AS DNB BANKA
CONSOLIDATED AND BANK`S ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

Contents

AS DNB banka
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A REPORT FROM THE MANAGEMENT BOARD AND THE SUPERVISORY COUNCIL

Market environment

External economic environment in 2016 was rather fragile. Brexit vote and presidential elections in the USA were the events affecting geopolitical and macroeconomic environment. Both those events have created further uncertainty in the global markets. Interest rates remained at historically low levels. On the other hand, global economic growth apparently accelerated at the end of 2016. Boost to US business and consumer confidence from tax reduction and deregulation promises may outweigh negative factors for a certain period.

Local economic activity was weaker than expected. Delay of political decisions about EU fund allocation was by far the most important reason. Construction output fell by staggering 17.8% in 2016. Geopolitical uncertainty may have played a role as well, but there is little direct evidence for that. Positively, notwithstanding GDP growth figures (1.6% according to preliminary data, approximately half of what was expected a year ago), the economic fundamentals remained good. We did not observe inherent weaknesses of major industries and we believe that consumer confidence will return. It will be supported by strong public investment recovery, continuing export growth and continuation of credit expansion that gradually started in 2016, following eight years of decline.

Financial results

2016 has been a successful year for DNB Group in Latvia. DNB Group in Latvia has earned EUR 33.5 million - more than twice or about 128% higher than the previous year figure. Operating profit amounted to EUR 32.5 million; it has increased by 84% in comparison with the previous year.

Operating profit growth is influenced by good results in both income and costs. 2016 has been stable in net interest income in comparison with 2015, while fee and commission income grew by 6%. Administrative costs were reduced by 10% in comparison to the previous reporting period as a result of previously started and ongoing efficiency improvement projects.

In addition to recurring business, there was one-off income from Visa Europe Limited share sale in the amount of EUR 11.6 million, boosting up the operating profit level. The operating profit was affected by negative revaluation result of repossessed real estates in the amount of EUR 2.9 million.

Quality of the loan portfolio continued to improve and as a result, also write-downs for problematic exposures were reduced by EUR 1.4 million.

All the regulatory ratios are observed with healthy buffers. Capital adequacy ratio at the end of the financial year stood at 17.6%, liquidity coverage ratio (LCR) was 184%, liquidity ratio was 40%.

Main business initiatives

Lending activity was one of the main priorities of the Bank in 2016. In the reporting year DNB Group in Latvia in total issued loans in the amount of EUR 353.4 million, which is 69% higher than in 2015. Significant increase has been achieved in both segments – private individuals and business customers.

Construction Financing Centre was established with the aim to help customers to understand all construction related processes, expected financial challenges and the best possible way to prepare for the construction of house. The Bank continued co-operation with state-owned development finance institution ALTUM. The Bank’s initiatives to promote the mortgage loan product and ensure its competitiveness in combination with growing market resulted in about 79% increase in new mortgage lending volume comparing to 2015, reaching EUR 78.4 million in 2016. Consumer credit volume increased by 47%, amounting to EUR 14.2 million.

Newly issued loans to companies have increased by 108% in 2016, reaching EUR 163.4 million. The most important sectors financed in 2016 are agricultural products and agriculture, retail trade, heating and energy, real estate, catering and hotels. Volume of new leasing transactions increased by 24% in 2016, and 73% (or EUR 66.1 million) from the total issued amount of EUR 92.2 million were leases to legal entities.

Other important business initiative was to develop digital solutions for communication with the customers. DNB became the first bank in the Baltic States which communicates with the customers using WhatsApp. Clients – legal entities can receive competent advice also in few braches where particular experts are not located using specially equipped rooms for digital consultations via Skype. The Bank also started to use robotic calls, currently only for informing customers, but in future this direction will be developed further. In addition to that, new, modern and easy to use website was introduced in the middle of 2016.

Three main developments took place in product offerings. Firstly, functionality of internet bank was expanded. Digital platform for securities account opening and placement of transaction orders was created, which is relevant for customers who operate with securities. Secondly, the Bank started to offer new insurance product in the Latvian market - Payment protection insurance. The aim of the product is to provide security to mortgage lending customers, insuring coverage for regular payments in case of unexpected events in the life of our customers. Thirdly, the Bank worked on development of contactless cards launched in February 2017.

A REPORT FROM THE MANAGEMENT BOARD AND THE SUPERVISORY COUNCIL (continued)

Main business initiatives (continued)

Significant work was performed also in order to improve asset quality of the Bank. As a result, volume of non-performing loans was reduced by EUR 103 million (43%) and repossessed assets - by EUR 11.5 million (24%).

Lastly, compliance-related issues become more and more resource-demanding. Several new regulations were introduced in Latvia. Similarly to other banks in Latvia, DNB also asked customers to fill in certain forms and provide information to be complaint to AML regulations. It is planned that the work in this area will be continued as well.

Other important events

On 25 August 2016 Nordea and DNB announced an agreement to combine their operations in Estonia, Latvia and Lithuania to create a leading main bank in the Baltics with strong Nordic roots. The new bank will have scale, a stronger geographic presence and a broader product offering, making it well prepared to meet the future. The transaction is conditional upon regulatory approvals and conditions, and is expected to close around the 2nd quarter of 2017. The banks will operate independently until all necessary approvals have been received. Upon closing of the transaction, the business of each Nordea branch in the Baltics shall be transferred to the DNB banking entity operating in the same jurisdiction. The banks will be sufficiently capitalized and will meet all prudential requirements. After the closing of the transaction, the group will be reorganized through merger in order to maintain the headquarters and legal entity of the new combined bank in Estonia and continue serving customers of other Baltic States through branches in Latvia and Lithuania.

Growth potential in 2017

Current market situation creates a space for cautious optimism. Interest rates will most likely remain at a low level, definitely so in Euro area, global economic growth expectations are improving and forecasts for domestic economy are that growth will accelerate and consumer confidence will rise as well. That allows forecasting growth in business volumes also for the financial sector and the Bank is well prepared to take a fair share of that.

Janis Teteris CEO, CFO, Chairman of the Management Board	Hannu Kalevi Saksala CRO, Member of the Management Board	Anita Berzina Member of the Management Board
Lauris Macijevskis Member of the Management Board	Dace Kaulina Member of the Management Board	Intars Sloka Member of the Management Board

Riga
3 March 2017

The Supervisory Council and the Management Board of the Bank as of 31 December 2016

The Supervisory Council

Name	*Institution*	*Position*	*Date of appointment*
Atle Knai	DNB Bank ASA	Chairman of the Supervisory Council	1 December 2016*
Ivars Kapitovics	AS DNB Pank	Member of the Supervisory Council	1 May 2016
Bjornar Lund	AB DNB bankas	Member of the Supervisory Council	1 May 2016
Olaf Tronsgaard	DNB Bank ASA	Member of the Supervisory Council	1 May 2016
Eline Skramstad	DNB Bank ASA	Member of the Supervisory Council	11 December 2012

* From 8 November 2016 till 1 December 2016 Atle Knai was the Member of the Supervisory Council.

On 1 May 2016 Tony Samuelsen, Leif Rene Hansen ceased to be the Members of the Supervisory Council.

On 8 November 2016 Mats Wermelin resigned from the position of the Chairman of the Supervisory Council.

The Management Board

Name	*Position*	*Date of appointment*
Janis Teteris	CEO, CFO, Chairman of the Management Board	25 October 2016*
Hannu Kalevi Saksala	CRO, Member of the Management Board	1 January 2016
Anita Berzina	Vice President, Member of the Management Board	1 July 2015
Lauris Macijevskis	Vice President, Member of the Management Board	1 August 2014
Dace Kaulina	Vice President, Member of the Management Board	25 January 2013
Intars Sloka	Vice President, Member of the Management Board	25 January 2013

* From 1 August 2009 till 25 October 2016 Janis Teteris was the Member of the Management Board.

The following members of the Management Board have left their positions since 31 December 2015:

Name	*Position*	*Date of resignation*
Aasmund Skar	CEO, Chairman of the Management Board	1 January 2015
Ivars Kapitovics	Head of Retail Banking, Member of the Management Board	1 July 2015
Arne Vilhelmsen	CRO, Member of the Management Board	1 January 2016
Atle Knai	CEO, Chairman of the Management Board	25 October 2016

STATEMENT OF RESPONSIBILITY OF THE MANAGEMENT BOARD

The Management Board of AS DNB banka is responsible for the preparation of the financial statements of the Group and the Bank.

The financial statements on pages 9 to 74 are prepared in accordance with the source documents and present fairly the financial position of the Group and the Bank as at 31 December 2016 and the results of their operations and cash flows for the year ended 31 December 2016.

The financial statements are prepared in accordance with International Financial Reporting Standards as adopted in European Union (EU) on a going concern basis. Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgements and estimates have been made by the Management Board in the preparation of the financial statements.

The Management Board of AS DNB banka is responsible for the maintenance of proper accounting records, the safeguarding of the Group's and the Bank's assets and the prevention and detection of fraud and other irregularities. They are also responsible for operating the Bank in compliance with the Law on Credit Institutions, regulations of the Bank of Latvia, Financial and Capital Market Commission and other legislation of the Republic of Latvia applicable for credit institutions.

Janis Teteris CEO, CFO, Chairman of the Management Board	Hannu Kalevi Saksala CRO, Member of the Management Board	Anita Berzina Member of the Management Board
Lauris Macijevskis Member of the Management Board	Dace Kaulina Member of the Management Board	Intars Sloka Member of the Management Board

Atle Knai
Chairman of the
Supervisory Council

Riga
3 March 2017

INDEPENDENT AUDITORS' REPORT

To the shareholder of AS DNB banka

Opinion

We have audited the accompanying consolidated financial statements of AS DNB banka and its subsidiaries (the Group) and the accompanying financial statements of AS DNB banka (the Bank), set out on pages 9 to 74 of the accompanying annual report, which comprise the statements of financial position as at December 31, 2016, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group and the Bank in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the independence requirements included in the Law on Audit Services of Republic of Latvia that are relevant to our audit of the financial statements in the Republic of Latvia. We have fulfilled our other ethical responsibilities in accordance with the Law on Audit Services of Republic of Latvia and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Reporting on other information

The other information comprises the Management Report and Statement of Responsibility of the Management Board as set out on pages 3 to 4 of the accompanying annual report, but does not include the financial statements and our auditors report thereon. Management is responsible for the other information.

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

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

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

Other reporting responsibilities in accordance with local legislation

We have other reporting responsibilities in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Management Report. These additional reporting responsibilities are beyond those required under the ISAs.

Our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of Financial and Capital Market Commission's Regulations of the Republic of Latvia No. 46 "Regulations on the Preparation of Annual Accounts and Annual Consolidated Accounts for Banks, Investment Brokerage Firms and Investment Management Companies".

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

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high

level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
SIA Ernst & Young Baltic
Licence No. 17

Iveta Vimba
Member of the Board
Latvian Certified Auditor
Certificate No. 153

Riga, 3 March 2017

Statement of comprehensive income for the years ended 31 December 2016 and 2015

	Notes	2016 Group EUR`000	2015 Group EUR`000	2016 Bank EUR`000	2015 Bank EUR`000
Interest income	5	45,807	47,206	40,975	43,315
Interest expense	6	(5,896)	(7,073)	(5,256)	(6,217)
Net interest income		**39,911**	**40,133**	**35,719**	**37,098**
Fees and commission income	7	19,636	18,572	16,559	15,748
Fees and commission expenses	8	(5,951)	(5,640)	(5,599)	(5,366)
Net fees and commissions		**13,685**	**12,932**	**10,960**	**10,382**
Net result from operations with foreign currency, trading securities and derivative financial instruments	9	13,237	831	13,253	820
Net result from operations with investment property	10	(3,275)	(3,252)	(444)	(1,167)
Other operating income	11	3,925	4,799	4,714	7,120
Dividend income		20	71	1,838	321
Operating income		**67,503**	**55,514**	**66,040**	**54,574**
Personnel expenses	12	(17,382)	(17,534)	(17,197)	(17,348)
Other administrative expenses	12	(12,913)	(15,099)	(12,861)	(15,276)
Depreciation	22, 23	(3,322)	(3,973)	(2,470)	(3,113)
Other operating expenses	13	(1,431)	(1,232)	(1,291)	(1,130)
Net allowances for impairment loss	26	1,402	(2,508)	(2,047)	(5,953)
Profit before income tax		**33,857**	**15,168**	**30,174**	**11,754**
Corporate income tax	14	(404)	(478)	-	-
Profit for the period from continuing operations		**33,453**	**14,690**	**30,174**	**11,754**
Profit attributable to:					
Equity holders of the Bank		33,453	14,690	30,174	11,754
Other comprehensive income					
Items that may be reclassified to profit or loss in the future					
Changes in revaluation reserve of financial assets available for sale	33	(10,478)	10,500	(10,478)	10,500
Items that will not be reclassified to profit or loss in the future					
Changes in revaluation reserve of fixed assets	33	-	(54)	-	(54)
Other comprehensive income total		**(10,478)**	**10,446**	**(10,478)**	**10,446**
Total comprehensive income		**22,975**	**25,136**	**19,696**	**22,200**
Total comprehensive income attributable to:					
Equity holders of the Bank		22,975	25,136	19,696	22,200

The financial statements on pages 9 to 74 have been approved by the Supervisory Council and the Management Board of the Bank and signed on their behalf by:

Janis Teteris	Hannu Kalevi Saksala	Atle Knai
CEO, CFO, Chairman of the Management Board	CRO, Member of the Management Board	Chairman of the Supervisory Council

Riga,
3 March 2017

The accompanying notes are an integral part of these financial statements

Statement of financial position at 31 December 2016 and 31 December 2015

Assets	**Notes**	**2016 Group EUR'000**	**2015 Group EUR'000**	**2016 Bank EUR'000**	**2015 Bank EUR'000**
Cash and balances with central banks	15	63,662	38,160	63,662	38,160
Due from other credit institutions (on demand)	16	30,093	60,237	29,494	59,906
Derivatives	21	51,899	46,199	51,899	46,199
Financial assets designated at fair value through profit or loss:	18	84,766	77,540	84,766	77,540
Debt securities and other fixed income securities		*84,766*	*77,540*	*84,766*	*77,540*
Financial assets available-for-sale	19	2,483	10,752	2,483	10,752
Loans and advances:		1,927,175	1,996,044	1,843,056	1,925,446
Due from other credit institutions (term)	16	*414,497*	*469,537*	*414,497*	*469,537*
Loans to customers	17	*1,512,678*	*1,526,507*	*1,428,559*	*1,455,909*
Accrued income and deferred expenses		3,619	3,444	2,453	2,292
Investment property	24	36,854	48,395	4,750	6,615
Property, plant and equipment	23	28,415	30,107	4,245	5,281
Intangible assets	22	2,085	2,377	1,732	2,005
Investments in subsidiaries	20	-	-	9,102	11,142
Deferred corporate income tax	14	8,805	8,813	8,701	8,701
Current corporate income tax		171	171	-	-
Other assets	25	19,220	10,733	8,022	7,560
Total assets		**2,259,247**	**2,332,972**	**2,114,365**	**2,201,599**

The financial statements on pages 9 to 74 have been approved by the Supervisory Council and the Management Board of the Bank and signed on their behalf by:

Janis Teteris	Hannu Kalevi Saksala	Atle Knai
CEO, CFO, Chairman of the Management Board	CRO, Member of the Management Board	Chairman of the Supervisory Council

Riga,
3 March 2017

Statement of financial position at 31 December 2016 and 31 December 2015 *(continued)*

Liabilities	**Notes**	**2016 Group EUR'000**	**2015 Group EUR'000**	**2016 Bank EUR'000**	**2015 Bank EUR'000**
Liabilities to central banks	27	60,500	60,596	60,500	60,596
Liabilities to credit institutions (on demand)	28	2,225	3,174	2,225	3,174
Derivatives	21	43,729	44,346	43,729	44,346
Financial liabilities at amortised cost:		1,838,547	1,930,846	1,695,432	1,787,936
Due to credit institutions (term)	28	*615,340*	*711,210*	*465,264*	*561,107*
Deposits from customers and other financial liabilities	29	*1,223,207*	*1,219,636*	*1,230,168*	*1,226,829*
Accrued expenses and deferred income	30	5,084	5,586	4,898	5,396
Deferred tax liability	14	31	31	-	-
Income tax liability		40	85	-	-
Other liabilities	31	6,165	7,355	1,425	2,868
Provisions	32	454	1,456	7,671	18,494
Total liabilities		**1,956,775**	**2,053,475**	**1,815,880**	**1,922,810**
Shareholders' equity					
Share capital	33	191,178	191,178	191,178	191,178
Share premium		69,713	69,713	69,713	69,713
Reserve capital	33	224,118	224,118	224,118	224,118
Revaluation reserve	33	155	10,633	155	10,633
Accumulated result		(182,692)	(216,145)	(186,679)	(216,853)
Total shareholders' equity attributable to the shareholders of the Bank		**302,472**	**279,497**	**298,485**	**278,789**
Total shareholders' equity		**302,472**	**279,497**	**298,485**	**278,789**
Total liabilities and shareholders' equity		**2,259,247**	**2,332,972**	**2,114,365**	**2,201,599**

The financial statements on pages 9 to 74 have been approved by the Supervisory Council and the Management Board of the Bank and signed on their behalf by:

Janis Teteris	Hannu Kalevi Saksala	Atle Knai
CEO, CFO, Chairman of the Management Board	CRO, Member of the Management Board	Chairman of the Supervisory Council

Riga,
3 March 2017

Statement of changes in equity for the years ended 31 December 2016 and 31 December 2015

Group

	Share capital EUR'000	Share premium EUR'000	Reserve capital EUR'000	Revaluation reserve EUR'000	Accumulated result EUR'000	Total EUR'000
At 31 December 2014	**191,178**	**69,713**	**224,118**	**187**	**(230,835)**	**254,361**
Profit for the year	-	-	-	-	14,690	**14,690**
Increase of revaluation reserve	-	-	-	10,446	-	**10,446**
Total comprehensive income	**-**	**-**	**-**	**10,446**	**14,690**	**25,136**
At 31 December 2015	**191,178**	**69,713**	**224,118**	**10,633**	**(216,145)**	**279,497**
Profit for the year	-	-	-	-	33,453	**33,453**
Decrease of revaluation reserve	-	-	-	(10,478)	-	**(10,478)**
Total comprehensive income	**-**	**-**	**-**	**(10,478)**	**33,453**	**22,975**
At 31 December 2016	**191,178**	**69,713**	**224,118**	**155**	**(182,692)**	**302,472**

Bank

	Share capital EUR'000	Share premium EUR'000	Reserve capital EUR'000	Revaluation reserve EUR'000	Accumulated result EUR'000	Total EUR'000
At 31 December 2014	**191,178**	**69,713**	**224,118**	**187**	**(228,607)**	**256,589**
Profit for the year	-	-	-	-	11,754	**11,754**
Increase of revaluation reserve	-	-	-	10,446	-	**10,446**
Total comprehensive income	**-**	**-**	**-**	**10,446**	**11,754**	**22,200**
At 31 December 2015	**191,178**	**69,713**	**224,118**	**10,633**	**(216,853)**	**278,789**
Profit for the year	-	-	-	-	30,174	**30,174**
Decrease of revaluation reserve	-	-	-	(10,478)	-	**(10,478)**
Total comprehensive income	**-**	**-**	**-**	**(10,478)**	**30,174**	**19,696**
At 31 December 2016	**191,178**	**69,713**	**224,118**	**155**	**(186,679)**	**298,485**

The accompanying notes are an integral part of these financial statements

Statement of cash flows for the years ended 31 December 2016 and 31 December 2015

	Note	2016 Group EUR'000	2015 Group EUR'000	2016 Bank EUR'000	2015 Bank EUR'000
Cash flow from operating activities					
Profit before income tax and dividends		33,857	15,168	30,174	11,754
Depreciation and amortization of intangible assets and property and equipment		3,322	3,973	2,470	3,113
Increase/(Decrease) in provisions for doubtful debts and off-balance sheet liabilities		(1,402)	2,508	2,047	5,953
Loss from revaluation of securities, derivatives and loans		379	1,613	379	1,613
Loss from revaluation of investment property		2,907	3,281	184	649
(Profit)/Loss from sale of fixed and intangible assets		217	(36)	213	(39)
Dividends received		(20)	(71)	(1,838)	(321)
(Profit)/Loss from foreign currency revaluation		57	(3)	40	7
Cash flow from operating activities before changes in assets and liabilities		**39,317**	**26,433**	**33,669**	**22,729**
Decrease in loans and advances to customers		15,480	77,927	29,614	104,528
(Increase) in financial assets designated at fair value through profit and loss		(7,255)	(43,032)	(7,255)	(43,032)
(Decrease) in due to credit institutions		(95,966)	(218,955)	(95,939)	(218,871)
(Increase) in accrued income and deferred expenses		(175)	(1,841)	(161)	(1,023)
(Increase)/Decrease in other assets and taxes		(458)	(8,010)	7,537	(14,242)
Increase in clients deposits		3,571	137,739	3,339	140,054
Increase/(Decrease) in derivatives		(6,667)	1,780	(6,667)	1,780
Increase/(Decrease) in accrued expenses and deferred income		(502)	1,012	(498)	1,003
Increase/(Decrease) in other liabilities		(13,120)	9,667	(22,744)	3,164
(Decrease) in cash and cash equivalents as a result of operating activities		**(65,775)**	**(17,280)**	**(59,105)**	**(3,910)**
Cash flow from investing activities					
(Acquisition) of property and equipment and intangible assets		(1,728)	(1,516)	(1,549)	(1,394)
Sale of property and equipment and intangible assets		173	425	174	355
(Acquisition) of participation in share capital of subsidiary and Business Unit		-	-	(2,000)	(5,950)
Sale of investment property, net		8,634	10,472	1,681	2,981
Increase/(Decrease) in cash and cash equivalents as a result of investment activities		**7,079**	**9,381**	**(1,694)**	**(4,008)**
Cash flow from financing activities					
Dividends received		20	71	1,838	321
Increase in cash and cash equivalents as a result of financing activities		**20**	**71**	**1,838**	**321**
Net (decrease) in cash and cash equivalents		**(58,676)**	**(7,828)**	**(58,961)**	**(7,597)**
Cash and cash equivalents at the beginning of the year		564,760	572,584	564,429	572,032
Profit/(Loss) of foreign currency revaluation on cash and cash equivalents		(57)	3	(40)	(7)
Cash and cash equivalents at the end of the year	15	**506,027**	**564,759**	**505,428**	**564,428**
Cash flow from interest received		46,820	48,071	42,015	44,203
Cash flow from interest paid		6,147	7,191	5,483	6,254

The accompanying notes are an integral part of these financial statements

Notes to the Financial Statements

1 INCORPORATION AND PRINCIPAL ACTIVITIES

AS DNB banka was established as Rigas Komercbanka PLC on 26 June 1989. On 6 September 1991 it was incorporated in the Republic of Latvia as a joint stock company. The Bank and its subsidiaries (the Group) are engaged in banking and the financial services business.

