thousand euro for Forex deals (at 31.12.2015: 4 350 thousand euro); 25 and nil thousand euro for payment system (31.12.2015: nil).

Credit quality of loans and receivables:

| | 30.06.2016 | | 31.12.2015 | |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| **Loans to and receivables from customers** | | | | |
| Neither past due nor impaired, of which: | 197 466 | 153 129 | 186 740 | 121 852 |
| *Mortgage loans* | *26 365* | *38 043* | *41 822* | *48 363* |
| *Industrial loans* | *57 471* | *56 879* | *27 220* | *17 501* |
| *Commercial loans* | *34 027* | *7 760* | *53 225* | *16 297* |
| *Consumer loans* | *1 248* | *741* | *7 371* | *889* |
| *Credit card balances* | *25 007* | *3 062* | *18 172* | *3 203* |
| *Reverse Repo transactions* | *454* | *454* | *548* | *548* |
| *Finance leases* | *5 544* | - | *88* | *88* |
| *Other* | *10 948* | *11 007* | *6 598* | *3 268* |
| *Receivables* | *36 402* | *35 183* | *31 696* | *31 695* |
| Past due but not impaired | 19 940 | 17 692 | 22 889 | 17 528 |
| Impaired | 103 126 | 101 430 | 165 743 | 148 207 |
| **Gross amount** | **320 532** | **272 251** | **375 372** | **287 587** |
| (Provisions) | (42 996) | (35 810) | (61 066) | (41 699) |
| **Total net loans to and receivables from customers** | **277 536** | **236 441** | **314 306** | **245 888** |

**Group**

| At 30 June 2016 | Past due but not impaired | | | | | |
|---|---|---|---|---|---|---|
| | up to 30 days | 31 to 60 days | 61 to 90 days | 91 to 180 days | More than 180 days * | Total |
| | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| Mortgage loans | 672 | 3 618 | 1 192 | 234 | 2 630 | **8 346** |
| Industrial loans | 1 406 | 3 327 | 3 443 | - | - | **8 176** |
| Commercial loans | 41 | 174 | - | 373 | 200 | **788** |
| Consumer loans | 320 | - | - | 4 | - | **324** |
| Credit card | 167 | - | - | - | - | **167** |
| Finance leases | - | 74 | - | 1 | - | **75** |
| Other | 1 961 | - | - | - | 103 | **2 064** |
| **Total** | **4 567** | **7 193** | **4 635** | **612** | **2 933** | **19 940** |

**Bank**

| At 30 June 2016 | Past due but not impaired | | | | | |
|---|---|---|---|---|---|---|
| | up to 30 days | 31 to 60 days | 61 to 90 days | 91 to 180 days | More than 180 days * | Total |
| | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| Mortgage loans | 610 | 3 618 | 1 164 | - | 997 | **6 389** |
| Industrial loans | 1 406 | 3 327 | 3 443 | - | - | **8 176** |
| Commercial loans | 41 | 174 | - | 373 | - | **588** |
| Consumer loans | 230 | - | - | 4 | - | **234** |
| Credit card | 166 | - | - | - | - | **166** |
| Finance leases | - | 74 | - | 1 | - | **75** |
| Other | 1 961 | - | - | - | 103 | **2 064** |
| **Total** | **4 414** | **7 193** | **4 607** | **378** | **1 100** | **17 692** |

**Group**

| At 31 December 2015 | Past due but not impaired | | | | | |
|---|---|---|---|---|---|---|
| | up to 30 days | 31 to 60 days | 61 to 90 days | 91 to 180 days | More than 180 days * | Total |
| | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| Mortgage loans | 11 851 | 3 801 | 20 | 86 | 2 358 | **18 116** |
| Commercial loans | - | 43 | 184 | - | 503 | **730** |
| Consumer loans | 329 | 26 | 13 | 128 | 306 | **802** |
| Credit card | 160 | 205 | 210 | 502 | 1 749 | **2 826** |
| Other | 11 | 9 | 99 | 15 | 281 | **415** |
| **Total** | **12 351** | **4 084** | **526** | **731** | **5 197** | **22 889** |

**Bank**

| At 31 December 2015 | Past due but not impaired | | | | | |
|---|---|---|---|---|---|---|
| | up to 30 days | 31 to 60 days | 61 to 90 days | 91 to 180 days | More than 180 days * | Total |
| | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| Mortgage loans | 11 609 | 3 645 | - | - | 997 | **16 251** |
| Commercial loans | - | 43 | - | - | 500 | **543** |
| Consumer loans | 283 | - | - | 11 | - | **294** |
| Credit card | 150 | - | - | - | - | **150** |
| Other | - | - | 90 | - | 200 | **290** |
| **Total** | **12 042** | **3 688** | **90** | **11** | **1 697** | **17 528** |

* Collateral values of these loans are sufficient to cover the loan balance; that is why these are considered not to be impaired.

## 11. 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 | Increase in allowance | Written off | Released from allowance | Foreign exchange | At 30 June 2016 |
|---|---|---|---|---|---|---|
| | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| Industrial loans | **25 221** | 1 858 | (7 351) | (8 756) | 302 | **11 274** |
| Commercial loans | **9 158** | 680 | (1 597) | (3 318) | 379 | **5 302** |
| Consumer loans | **9 072** | 561 | ( 129) | ( 659) | 271 | **9 116** |
| Credit cards | **12 255** | 655 | ( 209) | (1 728) | 1 128 | **12 101** |
| Finance leasing | **431** | 19 | ( 381) | ( 3) | - | **66** |
| Mortgage loans | **778** | 4 041 | ( 36) | ( 7) | ( 1) | **4 775** |
| Other loans | **2 211** | 130 | ( 226) | (1 750) | ( 3) | **362** |
| **Provisions for loans** | **59 126** | **7 944** | **(9 929)** | **(16 221)** | **2 076** | **42 996** |
| Provisions for receivables | **1 940** | - | - | (1 940) | - | - |
| Other provisions | **991** | 95 | ( 561) | ( 23) | ( 9) | **493** |
| **Total** | 62 057 | 8 039 | (10 490) | (18 184) | 2 067 | 43 489 |

| Group | At 31 December 2014 | Increase in allowance | Written off | Released from allowance | Foreign exchange | At 30 June 2015 (unaudited) |
|---|---|---|---|---|---|---|
| | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| Industrial loans | **19 684** | 1 263 | (2 248) | ( 206) | 461 | **18 954** |
| Commercial loans | **7 958** | 2 085 | ( 154) | ( 248) | 350 | **9 991** |
| Consumer loans | **12 428** | 835 | ( 308) | ( 688) | 179 | **12 446** |
| Credit cards | **9 164** | 636 | ( 64) | (1 069) | 928 | **9 595** |
| Finance leasing | **442** | 2 | - | ( 2) | - | **442** |
| Mortgage loans | **685** | 165 | - | ( 5) | 15 | **860** |
| Other loans | **477** | 80 | - | ( 122) | 57 | **492** |
| **Provisions for loans** | **50 838** | **5 066** | **(2 774)** | **(2 340)** | **1 990** | **52 780** |
| Other provisions | **520** | 483 | ( 162) | - | 41 | **882** |
| **Total** | **51 358** | **5 549** | **(2 936)** | **(2 340)** | **2 031** | **53 662** |

| Group | At 30 June 2015 (unaudited) | Increase in allowance | Written off | Released from allowance | Foreign exchange | At 31 December 2015 |
|---|---|---|---|---|---|---|
| | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| Industrial loans | **18 954** | 8 909 | ( 176) | (1 817) | ( 649) | **25 221** |
| Commercial loans | **9 991** | 5 609 | (4 928) | ( 622) | ( 892) | **9 158** |
| Consumer loans | **12 446** | 1 735 | (3 772) | ( 849) | ( 488) | **9 072** |
| Credit cards | **9 595** | 10 109 | ( 697) | (4 416) | (2 336) | **12 255** |
| Finance leasing | **442** | 1 | ( 9) | ( 3) | - | **431** |
| Mortgage loans | **860** | 256 | ( 297) | ( 39) | ( 2) | **778** |
| Other loans | **492** | 1 822 | - | ( 11) | ( 92) | **2 211** |
| **Provisions for loans** | **52 780** | **28 441** | **(9 879)** | **(7 757)** | **(4 459)** | **59 126** |
| Provisions for receivables | - | 1 940 | - | - | - | **1 940** |
| Other provisions | **882** | 310 | ( 216) | - | 15 | **991** |
| **Total** | **53 662** | **30 691** | **(10 095)** | **(7 757)** | **(4 444)** | **62 057** |

| Group | 30.06.2016 | 30.06.2015 (unaudited) |
|---|---|---|
| | EUR'000 | EUR'000 |
| **Result from impairment losses** | **10 234** | **(3 038)** |
| Increase in allowance (loans) | (8 039) | (5 549) |
| Released from allowance (loans) | 18 184 | 2 340 |
| Recovery of previously written-off assets | 89 | 171 |

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

| Bank | At 31 December 2015 | Increase in allowance | Written off | Released from allowance | Foreign exchange | At 30 June 2016 |
|---|---|---|---|---|---|---|
| | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| Industrial loans | **22 439** | 1 858 | (7 351) | (1 917) | ( 45) | **14 984** |
| Commercial loans | **4 770** | 463 | (1 597) | ( 184) | ( 26) | **3 426** |
| Consumer loans | **7 039** | 215 | ( 133) | ( 427) | - | **6 694** |
| Credit cards | **2 626** | 147 | ( 209) | ( 132) | ( 1) | **2 431** |
| Finance leasing | **431** | 19 | ( 381) | ( 3) | - | **66** |
| Mortgage loans | **616** | 7 460 | - | - | ( 1) | **8 075** |
| Other loans | **1 838** | 130 | ( 226) | (1 574) | ( 34) | **134** |
| **Provisions for loans** | **39 759** | **10 292** | **(9 897)** | **(4 237)** | **( 107)** | **35 810** |
| Provisions for receivables | **1 940** | - | - | (1 940) | - | - |
| Other provisions | **540** | 46 | ( 550) | ( 9) | ( 11) | **16** |
| **Total** | **42 239** | **10 338** | **(10 447)** | **(6 186)** | **( 118)** | **35 826** |

| Bank | At 31 December 2014 | Increase in allowance | Written off | Released from allowance | Foreign exchange | At 30 June 2015 (unaudited) |
|---|---|---|---|---|---|---|
| | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| Industrial loans | **18 228** | 1 254 | (2 248) | ( 64) | 132 | **17 302** |
| Commercial loans | **8 861** | 1 638 | ( 154) | 55 | 110 | **10 510** |
| Consumer loans | **11 354** | 420 | ( 308) | ( 478) | - | **10 988** |
| Credit cards | **3 281** | 173 | ( 64) | ( 104) | 5 | **3 291** |
| Mortgage loans | **608** | 37 | - | - | 3 | **648** |
| Other loans | **160** | 73 | - | ( 1) | 10 | **242** |
| **Provisions for loans** | **42 492** | **3 595** | **(2 774)** | **( 592)** | **260** | **42 981** |
| Other provisions | **482** | 157 | ( 157) | - | 41 | **523** |
| **Total** | **42 974** | **3 752** | **(2 931)** | **( 592)** | **301** | **43 504** |