On June 30, 2011 DNB Bank ASA (former DnB NOR Bank ASA) has acquired from Bank DNB A/S (former Bank DnB NORD A/S) all Bank shares which belonged to Bank DNB A/S (Denmark) and constituted 100% of share capital of Bank; DNB Bank ASA (Norway) became the direct shareholder of the Bank.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

a) Reporting currency

The accompanying financial statements are reported in thousands of euro (EUR'000), unless otherwise stated.

b) Basis of presentation

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the EU. These financial statements are prepared on a historical cost basis, except for certain financial assets and liabilities (financial assets available-for-sale, land, buildings and investment properties, financial assets and liabilities at fair value through profit or loss and derivatives) which are reported at fair value.

The preparation of financial statements in conformity with IFRS as adopted in the EU requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

These financial statements comprise of both, the financial statements of the parent company AS DNB banka and the consolidated statements.

c) Consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

Notes to the Financial Statements *(continued)*

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Income and expense recognition

Interest income and expense are recognised in the statement of comprehensive income for all instruments measured at amortised cost using the effective interest rate method. Interest income includes coupons earned on fixed income investment securities.

When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the effective interest rate that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Interest expense also comprises regulatory charges such as payments to Deposit Guarantee Fund and Single Resolution Fund as well as charge of financial stability, which are recognised in the statement of comprehensive income as incurred.

Fee and commission income and expense are recognised on an accrual basis. Fees earned from the provision of services over a period of time are recognised over that service period. Fees attributable to loan issuance and other credit related fees are deferred and recognised as an adjustment to the effective interest rate on the loan.

Fee and commission expense paid to other financial institutions are recognised as transaction costs and recorded using the effective interest rate method.

Income and expense other than interest and/ or commission and fee income/ expense represent items associated with the core business of related entities of the Group.

e) Foreign currency translation

Transactions denominated in foreign currencies are recorded in euro at actual rates of exchange set forth by the European Central Bank at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency, such as investments in equity instruments, are translated using the exchange rates at the date, when the fair value was determined. Monetary assets and liabilities denominated in foreign currencies are translated into euro at the rate of exchange prevailing at the end of the period. Any gain or loss resulting from a change in rates of exchange subsequent to the date of the transaction is included in the statement of comprehensive income as a profit or loss from revaluation of foreign currency positions.

The principal rates of exchange (1 EUR to foreign currency units) set by the European Central Bank and used in the preparation of the Group's and the Bank's statements of financial position were as follows:

Reporting date	USD
As at 31 December 2016	1.05410
As at 31 December 2015	1.08870

f) Taxation

Corporate income tax is calculated in accordance with Latvian tax regulations at the rate of 15% and is based on the taxable income reported for the taxation period. It is recognised as an expense in the period in which profits arise.

Deferred tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The deferred tax liability is calculated using the tax rates that have been enacted or substantially enacted by the statement of financial position date and that are expected to apply when the temporary differences reverse. The principal temporary differences arise from different fixed asset depreciation rates, accrual for employee vacation pay, and revaluation of items of the statement of financial position, including securities revaluation and fair value revaluation reserve, as well as tax losses carried forward. Where an overall deferred taxation asset arises, it is only recognised in the financial statements to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Taxes other than on income are recorded within operating expenses.

g) Cash and cash equivalents

For purposes of the cash flow statements cash and cash equivalents comprise cash balances, balances due from the central banks, due from other credit institutions with original maturity less than 3 months and insignificant risk due to change in value, less balances on demand due to other credit institutions.

Notes to the Financial Statements *(continued)*

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Loans and receivables and allowances for loan impairment

Balances due from banks and loans and advances to customers are accounted for as loans and receivables and are carried at amortised cost. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in active markets. All loans and advances are recognised in the statement of financial position when cash is advanced to borrowers. For the purposes of these financial statements, finance lease receivables are included in loans and advances to non-banking customers.

A credit risk allowances for loan impairment is established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the allowances is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original interest rate of the loans or the current one in case of immaterial deviance.

The Group first assesses whether objective evidence of impairment exists individually for material loans. Loans that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. If the Group determines that no objective evidence of impairment exists, the loan is included in a group of loans with similar credit risk characteristics and collectively assessed for impairment. For the purposes of a collective evaluation of impairment loans are grouped on a basis of similar credit risk characteristics.

The Group reviews their loan portfolios to assess impairment on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Group makes judgements as to whether there is any objective indication that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. Management uses estimates based on historical loss experience for assets with similar credit risk characteristics and current economic climate in which the borrowers operate. The methodology and assumptions used are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Nevertheless, it is possible, that outcomes within the next financial year, that are different from assumptions, could require a material adjustment to the carrying amount of the asset or liability affected.

When a loan is uncollectible, it is written off against the related allowances for credit losses; subsequent recoveries are credited to the statement of comprehensive income.

Allowances for individual loan impairment are made in the currency of the related asset and are subject to revaluation at period end at the rate set by the European Central Bank. Foreign exchange rate differences arising from such revaluation are recorded in the statement of comprehensive income as additional allowances or income from the recovery of existing allowances (if any). The corresponding result of revaluing the respective asset covered by the allowances for loan impairment is recorded as profit / loss to foreign currency transactions. Allowances for collective loan impairment are made in EUR.

Individual and collective impairments

Material loans are subject for quarterly individual assessment of provision need if at least one loss event has occurred, e.g. one or more commitments of the customer are overdue more than 90 days (principal or interest), restructuring of one or more commitments of the customer, customer has major financial problems or other issues that will lead to major financial problems, customer has breached financial covenants / other covenants that affects the customer's ability to service his liabilities, suspension or revocation of license held by the customer engaged in licensed activities, significant drop in rating class etc. If the Group determines that no loss event has occurred for specific loan, it is included in a group of loans with similar credit risk characteristics and collectively assessed for impairment (using incurred but not reported (IBNR) approach, where provisions amount is based on historical loss rate for specific group and probability of becoming impaired).

Immaterial loans (materiality threshold is set based on exposure amount) are assessed quarterly on the basis of portfolios, i.e. mortgage loans, private loans secured with real estate collateral, small and medium size loans to legal entities, as well as active lease agreements. Within each portfolio approach differs based on loans quality – number of overdue days and status of restructuring. The main part of immaterial loans is mortgage and private loans secured with real estate collateral. Provisions for non-performing loans (over 90 days overdue) are made based on information about updated collateral values, expected realisation value of collateral, estimated expenses related to collateral realisation as well as potential recovery of uncovered loan amount after realisation of collateral. If loan is not due or delayed up to 90 days or restructured, impairment is calculated based on historical and estimated migration to non-performing status. Impairment for non-performing loans is classified as specific provisions while impairment for restructured loans and impairment for performing loans are classified as group provisions (IBNR). Impairment for terminated leasing agreements is calculated based on average realised losses.

Notes to the Financial Statements *(continued)*

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Loans and receivables and allowances for loan impairment (continued)

Restructured loans

Where possible, the Group and the Bank seeks to restructure loans rather than take possession of collateral. This mostly involves adjusting the payment schedule made by a borrower in a manner matching the borrower's financial capacity (temporarily reducing principal repayments, extending payment terms) and the agreement of new loan conditions. If the customer faces long term financial difficulties, the Group and the Bank together with the customer is looking for long term solution if possible (e.g. extended maturity, voluntarily sales of property etc.). Once the terms have been renegotiated and executed a loan is no longer considered non-performing as long as a borrower complies with the renegotiated terms and conditions. Such loans are continuously reviewed to ensure that all criteria are met and that future payments are likely to occur and interest and fee income is accrued and recognised as for other performing loans. Restructured loans continue to be subject to an individual or collective impairment assessment on a quarterly basis.

The Bank recognises as a part of interest income the decrease in provisions for individually assessed loans due to shortening of discounting period of expected cash flows.

i) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific assets and the arrangement conveys a right to use the asset.

The Group or the Bank as a lessor

When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Leases where the Group does not transfer substantially all the risk and benefits of ownership of the asset are classified as operating leases. Contingent rents are recognised as revenue in the period in which they are earned.

Assets under operating leases are recognised as equipment at historical cost net of accumulated depreciation and impairment, if any. Depreciation is calculated on a straight-line basis. Assets are depreciated till its residual value over the estimated useful life of property and equipment that is determined based on useful lives of similar assets of the Group and the Bank. Rentals receivable under operating leases are credited to the statement of comprehensive income on a straight-line basis over the lease term and presented in other income.

If a sale and leaseback transaction results in an operating lease and the sales price is above fair value of the asset sold, the excess over fair value is deferred and amortised over the period for which the asset is expected to be used.

The Group or the Bank as a lessee

The Group acts as a lessee only in operating leases. A lease where the lessor retains substantially all the risks and benefits of ownership of the asset is classified as operating lease. Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

j) Financial assets at fair value through profit or loss

Financial assets designated at fair value through profit and loss are designated by management on initial recognition as a part of financial assets which are managed and their performance evaluated on a fair value basis.

Financial assets at fair value through profit or loss are measured at fair value based on quoted bid prices. In the absence of the active market, the fair value of financial assets at fair value through profit or loss is derived from the value of an instrument that is substantially the same or from discounted cash flow models. Gains and losses arising from changes in the fair value of financial assets are recognised in the statement of comprehensive income.

Interest earned whilst holding financial assets at fair value through profit or loss is recorded as interest income.

All regular way purchases and sales of financial assets at fair value through profit or loss are recognised at settlement date.

Notes to the Financial Statements *(continued)*

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Financial assets available-for-sale

Financial assets available-for-sale include equity investments. Equity investments classified as financial assets available-for-sale are those that are neither classified as held for trading nor designated at fair value through profit or loss.

After initial measurement, financial assets available-for-sale are subsequently measured at fair value with unrealised gains or losses recognised in other comprehensive income and credited in the available-for-sale reserve until the investment is derecognised. If a financial asset available-for-sale is determined to be impaired or the investment is derecognised, the cumulative gain or loss previously recognised in the statement of comprehensive income is recognised in the statement of comprehensive income.

l) Subsidiaries

Investments in subsidiaries in the Bank's financial statements are accounted for under the cost method.

The Bank recognises income from investment only to the extent that the Bank receives dividends from the accumulated profit of the subsidiaries arising after the date of acquisition.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets transferred. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

If there is objective evidence that an impairment loss on investments in subsidiaries carried at cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of investment. The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognised in profit or loss.

m) Property, plant and equipment

Land and buildings are carried at revalued amounts less accumulated depreciation on buildings and impairment losses, if any. Equipment and other assets are recorded at cost, less accumulated depreciation and accumulated impairment losses, if any.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Depreciation is provided using the straight-line method to write off the cost or revaluated amount of each asset to their residual value over the estimated useful life of the asset. The following depreciation rates have been applied:

Category	*Annual Rate*
Buildings	1% – 2%
Building parts	2% – 6%
Engineering networks and equipment	4%
Office equipment	10% – 20%
Network and computer equipment	20% –25%
Vehicles	20%

Maintenance and repair costs are charged to the statement of comprehensive income as incurred. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

Leasehold improvements are capitalised and depreciated over the shorter of their useful life and remaining lease contract period on a straight-line basis.

Revaluation reserve

The fair value of land and buildings is determined from market-based evidence by appraisal that is normally undertaken by professionally qualified values. The fair value of items of plant and equipment is their market value determined by appraisal.

The frequency of revaluations depends upon the changes in fair values of the items of property, plant and equipment being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is required.

If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued.

Notes to the Financial Statements *(continued)*

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Property, plant and equipment (continued)

A revaluation surplus is recorded in other comprehensive income and credited to the asset revaluation surplus in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit and loss. A revaluation deficit is recognised in the statement of comprehensive income, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

Upon disposal, revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

n) Investment property

Investment properties are properties (land and/ or building) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for administrative purposes; or
- sale in the ordinary course of business.

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the statement of comprehensive income in the period in which they arise.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the statement of comprehensive income in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

o) Intangible assets

Acquired computer software licences are recognised as intangible assets on the basis of the costs incurred to acquire and bring to use the software. These costs are amortised on the straight-line basis of their expected useful lives, not exceeding five years.

p) Derivative financial instruments

Derivative financial instruments including foreign exchange contracts, interest rate swaps and options, commodity swaps are initially recognised and subsequently carried at their fair value. Derivatives are revalued at least monthly. Fair values are obtained from quoted market prices and discounted cash flow models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

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

Derivatives notional amounts are recognised in Bank`s and Group’s off-balance sheet accounts.

q) Financial liabilities carried at amortised cost

Financial liabilities carried at amortised cost are mainly amounts due to customers and due to banks. These are recognised initially at cost, being their issue proceeds (fair value of consideration received) net of directly attributable transaction costs incurred. Financial liabilities are subsequently stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

r) Off-balance sheet items

In the ordinary course of business, the Group and the Bank have been involved with off-balance sheet financial instruments consisting of commitments to extend loans and advances, financial guarantees and commercial letters of credit. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

Notes to the Financial Statements *(continued)*

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

s) Fair values of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The assumptions used in fair value measurement are described in more details in Note 2(x) and Note 37.

t) Off-setting financial instruments

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

u) Provisions

Provisions are recognised when the Group and the Bank have a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. These provisions relate to the guarantees issued, to other off-balance sheet items and also to legal reserve. The assessment of provisions requires the application of management's judgement and estimates, as to the probability of an outflow of resources, the probability of recovery of resources from corresponding sources including security or collateral or insurance arrangements where appropriate, and the amounts and timings of such outflows and recoveries, if any.

v) Financial Guarantees

The Group measures issued financial guarantees initially at their fair value, which is normally evidenced by the amount of fees received. This amount is then amortised on a straight-line basis over the life of the guarantee. At each statement of financial position date, the guarantees are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at statement of financial position date.

w) Trust Activities

Funds managed or held in custody by the Group and the Bank on behalf of individuals, trusts and other institutions are not regarded as assets of the Group and the Bank and, therefore, are not included in the statement of financial position.

x) Critical accounting estimates and judgements

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Such estimates and assumptions are outlined below:

- Impairment losses of loans and advances:
  The Group reviews its loan portfolio to assess impairment on a regular basis as described in Note 2(h).
  The provisioning approach is aligned to the methodology used in parent company in Norway to the possible extent. The Group in 2016 has reviewed provisioning approach for loans not assessed individually, however, no changes have been made. Pool rates for loans assessed collectively and overdue more than 90 days are reassessed at least once a year.
  To assess the provisioning level for mortgage and private loans secured with real estate collateral, the Group and the Bank has performed individual and statistical revaluation of real estate collaterals, as well as reviewed assumptions used in calculations (e.g. expected recovery of unsecured part after realisation of collateral and estimated migration of restructured loans to non-performing status). It resulted in decrease in provisions by EUR 1,000 thou, mainly as a result of statistical revaluation of real estate collaterals.

- Deferred assets:
  Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The deferred tax assets are recognised based on profitability assumptions over four year horizon. The future taxable profit of 2017-2019 has been approved by the Management Board, while 2020 is considered as plausible taxable profit of the Group and the Bank.

Notes to the Financial Statements *(continued)*

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

x) Critical accounting estimates and judgements (continued)

- Fair values:
  Where the fair value of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgements include considerations of liquidity and model inputs. The valuation of financial instruments is described in more detail in Note 37.

  In the fair value measurement of the Series C Preferred Stock in Visa Inc. as at 31 December 2016 the following assumptions have been used:
  - Average share price for Visa Inc. in 2016
  - Conversion rate 13.952 for Class A Common Stock
  - Liquidity discount of 30%.

  The fair value estimated as at year end is USD 2.4 million.

  In the fair value measurement of AS Kredītinformācijas Birojs shares as at 31 December 2016 the following assumptions have been used:
  - Cash flow projections until the end of 2018 provided by the management
  - A pre-tax discount factor of 12% to forecast free cash flows.

- Impairment of investments in subsidiaries:
  Investments in subsidiaries are valued at cost less impairment in the Bank's separate financial statements. On a regular basis, the Bank compares the cost of investment with the carrying value of net assets of a subsidiary to see whether any impairment indication exists. If impairment indication exists, the recoverable amount of the investment is calculated based on discounted estimated future free cash flows to equity of the subsidiary. Future cash flows are based on budgets and projections prepared by the subsidiary and assessed for reasonableness. Discount rate is equal to the required rate of return to equity. An impairment loss is recorded when the decline in value of subsidiary is significant and prolonged.

  Key assumptions used in calculations and sensitivity to changes in assumptions
  Management believes that reasonable impairment of investment indication exists only in SIA Salvus, SIA Salvus 3 and SIA Salvus 4 subsidiaries as of 31 December 2016.

  SIA Salvus, SIA Salvus 3 and SIA Salvus 4 subsidiaries cash flows are most sensitive to the following assumptions:
  Gross margins - they are based on average actual sales margins of previous periods. The margins are projected to decrease over the budget period as the liquidity of portfolio declines with the assumption that the most appealing objects are sold first.
  Discount rates - a pre-tax discount factor of 12% has been applied to forecast free cash flows to equity used in the impairment testing.
  Period of cash flow projections – management's cash flow projections until the end of 2018 were used for objects in the portfolio at impairment calculation date. Life cycle of investment property portfolio has been determined based on historical sales volumes, thus, based on reasonable facts.

  Impairment has been identified for these subsidiaries in 2016 and 2015 (see Note 20).

- Investment property:
  Investment properties are measured initially at cost, including transaction cost, subsequently they are carried at fair value which reflects market conditions at the reporting date. Investment properties are valued by using statistical approach or individual valuations. Valuation techniques are based on market comparable method, income capitalization method and discounted cash flow method (DCF). More detailed information regarding fair value measurement of investment properties is described in Note 37.

Notes to the Financial Statements *(continued)*

3 ADOPTION OF NEW AND/OR CHANGED IFRS AND INTERNATIONAL FINANCIAL REPORTING INTERPRETATIONS COMMITTEE (IFRIC) INTERPRETATIONS

Adoption of new and/or changed IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Group or Bank as of 1 January 2016:

- **Amendments to IAS 1** ***Presentation of financial statements: Disclosure Initiative***
  The amendments aim at clarifying IAS 1 to address perceived impediments to preparers exercising their judgment in presenting their financial reports. The amendments are effective for annual periods beginning on or after 1 January 2016. Management has made use of this amendment. As a result the implementation of this standard has not left any impact on the financial position or performance of the Group or Bank, however may result in additional disclosures in the future periods.

- **Amendments to IAS 16** ***Property, Plant & Equipment and IAS 38 Intangible assets: Clarification of Acceptable Methods of Depreciation and Amortization***
  The amendment is effective for annual periods beginning on or after 1 January 2016 and provides additional guidance on how the depreciation or amortisation of property, plant and equipment and intangible assets should be calculated. It is clarified that a revenue-based method is not considered to be an appropriate manifestation of consumption. The implementation of this amendment has not left any impact on the financial statements of the Group or Bank, as the Group or Bank does not use revenue-based depreciation and amortisation methods.

- **Amendments to IAS 16** ***Property, Plant & Equipment and IAS 41 Agriculture: Bearer Plants***
  The amendment is effective for annual periods beginning on or after 1 January 2016. Bearer plants are now within the scope of IAS 16 Property, Plant and Equipment and are subject to all of the requirements therein. The implementation of this amendment has not left any impact on the financial statements of the Group or Bank, as the Group or Bank does not have bearer plants.

- **Amendments to IAS 19** ***Employee Benefits***
  The amendment is effective for annual periods beginning on or after 1 February 2015. The amendment addresses accounting for the employee contributions to a defined benefit plan. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. Since the Group's or Bank`s employees do not make such contributions, the implementation of this amendment has not left any impact on the financial statements of the Group or Bank.

- **Amendments to IAS 27** ***Equity method in separate financial statements***
  The amendment is effective for annual periods beginning on or after 1 January 2016. The amendments reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements. The implementation of this amendment has not left any impact on the financial statements of the Group or Bank, since the Group or Bank has made the decision not to use the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements.

- **Amendment to IFRS 11** ***Joint arrangements: Accounting for Acquisitions of Interests in Joint Operations***
  The amendment is effective for annual periods beginning on or after 1 January 2016. IFRS 11 addresses the accounting for interests in joint ventures and joint operations. The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business in accordance with IFRS and specifies the appropriate accounting treatment for such acquisitions. The implementation of this standard has not left any effect on the financial statements of the Group or Bank, as the Group or Bank had no transactions in scope of this amendment.

- The IASB has issued the **Annual Improvements to IFRSs 2010 – 2012 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 February 2015. None of these had an effect on the Company's financial statements:
  - IFRS 2 *Share-based Payment;*
  - IFRS 3 *Business Combinations*;
  - IFRS 8 *Operating Segments*;
  - IFRS 13 *Fair value Measurement*;
  - IAS 16 *Property, Plant and Equipment*;
  - IAS 24 *Related Party Disclosures*;
  - IAS 38 *Intangible Assets*.

Notes to the Financial Statements *(continued)*

3 ADOPTION OF NEW AND/OR CHANGED IFRS AND INTERNATIONAL FINANCIAL REPORTING INTERPRETATIONS COMMITTEE (IFRIC) INTERPRETATIONS (continued)

- The IASB has issued the **Annual Improvements to IFRSs 2012 – 2014 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2016. None of these had an effect on the Company's financial:
    - IFRS 5 *Non-current Assets Held for Sale and Discontinued Operation*;
    - IFRS 7 *Financial Instruments: Disclosures*;
    - IAS 19 *Employee Benefits*;
    - IAS 34 *Interim Financial Reporting.*

Standards issued but not yet effective

The Group or Bank has not applied the following IFRS and IFRIC interpretations that have been issued as of the date of authorization of these financial statements for issue, but which are not yet effective:

IFRS 9 *Financial Instruments* (effective for financial years beginning on or after 1 January 2018)

IFRS 9 replaces IAS 39 and introduces new requirements for classification and measurement, impairment and hedge accounting. The Group plans to adopt the new standard on the required effective date.