| Bank | At 30 June 2015 (unaudited) | Increase in allowance | Written off | Released from allowance | Foreign exchange | Reorganiza-tion | At 31 December 2015 |
|---|---|---|---|---|---|---|---|
| | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| Industrial loans | **17 302** | 5 637 | ( 176) | ( 388) | 64 | - | **22 439** |
| Commercial loans | **10 510** | 1 433 | (4 793) | ( 153) | 68 | (2 295) | **4 770** |
| Consumer loans | **10 988** | 244 | (3 789) | ( 404) | - | - | **7 039** |
| Credit cards | **3 291** | 141 | ( 697) | ( 110) | 1 | - | **2 626** |
| Finance leasing | - | 1 | - | - | - | 430 | **431** |
| Mortgage loans | **648** | 176 | ( 204) | ( 5) | 1 | - | **616** |
| Other loans | **242** | 1 605 | - | ( 13) | 4 | - | **1 838** |
| **Provisions for loans** | **42 981** | **9 237** | **(9 659)** | **(1 073)** | **138** | **(1 865)** | **39 759** |
| Provisions for receivables | - | 1 940 | - | - | - | - | **1 940** |
| Other provisions | **523** | 10 | ( 8) | - | 15 | - | **540** |
| **Total** | **43 504** | **11 187** | **(9 667)** | **(1 073)** | **153** | **(1 865)** | **42 239** |

| Bank | 30.06.2016 | 30.06.2015 (unaudited) |
|---|---|---|
| | EUR'000 | EUR'000 |
| **Result from impairment losses** | (4 063) | (2 989) |
| Increase from impairment (loans) | (10 338) | (3 752) |
| Released from impairment | 6 186 | 592 |
| Recovery of previously written-off assets | 89 | 171 |

## 12. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | 30.06.2016 | | 31.12.2015 | |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| **Bonds and other fixed income securities** | 232 960 | 232 960 | 229 579 | 229 579 |
| OECD country bonds | 105 941 | 105 941 | 196 259 | 196 259 |
| Other country bonds | 127 019 | 127 019 | 33 320 | 33 320 |
| **Shares and other non-fixed income securities** | 10 617 | 159 424 | 18 859 | 158 825 |
| Funds registered in Latvia | - | 148 807 | - | 139 966 |
| Funds registered in EU countries | 7 531 | 7 531 | 7 531 | 7 531 |
| Other non-fixed income securities (OECD country residents) | 3 086 | 3 086 | 11 328 | 11 328 |
| **Investments in subsidiaries** | - | 86 441 | 5 344 | 87 685 |
| Bank (Other country residents) | - | 51 059 | - | 43 099 |
| Financial institutions (LR residents) | - | 14 955 | - | 23 852 |
| Financial institutions (OECD country residents) | - | 9 731 | - | 612 |
| Financial institutions (other country residents) | - | 3 942 | - | 4 447 |
| Private companies (LR residents) | - | 6 754 | 5 344 | - |
| Private companies (other country residents) | - | - | - | 15 675 |
| **Total** | 243 577 | 478 825 | 253 782 | 476 089 |

During first half of 2016 the Bank recognized impairment losses regarding its investments in closed investments funds in the amount of 1 789 thousand euro (2015: 13 864 thousand euro) and did not identify and recognize any impairment losses regarding its investments in subsidiary ПАО "Норвик Банк" (2015: nil).
Changes in revaluation reserve of Available for sale financial assets, net of tax, are shown in the table below:

## EXPLANATORY NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

| | Group EUR'000 | Bank EUR'000 |
|---|---|---|
| **At 31 December 2014** | (4 161) | (4 517) |
| Revaluation | 3 559 | 13 140 |
| Net (gain) or loss from sales of available-for-sale financial assets | ( 912) | (1 045) |
| **At 30 June 2015 (unaudited)** | (1 514) | 7 578 |
| Revaluation | 11 258 | (2 539) |
| Net (gain) or loss from sales of available-for-sale financial assets | (4 076) | (2 268) |
| **At 31 December 2015** | 5 668 | 2 771 |
| Revaluation | 344 | 10 896 |
| Net (gain) or loss from sales of available-for-sale financial assets | (7 409) | (10 789) |
| **At 30 June 2016** | (1 397) | 2 878 |

As at 30 June 2016 and 31 December 2015 the Bank had the following investments in subsidiaries:

| Company | Country | Business profile | Balance value as at 30 June 2015 | Balance value as at 31 December 2015 | Balance value as at 30 June 2016 | Bank's share capital (%) as at 30 June 2016 |
|---|---|---|---|---|---|---|
| ПАО "Норвик Банк" | RU | Financial services | 60 209 | 43 099 | 51 059 | 97.75 |
| AS "NORVIK ieguldījumu pārvaldes sabiedrība" | LV | Financial services | 8 767 | 8 848 | - | - |
| "NORVIK" liquidation Universal Credit Organization CJSC | AM | Financial services | 14 267 | 4 447 | 3 942 | 100 |
| "Norvik Banka UK" Limited | GB | Financial services | 418 | 612 | 9 731 | 100 |
| "NORVIK APDROŠINĀŠANAS BROKERIS" SIA | LV | Insurance brokerage services | - | - | - | 100 |
| AS "NORVIK EURASIA AIF" | LV | Financial services | 35 | 15 004 | 14 955 | 100 |
| "Allurine" Limited | CY | Financial services | - | 5 578 | - | 100 |
| "Olerinia" Limited | CY | Financial services | - | 6 693 | - | 100 |
| "Балтикс" ООО | RU | Transportation and storage | 3 676 | 3 404 | - | - |
| "E15" SIA | LV | Real estate activities | - | - | 6 754 | 100 |
| "Meža fonds" SIA | LV | Forestry | - | - | - | - |
| "Norvik Līzings" SIA | LV | Financial services | - | - | - | - |
| "Cecily Holdings" Limited | CY | Financial services | 11 498 | - | - | - |
| **Total** | | | **98 870** | **87 685** | **86 441** | |

### 13. HELD-TO-MATURITY FINANCIAL ASSETS

| | 30.06.2016 | | 31.12.2015 | |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| **Bonds and other fixed income securities** | | | | |
| OECD country bonds | 18 518 | 18 518 | 19 802 | 19 802 |
| **Total** | **18 518** | **18 518** | **19 802** | **19 802** |

As at 30 June 2016 the Bank has 13 517 thousand euro pledged for Forex deals (in 2015: 13 779 thousand euro).