In 2016 the Bank set up an implementation team with members from its Credit Risk and Finance teams to prepare for IFRS 9 implementation. The Milestone plan of the projects was approved by the project Steering Group. This plan describes the process sequence and timeline required to achieve IFRS 9 implementation until January 1, 2018. Following the Milestone Plan, the Bank will be able to carry out implementation and adopt required changes on time.

Classification and measurement

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories will be replaced by: fair value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI), and amortised cost. IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortised cost or fair value through OCI instruments as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement.

The accounting for financial liabilities will largely be the same as the requirements of IAS 39.

Based on the initial assessment:

- The majority of loans and advances to banks, loans and advances to customers that are classified as loans and receivables under IAS 39 are expected to be measured at amortised cost under IFRS 9.
- Financial assets and liabilities held for trading and financial assets at FVPL are expected to be continued to be measured at FVPL.
- The securities classified as available for sale under IAS 39 are expected to be measured FVOCI.

Impairment of financial assets

IFRS 9 will also fundamentally change the loan loss impairment methodology. The standard will replace IAS 39's incurred loss approach with a forward-looking expected loss (ECL) approach. The Bank will be required to record an allowance for expected losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset.

The Bank continues its work to develop the policy according to which an assessment will be performed at the end of each reporting period of whether credit risk has increased significantly since initial recognition by considering the change in the risk of default occurring over the remaining life of the financial instrument. In comparison to IAS 39, the Bank expects the impairment charge under IFRS 9 to be more volatile than under IAS 39 and to result in an increase in the total level of current impairment allowances.

Capital management

The Bank is in the process of evaluating how the new expected loss approach model will impact the Bank's ongoing regulatory capital structure and further details will be provided once the assessment is complete. Based on the analysis to date, the Bank anticipates a negative effect on its regulatory capital.

Notes to the Financial Statements *(continued)*

3 ADOPTION OF NEW AND/OR CHANGED IFRS AND INTERNATIONAL FINANCIAL REPORTING INTERPRETATIONS COMMITTEE (IFRIC) INTERPRETATIONS (continued)

IFRS 15 *Revenue from Contracts with Customers* (effective for financial years beginning on or after 1 January 2018)

IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer, regardless of the type of revenue transaction or the industry. Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. The Group has not yet evaluated the impact of the implementation of this standard.

IFRS 15 *Revenue from Contracts with Customers (Clarifications)* (effective for annual periods beginning on or after 1 January 2018, once endorsed by the EU).

The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 *Revenue from Contracts with Customers*, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. The Group has not yet evaluated the impact of the implementation of this standard.

IFRS 16 *Leases* *(*effective for financial years beginning on or after 1 January 2019, once endorsed by the EU)

IFRS 16 replaces IAS 17 and specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessor accounting is substantially unchanged. The Group has not yet evaluated the impact of the implementation of this standard.

Amendments to IAS 7 *Statement of Cash Flows: Disclosure Initiative* *(*effective for financial years beginning on or after 1 January 2017, once endorsed by the EU)

The amendments improve information provided to users of financial statements about an entity's financing activities. Entities are required to disclose changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes, for example, by providing reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. The implementation of these amendments will not have any impact on the financial position or performance of the Group but may result in changes in disclosures.

Amendments to IAS 12 *Income Taxes: Recognition of Deferred Tax Assets for Unrealized Losses* *(*effective for financial years beginning on or after 1 January 2017, once endorsed by the EU)

The amendments clarify how to account for deferred tax assets for unrealized losses on debt instruments measured at fair value. The Group has not yet evaluated the impact of the implementation of this standard.

IFRS 2 *Classification and Measurement of Share based Payment Transactions (Amendments)* *(*effective for financial years beginning on or after 1 January 2018, once endorsed by the EU)

The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The Group has not yet evaluated the impact of the implementation of this standard.

Amendments to IFRS 10 and IAS 28 – *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* *(*In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting.)

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business and partial gain or loss is recognised when a transaction involves assets that do not constitute a business. The Group has not yet evaluated the impact of the implementation of this standard.

Notes to the Financial Statements *(continued)*

3 ADOPTION OF NEW AND/OR CHANGED IFRS AND INTERNATIONAL FINANCIAL REPORTING INTERPRETATIONS COMMITTEE (IFRIC) INTERPRETATIONS (continued)

Amendments to IAS 40: *Transfers to Investment Property* (effective for financial years beginning on or after 1 January 2018, once endorsed by the EU)

The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The Group has not yet evaluated the impact of the implementation of this standard.

IFRIC INTERPETATION 22: *Foreign Currency Transactions and Advance Consideration* (effective for financial years beginning on or after 1 January 2018, once endorsed by the EU)

The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The Group has not yet evaluated the impact of the implementation of this standard.

The **IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2017 for IFRS 12 Disclosure of Interests in Other Entities and on or after 1 January 2018 for IFRS 1 First-time Adoption of International Financial Reporting Standards and for IAS 28 Investments in Associates and Joint Ventures. Earlier application is permitted for IAS 28 Investments in Associates and Joint Ventures. These annual improvements have not yet been endorsed by the EU. The adoption of these amendments may result in changes to accounting policies or disclosures but will not have any impact on the financial position or performance of the Group.

- ***IFRS 1 First-time Adoption of International Financial Reporting Standards:*** This improvement deletes the short-term exemptions regarding disclosures about financial instruments, employee benefits and investment entities, applicable for first time adopters.
- ***IAS 28 Investments in Associates and Joint Ventures:*** The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.
- ***IFRS 12 Disclosure of Interests in Other Entities:*** The amendments clarify that the disclosure requirements in IFRS 12, other than those of summarized financial information for subsidiaries, joint ventures and associates, apply to an entity's interest in a subsidiary, a joint venture or an associate that is classified as held for sale, as held for distribution, or as discontinued operations in accordance with IFRS 5.

The Group plans to adopt the above mentioned standards and interpretations on their effectiveness date provided they are endorsed by the EU.

4 RISK MANAGEMENT

Sound risk management is a prerequisite for long-term value generation as the profitability is dependent on Group's ability to identify, manage and accurately price risk. In 2016 the Group and the Bank continued to carry out harmonisation of risk management process with the parent bank DNB Bank ASA (Norway) and follows main parent bank's policies and guidelines to the extent possible. However, it has to be taken into account that the Group is using standardised approach for calculation of credit risk capital requirements while parent bank follows internal ratings based approach. Therefore, harmonization of some sub-processes in risk management area is limited.

Notes to the Financial Statements *(continued)*

4 RISK MANAGEMENT (continued)

Organisation and authorization structure

- *Supervisory Council and Management Board.* The Supervisory Council sets long-term targets for the Group's risk profile. The risk profile is operationalised through the risk management framework, including the establishment of authorisations. The Management Board is responsible for development, implementation, control and regular revision of risk management framework.
  In 2016 a Risk Committee was established consisting of all members of the Supervisory Council. The objective of the Committee is to ensure the effective formation of optimal capital structure, risk management and control as well as to optimise the Bank's asset and liability structure with regard to acceptable risk and return.
- *Authorisations*. Authorisations must be in place for the extension of credit and for position and trading limits in all critical financial areas.
- *Annual review of limits*. Risk limits are reviewed at least annually.
- *Independent risk management functions*. Risk management functions and the development of risk management tools are undertaken by units that are independent of operations in the individual business areas.

Monitoring and use

- *Accountability*. All executives are responsible for risk within their own area of responsibility and must consequently be fully updated on the risk situation at all times.
- *Risk reporting*. Risk reporting in the Group ensures that all executives have the necessary information about current risk levels and possible future developments. To ensure high-quality, independent risk reports, responsibility for reporting is assigned to units that are independent of the operative units.
- *Capital assessment*. A summary and analysis of the Group's capital and risk situation is presented on a regular basis to the Bank`s senior management.
- *Use of risk information*. Risk is an integral part of the management and monitoring of business areas to the extent possible, including taken into account during strategic and planning processes, lending process, product development and other daily business activities.

Relevant risk measures

Risk is followed up through risk measures adapted to operations in the various business areas, for example, monitoring of set limits, key financial and risk figures and ratios, portfolio risk targets, stress testing as well as risk analysis during internal capital adequacy assessment process.

Risk categories

For risk management purposes, Group distinguishes between the following main risk categories:

- *Credit risk* is the risk of financial losses due to failure on the part of the Group's customers (counterparties) to meet their payment obligations towards DNB. Credit risk also includes concentration risk, residual risk and models risk.
- *Market risk* is the risk of losses in on and off-balance sheet positions arising from adverse movements in market prices.
- *Liquidity risk* is the risk to incur unacceptable losses due to inability to fund increases in assets and meet obligations as they come due.
- *Operational risk* is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition also includes, but not limited to such types of operational risk like legal risk, compliance risk, money laundering risk, conduct risk, IT risk and information security risk.
- *Business risk* is the risk of profit fluctuations due to changes in external factors such as the market situation, government regulations or the loss of income due to a weakened reputation. Reputational risk is often a consequence of other risk categories. The Group's business risk is generally handled through the strategy process and by maintaining ongoing focus on safeguarding and improving the Group's reputation.
- *Strategic* risk is the risk of a decline in income if the Group fails to exploit the strategic opportunities.

The Group quantifies total risk during internal capital adequacy assessment process by calculating capital needed to cover various types of risk, except liquidity risk. Risk measurement is a field in constant development, and measurement methods and tools are subject to continual improvement.

***Notes to the Financial Statements** (continued)*

4 RISK MANAGEMENT (continued)

a) Credit risk

Credit risk is the main risk category in the Group. The credit portfolio includes loans, liabilities in the form of other extended credits, guarantees, leasing, factoring, interest bearing securities, approved, undrawn credits, as well as counterparty risk arising through derivatives and foreign exchange contracts. Settlement risk, which arises in connections with payment transfers as not all transactions take place in real time, also involves counterparty risk.

Credit risk management framework

The Group's credit policy, credit strategies and credit guidelines (*Credit Manual*) regulate credit activity in the Group and are based on the parent bank's relevant credit policies and guidelines. The best practice, experience and competence of the parent bank are taken over in order to have common and strong credit culture.

Strategic goal for the whole DNB Group is to ensure that the loan portfolio has a quality and compositions which secure the Group's profitability in the short and long term. The Group intends to grow credit portfolio with low and medium risk customers.

Main credit risk management principles

- Customer's true willingness and ability to repay the loan is/ must be the key element when considering whether to approve a loan; collateral is considered only as a risk mitigant.
- Keep a balanced loan portfolio from concentration point of view, including the balance between private individuals and legal entities.
- Avoidance of large risk concentrations related to a single customer/ group or clusters in higher risk categories and specific business sectors whereby significant changes in one or a few risk drivers may substantially affect the Group's profitability.
- Not financing industries where the Group does not have competence and experience.
- Any changes to a credit facility are approved at the appropriate decision making level.

Risk classification

Risk classification is an important element of the credit process and the management of the Group's credit risk. The Group has developed different risk classification models to cover specific loan portfolios/ credit products. Risk classification systems are used for decision support, risk monitoring and internal reporting. The risk parameters used in the classification systems are an integral part of the credit process and ongoing monitoring including the follow-up of credit strategies.

The Group's credit risk models provide a basis for statistically based calculations of expected losses in a long-term perspective and risk-adjusted capital in a portfolio perspective. Customers are classified based on the probability of default (PD). Customers are re-classified according to risk with every significant credit approval or major change in customer's risk profile, but at least once a year, unless otherwise decided.

The risk classes are defined on the basis of the scales used by international rating agencies. Probability of default (PD) is a statistical measure representing the expected rate of defaulted customers to the total number of customers initially attributed to the specific class (grade) in one year horizon. There are ten risk classes for performing loans. In addition, doubtful and non-performing commitments are placed in classes 11 and 12 for internal reporting purposes.

Risk segmentation	Risk class	PD (%) as from	PD (%) up to
Low	1	0,01	0,10
	2	0,10	0,25
	3	0,25	0,50
	4	0,50	0,75
Moderate	5	0,75	1,25
	6	1,25	2,00
	7	2,00	3,00
High	8	3,00	5,00
	9	5,00	8,00
	10	8,00	…

Notes to the Financial Statements *(continued)*

4 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Credit approval authorizations

Credit decision making is based on a dual credit approval system with individual credit approval authorities.
All individual credit approval authorities are personal and are assigned based on person's qualification, experience and competence. "Two pairs of eyes" principle follows throughout all credit approval process.
The Group has defined a list of criteria when credit decisions must be lifted one level up than ordinary decision making level or delegated to specially authorized persons.

Credit risk mitigation

Credit risk mitigation is an integral part of credit risk management process in the Group. Defined requirements for new customers, prudent evaluation of debt service capacity and collateral held as security are the main credit risk mitigation measures. However, other risk mitigation techniques, tools and processes, including but not limited to different risk classification models, calculation of debt service capacity, transparent credit approval authorities and strict credit decision making rules, ongoing credit risk monitoring are used in daily activities as well.

Credit risk measurement

Credit risk is monitored by following developments in risk parameters, migration and distribution over the various risk classes. Developments in risk concentrations are monitored closely with respect to exposure and risk classes.

The Group has developed different management tools in order to monitor the ongoing credit risk of a customer and implement relevant measures proactively in the case of negative development, already at an early stage. Larger exposures are monitored individually case-on-case basis where the frequency and scope depends on the size and risk classification of the exposure, while monitoring of smaller exposures is performed by business units based on automatically generated reports or in close cooperation with risk reporting unit. The Group has established the system for identification of commitments showing early warning signals when special attention and separate follow up is needed.

Credit risk stress testing

Stress testing is used to define the potential impact of diverse extraordinary, yet possible and materially unfavourable occurrences or changes in market conditions on the risk profile, financial and capital ratios of the Group. Stress testing supports management understanding of risk profile with forward-looking view on resilience under adverse conditions. Stress tests are performed at least once in every six months. Within the stress test at least 2 scenarios are developed – standard scenario and severe scenario. Stress tests are performed for at least two time periods, i.e. 1 and 2 years' periods; within the framework of the annual ICAAP also for 3 years' period.

In case of private individuals stress testing is performed based on top-down method, which is based on macroeconomic indicators (unemployment, GDP, inflation etc.), as well as scenario analysis of non-performing and restructured loan portfolio development.

According to standard scenario macroeconomic situation will improve, e.g. moderate GDP growth, decrease in registered unemployment. According to severe scenario macroeconomic indicators will significantly deteriorate. According to this scenario GDP will decrease, while unemployment will increase.

Stress testing for legal entities is performed based on bottom-up method - enough representative proportion of the performing portfolio in terms of total exposures is subject to individual assessment. Afterwards, results are extrapolated in order to cover whole performing loan portfolio. Also non-performing and doubtful loans are subject for individual assessment.

The stress tests help to identify possible future changes in economic conditions which could have a negative impact on the Group's credit exposure and ability to withstand such changes. These assessments are taken into account in the Group's risk and capital adequacy assessment process as well as to estimate the necessary capital buffer. Results of stress testing have direct impact on strategic and business decisions of the Group.

Industry risk management

The Group has defined maximum limit to any single industry sector. The Group has recognised and regularly reviews sensitive sectors to which lending is frozen on existing level. Within Real estate sector the Group has strict guidelines and limits to manage, reduce the volumes and increase the quality of the portfolio in this segment.

Acceptable Risk Criteria have been prepared for the different industries. These are used as indicative standards when appraising a customer's creditworthiness. In order to increase industry competence the Group has organized the Corporate Banking according to industry strategy specialization, and complex financing is done in close cooperation with the industry divisions and sections of the parent bank.

***Notes to the Financial Statements** (continued)*

4 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Following parent bank's credit policy, ethical and corporate social responsibility guidelines the Group has determined to which industry sectors financing shall not be pursued.

Country risk management

The Group closely follows "home market" approach. The Group restricts to the large extent any exposure related to countries where DNB Group has no presence.

All countries are classified according to Group's PD risk scale the classification of country risk is based on classification by external rating agencies. Risk grades are reviewed and updated not less than once a year. Country risk limits are approved only based on parent bank's recommendations. Country risk limits are reviewed annually, unless there is any deterioration in risk classification of the particular country.

In 2016 the Group continued launching new initiatives in order to improve credit risk management process as well as harmonizing further credit processes with DNB Group.

b) Market risk

The Group is mainly exposed to such market risks as currency risk and interest rate risk. The Group does not have any open positions in commodity or equity instruments and is not exposed to changes in commodity or equity prices. During the year 2016 there were no significant changes in market risk management process.

Currency risk

The Group and the Bank seek to match assets, liabilities and off-balance sheet items denominated in foreign currencies in order to keep foreign currency exposures within limits set by the Credit Institution Law and internally by the sole shareholder DNB Bank ASA. According to the Credit Institution Law the Bank's open position in each foreign currency may not exceed 10% of the Bank's own funds and that the total foreign currency open position may not exceed 20% of the Bank's own funds. During the year 2016 the Bank was in compliance with all limits.

Sensitivity to currency risk

Sensitivity of the Group and the Bank to a reasonably possible change in currency exchange rates, with all other variables held constant, is calculated by multiplying foreign currency open positions by possible changes in currency rates. An impact on the Group's profit or loss, assuming historical changes in currency rates, is EUR 1.4 thou as of December 31, 2016 (December 31, 2015: EUR 7.6 thou).

Interest rate risk

In normal course of business, the interest rate risk arise due to timing differences in the maturity (for fixed rate) and repricing (for floating rate) of the Group's and the Bank's assets, liabilities and off-balance sheet items.
Interest rate risk from single currency positions is calculated and monitored, using the basis point value (BPV) analysis, which reflects the sensitivity of the present value of the Group's future cash flows to a parallel shift of 0.01% in market interest rates. The Group follows a conservative approach to interest rate risk and seeks to match maturity and repricing profiles of assets, liabilities and off-balance sheet items in order to keep BPV within limits set by the sole shareholder, DNB Bank ASA. Limits are set for each currency in which the Group and the Bank have significant activity as well as for all currencies altogether. During the year 2016 the Group and the Bank were in compliance with the limits.
Interest rate risk management involves the usage of funding and fund placements for different time periods or/and different repricing periods as well as derivative financial instruments, such as interest rate swap agreements.

Sensitivity to interest rate risk

Sensitivity of the Group to an interest rate risk, in terms of a basis point value, is provided in the table below.

		EUR'000
	December 31, 2016	**December 31, 2015**
EUR	-1.7	4.0
USD	0.03	-0.4
Other currencies	0.1	0.01
Total	1.8	4.5

Notes to the Financial Statements *(continued)*

4 RISK MANAGEMENT (continued)

c) Liquidity risk

The Group has a low liquidity risk profile as it is supported by a committed long-term multicurrency funding line from the sole shareholder DNB Bank ASA (counterparty credit rating A-1/A+/Negative, affirmed by Standard & Poor's in December 2016). DNB Bank ASA acts as a lender of a last resort. This commitment was proven during the recent global financial turmoil, when DNB Bank ASA supplied the Group with liquidity at all times in sufficient amounts and in a timely manner.

Liquidity risk management process

The level of the Bank's liquidity risk is limited by the surviving periods analysed across different stress scenarios, which are based on both idiosyncratic and systemic stress assumptions. The survival periods are defined as a period with a positive cumulative cash flow; these are regularly measured and reported to the Bank's management bodies.

The Bank uses a set of liquidity risk metrics to measure its liquidity position, structural liquidity mismatches, and a concentration of funding. Liquidity ratio, calculated using the methodology approved by the Financial and Capital Market Commission (FCMC), as of December 31, 2016 is 40.01% (December 31, 2015: 45.17%), which is sufficiently above the regulatory minimum of 30%.
As at 31 December 2016, the liquidity coverage ratio (LCR) of the Group and the Bank was 183.9% and 159.2%, respectively (December 31, 2015: 140.6% and 130.4%). According to the Regulation, as at 31 December 2016 the Group and the Bank were required to maintain an LCR of at least 70%.

Liquidity risk is managed in a manner to ensure a constant ability to settle contractual obligations. The Bank has developed a set of early warning indicators for a timely identification of liquidity crises, and a contingency funding plan to manage the Bank's liquidity during the market disruption.

d) Operational risk

Operational risk management

Operational risk management in the Group is performed by following the policy for the management of operational risk. Operational risk should be low, and risk management should ensure that the risk of unwanted losses is reduced.

All managers are responsible for knowing and managing operational risk within their own area of responsibility. This is to be ensured through risk assessment of everyday operations of all major changes in operations as well as of particularly critical functions. When a need for improvement measures is identified, special follow-ups are initiated. In order to limit the consequences of serious events, operational disruptions etc., comprehensive contingency and business continuity plans have been drawn up to be able to handle a crisis situation in a rational and effective manner, thus contributing to limiting damage and restoring a normal situation.

The Group's insurance coverage is an element in operational risk management. Insurance contracts are entered into to limit the financial consequences of undesirable events which occur in spite of established security routines and other risk-mitigating measures. The insurance program also covers legal liabilities the Group may face related to its operations.

Operational risk measurement

Operational risk events in the Group which result in losses and near-events with a loss potential are registered, reported and followed up on an ongoing basis in the Group's event database. Undesirable events which cause, or could have caused, financial losses for the Group represent valuable information and learning about necessary improvement needs.

The Group's management is kept updated on the status of operational risk through the periodic risk report, which provides a basis for analysing the risk situation. In addition, the Group's management is kept updated on the Group's operational risk in the annual status report on ongoing management and control of operational and business risk. The status report includes a presentation of key group-wide risks, relevant improvement measures and a detailed qualitative assessment based on the Group's ambitions within key areas of risk management and quality assurance.

***Notes to the Financial Statements** (continued)*

5 INTEREST INCOME

	2016 Group EUR'000	2015 Group EUR'000	2016 Bank EUR'000	2015 Bank EUR'000
Interest income:				
Interest on financial assets measured at amortised cost:	42,427	44,970	37,595	41,079
- interest on loans and receivables to customers	*40,053*	*43,117*	*35,221*	*39,226*
- interest on impaired loans	*1,169*	*1,734*	*1,169*	*1,734*
- interest on balances due from credit institutions and central banks	*40*	*119*	*40*	*119*
- negative interest on liabilities	*1,165*	-	*1,165*	-
Interest on financial assets designated at fair value through profit or loss	323	878	323	878
Interest on derivatives	3,057	1,358	3,057	1,358
Total interest income	**45,807**	**47,206**	**40,975**	**43,315**

6 INTEREST EXPENSE

	2016 Group EUR'000	2015 Group EUR'000	2016 Bank EUR'000	2015 Bank EUR'000
Interest expense:				
- interest on deposits from customers	(953)	(1,101)	(958)	(1,113)
- interest on balances due to credit institutions	(774)	(2,201)	(129)	(1,334)
- negative interest on interest bearing assets	(1,364)	-	(1,364)	-
- financial stability fee costs	(919)	(968)	(919)	(968)
- payments to Deposit Guarantee Fund	(1,138)	(1,747)	(1,138)	(1,747)
- Single Resolution Fund expense	(737)	(939)	(737)	(939)
- interest on derivatives	(11)	(117)	(11)	(116)
Total interest expense	**(5,896)**	**(7,073)**	**(5,256)**	**(6,217)**
Net interest income	**39,911**	**40,133**	**35,719**	**37,098**

7 FEES AND COMMISSION INCOME

	2016 Group EUR'000	2015 Group EUR'000	2016 Bank EUR'000	2015 Bank EUR'000
Money transfers	2,497	2,372	2,498	2,372
Credit card service	8,451	7,647	8,451	7,647
Assets management	2,993	2,827	-	-
Client service	1,568	1,362	1,568	1,362
Insurance	910	851	910	851
Commissions on loans monitoring and service	888	850	497	466
Financial instruments	858	1,002	858	1,007
Guarantees	429	494	522	583
Cash operations	175	350	175	350
Trade finance	158	134	158	134
Other	709	683	922	976
Total fees and commission income	**19,636**	**18,572**	**16,559**	**15,748**

***Notes to the Financial Statements** (continued)*

8 FEES AND COMMISSION EXPENSES

	2016 Group EUR'000	2015 Group EUR'000	2016 Bank EUR'000	2015 Bank EUR'000
Credit card service	(3,743)	(3,514)	(3,743)	(3,514)
Cash operations	(667)	(756)	(667)	(756)
Money transfers	(375)	(359)	(374)	(358)
Client Service	(355)	(364)	(355)	(364)
Securities	(107)	(114)	(106)	(113)
Guarantees	(23)	(24)	(23)	(24)
Other	(681)	(509)	(331)	(237)
Total fee and commission expenses	**(5,951)**	**(5,640)**	**(5,599)**	**(5,366)**
Net fees and commission	**13,685**	**12,932**	**10,960**	**10,382**

9 NET RESULT FROM OPERATIONS WITH FOREIGN CURRENCY, TRADING SECURITIES AND DERIVATIVE FINANCIAL INSTRUMENTS

	2016 Group EUR'000	2015 Group EUR'000	2016 Bank EUR'000	2015 Bank EUR'000
Gain from operations with foreign currencies	2,144	2,258	2,144	2,257
Gain from trading with financial assets at fair value through profit or loss*	11,529	183	11,528	183
(Loss) from revaluation of financial assets at fair value through profit or loss	(29)	(829)	(29)	(829)
Gain / (Loss) from foreign currency revaluation	(57)	3	(40)	(7)
(Loss) from derivatives revaluation	(350)	(784)	(350)	(784)
	13,237	**831**	**13,253**	**820**

* On 21 June 2016 Visa Inc. completed its acquisition of 100% of the share capital of Visa Europe for a total purchase price of EUR 17.25 billion in cash and Visa Inc. preferred stock to the shareholders of Visa Europe, with a deferred cash payment of EUR 1.12 billion, including interest, to follow in three years' time.

In 2016 the Bank has recognised its VISA Europe shares sale proceeds which comprise cash proceeds EUR 8,780 thou, deferred cash payment EUR 700 thou and Visa Inc. shares with value of USD 2,389 thou (EUR 2,154 thou) as at acquisition date. For additional information refer to Notes 19 and 33. Detailed information regarding fair value measurement of Visa Inc. shares is described in Note 2 (x).

10 NET RESULT FROM OPERATIONS WITH INVESTMENT PROPERTY

	2016 Group EUR'000	2015 Group EUR'000	2016 Bank EUR'000	2015 Bank EUR'000
Net rental expenses/income				
Rent of investment property	1,112	1,643	46	54
Investment property related expenses	(2,236)	(3,372)	(344)	(588)
Net rental expenses	**(1,124)**	**(1,729)**	**(298)**	**(534)**
Net profit / loss from revaluation and sale				
Unrealised (loss) from investment property revaluation	(2,907)	(3,281)	(184)	(649)
Realized profit from sale of investment property	756	1,758	38	16
Net (loss) from revaluation and sale	**(2,151)**	**(1,523)**	**(146)**	**(633)**
Net result from operations with investment property	**(3,275)**	**(3,252)**	**(444)**	**(1,167)**

Notes to the Financial Statements *(continued)*

11 OTHER OPERATING INCOME

	2016 Group EUR'000	2015 Group EUR'000	2016 Bank EUR'000	2015 Bank EUR'000
Income from other related parties	1,274	1,059	1,274	1,059
Profit from sale of fixed assets	44	115	44	115
Income from sales of MasterCard shares	-	1,795	-	1,795
Income for services provided to subsidiaries	-	-	2,655	2,848
Other operating income	2,607	1,830	741	1,303
	3,925	**4,799**	**4,714**	**7,120**

12 ADMINISTRATIVE EXPENSES

	2016 Group EUR'000	2015 Group EUR'000	2016 Bank EUR'000	2015 Bank EUR'000
Salary to Management Board	700	377	700	377
Salary to employees	13,291	13,852	13,141	13,702
Social insurance contributions	3,391	3,305	3,356	3,269
Personnel expenses	**17,382**	**17,534**	**17,197**	**17,348**
IT costs	5,024	4,982	4,921	4,883
Advertising and representation	1,227	1,750	1,063	1,559
Maintenance and occupancy costs of building	2,344	2,673	3,034	3,374
Payments for management services to Group	1,071	2,107	1,068	2,107
Communications	593	646	560	613
Professional services	250	242	199	191
Training	197	284	195	279
Insurance to personnel	245	239	243	237
Insurance	209	195	178	155
Business travel	89	111	88	110
Other personal costs	461	423	461	423
Other	1,203	1,447	851	1,345
Other administrative expenses	**12,913**	**15,099**	**12,861**	**15,276**
Total administrative expenses	**30,295**	**32,633**	**30,058**	**32,624**

The total number of staff employed by the Group as at 31 December 2016 is 639, and 634 by the Bank (by the Group as at 31 December 2015 was 670, by the Bank was 665).

13 OTHER OPERATING EXPENSES

	2016 Group EUR'000	2015 Group EUR'000	2016 Bank EUR'000	2015 Bank EUR'000
Loss from write off and sale of fixed assets	261	80	258	77
Other operating expenses	1,170	1,152	1,033	1,053
	1,431	**1,232**	**1,291**	**1,130**

***Notes to the Financial Statements** (continued)*

14 CORPORATE INCOME TAX

	2016 Group EUR'000	2015 Group EUR'000	2016 Bank EUR'000	2015 Bank EUR'000
Corporate income tax for the year	396	608	-	-
Deferred tax	8	(130)	-	-
	404	**478**	**-**	**-**

Corporate income tax differs from the theoretically calculated tax amount, which would be applicable on profit before taxation at the 15% rate as stipulated by the law (see below):

	2016 Group EUR'000	2015 Group EUR'000	2016 Bank EUR'000	2015 Bank EUR'000
Profit before taxation	**33,857**	**15,168**	**30,174**	**11,754**
Theoretically calculated tax at a tax rate of 15%	5,079	2,275	4,526	1,763
Non-deductible revaluation of assets	1,000	732	83	326
Impairment for debtors	22	15	-	1
Non-taxable income	(2,082)	(505)	(2,082)	(505)
Transfer pricing adjustments in relation to leasing portfolio cession (refer to Note 32)	-	-	898	-
Other net expenses not deductible for tax purposes	117	632	113	866
Unrecognised deferred tax asset	(3,740)	(2,541)	(3,538)	(2,451)
	396	608	-	-
Net deferred tax asset at the beginning of the year	(8,782)	(8,652)	(8,701)	(8,701)
Change in net deferred tax asset during the year	8	(130)	-	-
Net deferred tax at the end of the year	**(8,774)**	**(8,782)**	**(8,701)**	**(8,701)**

Deferred tax has been calculated from the following temporary differences between assets and liabilities values for financial and tax purposes:

	2016 Group EUR'000	2015 Group EUR'000	2016 Bank EUR'000	2015 Bank EUR'000
Gross deferred income tax liability:				
Temporary difference on property and equipment depreciation	1,952	1,977	645	758
Gross deferred income tax asset:				
Temporary difference on accruals	(2,858)	(539)	(2,638)	(539)
Other temporary differences	287	(1,849)	1,244	(1,161)
Unrecognised deferred tax asset	19,889	23,725	17,536	21,974
Tax loss carried forward	(28,044)	(32,096)	(25,488)	(29,733)
Net deferred tax assets	**(8,774)**	**(8,782)**	**(8,701)**	**(8,701)**

Deferred income tax assets are recognised for tax loss carried forward to the extent that realization of the related tax benefit through future taxable profits is probable. The deferred tax assets recognised at 31 December 2016 in respect of tax losses have been based on profitability assumptions over four year horizon. The expected future taxable profits are based on the Group`s business plan assumptions taking into consideration uncertainties arising from the current economic environment. If the business plan earnings and assumptions in following quarters substantially deviate from the current assumptions, the amount of existing deferred tax assets may need to be adjusted.

The business plan assumptions of combined bank (refer to Note 42) and its impact to the extent of deferred income tax assets is not considered.

As at 31 December 2016 tax losses of the Group constituted EUR 187 million. In accordance with the law "On Corporate Income Tax" tax losses can be carried forward and set off against taxable income during the unlimited period of time. However, the deferred tax asset has been recognised only on the portion of these losses within the above-mentioned four-year horizon.

***Notes to the Financial Statements** (continued)*

15 CASH AND CASH EQUIVALENTS

	2016 Group EUR'000	2015 Group EUR'000	2016 Bank EUR'000	2015 Bank EUR'000
Cash	25,878	26,791	25,878	38,160
Balances with the central banks	37,784	11,369	37,784	-
Cash and balances with central banks	**63,662**	**38,160**	**63,662**	**38,160**
Balances due from other credit institutions with the original maturity less than 3 months	444,590	529,773	443,991	529,442
Balances on demand due to other credit institutions	(2,225)	(3,174)	(2,225)	(3,174)
Total cash and cash equivalents	**506,027**	**564,759**	**505,428**	**564,428**

The Bank is required to comply with minimum reserve requirements set by the European Central Bank. This requires the Bank's monthly average EUR balance on its correspondent account with the Bank of Latvia to exceed a specified minimum during the maintenance period of requirements.

The Bank was in compliance with the reserve requirement during the reporting period.

16 DUE FROM CREDIT INSTITUTIONS

	2016 Group EUR'000	2015 Group EUR'000	2016 Bank EUR'000	2015 Bank EUR'000
Demand deposits				
Republic of Latvia credit institutions	604	339	5	8
OECD credit institutions*	28,814	59,750	28,814	59,750
Non-OECD credit institutions	675	148	675	148
Total demand deposits	**30,093**	**60,237**	**29,494**	**59,906**
Term deposits				
OECD credit institutions**	414,497	469,537	414,497	469,537
Total term deposits	**414,497**	**469,537**	**414,497**	**469,537**
Total	**444,590**	**529,774**	**443,991**	**529,443**

The effective interest rate on balances due from other credit institutions as for 31 December 2016 was -0.34% (2015: -0.11%)

* Including DNB Bank ASA EUR 27,695 thou (2015: EUR 58,830 thou)
** Including DNB Bank ASA EUR 414,591 thou (2015: EUR 469,527 thou)

Due from credit institutions includes eight buy/sell-back deals (2015: six buy/sell-back deal) with DNB Bank ASA totalling to EUR 57,591 thou (2015: EUR 57,483 thou) with the rollover option. Several issues of the bonds were received as collateral for these deals. According to the terms of transactions, price risk arising from the off-balance sheet bonds position is borne by DNB Bank ASA. The bonds thus received are used as collateral for long-term funding from the Bank of Latvia (see Note 27).

***Notes to the Financial Statements** (continued)*

17 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysis of loans by original maturity

	2016 Group EUR'000	2015 Group EUR'000	2016 Bank EUR'000	2015 Bank EUR'000
Less than a year	16,690	14,058	13,856	9,218
More than a year	1,570,723	1,648,717	1,481,095	1,563,890
Accrued interest	2,229	3,362	2,107	3,266
	1,589,642	**1,666,137**	**1,497,058**	**1,576,374**
Less allowances for loan impairment	(76,529)	(138,756)	(68,064)	(119,591)
Less allowances for unpaid interest	(435)	(874)	(435)	(874)
Total	**1,512,678**	**1,526,507**	**1,428,559**	**1,455,909**

Loan portfolio includes loans secured by the Republic of Latvia Government guarantees of EUR 318 thou (2015: EUR 4,513 thou).

The average interest rate on loans as at 31 December 2016 was 2.1% (2015: 2.1%).

(b) Analysis of loans by client type

	2016 Group EUR'000	2015 Group EUR'000	2016 Bank EUR'000	2015 Bank EUR'000
Individuals	972,433	1,015,040	924,618	973,097
Private companies	536,283	567,415	478,066	518,117
Public companies	55,200	57,755	53,724	55,295
Management/employees of Bank	14,724	13,804	13,796	12,861
Local government	5,154	5,515	5,019	5,382
Finance institutions	3,619	3,246	19,728	8,356
Accrued interest	2,229	3,362	2,107	3,266
	1,589,642	**1,666,137**	**1,497,058**	**1,576,374**
Less allowances for loan impairment	(76,529)	(138,756)	(68,064)	(119,591)
Less allowances for unpaid interest	(435)	(874)	(435)	(874)
Total	**1,512,678**	**1,526,507**	**1,428,559**	**1,455,909**

(c) Analysis of loans by products

	2016 Group EUR'000	2015 Group EUR'000	2016 Bank EUR'000	2015 Bank EUR'000
Mortgage loans	822,704	855,593	822,704	855,593
Commercial loans	498,592	540,018	564,883	601,368
Private loans	82,194	94,205	82,194	94,205
Leasing	158,753	151,017	-	-
Credit card loans	8,907	9,338	8,907	9,338
Consumer loans	16,263	12,604	16,263	12,604
Accrued interest	2,229	3,362	2,107	3,266
	1,589,642	**1,666,137**	**1,497,058**	**1,576,374**
Less allowances for loan impairment	(76,529)	(138,756)	(68,064)	(119,591)
Less allowances for unpaid interest	(435)	(874)	(435)	(874)
Total	**1,512,678**	**1,526,507**	**1,428,559**	**1,455,909**

Notes to the Financial Statements *(continued)*

17 LOANS AND ADVANCES TO CUSTOMERS (continued)

(d) Analysis of loans by industry

	2016 Group EUR'000	2015 Group EUR'000	2016 Bank EUR'000	2015 Bank EUR'000
Individuals	961,596	999,862	914,802	958,514
Real estate	129,158	169,287	192,942	234,338
Trade	89,367	80,764	70,073	60,755
Manufacturing	64,405	88,639	48,020	71,015
Transport	54,294	68,747	37,796	52,174
Electricity, gas, steam and air conditioning supply	52,721	42,163	52,389	41,848
Agriculture	51,552	45,864	28,763	27,453
Accommodation and food service	41,849	36,388	41,134	35,718
Construction	20,446	15,709	11,174	4,736
Management/employees of Bank	14,724	13,804	13,796	12,861
Non-profit and religious organizations	7,341	11,613	6,394	11,114
Other	67,494	67,587	57,538	46,649
Total loans to residents	**1,554,947**	**1,640,427**	**1,474,821**	**1,557,175**
Loans issued to non-residents	32,466	22,348	20,130	15,933
Accrued interest	2,229	3,362	2,107	3,266
	1,589,642	**1,666,137**	**1,497,058**	**1,576,374**
Less allowances for loan impairment	(76,529)	(138,756)	(68,064)	(119,591)
Less allowances for unpaid interest	(435)	(874)	(435)	(874)
Total	**1,512,678**	**1,526,507**	**1,428,559**	**1,455,909**

(e) Analysis of loans by countries

	2016 Group EUR'000	2015 Group EUR'000	2016 Bank EUR'000	2015 Bank EUR'000
Latvia	1,554,947	1,640,427	1,474,820	1,557,175
Other countries	32,466	22,348	20,131	15,933
Accrued interest	2,229	3,362	2,107	3,266
Total	**1,589,642**	**1,666,137**	**1,497,058**	**1,576,374**
Less allowances for loan impairment	(76,529)	(138,756)	(68,064)	(119,591)
Less allowances for unpaid interest	(435)	(874)	(435)	(874)
Total	**1,512,678**	**1,526,507**	**1,428,559**	**1,455,909**

(f) Gross investment in finance lease

	2016 Group EUR'000	2015 Group EUR'000	2016 Bank EUR'000	2015 Bank EUR'000
Not later than 1 year	54,250	58,303	-	-
1 – 5 years	109,651	97,794	-	-
More than 5 years	1,033	475	-	-
Total gross finance lease receivables	**164,934**	**156,572**	**-**	**-**

Unearned future interest income from investments in finance lease

	2016 Group EUR'000	2015 Group EUR'000	2016 Bank EUR'000	2015 Bank EUR'000
Not later than 1 year	2,816	2,642	-	-
1 – 5 years	3,365	2,913	-	-
Total unearned future interest income	**6,181**	**5,555**	**-**	**-**

Notes to the Financial Statements *(continued)*

17 LOANS AND ADVANCES TO CUSTOMERS (continued)

(f) Gross investment in finance lease (continued)

Net investment in finance lease

	2016 Group EUR'000	**2015 Group EUR'000**	**2016 Bank EUR'000**	**2015 Bank EUR'000**
Not later than 1 year	51,434	55,661	-	-
1 – 5 years	106,286	94,881	-	-
More than 5 years	1,033	475	-	-
Total investment in finance lease	**158,753**	**151,017**	**-**	**-**
Less allowances for individual loan impairment	(6,154)	(16,986)	-	-
Less allowances for homogenous groups of loans	(535)	(212)	-	-
Total net investment in finance lease	**152,064**	**133,819**	**-**	**-**

(g) The following table provides the division of loans and advances to customers by quality:

	2016 Group EUR'000	**2015 Group EUR'000**	**2016 Bank EUR'000**	**2015 Bank EUR'000**
Neither past due nor impaired	1,364,078	1,315,690	1,289,991	1,259,676
Past due but not impaired	86,302	106,726	76,020	93,867
Impaired	137,033	240,359	128,940	219,565
Accrued interest	2,229	3,362	2,107	3,266
Total gross loans and advances to customers	**1,589,642**	**1,666,137**	**1,497,058**	**1,576,374**
Less allowances for individual loan impairment	(68,164)	(131,184)	(60,233)	(112,231)
Less allowances for homogenous groups of loans	(8,365)	(7,572)	(7,831)	(7,360)
Less allowances for unpaid interest	(435)	(874)	(435)	(874)
Total net loans and advances to customers	**1,512,678**	**1,526,507**	**1,428,559**	**1,455,909**

(h) The following table provides the division of loans and advances to customers neither past due nor impaired:

Grades	**Risk classes**	**2016 Group EUR'000**	**2015 Group EUR'000 Restated**	**2016 Bank EUR'000**	**2015 Bank EUR'000 Restated**
Corporate *	**Low**	102,454	104,939	177,313	171,717
	Medium	109,152	45,100	110,150	48,090
	High	10,285	5,175	10,194	5,039
SME*	**Low**	102,213	73,310	87,092	62,079
(Small and medium sized	**Medium**	172,023	214,594	88,338	144,530
enterprises)	**High**	27,081	56,153	20,224	46,618
Private individuals	**Low**	676,672	653,963	654,148	638,226
	Medium	115,727	112,353	97,266	96,161
	High	48,471	50,103	45,266	47,216
	Total	**1,364,078**	**1,315,690**	**1,289,991**	**1,259,676**

***** The information is based on parameters as follows. The legal entities are treated as Corporate if number of employees is over 250 and turnover is more than 50 MEUR, and/ or the balance sheet more than 43 MEUR. Central and local government are also treated as Corporate. The legal entities are treated as SME if number of employees is less than 250 and turnover is less than 50 MEUR, and/ or the balance sheet less than 43 MEUR.