## 14. GOODWILL AND OTHER INTANGIBLE ASSETS

| | 30.06.2016 | | 31.12.2015 | |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| Goodwill | 10 265 | - | 10 265 | - |
| Other intangible assets | 5 885 | 854 | 352 | 308 |
| Prepayment for other intangible assets | - | - | 43 | 43 |
| **Net book value of other intangible assets** | **16 150** | **854** | **10 660** | **351** |

Goodwill was assessed for impairment as of 30 June 2016. No impairment was recognised as of 30 June 2016 as there was no identification that the asset may be impaired.

| Group | Goodwill | Other intangible assets | Prepayments for other intangible assets | Total |
|---|---|---|---|---|
| EUR '000 | | | | |
| **Historical cost** | | | | |
| **At 31 December 2015** | 10 265 | 2 599 | 43 | 12 907 |
| Additions | - | 5 655 | - | 5 655 |
| Disposals | - | ( 1) | ( 43) | ( 44) |
| Foreign exchange | - | - | | - |
| **At 30 June 2016** | 10 265 | 8 253 | - | 18 518 |
| | | | | |
| **Amortization** | | | | |
| **At 31 December 2015** | - | 2 247 | - | 2 247 |
| Charge | - | 122 | - | 122 |
| Disposals | - | ( 1) | - | ( 1) |
| **At 30 June 2016** | - | 2 368 | - | 2 368 |
| | | | | |
| **Net book value** | | | | |
| **At 31 December 2015** | 10 265 | 352 | 43 | 10 660 |
| **At 30 June 2016** | 10 265 | 5 885 | - | 16 150 |

| Group | Goodwill | Other intangible assets | Prepayments for other intangible assets | Total |
|---|---|---|---|---|
| EUR '000 | | | | |
| **Historical cost** | | | | |
| **At 31 December 2014** | 24 935 | 2 469 | - | 27 404 |
| Additions | - | 67 | 40 | 107 |
| Disposals | ( 958) | ( 31) | - | ( 989) |
| Foreign exchange | - | - | | - |
| **At 30 June 2015 (unaudited)** | 23 977 | 2 505 | 40 | 26 522 |
| Additions | - | 71 | 49 | 120 |
| Disposals | (13 712) | 22 | ( 46) | (13 736) |
| Foreign exchange | - | 1 | - | 1 |
| **At 31 December 2015** | 10 265 | 2 599 | 43 | 12 907 |
| | | | | |
| **Amortization** | | | | |
| **At 31 December 2014** | - | 2 114 | - | 2 114 |
| Charge | - | 68 | - | 68 |
| Disposals | - | ( 1) | - | ( 1) |
| **At 30 June 2015 (unaudited)** | - | 2 181 | - | 2 181 |
| Charge | - | 71 | - | 71 |
| Disposals | - | ( 5) | - | ( 5) |
| **At 31 December 2015** | - | 2 247 | - | 2 247 |
| | | | | |
| **Net book value** | | | | |
| **At 31 December 2014** | 24 935 | 355 | - | 25 290 |
| **At 30 June 2015 (unaudited)** | 23 977 | 324 | 40 | 24 341 |
| **At 31 December 2015** | 10 265 | 352 | 43 | 10 660 |

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

| Fair value of assets and liabilities acquired | Ansager Global Limited 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** | **(45 944)** |
| ***Current liabilities*** | **(40 809)** |
| Due to banks | (40 809) |
| ***Non-current liabilities*** | **(5 135)** |
| Deferred tax liabilities | ( 964) |
| Other liabilities | (4 171) |
| **Total** | **6 165** |
| Consideration | - |
| **Goodwill arising from acquisition** | **6 165** |

In February 2016 the Group, in particular, SIF "Nākotne Īpašuma Fonds", acquired to 100% shares of *Ansager Global Limited* based on contribution 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 (together 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.

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.

## 15. INVESTMENT PROPERTY

The following table shows the movement in the Group's and Bank's investment property for the period ended 30 June 2016:

| | Group EUR'000 | Bank EUR'000 |
|---|---|---|
| **As at 31 December 2014** | **121 675** | **6 571** |
| Additions | 1 822 | - |
| Renovation | 618 | - |
| Disposal | (1 347) | - |
| Derecognition | ( 146) | - |
| Net change in fair value | (2 605) | - |
| Foreign exchange | 2 427 | - |
| **As at 30 June 2015 (unaudited)** | **122 444** | **6 571** |
| Additions | 3 137 | - |
| Renovation | 172 | - |
| Disposal | (6 741) | - |
| Reclassification * | (11 908) | - |
| Net change in fair value | 6 394 | ( 346) |
| Foreign exchange | (6 856) | - |
| **As at 31 December 2015** | **106 642** | **6 225** |
| Additions | 4 423 | - |
| Renovation | 22 | - |
| Disposal ** | (16 164) | - |
| Derecognition | ( 81) | - |
| Net change in fair value | (3 450) | - |
| Foreign exchange | 2 087 | - |
| **At 30 June 2016** | **93 479** | **6 225** |

* 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 10)