Notes to the Financial Statements *(continued)*

17 LOANS AND ADVANCES TO CUSTOMERS (continued)

(h) The following table provides the division of loans and advances to customers neither past due nor impaired (continued)**:**

	2016 Group EUR'000	2015 Group EUR'000	2016 Bank EUR'000	2015 Bank EUR'000
Mortgage loans	718,237	702,458	718,237	702,458
Commercial	424,911	414,555	493,589	479,078
Leasing	142,765	120,537	-	-
Private loans	56,570	60,038	56,570	60,038
Credit card loans	5,706	5,869	5,706	5,869
Consumer loans	15,889	12,233	15,889	12,233
Total	**1,364,078**	**1,315,690**	**1,289,991**	**1,259,676**

(i) The following table provides the division of loans and advances to customers past due but not impaired:

	2016 Group EUR'000	2015 Group EUR'000	2016 Bank EUR'000	2015 Bank EUR'000
Commercial loans				
Past due up to 30 days	10,450	6,972	9,868	5,874
Past due 31-60 days	714	10,064	685	9,954
Past due 61-90 days	275	203	275	203
Past due over 90 days	-	501	-	501
Total	**11,439**	**17,740**	**10,828**	**16,532**
Mortgage loans (issued to private individuals secured with real estate collateral)				
Past due up to 30 days	38,798	44,147	38,798	44,147
Past due 31-60 days	10,190	12,493	10,190	12,493
Past due 61-90 days	4,322	5,509	4,322	5,509
Past due over 90 days	-	743	-	743
Total	**53,310**	**62,892**	**53,310**	**62,892**
Private loans (issued to private individuals secured with real estate collateral)				
Past due up to 30 days	5,541	7,399	5,541	7,399
Past due 31-60 days	1,958	2,584	1,958	2,584
Past due 61-90 days	967	617	967	617
Past due over 90 days	-	305	-	305
Total	**8,466**	**10,905**	**8,466**	**10,905**
Consumer loans				
Past due up to 30 days	251	227	251	227
Past due 31-60 days	45	40	45	40
Past due 61-90 days	27	28	27	28
Past due over 90 days	-	-	-	-
Total	**323**	**295**	**323**	**295**
Leasing				
Past due up to 30 days	8,350	8,288	-	-
Past due 31-60 days	933	1,075	-	-
Past due 61-90 days	304	425	-	-
Past due over 90 days	84	1,863	-	-
Total	**9,671**	**11,651**	**-**	**-**

Notes to the Financial Statements *(continued)*

17 LOANS AND ADVANCES TO CUSTOMERS (continued)

(i) The following table provides the division of loans and advances to customers past due but not impaired (continued):

	2016 Group EUR'000	2015 Group EUR'000	2016 Bank EUR'000	2015 Bank EUR'000
Credit card loans				
Past due up to 30 days	2,933	3,068	2,933	3,068
Past due 31-60 days	112	113	112	113
Past due 61-90 days	43	57	43	57
Past due over 90 days	5	5	5	5
Total	**3,093**	**3,243**	**3,093**	**3,243**
Total				
Past due up to 30 days	66,323	70,101	57,391	60,715
Past due 31-60 days	13,952	26,369	12,990	25,184
Past due 61-90 days	5,938	6,839	5,634	6,414
Past due over 90 days	89	3,417	5	1,554
Total	**86,302**	**106,726**	**76,020**	**93,867**
Total gross loans and advances to customers past due but not impaired	86,302	106,726	76,020	93,867
Fair value of collateral	**62,778**	**78,146**	**62,472**	**74,394**

(j) The following table provides the division of impaired loans and advances to customers of Group and Bank:

	2016 Group EUR'000	2015 Group EUR'000	2016 Bank EUR'000	2015 Bank EUR'000
Commercial	62,240	107,725	60,464	105,758
Mortgage loans	51,158	90,242	51,158	90,242
Private loans	17,158	23,262	17,158	23,262
Leasing	6,317	18,827	-	-
Credit card loans	109	227	109	227
Consumer loans	51	76	51	76
Total	**137,033**	**240,359**	**128,940**	**219,565**

(k) The following table provides the total fair value of collateral by class of Group`s loans and advances to customers:

	Commercial loans EUR'000	Mortgage loans EUR'000	Private loans EUR'000	Other loans EUR'000	Total EUR'000
31 December 2016					
Total gross loans	498,592	822,704	82,194	183,923	**1,587,413**
Fair value of collateral	378,847	711,491	68,910	801	**1,160,049**
31 December 2015					
Total gross loans	540,018	855,593	94,205	172,959	**1,662,775**
Fair value of collateral	396,771	687,615	75,623	32,470	**1,192,479**

Notes to the Financial Statements *(continued)*

17 LOANS AND ADVANCES TO CUSTOMERS (continued)

(k) The following table provides the total fair value of collateral by class of Bank`s loans and advances to customers:

	Commercial loans EUR'000	Mortgage loans EUR'000	Private loans EUR'000	Other loans EUR'000	Total EUR'000
31 December 2016					
Total gross loans	564,883	822,704	82,194	25,170	**1,494,951**
Fair value of collateral	370,290	711,491	68,910	801	**1,151,492**
31 December 2015					
Total gross loans	601,368	855,593	94,205	21,942	**1,573,108**
Fair value of collateral	396,771	687,615	75,623	235	**1,160,244**

(l) The following table provides the division of restructured loans and advances to customers:

Information regarding all kinds of restructured loans included (impaired, past due but not impaired and neither past due nor impaired)

	2016 Group EUR'000	2015 Group EUR'000	2016 Bank EUR'000	2015 Bank EUR'000
Mortgage loans	47,457	70,105	47,457	70,105
Commercial	23,341	92,230	23,341	92,230
Private loans	10,089	15,366	10,089	15,366
Leasing	413	3,501	-	-
Consumer loans	56	34	56	34
Total	**81,356**	**181,236**	**80,943**	**177,735**

The following table provides the division of Group's restructured loans and advances to customers as at 31 December 2016:

	Neither past due nor impaired EUR'000	Past due but not impaired EUR'000	Impaired EUR'000	Total EUR'000
Mortgage loans	10,145	11,748	25,564	**47,457**
Commercial	1,180	5,292	16,869	**23,341**
Private loans	2,545	1,580	5,964	**10,089**
Leasing	56	205	152	**413**
Consumer loans	46	10	-	**56**
Total	**13,972**	**18,835**	**48,549**	**81,356**

The following table provides the division of Bank's restructured loans and advances to customers as at 31 December 2016:

	Neither past due nor impaired EUR'000	Past due but not impaired EUR'000	Impaired EUR'000	Total EUR'000
Mortgage loans	10,145	11,748	25,564	**47,457**
Commercial	1,180	5,292	16,869	**23,341**
Private loans	2,545	1,580	5,964	**10,089**
Consumer loans	46	10	-	**56**
Total	**13,916**	**18,630**	**48,397**	**80,943**

***Notes to the Financial Statements** (continued)*

17 LOANS AND ADVANCES TO CUSTOMERS (continued)

(l) The following table provides the division of restructured loans and advances to customers (continued):

The following table provides the division of Group's restructured loans and advances to customers as at 31 December 2015:

	Neither past due nor impaired EUR'000	Past due but not impaired EUR'000	Impaired EUR'000	Total EUR'000
Mortgage loans	10,749	15,465	43,891	**70,105**
Commercial	17,731	1,760	72,739	**92,230**
Private loans	2,659	3,093	9,614	**15,366**
Leasing	1,537	416	1,548	**3,501**
Consumer loans	32	-	2	**34**
Total	**32,708**	**20,734**	**127,794**	**181,236**

The following table provides the division of Bank's restructured loans and advances to customers as at 31 December 2015

	Neither past due nor impaired EUR'000	Past due but not impaired EUR'000	Impaired EUR'000	Total EUR'000
Mortgage loans	10,749	15,465	43,891	**70,105**
Commercial	17,731	1,760	72,739	**92,230**
Private loans	2,659	3,093	9,614	**15,366**
Consumer loans	32	-	2	**34**
Total	**31,171**	**20,318**	**126,246**	**177,735**

Loan is considered as restructured if at least one of following action has been performed:

- There are postponed or cancelled principal payment for the Loan for period that is longer than 3 months or repeatedly postponed or cancelled principal payments and total period in last year exceeds 3 months;
- There are postponed, cancelled or capitalized interest payments for the Loan for period that is longer than 3 months or repeatedly postponed, cancelled or capitalized interest payments and total period in last year exceeds 3 months;
- Change of Loan principal repayment schedule that result in decrease of monthly payments by more than 30%;
- There are repossessed collateral or other assets for full or partial loan repayment;
- Substitution of initial borrower or attraction of additional borrower if in case attraction of additional borrower would not be performed that would result in overdue of payments more than 90 days;
- Decrease of loan interest rate due to financial difficulties of the customer.

Loan is not considered as restructured anymore if at least for one year customer has done all payments in accordance with amount and term stated in new changed agreement never behind the schedule by more than 30 days.

18 FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets designated at fair value through profit or loss

	2016 Group EUR'000	2015 Group EUR'000	2016 Bank EUR'000	2015 Bank EUR'000
Debt securities				
Latvian government securities	50,211	43,067	50,211	43,067
OECD financial institutions securities	34,555	34,473	34,555	34,473
Total debt securities	**84,766**	**77,540**	**84,766**	**77,540**
Total	**84,766**	**77,540**	**84,766**	**77,540**

***Notes to the Financial Statements** (continued)*

18 FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

	Moody's equivalent grades	2016 EUR'000	2016 %	2015 EUR'000	2015 %
High grade					
Risk rating class 1	**Aaa**	-	-	-	-
Risk rating class 2	**Aa1-A3**	84,766*	100	77,540*	100
Risk rating class 3	**Baa1-Baa2**	-	-	-	-
Risk rating class 4	**Baa3**	-	-	-	-
Not rated		-	-	-	-
Total		**84,766**	**100**	**77,540**	**100**

* Latvian government securities are classified according to credit rating of Latvia; OECD financial institutions securities are classified according to credit rating of covered securities. In February 2015 the international credit rating agency Moody's Investors Service upgraded Latvia's credit rating from Baa1 to A3.
The effective interest rate on securities at fair value through profit or loss as at December 31, 2016 was 0.3% (2015: 0.6%).

19 FINANCIAL ASSETS AVAILABLE-FOR-SALE

	2016 Group EUR'000	2015 Group EUR'000	2016 Bank EUR'000	2015 Bank EUR'000
Equity instruments				
VISA Inc. shares	2,302	-	2,302	-
VISA Europe share	-	10,500	-	10,500
AS Kredītinformācijas Birojs shares	160	231	160	231
S.W.I.F.T. SCRL shares	21	21	21	21
Financial assets available-for-sale	**2,483**	**10,752**	**2,483**	**10,752**

20 INVESTMENTS IN SUBSIDIARIES

The Bank's investments in subsidiaries are specified as follows:

	Share capital EUR'000	Bank's share %	Investment value 2016 EUR'000	Impairment 2016 EUR'000	Net investment Value 2016 EUR'000	Investment value 2015 EUR'000	Impairment 2015 EUR'000	Net investment Value 2015 EUR'000
SIA DNB līzings	4,838	100	4,838	-	4,838	4,838	-	4,838
IPAS DNB Asset Managemant	3,000	100	947	-	947	947	-	947
SIA Skanstes 12	1,181	100	1,181	-	1,181	1,181	-	1,181
SIA SALVUS*	9,467	100	9,467	8,625	842	7,967	5,175	2,792
SIA SALVUS 2*	3,031	100	3,031	2,917	114	3,031	2,917	114
SIA SALVUS 3*	1,307	100	1,307	1,137	170	1,057	857	200
SIA SALVUS 4*	735	100	735	310	425	485	-	485
SIA SALVUS 5*	285	100	285	-	285	285	-	285
SIA SALVUS 6*	300	100	300	-	300	300	-	300
	24,144		**22,091**	**12,989**	**9,102**	**20,091**	**8,949**	**11,142**

* Subsidiaries of AS DNB banka established with the aim to ensure sales and/or management of real estate foreclosed in the course of compulsory and/or voluntary collection proceedings.

Notes to the Financial Statements *(continued)*

21 DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives are financial instruments whose value depends on the value of one or more underlying assets defined in the contract.

Derivatives are used to hedge market risk positions arising from ordinary banking operations and from derivative transactions with counterparties.

Types of derivatives held:

- **Foreign exchange forward** – agreement to exchange two currencies at a future date at an agreed upon forward exchange rate.

- **Foreign exchange swap** – agreement to exchange two currencies at a set rate and then to re-exchange those currencies at an agreed upon rate at a fixed date in the future.

- **Interest rate swap** – agreement to exchange a series of periodic interest payments which are calculated on a notional amount. The most common interest rate swap is an agreement that involves the exchange of fixed-rate payments for floating-rate payments.

- **Cross-currency interest rate swap** – agreement to exchange interest payments and principals denominated in two different currencies and then to re-exchange those principals at an agreed upon rate at a fixed date in the future. The most common cross-currency interest rate swap is an agreement that involves the exchange of principals and floating-rate payments in one currency for floating-rate payments in another currency.

- **Interest rate caps** – an interest rate cap is a series of interest rate calls designed to protect a buyer from losses resulting from an increase in interest rates. The option buyer has to pay an initial payment – premium to owe the right to receive compensation when an interest rate exceeds agreed level of rate.

- **Interest rate floors** – an interest rate floor is a series of interest rate puts designed to protect a buyer from losses resulting from a decrease in interest rates. The option buyer has to pay an initial payment – premium to owe the right to receive compensation when an interest rate is below agreed level of rate.

- **Interest rate collars** – an interest rate collar is combination of an interest rate cap and an interest rate floor. Depending on the terms the buyer of interest rate collar option pays or receives an initial payment – a premium.

- **Commodity swaps** – agreement to exchange cash flows based on the fixed price calculated on the notional amount of commodity for a cash flow based on the floating price calculated on the same notional amount of commodity.

The Group’s and the Bank's counterparty credit risk represents the potential cost to replace derivative contracts if counterparties fail to perform their obligation. Credit risk divides into current and potential credit risk. Current credit risk is the risk that the party owing more than the bank in a derivative contract will default at the reporting date. Potential credit risk is the risk that the counterparty will default at any future time during the life of the contract.

To control the level of credit risk taken, the Group and the Bank assess counterparties using similar techniques as for its lending activities. The counterparty credit risk is managed primarily through limitation of exposures to each counterparty, valuation of exposures on a daily basis and collateralization of exposures.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on off-balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and do not indicate the Group’s and the Bank's exposure to credit risks. The financial result from positions in derivatives becomes favourable or unfavourable as a result of fluctuations in market prices, such as interest rates, foreign exchange rates and commodity prices relative to the terms specified in agreements.

***Notes to the Financial Statements** (continued)*

21 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The notional amounts and fair values of derivative instruments held are set out in the following table (Group and Bank):

	2016			2015		
	Contract notional amount EUR'000	Fair value Assets EUR'000	Fair value Liabilities EUR'000	Contract notional amount EUR'000	Fair value Assets EUR'000	Fair value Liabilities EUR'000
Derivatives held for trading:						
- currency swaps*	835,512	49,610	41,872	789,614	38,773	37,421
- interest rate swaps	255,069	1,493	1,423	246,008	1,824	2,037
- forwards	3,199	66	59	908	7	4
- options	122,452	394	63	153,502	705	69
- commodity	5,120	336	312	22,260	4,890	4,815
Total		**51,899**	**43,729**		**46,199**	**44,346**

* Including cross-currency interest rate swaps

22 INTANGIBLE ASSETS

Movement table of intangible assets of the Group and the Bank for 2016 is as follows:

	Licences and software Group EUR'000	Goodwill Group EUR'000	Total intangible assets Group EUR'000	Licences and software Bank EUR'000	Total intangible assets Bank EUR'000
Historical cost					
31 December 2015	**9,320**	**351**	**9,671**	**8,759**	**8,759**
Additions	578	-	**578**	578	**578**
Disposals and write-offs	(9)	-	**(9)**	(9)	**(9)**
31 December 2016	**9,889**	**351**	**10,240**	**9,328**	**9,328**
Amortisation					
31 December 2015	**7,294**	**-**	**7,294**	**6,754**	**6,754**
Amortisation for the period	870	-	**870**	851	**851**
Disposals and write-offs	(9)	-	**(9)**	(9)	**(9)**
31 December 2016	**8,155**	**-**	**8,155**	**7,596**	**7,596**
Net book value					
31 December 2015	**2,026**	**351**	**2,377**	**2,005**	**2,005**
31 December 2016	**1,734**	**351**	**2,085**	**1,732**	**1,732**

Intangible assets include advance payments for acquired intangible assets as of 31 December 2016 in amount of EUR 28.3 thou (2015: EUR 5.6 thou).

***Notes to the Financial Statements** (continued)*

22 INTANGIBLE ASSETS (continued)

Movement table of intangible assets of the Group and the Bank for 2015 is as follows:

	Licences and software Group EUR'000	Goodwill Group EUR'000	Total intangible assets Group EUR'000	Licences and software Bank EUR'000	Total intangible assets Bank EUR'000
Historical cost					
31 December 2014	**8,829**	**351**	**9,180**	**8,268**	**8,268**
Additions	566	-	**566**	566	**566**
Disposals and write-offs	(75)	-	**(75)**	(75)	**(75)**
31 December 2015	**9,320**	**351**	**9,671**	**8,759**	**8,759**
Amortisation					
31 December 2014	**6,179**	**-**	**6,179**	**5,679**	**5,679**
Amortisation for the period	1,190	-	**1,190**	1,150	**1,150**
Disposals and write-offs	(75)	-	**(75)**	(75)	**(75)**
31 December 2015	**7,294**	**-**	**7,294**	**6,754**	**6,754**
Net book value					
31 December 2014	**2,650**	**351**	**3,001**	**2,589**	**2,589**
31 December 2015	**2,026**	**351**	**2,377**	**2,005**	**2,005**

23 PROPERTY, PLANT AND EQUIPMENT

Movement table of property, plant and equipment of the Group for 2016 is as follows:

	Land and buildings EUR'000	Office equipment EUR'000	Leasehold improve-ments EUR'000	Operating lease EUR'000	Total EUR'000
Historical cost or revaluation					
31 December 2015	**29,074**	**17,407**	**3,188**	**-**	**49,669**
Additions	23	972	156	-	**1,151**
Disposals and write-offs	(175)	(1,538)	(817)	-	**(2,530)**
31 December 2016	**28,922**	**16,841**	**2,527**	**-**	**48,290**
Depreciation					
31 December 2015	**3,949**	**13,545**	**2,068**	**-**	**19,562**
Depreciation for the year	720	1,529	203	-	**2,452**
Disposals and write-offs	(50)	(1,467)	(622)	-	**(2,139)**
31 December 2016	**4,619**	**13,607**	**1,649**	**-**	**19,875**
Net book value					
31 December 2015	**25,125**	**3,862**	**1,120**	**-**	**30,107**
31 December 2016	**24,303**	**3,234**	**878**	**-**	**28,415**

Notes to the Financial Statements *(continued)*

23 PROPERTY, PLANT AND EQUIPMENT (continued)

Movement table of property, plant and equipment of the Group for 2015 is as follows:

	Land and buildings EUR'000	**Office equipment EUR'000**	**Leasehold improve-ments EUR'000**	**Operating lease EUR'000**	**Total EUR'000**
Historical cost or revaluation					
31 December 2014	**29,323**	**19,045**	**3,150**	**234**	**51,752**
Additions	76	804	70	-	950
Disposals and write-offs	(325)	(2,442)	(32)	(234)	(3,033)
31 December 2015	**29,074**	**17,407**	**3,188**	**-**	**49,669**
Depreciation					
31 December 2014	**3,252**	**14,131**	**1,879**	**160**	**19,422**
Depreciation for the year	722	1,839	221	1	2,783
Disposals and write-offs	(25)	(2,425)	(32)	(161)	(2,643)
31 December 2015	**3,949**	**13,545**	**2,068**	**-**	**19,562**
Net book value					
31 December 2014	**26,071**	**4,914**	**1,271**	**74**	**32,330**
31 December 2015	**25,125**	**3,862**	**1,120**	**-**	**30,107**

Movement table of property, plant and equipment of the Bank for 2016 is as follows:

	Land and buildings EUR'000	**Office equipment EUR'000**	**Leasehold improve-ments EUR'000**	**Total EUR'000**
Historical cost or revaluation				
31 December 2015	**1,069**	**17,196**	**2,483**	**20,748**
Additions	18	888	65	971
Disposals and write-offs	(175)	(1,525)	(816)	(2,516)
31 December 2016	**912**	**16,559**	**1,732**	**19,203**
Depreciation				
31 December 2015	**206**	**13,428**	**1,833**	**15,467**
Depreciation for the year	9	1,485	125	1,619
Disposals and write-offs	(50)	(1,456)	(622)	(2,128)
31 December 2016	**165**	**13,457**	**1,336**	**14,958**
Net book value				
31 December 2015	**863**	**3,768**	**650**	**5,281**
31 December 2016	**747**	**3,102**	**396**	**4,245**

Property, plant and equipment include advance payments as of 31 December 2016 in amount of EUR 18.8 thou (2015: EUR 149.5 thou).

***Notes to the Financial Statements** (continued)*

23 PROPERTY, PLANT AND EQUIPMENT (continued)

Movement table of property, plant and equipment of the Bank for 2015 is as follows:

	Land and buildings	**Office equipment**	**Leasehold improve-ments**	**Total**
	EUR'000	**EUR'000**	**EUR'000**	**EUR'000**
Historical cost or revaluation				
31 December 2014	**1,386**	**18,843**	**2,490**	**22,719**
Additions	8	795	25	828
Disposals and write-offs	(325)	(2,442)	(32)	(2,799)
31 December 2015	**1,069**	**17,196**	**2,483**	**20,748**
Depreciation				
31 December 2014	**219**	**14,053**	**1,714**	**15,986**
Depreciation for the year	12	1,800	151	1,963
Disposals and write-offs	(25)	(2,425)	(32)	(2,482)
31 December 2015	**206**	**13,428**	**1,833**	**15,467**
Net book value				
31 December 2014	**1,167**	**4,790**	**776**	**6,733**
31 December 2015	**863**	**3,768**	**650**	**5,281**

24 INVESTMENT PROPERTY

Investment property contains properties that Group has overtaken from existing loans (as collaterals). The structure of investment property by type (based on investment amount) is following:

	2016 Group	**2015 Group**
Apartments, parking places	18%	30%
Empty land plots	27%	28%
Private house	11%	14%
Objects for commercial use	44%	28%

The structure of investment property by geographic location:

	2016 Group	**2015 Group**
Riga and Riga region (incl. Jurmala)	93%	93%
Other regions	7%	7%

***Notes to the Financial Statements** (continued)*

24 INVESTMENT PROPERTY (continued)

Movement table of investment property of the Group and Bank is as follows:

	Group EUR'000	Bank EUR'000
Investment property book value as at 31 December 2014	**62,148**	**10,245**
Additions, purchases of new properties	13,611	1,167
Net (loss) resulting from adjustment to fair value of projects	(1,523)	(633)
Disposals	(25,841)	(4,164)
Investment property book value as at 31 December 2015	**48,395**	**6,615**
Additions, purchases of new properties	6,996	101
Net (loss) resulting from adjustment to fair value of projects	(2,151)	(146)
Disposals	(16,386)	(1,820)
Investment property book value as at 31 December 2016	**36,854**	**4,750**

Detailed information regarding fair value measurement of investment properties is described in Note 37.