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

| | 30.06.2016 | | 31.12.2015 | |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| Land | 26 702 | - | 29 053 | - |
| Office buildings | 14 243 | - | 23 357 | - |
| Manufacturing facilities and warehouses | 14 406 | 6 225 | 17 828 | 6 225 |
| Hotels and restaurants | 2 432 | - | 2 433 | - |
| Recreation buildings | - | - | 440 | - |
| Fuel station and oil depot | 1 888 | - | 2 843 | - |
| Apartments | 5 681 | - | 6 109 | - |
| Unfinished constructions | 24 355 | - | 20 807 | - |
| Other | 3 772 | - | 3 772 | - |
| **Total** | **93 479** | **6 225** | **106 642** | **6 225** |

## 16. DUE TO THE CENTRAL BANK AND OTHER BANKS

| | 30.06.2016 | | 31.12.2015 | |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| **Demand deposits** | **930** | **2 075** | **1 809** | **1 827** |
| Banks registered in Latvia | 647 | 647 | 1 486 | 1 486 |
| Banks registered in OECD countries | 26 | 26 | 26 | 26 |
| Banks registered in other countries | 257 | 1 402 | 297 | 315 |
| **Term deposits** | **4** | **4** | **104** | **4** |
| Banks registered in OECD countries | 4 | 4 | 4 | 4 |
| Banks registered in other countries | - | - | 100 | - |
| **Total** | **934** | **2 079** | **1 913** | **1 831** |

## 17. CUSTOMER DEPOSITS

| | 30.06.2016 | | 31.12.2015 | |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| **Current accounts** | **579 401** | **540 736** | **696 025** | **667 156** |
| Private companies | 387 121 | 365 156 | 508 014 | 493 403 |
| Individuals | 187 704 | 172 818 | 181 989 | 171 860 |
| Public organizations | 2 341 | 1 096 | 4 326 | 986 |
| Government companies | 1 579 | 1 010 | 1 076 | 287 |
| Local government | 656 | 656 | 620 | 620 |
| **Fixed-term deposits** | **240 733** | **186 464** | **261 947** | **173 757** |
| Private companies | 19 744 | 74 572 | 27 660 | 40 863 |
| Individuals | 220 551 | 111 715 | 233 158 | 132 665 |
| Public organizations | 396 | 177 | 392 | 229 |
| Local government | 42 | - | 737 | - |
| **Total** | **820 134** | **727 200** | **957 972** | **840 913** |

| | 30.06.2016 | | 31.12.2015 | |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| **Geographical segmentation of customer deposits** | | | | |
| **Current accounts** | **579 401** | **540 736** | **696 025** | **667 156** |
| Residents of Latvia | 102 153 | 103 093 | 105 244 | 106 725 |
| Residents of OECD countries | 98 589 | 98 758 | 111 458 | 111 507 |
| Residents of other countries | 378 659 | 338 885 | 479 323 | 448 924 |
| **Fixed-term deposits** | **240 733** | **186 464** | **261 947** | **173 757** |
| Residents of Latvia | 113 057 | 170 640 | 106 270 | 128 023 |
| Residents of OECD countries | 1 124 | 1 124 | 2 024 | 2 024 |
| Residents of other countries | 126 552 | 14 700 | 153 653 | 43 710 |
| **Total** | **820 134** | **727 200** | **957 972** | **840 913** |

## 18. SUBORDINATED DEBT

| **30.06.2016** | | Group | | |
|---|---|---|---|---|
| **Lenders:** | **Currency** | **EUR'000** | **Rate %** | **Maturity** |
| Residents | EUR | 2 647 | 3.85 - 7 | 2017 - 2022 |
| Residents | USD | 5 084 | 4 - 7 | 2017 - 2020 |
| Non-residents | EUR | 17 264 | 4 - 7 | 2016 - 2025 |
| Non-residents | USD | 16 226 | 4 - 12 | 2016 - 2035 |
| **Total** | | **41 221** | | |

**30.06.2016**

| | | Bank | | |
|---|---|---|---|---|
| **Lenders:** | **Currency** | **EUR'000** | **Rate %** | **Maturity** |
| Residents | EUR | 2 647 | 3.85 - 7 | 2017 - 2022 |
| Residents | USD | 5 084 | 4 - 7 | 2017 - 2020 |
| Non-residents | EUR | 17 264 | 4 - 7 | 2016 - 2025 |
| Non-residents | USD | 11 285 | 4 - 7 | 2016 - 2024 |
| **Total** | | **36 280** | | |

**31.12.2015**

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

**31.12.2015**

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

## 19. DEBT SECURITIES

**30.06.2016**

| ISIN | Currency | Date of issue | Date of maturity | Coupon rate % | Principal amount EUR'000 | Accrued coupon amount EUR'000 | Total EUR'000 |
|---|---|---|---|---|---|---|---|
| LV0000801389 | EUR | 08.08.2014 | 08.08.2022 | 6 | 2 000 | 18 | 2 018 |
| LV0000801397 | EUR | 24.10.2014 | 24.10.2021 | 6 | 1 000 | 11 | 1 011 |
| LV0000801637 | EUR | 19.12.2014 | 19.12.2022 | 6 | 1 300 | 2 | 1 302 |
| LV0000801660 | USD | 27.02.2015 | 27.02.2020 | 6.2 | 13 061 | 279 | 13 340 |
| LV0000801678 | EUR | 27.02.2015 | 27.02.2020 | 6 | 10 000 | 7 | 10 007 |
| LV0000801679 | EUR | 10.03.2016 | 10.03.2022 | 6 | 10 000 | 35 | 10 035 |
| | | | | | | **Total:** | **37 713** |

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** |

## 20. SHARE CAPITAL

| | 30.06.2016 | | 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 |

As at 30 June 2016 all issued shares are fully paid.