25 OTHER ASSETS

	2016 Group EUR'000	2015 Group EUR'000	2016 Bank EUR'000	2015 Bank EUR'000
Guarantee deposits for auctions and prepayments for investment property	10,199	1,757	4	14
Prepayments and overpaid taxes	2,203	1,367	609	585
Credit card claims and other payment services	5,163	6,360	5,945	6,361
Short term debts	502	570	502	570
Other	2,017	1,295	1,752	550
Total	**20,084**	**11,349**	**8,812**	**8,080**
Less provisions for debtors	(864)	(616)	(790)	(520)
Total	**19,220**	**10,733**	**8,022**	**7,560**

Notes to the Financial Statements *(continued)*

26 PROVISIONS FOR IMPAIRMENT LOANS AND OTHER ASSETS

Group	**Loans Total EUR' 000**	Com-mercial EUR' 000	Mort-gage loans EUR' 000	Consu-mer loans EUR' 000	Leasing EUR' 000	Credit card loans EUR' 000	Private and other EUR' 000	Collec-tive provi-sions EUR' 000	**Other assets EUR' 000**	**Off balance sheet liabilities EUR' 000**	**Total EUR' 000**
31 December 2014	**166,942**	**54,466**	**64,590**	**151**	**22,943**	**357**	**15,057**	**9,378**	**773**	**20**	**167,735**
Fully provided for and written off	**(28,706)**	(10,402)	(8,861)	(153)	(6,175)	(330)	(2,785)	-	**(304)**	**(18)**	**(29,028)**
Charge to statement of comprehensive income :	**19,329**	**8,713**	**6,715**	**97**	**1,185**	**269**	**2,071**	**279**	**147**	**-**	**19,476**
- individual loans and assets	**8,392**	7,262	911	-	-	-	219	-	**147**	**-**	**8,539**
- homogenous groups of loans	**10,937**	1,451	5,804	97	1,185	269	1,852	279	**-**	**-**	**10,937**
Interest income due to shortening of discounting period	**(1,480)**	(1,475)	(91)	-	161	-	(75)	-	**-**	**(2)**	**(1,482)**
Released during the period	**(16,455)**	**(4,870)**	**(6,622)**	**(21)**	**(1,129)**	**(87)**	**(1,640)**	**(2,086)**	**-**	**-**	**(16,455)**
- individual loans and assets	**(2,549)**	(1,699)	(659)	-	-	-	(191)	-	**-**	**-**	**(2,549)**
- homogenous groups of loans	**(13,906)**	(3,171)	(5,963)	(21)	(1,129)	(87)	(1,449)	(2,086)	**-**	**-**	**(13,906)**
31 December 2015	**139,630**	**46,432**	**55,731**	**74**	**16,985**	**209**	**12,628**	**7,571**	**616**	**-**	**140,246**
Fully provided for and written off	**(61,466)**	(22,202)	(24,616)	(178)	(10,178)	(361)	(3,931)	-	**(192)**	**-**	**(61,658)**
Charge to statement of comprehensive income :	**17,697**	**4,823**	**8,058**	**159**	**473**	**268**	**1,946**	**1,970**	**317**	**-**	**18,014**
- individual loans and assets	**4,839**	3,538	745	-	-	-	556	-	**317**	**-**	**5,156**
- homogenous groups of loans	**12,858**	1,285	7,313	159	473	268	1,390	1,970	**-**	**-**	**12,858**
Interest income due to shortening of discounting period	**(945)**	(903)	20	(4)	-	6	(64)	-	**-**	**-**	**(945)**
Other changes	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**330**	**-**	**330**
Released during the period	**(17,952)**	**(5,350)**	**(8,838)**	**(2)**	**(1,126)**	**(26)**	**(1,434)**	**(1,176)**	**(66)**	**-**	**(18,018)**
- individual loans and assets	**(4,947)**	(4,636)	(283)	-	-	-	(28)	-	**(66)**	**-**	**(5,013)**
- homogenous groups of loans	**(13,005)**	(714)	(8,555)	(2)	(1,126)	(26)	(1,406)	(1,176)	**-**	**-**	**(13,005)**
31 December 2016	**76,964**	**22,800**	**30,355**	**49**	**6,154**	**96**	**9,145**	**8,365**	**1,005**	**-**	**77,969**

In 2016 the approach of data classification was changed. The comparative data of 2015 is changed accordingly.

Statement of comprehensive income item "Net allowances for impairment loss" also includes recovered loans and other assets that were written-off in previous periods in amount of EUR 1,569 thou (2015: EUR 915 thou).

Statement of comprehensive income item "Net allowances for impairment loss" includes expenses for non-performing commitments in amount of EUR 171 thou (2015: EUR 402 thou).

***Notes to the Financial Statements** (continued)*

26 PROVISIONS FOR IMPAIRMENT LOANS AND OTHER ASSETS (continued)

Bank	**Loans Total EUR' 000**	Com-mercial EUR' 000	Mort-gage loans EUR' 000	Consu-mer loans EUR' 000	Credit card loans EUR' 000	Private and other EUR' 000	Collec-tive provi-sions EUR' 000	**Other assets EUR' 000**	**Off-balance sheet liabilities EUR' 000**	**Total EUR' 000**
31 December 2014	**140,153**	**50,976**	**64,590**	**151**	**357**	**15,057**	**9,022**	**5,856**	**26,195**	**172,204**
Fully provided for and written off	**(21,870)**	(9,742)	(8,861)	(153)	(329)	(2,785)	-	**(40)**	**(6,841)**	**(28,751)**
Charge to statement of comprehensive income :	**17,556**	**8,055**	**6,715**	**97**	**269**	**2,071**	**349**	**3,653**	**-**	**21,209**
- individual loans and assets	**8,392**	7,262	911	-	-	219	-	**3,653**	**-**	**12,045**
- homogenous groups of loans	**9,164**	793	5,804	97	269	1,852	349	**-**	**-**	**9,164**
Interest income due to shortening of discounting period	**(1,645)**	(1,479)	(91)	-	-	(75)	-	**-**	**(2)**	**(1,647)**
Released during the period	**(13,729)**	**(3,348)**	**(6,622)**	**(21)**	**(87)**	**(1,640)**	**(2,011)**	**-**	**(973)**	**(14,702)**
- individual loans and assets	**(2,549)**	(1,699)	(659)	-	-	(191)	-	**-**	**(898)**	**(3,447)**
- homogenous groups of loans	**(11,180)**	(1,649)	(5,963)	(21)	(87)	(1,449)	(2,011)	**-**	**(75)**	**(11,255)**
31 December 2015	**120,465**	**44,462**	**55,731**	**74**	**210**	**12,628**	**7,360**	**9,469**	**18,379**	**148,313**
Fully provided for and written off	**(51,118)**	(22,033)	(24,616)	(178)	(360)	(3,931)	-	**-**	**(10,065)**	**(61,183)**
Charge to statement of comprehensive income:	**16,896**	**4,823**	**8,058**	**159**	**267**	**1,947**	**1,642**	**4,186**	**88**	**21,170**
- individual loans and assets	**4,839**	3,538	745	-	-	556	-	**4,186**	**88**	**9,113**
- homogenous groups of loans	**12,057**	1,285	7,313	159	267	1,391	1,642	**-**	**- -**	**12,057**
Interest income due to shortening of discounting period	**(945)**	(903)	20	(4)	6	(64)	-	**-**	**-**	**(945)**
Other changes	**-**	-	-	-	-	-	-	**330**	**-**	**330**
Released during the period	**(16,799)**	**(5,328)**	**(8,838)**	**(2)**	**(26)**	**(1,434)**	**(1,171)**	**(66)**	**(830)**	**(17,695)**
- individual loans and assets	**(4,947)**	(4,636)	(283)	-	-	(28)	-	**(66)**	**(825)**	**(5,838)**
- homogenous groups of loans	**(11,852)**	(692)	(8,555)	(2)	(26)	(1,406)	(1,171)	**-**	**(5)**	**(11,857)**
31 December 2016	**68,499**	**21,021**	**30,355**	**49**	**97**	**9,146**	**7,831**	**13,919**	**7,572**	**89,990**

In 2016 the approach of data classification was changed. The comparative data of 2015 is changed accordingly.

Statement of comprehensive income item "Net allowances for impairment loss" also includes recovered loans and other assets that were written-off in previous periods in amount of EUR 1,610 thou (2015: EUR 915 thou).

Statement of comprehensive income item "Net allowances for impairment loss" includes expenses for non-performing commitments in amount of EUR 182 thou (2015: EUR 361 thou)

***Notes to the Financial Statements** (continued)*

27 LIABILITIES TO CENTRAL BANKS

	2016 Group EUR'000	2015 Group EUR'000	2016 Bank EUR'000	2015 Bank EUR'000
Central Bank	60,500	60,500	60,500	60,500
Accrued interest	-	96	-	96
Terms deposits	**60,500**	**60,596**	**60,500**	**60,596**

In June 2016 AS DNB banka rolled over EUR 60.5 million received under the European Central Bank's Targeted Longer-Term Refinancing Operations (TLTRO) into the second series of Targeted Longer-Term Refinancing Operations (TLTRO II) for 4 years at 0.00%.

28 DUE TO OTHER CREDIT INSTITUTIONS

	2016 Group EUR'000	2015 Group EUR'000	2016 Bank EUR'000	2015 Bank EUR'000
Demand deposits				
Republic of Latvia credit institutions	1,325	2,412	1,325	2,412
OECD credit institutions	311	144	311	144
Non-OECD credit institutions	589	618	589	618
Total demand deposits	**2,225**	**3,174**	**2,225**	**3,174**
Term deposits				
Republic of Latvia credit institutions	10,400	36,103	10,400	36,103
OECD credit institutions*	605,000	675,000	455,000	525,000
	615,400	**711,103**	**465,400**	**561,103**
Accrued interest	(60)	107	(136)	4
Total term deposits	615,340	711,210	465,264	561,107
Total deposits	**617,565**	**714,384**	**467,489**	**564,281**

* Including DNB Bank ASA for the Group EUR 605,000 thou, Bank - EUR 455,000 thou (2015: Group - 675,000 thou, Bank – 525,000 thou).

29 DUE TO CUSTOMERS

Analysis of deposits by maturity and client type

	2016 Group EUR'000	2015 Group EUR'000	2016 Bank EUR'000	2015 Bank EUR'000
Demand deposits				
Private companies	438,691	388,990	441,602	392,330
Individuals	438,966	377,812	438,966	377,812
State institutions	17,770	53,303	17,770	53,303
Funds in transit	9,035	3,787	9,035	3,787
Non-residents OECD	10,355	11,732	10,355	11,732
Non-residents non-OECD	21,585	11,255	21,585	11,255
Total demand deposits	**936,402**	**846,879**	**939,313**	**850,219**
Term deposit accounts				
Private companies	123,588	204,171	127,637	208,021
Individuals	127,504	144,911	127,504	144,911
State institutions	29,645	13,648	29,645	13,648
Non-residents OECD	455	272	455	272
Non-residents non- OECD	5,306	9,357	5,306	9,357
Accrued interest	307	398	308	401
Total term deposits	**286,805**	**372,757**	**290,855**	**376,610**
Total deposits and transit funds	**1,223,207**	**1,219,636**	**1,230,168**	**1,226,829**

Notes to the Financial Statements (continued)

30 ACCRUED EXPENSES AND DEFERRED INCOME

	2016 Group EUR'000	2015 Group EUR'000	2016 Bank EUR'000	2015 Bank EUR'000
Accrued expenses for unused annual leave and bonuses	974	939	969	936
Accrued expenses for payments to Deposit Guarantee Fund and FCMC	1,208	1,654	1,208	1,654
Other accrued expenses	2,902	2,993	2,721	2,806
	5,084	**5,586**	**4,898**	**5,396**

31 OTHER LIABILITIES

	2016 Group EUR'000	2015 Group EUR'000	2016 Bank EUR'000	2015 Bank EUR'000
Accrued liabilities	4,683	4,436	100	174
Accounts payable	326	62	326	62
Other short-term liabilities	1,156	2,857	999	2,632
	6,165	**7,355**	**1,425**	**2,868**

32 PROVISIONS

	2016 Group EUR'000	2015 Group EUR'000	2016 Bank EUR'000	2015 Bank EUR'000
Provisions for SIA DNB līzings obligations	-	-	7,572	18,380
Other provisions	454	1,456	99	114
	454	**1,456**	**7,671**	**18,494**

Provisions for the portfolio loss compensation were made, according to guarantee agreement of 10 May 2010 between the Bank and SIA DNB lizings. Although this guarantee agreement is currently ceased, the Bank, continues the maintenance of its obligation to compensate loss occurred from bad debt portfolio as at 10 February 2011.

Calculations of the write downs were made based on the quality of the assets of the SIA DNB līzings using the same approach as in the Bank.

33 SHARE CAPITAL AND RESERVES

Share capital

On 15 September 2015 the denomination of Bank`s share capital took place. As a result, the share capital of the Bank is EUR 191,178,337, consisting of 191,178,337 shares, each share having the par value of EUR 1.

As of December 31, 2016 100% of AS DNB banka were owned by DNB Bank ASA.

Reserve capital

As of December 31, 2016 reserve capital in amount of EUR 224,118 thou (2015: EUR 224,118 thou) represents contributions made by the shareholder in previous years.

Notes to the Financial Statements (continued)

33 SHARE CAPITAL AND RESERVES (continued)

Revaluation reserve
A revaluation reserve represents the increase in the fair value of property, plant and equipment and financial assets available for sale

	2016 Group EUR'000	2015 Group EUR'000	2016 Bank EUR'000	2015 Bank EUR'000
As at 1 January	**10,633**	**187**	**10,633**	**187**
Increase due to fair value adjustment of financial assets available-for-sale	22	10,500	22	10,500
(Decrease) due to sale of financial assets available-for-sale	(10,500)	-	(10,500)	-
Other changes	-	(54)	-	(54)
As at 31 December	**155**	**10,633**	**155**	**10,633**

34 OFF-BALANCE SHEET ITEMS

(a) Guarantees, letters of credit and other commitments

	2016 Group EUR'000	2015 Group EUR'000	2016 Bank EUR'000	2015 Bank EUR'000
Memorandum items				
Contingent liabilities				
Guarantees	50,390	41,509	95,391	86,509
Commitments				
Loan issuing commitments	128,729	127,584	164,292	158,739
Guarantee issue agreements	12,271	23,319	12,271	23,319
Letters of credit	1,349	5,108	1,349	5,108

(b) Assets under management

	2016 Group EUR'000	2015 Group EUR'000	2016 Bank EUR'000	2015 Bank EUR'000
DNB Conservative investment plan	71,226	64,589	-	-
DNB Balanced investment plan	99,400	87,893	-	-
DNB Active investment plan	87,629	76,466	-	-
	258,255	**228,948**	**-**	**-**

35 MAXIMUM EXPOSURE TO CREDIT RISK BEFORE COLLATERAL HELD OR OTHER CREDIT ENHANCEMENTS

	2016 Group EUR'000	2015 Group EUR'000	2016 Bank EUR'000	2015 Bank EUR'000
Credit risk exposures relating to on-balance sheet assets are as follows:				
Balances due from banks	444,590	529,774	443,991	529,443
Loans and advances to customers	1,512,678	1,526,507	1,428,559	1,455,909
Securities designated at fair value through profit and loss	84,766	77,540	84,766	77,540
Derivative financial instruments	51,899	46,199	51,899	46,199
Credit risk exposures relating to off-balance sheet items are as follows:				
Contingent liabilities	50,390	41,509	95,391	86,509
Financial commitments	1,349	5,108	1,349	5,108

Notes to the Financial Statements (continued)

36 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

Related parties are defined as shareholders, members of the Supervisory Council and the Management Board, key management personnel, their close relatives and companies in which they have a controlling interest as well as associated companies.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits, foreign currency transactions and financial instruments. These transactions were carried out on commercial terms and at market rates. The volumes of related party transactions, outstanding balances at the year end, and relating income and expense for the year are as follows:

Due from related parties	**2016 Group EUR'000**	**2015 Group EUR'000**	**2016 Bank EUR'000**	**2015 Bank EUR'000**
Due from parent companies:				
DNB Bank ASA	489,820	566,511	489,820	566,511
Due from subsidiaries	-	-	83,426	73,131
Due from other related parties:				
DNB Bank ASA Latvijas filiale	13	2	13	2
DNB bankas AB	28	102	28	101
DNB Pank AS	4	40	4	40
DNB Bank Polska S.A.	88	12	88	12
Balances due from related parties	**489,953**	**566,667**	**573,379**	**639,797**

Due to related parties

	2016 Group EUR'000	**2015 Group EUR'000**	**2016 Bank EUR'000**	**2015 Bank EUR'000**
Due to parent companies:				
DNB Bank ASA	609,276	685,038	459,201	534,935
Due to subsidiaries	-	-	6,961	7,193
Due to other related parties:				
DNB Bank ASA Latvijas filiale	1,005	961	953	920
DNB bankas AB	589	618	589	618
DNB Pank AS	274	144	274	144
Balances due to related parties	**611,144**	**686,761**	**467,978**	**543,810**

***Notes to the Financial Statements** (continued)*

36 RELATED PARTY TRANSACTIONS (continued)

The Group's and Bank's income/expenses from transactions with related parties are analysed as follows:

	2016 Group EUR'000	2015 Group EUR'000	2016 Bank EUR'000	2015 Bank EUR'000
Interest received from money market deposits/ loans	**7,793**	**104**	**8,216**	**657**
Parent companies	7,793	104	7,793	104
Subsidiaries	-	-	423	553
Commission received	**506**	**422**	**858**	**846**
Parent companies	11	-	11	-
Subsidiaries	-	-	352	424
Other related parties	495	422	495	422
Dividends	**-**	**-**	**1,818**	**250**
Subsidiaries	-	-	1,818	250
Other income	**1,856**	**1,510**	**4,000**	**4,120**
Parent companies	42	-	42	-
Subsidiaries	-	-	2,696	3,035
Other related parties	1,814	1,510	1,262	1,085
Interest paid on money market deposits/loans	**(1,459)**	**(2,054)**	**(819)**	**(1,157)**
Parent companies	(1,459)	(2,054)	(814)	(1,145)
Subsidiaries	-	-	(5)	(12)
Expenses from derivatives	**(778)**	**(2,521)**	**(778)**	**(2,521)**
Parent companies	(778)	(2,521)	(778)	(2,521)
Derivative revaluation result	**6,122**	**26,098**	**6,122**	**26,098**
Parent companies	6,122	26,098	6,122	26,098
Commission paid	**(56)**	**(118)**	**(56)**	**(118)**
Parent companies	(33)	(87)	(33)	(87)
Other related parties	(23)	(31)	(23)	(31)
Other expenses	**(1,428)**	**(2,656)**	**(2,751)**	**(4,072)**
Parent companies	(872)	(1,612)	(872)	(1,612)
Subsidiaries	-	-	(1,323)	(1,416)
Other related parties	(556)	(1,044)	(556)	(1,044)
	12,556	**20,785**	**16,610**	**24,103**

As at 31 December 2016 loans issued to key management personnel amounted to EUR 287 thou (2015: EUR 422 thou).

As at 31 December 2016 the provision for investment in subsidiaries were made in amount EUR 12,989 thou (2015: EUR 8,949 thou).

According to agreement the Bank made settlement for debtor in SIA DNB līzings in amount of EUR 10,065 thou (2015: EUR 6,858 thou) for debts covering and write-off.

For information regarding salary to Management Board see Note 12.

37 FAIR VALUES OF ASSETS AND LIABILITIES

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, there are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values.

The Bank and the Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

***Notes to the Financial Statements** (continued)*

37 FAIR VALUES OF ASSETS AND LIABILITIES (continued)

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Assets
Fair value of securities has been estimated based on quoted price where available. To build the yield curve, debt securities of the same issuer with known average bid yields are used and connected into a curve using a linear interpolation. An average bid yield is used in case the market price is observable from more than one source. In assessing the fair value for other financial assets, the management has performed discounted cash flow analysis; up-to-date market information at assessment moment is being used assessing cash flows. For loans, where base interest rates are pegged to floating market interest rates, the Group has considered difference between average interest margin of issued loans and average interest margin for newly issued loans. Given that for part of the loan portfolio this margin has been changed (increased) since issuance, the Group has estimated that for such loans the carrying value is considered equal to fair value.

Liabilities
Fair value of financial liabilities at amortized cost such as Due to credit institutions and Due to customers which are not on demand have been estimated based on discounted cash flow model using interest rates for similar products as at year end. Fair value of those financial liabilities that are on demand or have floating interest rate (e.g. Due to credit institutions) have been estimated to be approximately equal to its carrying amount.

A discounted cash flow model is used to value foreign exchange derivatives, commodity derivatives and over-the-counter vanilla interest rate swaps. The model estimates future variable cash flows and discounts those cash flows, together with the fixed cash flows, to arrive at a net present value. Market value of interest rate option is calculated using Black-Scholes option pricing model.

(a) Fair value hierarchy: assets and liabilities recognised at fair value in statement of financial position

Group		**2016**			
	Level 1 EUR'000	**Level 2 EUR'000**	**Level 3 EUR'000**	**Total fair value EUR'000**	**Statement of financial position EUR'000**
Recurring fair value					
<u>Assets</u>					
Derivatives	-	51,899	-	**51,899**	**51,899**
Financial assets designated at fair value through profit or loss	-	84,766	-	**84,766**	**84,766**
Financial assets available-for-sale*	-	-	2,483	**2,483**	**2,483**
Investment properties	-	-	36,854	**36,854**	**36,854**
<u>Liabilities</u>					
Derivatives	-	43,729	-	**43,729**	**43,729**
Non-recurring fair value					
<u>Assets</u>					
Fixed assets – land and buildings	-	-	24,303	**24,303**	**24,303**

Notes to the Financial Statements *(continued)*

37 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

(a) Fair value hierarchy: assets and liabilities recognised at fair value in statement of financial position (continued)

Group **2015**

	Level 1 EUR'000	Level 2 EUR'000	Level 3 EUR'000	Total fair value EUR'000	Statement of financial position EUR'000
Recurring fair value					
Assets					
Derivatives	-	46,199	-	**46,199**	**46,199**
Financial assets designated at fair value through profit or loss	-	77,540	-	**77,540**	**77,540**
Financial assets available-for-sale*	-	-	10,752	**10,752**	**10,752**
Investment properties	-	-	48,395	**48,395**	**48,395**
Liabilities					
Derivatives	-	44,346	-	**44,346**	**44,346**
Non-recurring fair value					
Assets					
Fixed assets – land and buildings	-	-	25,125	**25,125**	**25,125**

Bank **2016**

	Level 1 EUR'000	Level 2 EUR'000	Level 3 EUR'000	Total fair value EUR'000	Statement of financial position EUR'000
Recurring fair value					
Assets					
Derivatives	-	51,899	-	**51,899**	**51,899**
Financial assets designated at fair value through profit or loss	-	84,766	-	**84,766**	**84,766**
Financial assets available-for-sale*	-	-	2,483	**2,483**	**2,483**
Investment properties	-	-	4,750	**4,750**	**4,750**
Liabilities					
Derivatives	-	43,729	-	**43,729**	**43,729**
Non-recurring fair value					
Assets					
Fixed assets – land and buildings	-	-	747	**747**	**747**

Bank **2015**

	Level 1 EUR'000	Level 2 EUR'000	Level 3 EUR'000	Total fair value EUR'000	Statement of financial position EUR'000
Recurring fair value					
Assets					
Derivatives	-	46,199	-	**46,199**	**46,199**
Financial assets designated at fair value through profit or loss	-	77,540	-	**77,540**	**77,540**
Financial assets available-for-sale*	-	-	10,752	**10,752**	**10,752**
Investment properties	-	-	6,615	**6,615**	**6,615**
Liabilities					
Derivatives	-	44,346	-	**44,346**	**44,346**
Non-recurring fair value					
Assets					
Fixed assets – land and buildings	-	-	863	**863**	**863**

* Under Level 3 of fair value hierarchy there are shares classified, the fair value of which is measured based on estimated fair value (see note 2x).