As at 30 June 2016 the shareholders were as follows:

| Shareholder (residence) | 30.06.2016 Number of shares | % of total shares | Paid up share capital EUR'000 | 31.12.2015 Number of shares | % of total shares | Paid up share capital EUR'000 |
|---|---|---|---|---|---|---|
| G. Guselnikov (LV) | 83 705 780 | 38.31 | 50 223 | 69 926 787 | 32.00 | 41 956 |
| G. Guselnikov* (LV) | 125 985 339 | 57.66 | 75 591 | 120 656 539 | 55.22 | 72 394 |
| D.D. Archer * (US) | - | - | - | 19 107 793 | 8.75 | 11 465 |
| Other (each individually less than 5%) | 8 812 381 | 4.03 | 5 288 | 8 812 381 | 4.03 | 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)*
The redistribution of shares is related to D.D. Archer' shares transfer to majority shareholder

## 21. CASH AND CASH EQUIVALENTS

| | 30.06.2016 Group EUR'000 | 30.06.2016 Bank EUR'000 | 31.12.2015 Group EUR'000 | 31.12.2015 Bank EUR'000 |
|---|---|---|---|---|
| Cash and balances due on demand from the Central Bank | 96 371 | 82 701 | 45 360 | 30 626 |
| Balances due from other banks with original maturity of 3 months or less | 56 561 | 43 332 | 195 806 | 192 469 |
| **Total** | **152 932** | **126 033** | **241 166** | **223 095** |

## 22. COMMITMENTS AND CONTINGENCIES

| | 30.06.2016 | | 31.12.2015 | |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| **Contingent liabilities** | **11 276** | **4 084** | **13 000** | **3 730** |
| Guarantees | 11 276 | 4 084 | 12 908 | 3 638 |
| Other | - | - | 92 | 92 |
| **Commitments** | **19 171** | **5 436** | **18 428** | **12 493** |
| Unused credit lines | 19 171 | 5 436 | 18 235 | 12 300 |
| Letters of credit | - | - | 193 | 193 |
| **Total off-balance sheet items gross** | **30 447** | **9 520** | **31 428** | **16 223** |

## 23. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The following table shows a comparison by class of the Group's and Bank's carrying values and fair values of the financial instruments that are carried in the financial statements.

| | 30.06.2016 | | 31.12.2015 | |
|---|---|---|---|---|
| **Group** | Carrying value | Fair value | Carrying value | Fair value |
| | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| **Financial assets** | | | | |
| Cash and balances with the central bank | 96 371 | 96 371 | 45 360 | 45 360 |
| Loans to and receivables from banks | 59 324 | 59 324 | 197 421 | 197 421 |
| Trading financial assets | 78 400 | 78 400 | 67 370 | 67 370 |
| Derivative financial instruments | 853 | 853 | 1 809 | 1 809 |
| Loans to and receivables from customers | 277 536 | 285 130 | 314 306 | 314 337 |
| Available-for-sale financial assets | 243 577 | 243 577 | 253 782 | 253 782 |
| Held-to-maturity financial assets | 18 518 | 19 022 | 19 802 | 19 802 |
| **Financial liabilities** | | | | |
| Due to the central bank and other banks | 934 | 934 | 1 913 | 1 913 |
| Derivative financial instruments | 343 | 343 | 347 | 347 |
| Customer deposits | 820 134 | 820 869 | 957 972 | 959 688 |
| Subordinated debt | 41 221 | 41 221 | 38 135 | 38 135 |
| Debt securities | 37 713 | 37 713 | 28 354 | 28 354 |

| | 30.06.2016 | | 31.12.2015 | |
|---|---|---|---|---|
| **Bank** | **Carrying value** | **Fair value** | **Carrying value** | **Fair value** |
| | **EUR'000** | **EUR'000** | **EUR'000** | **EUR'000** |
| **Financial assets** | | | | |
| Cash and balances with the central bank | 82 701 | 82 701 | 30 626 | 30 626 |
| Loans to and receivables from banks | 46 060 | 46 060 | 192 844 | 192 844 |
| Trading financial assets | - | - | 109 | 109 |
| Derivative financial instruments | 852 | 852 | 1 806 | 1 806 |
| Loans to and receivables from customers | 236 441 | 242 167 | 245 888 | 242 721 |
| Available-for-sale financial assets | 478 825 | 478 825 | 476 089 | 476 089 |
| Held-to-maturity financial assets | 18 518 | 19 022 | 19 802 | 19 802 |
| **Financial liabilities** | | | | |
| Due to the central bank and other banks | 2 079 | 2 079 | 1 831 | 1 831 |
| Derivative financial instruments | 253 | 253 | 319 | 319 |
| Customer deposits | 727 200 | 728 542 | 840 913 | 840 908 |
| Subordinated debt | 36 280 | 36 280 | 38 135 | 38 135 |
| Debt securities | 37 713 | 37 713 | 28 354 | 28 354 |

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 included in the tables above 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.

## 24. FINANCIAL INSTRUMENTS RECORDED AT FAIR VALUE

The following table shows an analysis of the Group's and Bank's financial instruments 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 and standardised exchange traded derivatives;

- 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, over-the-counter market derivatives and foreign exchange transactions;
- 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 term deposits and loans, as well as investments in funds.