Notes to the Financial Statements *(continued)*

37 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

(b) Fair value hierarchy: assets and liabilities recognised at amortised cost in statement of financial position

Group	**2016**				
	Level 1 EUR'000	**Level 2 EUR'000**	**Level 3 EUR'000**	**Total fair value EUR'000**	**Statement of financial position EUR'000**
Assets					
Due from credit institutions on demand	-	-	30,093	**30,093**	**30,093**
Loans	-	-	1,889,874	**1,889,874**	**1,927,175**
Liabilities					
Liabilities to credit institutions on demand	-	-	2,225	**2,225**	**2,225**
Financial liabilities at amortised cost	-	-	1,899,203	**1,899,203**	**1,899,047**

Group	**2015**				
	Level 1 EUR'000	**Level 2 EUR'000**	**Level 3 EUR'000**	**Total fair value EUR'000**	**Statement of financial position EUR'000**
Assets					
Due from credit institutions on demand	-	-	60,237	**60,237**	**60,237**
Loans	-	-	1,985,346	**1,985,346**	**1,996,044**
Liabilities					
Liabilities to credit institutions on demand	-	-	3,174	**3,174**	**3,174**
Financial liabilities at amortised cost	-	-	1,991,509	**1,991,509**	**1,991,442**

Bank	**2016**				
	Level 1 EUR'000	**Level 2 EUR'000**	**Level 3 EUR'000**	**Total fair value EUR'000**	**Statement of financial position EUR'000**
Assets					
Due from credit institutions on demand	-	-	29,494	**29,494**	**29,494**
Loans	-	-	1,805,755	**1,805,755**	**1,843,056**
Liabilities					
Liabilities to credit institutions on demand	-	-	2,225	**2,225**	**2,225**
Financial liabilities at amortised cost	-	-	1,756,088	**1,756,088**	**1,755,932**

Bank	**2015**				
	Level 1 EUR'000	**Level 2 EUR'000**	**Level 3 EUR'000**	**Total fair value EUR'000**	**Statement of financial position EUR'000**
Assets					
Due from credit institutions on demand	-	-	59,906	**59,906**	**59,906**
Loans	-	-	1,914,748	**1,914,748**	**1,925,446**
Liabilities					
Liabilities to credit institutions on demand	-	-	3,174	**3,174**	**3,174**
Financial liabilities at amortised cost	-	-	1,848,599	**1,848,599**	**1,848,532**

***Notes to the Financial Statements** (continued)*

37 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

(c) Fair value: investment properties and fixed assets (building)

Classes of investment properties

Level 3 measurement of fair value is applied for all investment properties. Properties are categorized according to the real estate segment:

- residential (apartments, living houses)
- land plots
- commercial objects

Fair value measurement, valuation techniques, changes in valuation techniques, inputs and other key information

Valuation methods in fair value measurement have remained as before – market comparable method, income capitalization method and discounted cash flow method (DCF). All valuations are carried out according to the market value definition and calculations are performed at highest and best use.

Portfolio	Valuation technique	Inputs		Average per square meter 2016, EUR	Range* per sqm 2016, EUR
Residential					
Apartments	comparable method			851	82 – 2400
Living house	comparable method			402	79 – 1500
Land plots					
Residential	comparable method			28	01 – 85
Commercial	comparable method, DCF			117	2 – 1286
Commercial					
Offices	DCF	rent rate	3 - 10 EUR/sqm		
		occupancy	70%-95%		
		discount rates	9%-12%		
		exit yield	8%-11%		
Industrial	DCF	rent rate	0.5 – 3 EUR/sqm		
		occupancy	70%-90%		
		discount rates	10%-15%		
		exit yield	9%-14%		

* Due to extensive variety of properties in real estate portfolio, indicated price ranges are wide. Each portfolio consists of properties in different technical conditions/with different zoning, located in different regions of Latvia. Value difference between capital city and other cities/country side is very substantial.

Reconciliation of balances of classes of investment property

Group

	Apartments EUR'000	Land plots EUR'000	Living houses EUR'000	Commercial objects EUR'000	Total EUR'000
Book value as at 31 December 2015	**14,189**	**13,875**	**6,847**	**13,484**	**48,395**
Additions, purchases of new properties	1,792	388	774	4,042	**6,996**
Net result from adjustment to fair value projects	(628)	(887)	636	(1,272)	**(2,151)**
Disposal	(5,424)	(1,713)	(5,013)	(4,236)	**(16,386)**
Book value as at 31 December 2016	**9,929**	**11,663**	**3,244**	**12,018**	**36,854**

Notes to the Financial Statements *(continued)*

37 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

(c) Fair value: investment properties and fixed assets (building) (continued)

Bank

	Apartments EUR'000	Land plots EUR'000	Living houses EUR'000	Commercial objects EUR'000	Total EUR'000
Book value as at 31 December 2015	**2,433**	**1,581**	**1,429**	**1,172**	**6,615**
Additions, purchases of new properties	99	2	-	-	**101**
Net result from adjustment to fair value projects	118	(113)	(35)	(116)	**(146)**
Disposal	(153)	(815)	(464)	(388)	**(1,820)**
Book value as at 31 December 2016	**2,497**	**655**	**930**	**668**	**4,750**

General approach

Revaluation is performed according to repossessed assets revaluation methodology. The methodology is reviewed each year in order to determine whether any changes or adjustments are necessary.

General approach has remained the same as previous years; however, certain changes have been implemented in 2016.

The same as previous years part of the portfolio is revaluated using statistical approach; however particular threshold is increased from EUR 100 thou to EUR 300 thou. The largest part of portfolio (more than 60% by value) is revaluated with individual valuations.

Now assets are divided in two groups or portfolios:
- Immaterial asset portfolio (book value of asset unit under EUR 300 thou);
- Material asset portfolio (book value of asset unit over EUR 300 thou).

"Immaterial asset portfolio" is revaluated using statistical approach as input data using valuations not older than 3 years. "Material asset portfolio" is revaluated using individual valuations (prepared by external evaluators) which have been prepared in current year. Adjustments and result check-up is performed by the same logic as in previous years.

Adjustments

All individual valuations can be considered as subjective, so there exists and can exist a difference between two valuators/valuations (i.e. market values) for one property. According to the Latvian Association of Property Appraisers (also member of TEGVO and IVSC) the acceptable difference is up to 15% depending on the complexity of the property. To maintain conservative approach and to avoid reflecting overoptimistic valuations in the books, following adjustments to Individual valuations (i.e. market values) are applied:
- Immaterial asset portfolio (book value of each separate asset unit under 300 thou EUR) - 10% reduction to the latest available valuations which further are used in the matrix (tool developed by external valuators which reflects changes in quarterly prices for different types of properties in different locations);
- Material asset portfolio (book value of each separate asset unit over 300 thou EUR) is reviewed manually and adjustments, if any, are made according to the methodology of revaluation.

Check-up of the results

Material asset portfolio individual valuations are reviewed by responsible asset managers and if necessary (e.g. significant changes compared to previous valuation) Banks internal evaluators' opinion is requested. All other Individual valuations are reviewed on a random basis.

Revaluation results (after all adjustments) are manually reviewed by responsible asset managers. If any inaccuracies are discovered, manual adjustments are performed according to the methodology of revaluation.

Notes to the Financial Statements *(continued)*

37 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

(c) Fair value: investment properties and fixed assets (building) (continued)

Sensitivity information

Fair value measurement inputs (i.e. rent rates and their growth, occupancy rates, discount rates, yield etc.) used in income method calculations (direct income capitalization method or discounted cash flow method) can significantly influence outcome of calculations. Higher rent rates and occupancy rates gives higher value and vice versa if the rates are lower. Higher discount rates and exit yields gives lower value and vice versa if the rates are lower.
However all those inputs are connected and significant changes in one input trigger changes in other inputs; e.g. if an optimistic rent rates and long term occupancy rates are used then it affects discount rate and it should go up and this understanding is maintained through the whole valuation process.

Highest and best use

There are number of properties that currently are not used according to highest and best use. Mostly those are undeveloped (for residential, commercial or mixed development) land plots. In terms of value, it makes approximately EUR 10 million or 30% from whole real estate portfolio.

38 CAPITAL ADEQUACY

Regulation (EU) No 575/2013 (Capital requirements regulation) of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 and Directive 2013/36/EU (Capital requirements directive) of the European Parliament and of the Council on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC were approved on 26th of June 2013. Capital adequacy assessment of the Group is performed according to the requirements of the Capital requirements regulation and Capital requirements directive.

The Group from year to year concentrates its' attention to continuously improve capital adequacy assessment processes.

The capital of the Group is calculated and allocated for the risk coverage following the Capital requirements regulation and the Group's Capital Adequacy Assessment Policy. The Group's objectives when managing capital are:

1) to comply with the capital requirements set by the European Union, the Financial and Capital Market Commission as well as the internal targets set by the Bank's senior management
2) to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders
3) to support the development of the Group's business with the help of the strong capital base.

Capital adequacy report is submitted to the supervising authority quarterly. Internally reports on capital adequacy are available on request, however, usually are prepared on a quarterly basis and submitted to the senior management afterwards.

The Group's regulatory capital is equal to Tier 1 capital which consists of the ordinary shares, share premium, reserve capital, accumulated results of the previous financial years, the audited profit of current financial year, transitional part of revaluation reserves and less the intangible assets, current year losses, other elements, required by the Regulation (e.g. Prudent Valuation AVAs) or by the Regulator (e.g. requirements, that are stricter than required by the Regulation), if any.

At the end of 2016 the Group's capital adequacy ratio is 17.6% and the Bank's – 18.2% (2015: 16.6%; 17.6%). The Capital requirements regulation determines capital ratio as at least 8%. The Group and the Bank fully comply with requirement of capital conservation buffer (2.5% or total risk exposure amount).

According to the Capital requirements regulation, the Bank shall provide own funds which shall at all times exceed or equal the sum of the capital requirements for:
- credit risk
- market risk
- operational risk.

The Group calculates credit risk capital requirement using standardised approach, for the calculation of market risk capital requirement the Group uses open positions and applies Basic Indicators Approach for calculation of operational risk capital requirement.

The risk-weighted assets are measured by means of risk weights classified according to the essence of each asset and counterparty. A similar treatment with some adjustments is adopted for the off-balance sheet exposures.

Notes to the Financial Statements *(continued)*

38 CAPITAL ADEQUACY (continued)

The Group reviews and improves the risk identification and management policies and procedures according to changes in the Group's activities and financial situation at least once a year. Amendments and updates mostly are done during annual internal capital adequacy assessment process when significant risks are to be reassessed or identified and assessed.

	2016 Group EUR'000	2015 Group EUR'000 Restated	2016 Bank EUR'000	2015 Bank EUR'000 Restated
Total own funds for solvency purposes	**258,675**	**241,059**	**258,727**	**245,693**
Tier 1: Original own funds	258,675	241,059	258,727	245,693
--Paid up capital	191,178	191,178	191,178	191,178
--Share premium	69,713	69,713	69,713	69,713
Reserves	8,129	3,916	7,420	6,144
-Valuation differences to eligible as original own funds	(1,670)	(9,717)	(1,261)	(7,683)
Other deductions from Original Own Funds				
-- Intangible assets	(2,084)	(2,377)	(1,732)	(2,005)
-- Due to requirements, that are stricter than required by Regulation	(6,591)	(11,654)	(6,591)	(11,654)
Tier 2: Additional own funds	-	-	-	-
--Revaluation reserves	-	-	-	-
Total own funds for solvency purposes	**258,675**	**241,059**	**258,727**	**245,693**
Capital requirements	**117,408**	**116,085**	**113,486**	**112,005**
Capital requirements for credit risk , standardised approach (SA)	106,134	104,847	102,922	101,276
Capital requirements for operational risks (OpR)	9,759	9,652	9,049	9,143
Capital requirements for credit valuation adjustment risk	1,515	1,586	1,515	1,586
Surplus /(Deficit) of own funds, before other and transitional capital requirements	141,267	124,974	145,241	133,688
Solvency ratio (%)*	**17.6%**	**16.6%**	**18.2%**	**17.6%**
Internal assessment of capital	**258,675**	**241,059**	**258,727**	**245,693**

* Solvency ratio is the own funds of the institution expressed as a percentage of the total risk exposure amount.

The Group uses "Pillar 1 +" approach for internal capital adequacy assessment, at first minimum regulatory capital requirements are analysed and after that internal capital add-ons are calculated without taking into account any diversification effects between particular risks.

During internal capital adequacy assessment process, the Group usually performs actions as follows:

- analyses available amount of own funds and its historical volatility, including the breakdown of certain capital elements
- analyses amount of minimum and internal capital requirements and its historical volatility in the breakdown of the risk types
- analyses significant risks for which capital needs to be maintained
- analyses asset and off-balance sheet items, including analysis of loan portfolio volume, structure, quality, amount of provisions made as well as estimates appropriate forecasts for following periods
- calculates minimum and internal capital requirements by taking into account planned changes in the Group's activities and financial situation
- performs stress testing and estimates capital buffer
- prepares forecast of available own funds by taking into account planned incomes and expenses, including provision amount to be made, planned capital injections and other significant factors
- prepares regulatory and internal capital adequacy forecast, including setting appropriate strategic goals.

Notes to the Financial Statements *(continued)*

38 CAPITAL ADEQUACY (continued)

Regular monitoring and control of capital adequacy has been carried out in the Group. Internal capital adequacy assessment process has been done according to the Financial and Capital Market Commission requirements. Internal capital adequacy assessment process is a part of DNB Bank ASA capital adequacy assessment process. Adaptation of processes, models and methods to DNB Bank ASA requirements is done according to DNB Bank ASA policies and guidelines. Improvement of internal capital adequacy assessment process will continue in the coming years by taking into account changes in internal and external factors.

There were several risks that have been assessed as significant for 2016 and for which adequate internal capital has been kept in addition to the set of minimum regulatory capital requirements.

Concentration risk
Internal capital requirements for individual and inter-connected party's concentration, industries concentration, collateral concentration and concentration of currencies are calculated. The Group applies its internal methodology based on standardized Herfindahl-Hirshmann Index to calculate add-ons to the regulatory capital for specific concentration dimensions.

Operational risk
The basic indicator approach is used for the regulatory capital requirement calculation for the operational risk. The internal capital requirement is calculated by comparing regulatory capital requirement with the amount evaluated during the internal capital adequacy assessment process. The most conservative of the two values is used for the capital requirement.

Business risk and strategic risk
Business and strategic risks are mitigated through annual budgeting and strategic planning processes. However, according to the requirements stipulated by the Financial and Capital Market Commission, the Group keeps capital not less than 5% of the sum of minimum capital requirements to cover these risks.

Interest rate risk
For interest rate risk management the Group uses an internal model based on gap analysis and Basis Point Value method, which covers the most significant interest rate risk sources and allows assessing influence on the Group's income and economic value. The Group has set internal parameters for possible changes in interest rates for each significant currency. Capital add-on is calculated as an absolute maximum impact on the Group's economic value.

As internal capital adequacy assessment process (ICAAP) is an integral part of risk management framework, the risk definitions used are the same as in overall risk management.

Notes to the Financial Statements *(continued)*

39 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below allocates the Group's assets and liabilities to maturity groupings based on the time remaining from the statement of financial position date to the contractual maturity dates. The maturity analysis of assets and liabilities as at 31 December 2016 was as follows:

	Up to 1 month EUR`000	1 - 3 months EUR`000	3 – 12 months EUR`000	Over 12 months and undated EUR`000	Total EUR`000
Assets					
Cash and balances with the Central banks	63,662	-	-	-	**63,662**
Due from other credit institutions (on demand)	30,093	-	-	-	**30,093**
Derivatives	6,897	6,689	1,924	36,389	**51,899**
Financial assets at fair value through profit or loss	84,766	-	-	-	**84,766**
Debt securities and other fixed income securities	*84,766*	-	-	-	***84,766***
Financial assets available-for-sale	-	-	-	2,483	**2,483**
Loans and advances to customers	404,072	125,427	200,598	1,197,078	**1,927,175**
Due from other credit institutions (term)	*339,248*	*75,249*	-	-	***414,497***
Loans to customers	*64,824*	*50,178*	*200,598*	*1,197,078*	***1,512,678***
Accrued income and deferred expenses	1,105	2,483	25	6	**3,619**
Investment property	-	-	-	36,854	**36,854**
Property, plant and equipment	-	-	-	28,415	**28,415**
Intangible assets	-	-	-	2,085	**2,085**
Investments in subsidiaries	-	-	-	-	**-**
Deferred corporate income tax	-	-	-	8,805	**8,805**
Current corporate income tax	171	-	-	-	**171**
Other assets	7,523	946	10,751	-	**19,220**
Total assets	**598,289**	**135,545**	**213,298**	**1,312,115**	**2,259,247**
Liabilities					
Liabilities to central banks	-	-	-	60,500	**60,500**
Liabilities on demand to credit institutions	2,225	-	-	-	**2,225**
Derivatives	4,724	3,574	390	35,041	**43,729**
Financial liabilities at amortised cost:	1,082,864	75,216	425,912	254,555	**1,838,547**
Due to credit institutions	*10,339*	*(75)*	*360,076*	*245,000*	***615,340***
Deposits and other financial liabilities	*1,072,525**	*75,291*	*65,836*	*9,555*	***1,223,207***
Accrued expenses and deferred income	1	4,934	149	-	**5,084**
Deferred tax liability	-	-	31	-	**31**
Income tax liabilities	-	40	-	-	**40**
Provisions	30	-	68	356	**454**
Other liabilities	1,477	2,579	1,999	110	**6,165**
Total liabilities	**1,091,321**	**86,343**	**428,549**	**350,562**	**1,956,775**
Shareholders` equity				302,472	**302,472**
Total liabilities and shareholders` equity	**1,091,321**	**86,343**	**428,549**	**653,034**	**2,259,247**
Contingent liabilities	763	3,498	20,800	25,329	50,390
Commitments	128,728	279	3,557	9,785	142,349
Liquidity risk	**(622,523)**	**45,425**	**(239,608)**	**623,967**	**(192,739)**

* Including demand deposits from customers in amount of EUR 936,402 thou

For the Group's risk management policy, refer to Note 4.