| | Fair value hierarchy | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **As at 30 June 2016 - Group** | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| **Financial assets** | **329 878** | **3 853** | **7 617** | **341 348** |
| Trading financial assets | 78 400 | - | - | 78 400 |
| Derivative financial instruments | - | 853 | - | 853 |
| Available-for-sale financial assets | 232 960 | 3 000 | 7 617 | 243 577 |
| Held to maturity financial assets | 18 518 | - | - | 18 518 |
| **Financial liabilities** | **12** | **331** | **-** | **343** |
| Derivative financial instruments | 12 | 331 | - | 343 |

| | Fair value hierarchy | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **As at 31 December 2015 - Group** | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| **Financial assets** | **315 033** | **3 528** | **24 202** | **342 763** |
| 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 |
| Held to maturity financial assets | 19 802 | - | - | 19 802 |
| **Financial liabilities** | **4** | **343** | **-** | **347** |
| Derivative financial instruments | 4 | 343 | - | 347 |

| | Fair value hierarchy | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **As at 30 June 2016 - Bank** | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| **Financial assets** | **251 478** | **3 852** | **242 865** | **498 195** |
| Trading financial assets | - | - | - | - |
| Derivative financial instruments | - | 852 | - | 852 |
| Available-for-sale financial assets | 232 960 | 3 000 | 242 865 | 478 825 |
| Held to maturity financial assets | 18 518 | - | - | 18 518 |
| **Financial liabilities** | **12** | **241** | **-** | **253** |
| Derivative financial instruments | 12 | 241 | - | 253 |

| | Fair value hierarchy | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **As at 31 December 2015 - Bank** | **EUR'000** | **EUR'000** | **EUR'000** | **EUR'000** |
| **Financial assets** | **249 502** | **1 795** | **246 509** | **497 806** |
| Trading financial assets | 109 | - | - | 109 |
| Derivative financial instruments | 11 | 1 795 | - | 1 806 |
| Available-for-sale financial assets | 229 580 | - | 246 509 | 476 089 |
| Held to maturity financial assets | 19 802 | - | - | 19 802 |
| **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 the said investment was determined in the amount of 3 million euro.

| | Group | Bank |
|---|---|---|
| | Level 3 | Level 3 |
| **EUR'000** | | |
| **At 31 December 2014** | **8 730** | **244 680** |
| Acquisition | - | 35 |
| Sale | (416) | - |
| Net profit (loss) from sales | (133) | - |
| Fair value adjustment | 258 | 9 573 |
| **At 30 June 2015 (unaudited)** | **8 439** | **254 288** |
| Acquisition | 3 452 | 27 608 |
| Sale | (37) | (18 039) |
| Net profit (loss) from sales | 1 336 | (472) |
| Fair value adjustment | 11 012 | (16 876) |
| **At 31 December 2015** | **24 202** | **246 509** |
| Acquisition | - | 9 315 |
| Sale/reorganization | (12 674) | (29 220) |
| Net profit (loss) from sales | 7 331 | 10 711 |
| Fair value adjustment | (11 242) | 5 550 |
| **At 30 June 2016** | **7 617** | **242 865** |

## 25. CAPITAL ADEQUACY CALCULATION

The Group's and Bank's capital adequacy calculations for the 30 June 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.

## EXPLANATORY NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

The Group's and Bank's capital adequacy ratio as of 30 June 2016 has been calculated as follows:

| | Notional risk level | Group Exposure | Group Risk weighted assets | Bank Exposure | Bank Risk weighted assets |
|---|---|---|---|---|---|
| **ASSETS** | % | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| Central governments or central banks | 0% | 208 024 | - | 208 024 | - |
| | 20% | 2 868 | 574 | 2 868 | 574 |
| | 50% | 1 906 | 953 | 1 906 | 953 |
| | 100% | 12 505 | 12 505 | 4 983 | 4 983 |
| Regional governments | 100% | 14 943 | 14 943 | - | - |
| Public sector entities | 100% | 14 877 | 14 877 | 13 161 | 13 161 |
| Financial institutions | 20% | 30 655 | 6 131 | 30 495 | 6 099 |
| | 50% | 2 822 | 1 411 | 68 | 34 |
| | 100% | 180 | 180 | 180 | 180 |
| Private companies and individuals | 20% | 70 | 14 | 70 | 14 |
| | 50% | 11 589 | 5 795 | 11 589 | 5 795 |
| | 100% | 349 105 | 349 105 | 273 235 | 273 235 |
| | 150% | 11 781 | 17 672 | 11 465 | 17 198 |
| Pool of retail exposure claims (MRD) | 75% | 4 631 | 3 473 | 4 631 | 3 473 |
| Past due exposures | 100% | 3 405 | 3 405 | 1 482 | 1 482 |
| | 150% | 6 860 | 10 290 | 5 068 | 7 602 |
| Collective investment undertakings (CIU) | 100% | 7 531 | 7 531 | 114 973 | 114 973 |
| Equity Exposures | 100% | 107 101 | 107 101 | 64 714 | 64 714 |
| Other items | 0% | 19 006 | - | 12 858 | - |
| | 20% | 199 | 40 | 199 | 40 |
| | 100% | 105 912 | 105 912 | 71 364 | 71 364 |
| **Total assets and off-balance sheet items** | | **915 970** | **661 912** | **833 333** | **585 874** |

| | Group | Bank |
|---|---|---|
| | EUR'000 | EUR'000 |
| **Tier 1** | | |
| Paid in share capital | 131 102 | 131 102 |
| Reserve capital | 10 | 10 |
| Accumulated losses | (38 455) | (51 157) |
| Deferred tax assets | ( 535) | - |
| Other comprehensive income | (14 084) | 7 124 |
| Other transitional adjustments | (2 171) | (2 850) |
| Expected loss from loans | ( 419) | ( 419) |
| Goodwill | (10 265) | (9 858) |
| Value adjustments due to the requirements for prudent valuation | ( 428) | ( 288) |
| Other intangible assets | ( 861) | ( 854) |
| **Total tier 1** | **63 894** | **72 810** |

| | | |
|---|---|---|
| **Tier 2** | | |
| Expected loss from loans | ( 419) | ( 419) |
| Subordinated capital | 51 053 | 51 053 |
| **Total tier 2** | **50 634** | **50 634** |
| **Total capital** | **114 528** | **123 444** |
| **Summary** | | |
| Credit risk capital | 52 953 | 46 870 |
| Market risks capital requirement | 9 738 | 127 |
| Operational risk | 10 241 | 5 984 |
| **Capital adequacy rate as of 30.06.2016** | **12.56%** | **18.64%** |
| **Tier 1 capital ratio as of 30.06.2016** | **7.01%** | **10.99%** |
| **Capital adequacy rate as of 31.12.2015** | **11.49%** | **16.65%** |
| **Tier 1 capital ratio as of 31.12.2015** | **6.79%** | **10.36%** |
| **Capital adequacy rate as of 30.06.2015** | **11.04%** | **14.87%** |
| **Tier 1 capital ratio as of 30.06.2015** | **6.29%** | **9.10%** |
| **Capital adequacy rates including semi-annual profit (after FCMC approval)** | | |
| Capital adequacy rate as of 30.06.2016 | **13.68%** | **19.83%** |
| Tier 1 capital ratio as of 30.06.2016 | **8.12%** | **12.18%** |

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 13.5% (as of 30 June 2015 – 12.6%; as of 31 December 2015 – 13.5%; from 01 October of 2016 – 13.7%) and for the Group is set at a level 10,5% (minimum 8% plus 2.5% conservation buffer). Thus, Bank fulfils required minimum on total CAD at individual and Group level.

## 26. RELATED PARTIES

Related parties are shareholders, which have decisive influence over the management policy of the Group members of the Supervisory Council and Management Board 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:

## EXPLANATORY NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

| | | | | 30.06.2016 | 31.12.2015 |
|---|---|---|---|---|---|
| Group | Interest rate (minimal / maximal) % | Amount EUR'000 | Off-balance sheet items EUR'000 | Total EUR'000 | Total EUR'000 |
| **Assets** | | 2 595 | 345 | 2 940 | 2 953 |
| **Loans and receivables net** | | 2 595 | 345 | 2 940 | 2 953 |
| Other related parties | 0 - 24 | 1 483 | 107 | 1 590 | 1 720 |
| Key management and shareholder | 4 - 12 | 990 | 199 | 1 189 | 1 054 |
| Other senior executives | 10 - 21 | 122 | 39 | 161 | 179 |
| **Liabilities** | | 8 700 | - | 8 700 | 13 802 |
| **Deposits** | | 1 030 | - | 1 030 | 11 368 |
| Other related parties | 0 - 10 | 553 | - | 553 | 9 827 |
| Key management and shareholder | 0 - 6 | 182 | - | 182 | 1 398 |
| Other senior executives | 0 - 7 | 295 | - | 295 | 143 |
| **Subordinated debt** | | 6 659 | - | 6 659 | 1 423 |
| Other related parties | 6 - 12 | 6 288 | - | 6 288 | 1 373 |
| Key management | 6 - 6 | 371 | - | 371 | 50 |
| **Debt securities** | | 1 011 | - | 1 011 | 1 011 |
| Other related parties | 6 | 1 011 | - | 1 011 | 1 011 |

| | | | | 30.06.2016 | 31.12.2015 |
|---|---|---|---|---|---|
| Bank | Interest rate (minimal / maximal) % | Amount EUR'000 | Off-balance sheet items EUR'000 | Total EUR'000 | Total EUR'000 |
| **Assets** | | 30 308 | 2 765 | 33 073 | 17 147 |
| **Loans and receivables net** | | 30 308 | 2 765 | 33 073 | 17 147 |
| Other related parties | 0 - 24 | 1 411 | 91 | 1 502 | 1 606 |
| Subsidiaries | 0 - 3 | 28 203 | 2 601 | 30 804 | 14 866 |
| Key management and shareholder | 4 - 12 | 694 | 72 | 766 | 674 |
| Other senior executives | - | - | 1 | 1 | 1 |
| **Liabilities** | | 63 584 | - | 63 584 | 33 398 |
| **Deposits** | | 60 855 | - | 60 855 | 30 964 |
| Other related parties | 0 - 0.1 | 632 | - | 632 | 4 749 |
| Subsidiaries | 0 - 1.75 | 60 035 | - | 60 035 | 24 813 |
| Key management and shareholder | 0 | 171 | - | 171 | 1 385 |
| Other senior executives | 0 - 0.1 | 17 | - | 17 | 17 |
| **Subordinated debt** | | 1 718 | - | 1 718 | 1 423 |
| Other related parties | 6 - 7 | 1 347 | - | 1 347 | 1 373 |
| Key management | 6 | 371 | - | 371 | 50 |
| **Debt securities** | | 1 011 | - | 1 011 | 1 011 |
| Other related parties | 6 | 1 011 | - | 1 011 | 1 011 |

As at 30 June 2016 the amount of the Bank's exposure transactions with related parties is 7 303 thousand euro or 6.69% of the sum 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 eligible capital of the Bank.

As disclosed in this report the Bank is reported to have gained control over the assets that serve as collateral for the loans issued to the alternative energy sector. As of 30 June 2016 the Bank have loan net exposure of 32 million euro, which represents 26.74% of the eligible capital of the Bank. The Bank do not meet the large exposure limit of 25%.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:

| | 30.06.2016 | | 30.06.2015 (unaudited) | |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| Key managemet, other senior executives and shareholder remuneration | (2 502) | ( 771) | (5 156) | (1 359) |
| **Net interest income** | **( 315)** | **( 45)** | **(1 000)** | **137** |
| Interest income | 53 | 99 | 39 | 218 |
| Interest expense | ( 368) | ( 144) | (1 039) | ( 81) |

Ultimate controlling party of the Bank and Group is G. Guselnikov.

## 27. SUBSEQUENT EVENTS

There were no subsequent events during the period between Financial Statement date and the Financial Statement issuing date that might have an impact on the financial statements as of 30 June 2016

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