***Notes to the Financial Statements** (continued)*

39 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

The table below allocates the Group's assets and liabilities to maturity groupings based on the time remaining from the statement of financial position date to the contractual maturity dates. The maturity analysis of assets and liabilities as at 31 December 2015 was as follows:

	Up to 1 month EUR`000	**1 - 3 months EUR`000**	**3 – 12 months EUR`000**	**Over 12 months and undated EUR`000**	**Total EUR`000**
Assets					
Cash and balances with the Central banks	38,160	-	-	-	**38,160**
Due from other credit institutions (on demand)	60,237	-	-	-	**60,237**
Derivatives	9,534	1,651	855	34,159	**46,199**
Financial assets at fair value through profit or loss	77,540	-	-	-	**77,540**
Due from other credit institutions (term)	*77,540*	-	-	-	***77,540***
Financial assets available-for-sale	-	-	-	10,752	**10,752**
Loans and advances to customers	527,124	68,806	217,606	1,182,508	**1,996,044**
Due from other credit institutions (term)	*451,534*	*18,003*	-	-	***469,537***
Loans to customers	*75,590*	*50,803*	*217,606*	*1,182,508*	***1,526,507***
Accrued income and deferred expenses	1,110	2,278	18	38	**3,444**
Investment property	-	-	-	48,395	**48,395**
Property and equipment	-	-	-	30,107	**30,107**
Intangible assets	-	-	-	2,377	**2,377**
Deferred corporate income tax	-	-	-	8,813	**8,813**
Current corporate income tax	171	-	-	-	**171**
Other assets	6,895	1,347	2,491	-	**10,733**
Total assets	**720,771**	**74,082**	**220,970**	**1,317,149**	**2,332,972**
Liabilities					
Liabilities to central banks	-	-	-	60,596	**60,596**
Liabilities on demand to credit institutions	3,174	-	-	-	**3,174**
Derivatives	9,525	1,248	956	32,617	**44,346**
Financial liabilities at amortised cost:	1,074,317	152,335	207,223	496,971	**1,930,846**
Due to credit institutions (term)	*86,107*	*70,103*	*80,000*	*475,000*	***711,210***
Deposits from customers	*988,210**	*82,232*	*127,223*	*21,971*	***1,219,636***
Accrued expenses and deferred income	35	5,399	152	-	**5,586**
Deferred tax liability	-	31	-	-	**31**
Income tax liabilities	-	85	-	-	**85**
Provisions	-	-	114	1,342	**1,456**
Other liabilities	2,295	3,602	1,289	169	**7,355**
Total liabilities	**1,089,346**	**162,700**	**209,734**	**591,695**	**2,053,475**
Shareholders` equity				279,497	**279,497**
Total liabilities and shareholders` equity	**1,089,346**	**162,700**	**209,734**	**871,192**	**2,332,972**
Contingent liabilities	1,455	1,857	11,683	26,514	**41,509**
Commitments	127,619	2,672	17,551	8,169	**156,011**
Liability risk	**(497,649)**	**(93,147)**	**(17,998)**	**411,274**	**(197,520)**

* Including demand deposits from customers in amount of EUR 846,879 thou

***Notes to the Financial Statements** (continued)*

39 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

The table below allocates the Bank's assets and liabilities to maturity groupings based on the time remaining from the statement of financial position date to the contractual maturity dates. The maturity analysis of assets and liabilities as at 31 December 2016 was as follows:

	Up to 1 month EUR`000	**1 - 3 months EUR`000**	**3 – 12 months EUR`000**	**Over 12 months and undated EUR`000**	**Total EUR`000**
Assets					
Cash and balances with the Central banks	63,662	-	-	-	**63,662**
Due from other credit institutions (demand)	29,494	-	-	-	**29,494**
Derivatives	6,897	6,689	1,924	36,389	**51,899**
Financial assets at fair value through profit or loss	84,766	-	-	-	**84,766**
Debt securities and other fixed income securities	*84,766*	-	-	-	***84,766***
Financial assets available-for-sale	-	-	-	2,483	**2,483**
Loans and advances to customers	397,220	111,278	243,246	1,091,312	**1,843,056**
Due from other credit institutions (term)	*339,248*	*75,249*	-	-	***414,497***
Loans to customers	*57,972*	*36,029*	*243,246*	*1,091,312*	***1,428,559***
Accrued income and deferred expenses	3	2,450	-	-	**2,453**
Investment property	-	-	-	4,750	**4,750**
Property, plant and equipment	-	-	-	4,245	**4,245**
Intangible assets	-	-	-	1,732	**1,732**
Investments in subsidiaries	-	-	-	9,102	**9,102**
Deferred corporate income tax	-	-	-	8,701	**8,701**
Other assets	7,520	-	502	-	**8,022**
Total assets	**589,562**	**120,417**	**245,672**	**1,158,714**	**2,114,365**
Liabilities					
Liabilities to central banks	-	-	-	60,500	**60,500**
Liabilities on demand to credit institutions	2,225	-	-	-	**2,225**
Derivatives	4,724	3,574	390	35,041	**43,729**
Financial liabilities at amortised cost:	1,087,099	75,216	278,562	254,555	**1,695,432**
Due to credit institutions (term)	*10,339*	*(75)*	*210,000*	*245,000*	***465,264***
Deposits from customers	*1,076,760**	*75,291*	*68,562*	*9,555*	***1,230,168***
Accrued expenses and deferred income	-	4,898	-	-	**4,898**
Provisions	30	-	68	7,573	**7,671**
Other liabilities	1,421	4	-	-	**1,425**
Total liabilities	**1,095,499**	**83,692**	**279,020**	**357,669**	**1,815,880**
Shareholders` equity				298,485	**298,485**
Total liabilities and shareholders` equity	**1,095,499**	**83,692**	**279,020**	**656,154**	**2,114,365**
Contingent liabilities	764	3,498	20,800	70,329	**95,391**
Commitments	164,292	279	3,557	9,784	**177,912**
Liquidity risk	**(670,993)**	**32,948**	**(57,705)**	**422,447**	**(273,303)**

* Including demand deposits from customers in amount of EUR 939,313 thou

***Notes to the Financial Statements** (continued)*

39 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

The table below allocates the Bank's assets and liabilities to maturity groupings based on the time remaining from the statement of financial position date to the contractual maturity dates. The maturity analysis of assets and liabilities as at 31 December 2015 was as follows:

	Up to 1 month EUR`000	1 - 3 months EUR`000	3 – 12 months EUR`000	Over 12 months and undated EUR`000	Total EUR`000
Assets					
Cash and balances with the Central banks	38,160	-	-	-	**38,160**
Due from other credit institutions (on demand)	59,906	-	-	-	**59,906**
Derivatives	9,534	1,651	855	34,159	**46,199**
Financial assets at fair value through profit or loss	77,540	-	-	-	**77,540**
Financial assets available-for-sale	-	-	-	10,752	**10,752**
Loans and advances to customers	516,216	56,087	248,029	1,105,114	**1,925,446**
Due from other credit institutions (term)	*451,534*	*18,003*	-	-	***469,537***
Loans to customers	*64,682*	*38,084*	*248,029*	*1,105,114*	***1,455,909***
Accrued income and deferred expenses	14	2,256	-	22	**2,292**
Investment property	-	-	-	6,615	**6,615**
Property, plant and equipment	-	-	-	5,281	**5,281**
Intangible assets	-	-	-	2,005	**2,005**
Investments in subsidiaries	-	-	-	11,142	**11,142**
Deferred corporate income tax	-	-	-	8,701	**8,701**
Other assets	6,990	-	570	-	**7,560**
Total assets	**708,360**	**59,994**	**249,454**	**1,183,791**	**2,201,599**
Liabilities					
Liabilities to central banks	-	-	-	60,596	**60,596**
Liabilities on demand to credit institutions	3,174	-	-	-	**3,174**
Derivatives	9,525	1,248	956	32,617	**44,346**
Financial liabilities at amortised cost:	1,077,898	152,732	210,335	346,971	**1,787,936**
Due to credit institutions (term)	*86,107*	*70,000*	*80,000*	*325,000*	***561,107***
Deposits from customers	*991,791**	*82,732*	*130,335*	*21,971*	***1,226,829***
Accrued expenses and deferred income	34	5,362	-	-	**5,396**
Provisions	-	-	114	18,380	**18,494**
Other liabilities	2,172	696	-	-	**2,868**
Total liabilities	**1,092,803**	**160,038**	**211,405**	**458,564**	**1,922,810**
Shareholders` equity				278,789	**278,789**
Total liabilities and shareholders` equity	**1,092,803**	**160,038**	**211,405**	**737,353**	**2,201,599**
Contingent liabilities	1,455	1,857	11,683	71,514	**86,509**
Commitments	158,774	2,672	17,551	8,169	**187,166**
Liquidity risk	**(544,672)**	**(104,573)**	**8,815**	**366,755**	**(273,675)**

* Including demand deposits from customers in amount of EUR 850,219 thou

***Notes to the Financial Statements** (continued)*

39 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

The following table represents the analysis of the remaining cash flows of financial liabilities.

The table below allocates the Group's financial liabilities undiscounted cash flows as at 31 December 2016:

	Up to 1 month EUR'000	1-3 months EUR'000	3-12 months EUR'000	1-5 years EUR'000	More than 5 years EUR'000	Total EUR'000
Short term funding	(12,629)	-	-	-	-	**(12,629)**
Long term funding	109	59	(359,613)	(303,341)	-	**(662,786)**
Demand deposits	(936,402)	-	-	-	-	**(936,402)**
Term deposits	(136,392)	(75,605)	(67,019)	(7,873)	(1,764)	**(288,653)**
Derivatives:						
Derivatives settled on a gross basis						
Currency swaps						
Inflow	224 956	89 531	66 485	443 314	-	**824,286**
outflow	(222,632)	(86,027)	(64,371)	(442,668)	-	**(815,698)**
Foreign exchange derivatives						
inflow	497	2,641	-	-	-	**3,138**
outflow	(496)	(2,635)	-	-	-	**(3,131)**
Derivatives settled on a net basis	11	89	545	2,179	-	**2,824**
Total	**(1,082,978)**	**(71,947)**	**(423,973)**	**(308,389)**	**(1,764)**	**(1,889,051)**
Memorandum items*	(129,491)	(3,777)	(24,357)	(14,712)	(20,402)	(192,739)
Total financial liabilities and memorandum items	**(1,212,469)**	**(75,724)**	**(448,330)**	**(323,101)**	**(22,166)**	**(2,081,790)**

The table below allocates the Bank's financial liabilities cash flows as at 31 December 2016:

	Up to 1 month EUR'000	1-3 months EUR'000	3-12 months EUR'000	1-5 years EUR'000	More than 5 years EUR'000	Total EUR'000
Short term funding	(12,629)	-	-	-	-	**(12,629)**
Long term funding	109	248	(209,047)	(303,341)	-	**(512,031)**
Demand deposits	(939,313)	-	-	-	-	**(939,313)**
Term deposits	(137,716)	(75,605)	(69,747)	(7,873)	(1,764)	**(292,705)**
Derivatives:						
Derivatives settled on a gross basis						
Currency swaps						
inflow	224,956	89,531	66,485	443,314	-	**824,286**
outflow	(222,632)	(86,027)	(64,371)	(442,668)	-	**(815,698)**
Foreign exchange derivatives						
inflow	497	2,641	-	-	-	**3,138**
outflow	(496)	(2,635)	-	-	-	**(3,131)**
Derivatives settled on a net basis	11	89	545	2,179	-	**2,824**
Total	**(1,087,213)**	**(71,758)**	**(276,135)**	**(308,389)**	**(1,764)**	**(1,745,259)**
Memorandum items*	(165,056)	(3,777)	(24,357)	(59,711)	(20,402)	(273,303)
Total financial liabilities and memorandum items	**(1,252,269)**	**(75,535)**	**(300,492)**	**(368,100)**	**(22,166)**	**(2,018,562)**

* Including financial guarantee contracts.

***Notes to the Financial Statements** (continued)*

39 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

The following table represents the analysis of the remaining cash flows of financial liabilities.

The table below allocates the Group's financial liabilities undiscounted cash flows as at 31 December 2015:

	Up to 1 month EUR'000	**1-3 months EUR'000**	**3-12 months EUR'000**	**1-5 years EUR'000**	**More than 5 years EUR'000**	**Total EUR'000**
Short term funding	(39,278)	-	-	-	-	**(39,278)**
Long term funding	(50,025)	(70,055)	(80,346)	(535,615)	-	**(736,041)**
Demand deposits	(846,879)	-	-	-	-	**(846,879)**
Term deposits	(141,687)	(82,638)	(128,256)	(20,364)	(1,771)	**(374,716)**
Derivatives:						
Derivatives settled on a gross basis						
Currency swaps						
inflow	220,592	55,685	59,009	404,351	66,017	**805,654**
outflow	(220,548)	(55,231)	(58,715)	(403,497)	(66,007)	**(803,998)**
Foreign exchange derivatives						
inflow	547	356	-	-	-	**903**
outflow	(546)	(354)	-	-	-	**(900)**
Derivatives settled on a net basis	31	165	428	2,151	321	**3,096**
Total	**(1,077,793)**	**(152,072)**	**(207,880)**	**(552,974)**	**(1,440)**	**(1,992,159)**
Memorandum items*	(129,074)	(4,529)	(29,234)	(19,642)	(15,041)	(197,520)
Total financial liabilities and memorandum items	**(1,206,867)**	**(156,601)**	**(237,114)**	**(572,616)**	**(16,481)**	**(2,189,679)**

The table below allocates the Bank's financial liabilities cash flows as at 31 December 2015:

	Up to 1 month EUR'000	**1-3 months EUR'000**	**3-12 months EUR'000**	**1-5 years EUR'000**	**More than 5 years EUR'000**	**Total EUR'000**
Short term funding	(39,278)	-	-	-	-	**(39,278)**
Long term funding	(49,960)	(69,930)	(79,770)	(384,953)	-	**(584,613)**
Demand deposits	(850,219)	-	-	-	-	**(850,219)**
Term deposits	(141,928)	(83,138)	(131,374)	(20,364)	(1,771)	**(378,575)**
Derivatives:						
Derivatives settled on a gross basis						
Currency swaps						
inflow	220,592	55,685	59,009	404,351	66,017	**805,654**
outflow	(220,548)	(55,231)	(58,715)	(403,497)	(66,007)	**(803,998)**
Foreign exchange derivatives						
inflow	547	356	-	-	-	**903**
outflow	(546)	(354)	-	-	-	**(900)**
Derivatives settled on a net basis	31	165	428	2,151	321	**3,096**
Total	**(1,081,309)**	**(152,447)**	**(210,422)**	**(402,312)**	**(1,440)**	**(1,847,930)**
Memorandum items*	(160,229)	(4,529)	(29,234)	(64,642)	(15,041)	(273,675)
Total financial liabilities and memorandum items	**(1,241,538)**	**(156,976)**	**(239,656)**	**(466,954)**	**(16,481)**	**(2,121,605)**

* Including financial guarantee contracts.

***Notes to the Financial Statements** (continued)*

40 CURRENCY ANALYSIS

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

	USD	EUR	Other currencies	Total EUR'000
Assets				
Cash and balances with the central banks	3,514	60,067	81	**63,662**
Due from other credit institutions (on demand)	146	19,604	10,343	**30,093**
Derivatives	2,764	49,135	-	**51,899**
Financial assets at fair value through profit or loss	-	84,766	-	**84,766**
Debt securities and other fixed income securities	-	*84,766*	-	***84,766***
Financial assets available-for-sale	2,301	182	-	**2,483**
Loans and advances	12,310	1,913,094	1,771	**1,927,175**
Due from other credit institutions (term)	-	*414,497*	-	***414,497***
Loans to customers	*12,310*	*1,498,597*	*1,771*	***1,512,678***
Accrued income and deferred expenses	-	3,619	-	**3,619**
Investment property	-	36,854	-	**36,854**
Property, plant and equipment	-	28,415	-	**28,415**
Intangible assets	-	2,085	-	**2,085**
Deferred corporate income tax	-	8,805	-	**8,805**
Current corporate income tax	-	171	-	**171**
Other assets	255	18,965	-	**19,220**
Total assets	**21,290**	**2,225,762**	**12,195**	**2,259,247**
Liabilities				
Liabilities to central banks	-	60,500	-	**60,500**
Liabilities to credit institutions (on demand)	347	1,791	87	**2,225**
Derivatives	2,764	40,965	-	**43,729**
Financial liabilities at amortised cost:	208,152	1,584,133	46,262	**1,838,547**
Due to credit institutions (term)	*8,065*	*604,939*	*2,336*	***615,340***
Deposits from customers	*200,087*	*979,194*	*43,926*	***1,223,207***
Accrued expenses and deferred income	-	5,084	-	**5,084**
Deferred tax liability	-	31	-	**31**
Income tax liability	-	40	-	**40**
Other liabilities	74	6,086	4	**6,164**
Provisions	-	454	-	**454**
Total liabilities	**211,337**	**1,699,084**	**46,353**	**1,956,774**
Net long / (short) balance sheet position	*(190,047)*	*-*	*(34,158)*	*-*
Off-balance sheet claims arising from foreign exchange				
Net long / (short) position on foreign exchange	*189,897*	*-*	*34,304*	*-*
Net long / (short) position	**(150)**	**-**	**146**	**-**

Notes to the Financial Statements *(continued)*

40 CURRENCY ANALYSIS (continued)

The currency analysis of assets and liabilities by currency profile of the Group as at 31 December 2015 was as follows:

	USD	**EUR**	**Other currencies**	**Total EUR'000**
Assets				
Cash and balances with the central banks	2,786	35,278	96	**38,160**
Due from other credit institutions (on demand)	1,133	48,416	10,688	**60,237**
Derivatives	2,677	43,522	-	**46,199**
Financial assets at fair value through profit or loss	-	77,540	-	**77,540**
Debt securities and other fixed income securities	-	*77,540*	-	***77,540***
Financial assets available-for-sale		10,752	-	**10,752**
Loans and advances	13,364	1,981,417	1,263	**1,996,044**
Due from other credit institutions (term)	-	*469,537*	-	***469,537***
Loans to customers	*13 364*	*1,511,880*	*1,263*	***1,526,507***
Accrued income and deferred expenses	-	3,444	-	**3,444**
Investment property	-	48,395	-	**48,395**
Property, plant and equipment	-	30,107	-	**30,107**
Intangible assets	-	2,377	-	**2,377**
Deferred corporate income tax	-	8,813	-	**8,813**
Current corporate income tax	-	171	-	**171**
Other assets	126	10,606	1	**10,733**
Total assets	**20,086**	**2,300,838**	**12,048**	**2,332,972**
Liabilities				
Liabilities to central banks	-	60,596	-	**60,596**
Liabilities to credit institutions (on demand)	415	2,688	71	**3,174**
Derivatives	2,677	41,669	-	**44,346**
Financial liabilities at amortised cost:	181,437	1,706,708	42,701	**1,930,846**
Due to credit institutions (term)	*15,436*	*691,684*	*4,090*	***711,210***
Deposits from customers	*166,001*	*1,015,024*	*38,611*	***1,219,636***
Accrued expenses and deferred income	-	5,524	62	**5,586**
Deferred tax liability	-	31	-	**31**
Income tax liability	-	85	-	**85**
Other liabilities	109	7,243	3	**7,355**
Provisions	-	1,456	-	**1,456**
Total liabilities	**184,638**	**1,826,000**	**42,837**	**2,053,475**
Net long / (short) balance sheet position	*(164,552)*	-	*(30,789)*	**-**
Off-balance sheet claims arising from foreign exchange				
Net long / (short) position on foreign exchange	*164,756*	-	*30,940*	-
Net long / (short) position	**204**	**-**	**151**	**-**

***Notes to the Financial Statements** (continued)*

40 CURRENCY ANALYSIS (continued)

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

	USD	EUR	Other currencies	Total EUR'000
Assets				
Cash and balances with the central banks	3,514	60,067	81	**63,662**
Due from other credit institutions (on demand)	146	19,005	10,343	**29,494**
Derivatives	2,764	49,135	-	**51,899**
Financial assets at fair value through profit or loss	-	84,766	-	**84,766**
Debt securities and other fixed income securities	-	*84,766*	-	***84,766***
Financial assets available-for-sale	2,301	182	-	**2,483**
Loans and advances	12,473	1,828,894	1,689	**1,843,056**
Due from other credit institutions (term)	-	*414,497*	-	***414,497***
Loans to customers	*12,473*	*1,414,397*	*1,689*	***1,428,559***
Accrued income and deferred expenses	-	2,453	-	**2,453**
Investment property	-	4,750	-	**4,750**
Property, plant and equipment	-	4,245	-	**4,245**
Intangible assets	-	1,732	-	**1,732**
Investments in the share capital of related companies	-	9,102	-	**9,102**
Deferred corporate income tax	-	8,700	-	**8,700**
Other assets	255	7,768	-	**8,023**
Total assets	**21,453**	**2,080,799**	**12,113**	**2,114,365**
Liabilities				
Liabilities to central banks	-	60,500	-	**60,500**
Liabilities to credit institutions (on demand)	347	1,791	87	**2,225**
Derivatives	2,764	40,965	-	**43,729**
Financial liabilities at amortised cost:	208,152	1,441,018	46,262	**1,695,432**
Due to credit institutions (term)	*8,065*	*454,863*	*2,336*	***465,264***
Deposits from customers	*200,087*	*986,155*	*43,926*	***1,230,168***
Accrued expenses and deferred income	-	4,898	-	**4,898**
Other liabilities	74	1,347	4	**1,425**
Provisions	16	7,655	-	**7,671**
Total liabilities	**211,353**	**1,558,174**	**46,353**	**1,815,880**
Net long / (short) balance sheet position	*(189,900)*	-	*(34,240)*	-
Off-balance sheet claims arising from foreign exchange				
Net long / (short) position on foreign exchange	*189,897*	-	*34,304*	-
Net long / (short) position	**(3)**	**-**	**64**	**-**

***Notes to the Financial Statements** (continued)*

40 CURRENCY ANALYSIS (continued)

The currency analysis of assets and liabilities by currency profile of the Bank as at 31 December 2015 was as follows:

	USD	EUR	Other currencies	Total EUR'000
Assets				
Cash and balances with the central banks	2,786	35,278	96	**38,160**
Due from other credit institutions (on demand)	1,133	48,085	10,688	**59,906**
Derivatives	2,677	43,522	-	**46,199**
Financial assets at fair value through profit or loss	-	77,540	-	**77,540**
Debt securities and other fixed income securities	*-*	*77,540*	*-*	***77,540***
Financial assets available-for-sale		10,752	-	**10,752**
Loans and advances	13,523	1,910,702	1,221	**1,925,446**
Due from other credit institutions (term)	*-*	*469,537*	*-*	***469,537***
Loans to customers	*13,523*	*1,441,165*	*1,221*	***1,455,909***
Accrued income and deferred expenses	-	2,292	-	**2,292**
Investment property	-	6,615	-	**6,615**
Property, plant and equipment	-	5,281	-	**5,281**
Intangible assets	-	2,005	-	**2,005**
Investments in the share capital of related companies	-	11,142	-	**11,142**
Deferred corporate income tax	-	8,701	-	**8,701**
Other assets	126	7,433	1	**7,560**
Total assets	**20,245**	**2,169,348**	**12,006**	**2,201,599**
Liabilities				
Liabilities to central banks	-	60,596	-	**60,596**
Liabilities to credit institutions (on demand)	415	2,688	71	**3,174**
Derivatives	2,677	41,669	-	**44,346**
Financial liabilities at amortised cost:	181,658	1,563,577	42,701	**1,787,936**
Due to credit institutions (term)	*15,436*	*541,581*	*4,090*	***561,107***
Deposits from customers	*166,222*	*1,021,996*	*38,611*	***1,226,829***
Accrued expenses and deferred income	-	5,334	62	**5,396**
Other liabilities	109	2,756	3	**2,868**
Provisions	13	18,481	-	**18,494**
Total liabilities	**184,872**	**1,695,101**	**42,837**	**1,922,810**
Net long / (short) balance sheet position	*(164,627)*	*-*	*(30,831)*	**-**
Off-balance sheet claims arising from foreign exchange				
Net long / (short) position on foreign exchange	*164,756*	*-*	*30,940*	**-**
Net long / (short) position	**129**	**-**	**109**	**-**

41 LITIGATION AND CLAIMS

Due to its extensive operations in Latvia, the AS DNB banka and its subsidiaries will regularly be party to a number of legal actions. The foregoing actions, in most cases, are related to recovery of debts owed to AS DNB banka or its subsidiaries under loan agreements or other financial services agreements or to disputes connected with real estates which are or were pledged to AS DNB banka or its subsidiaries. However, none of the current disputes are expected to have any material impact on AS DNB banka or its subsidiaries financial position.

42 THE PLANNED MERGER PROCESS

On 25 August 2016 Nordea and DNB announced an agreement to combine their operations in Estonia, Latvia and Lithuania to create a leading main bank in the Baltics with strong Nordic roots. The new bank will have scale, a stronger geographic presence and a broader product offering, making it well prepared to meet the future. The transaction is conditional upon regulatory approvals and conditions, and is expected to close around the 2nd quarter of 2017. The banks will operate independently until all necessary approvals have been received. Upon closing of the transaction, the business of each Nordea branch in the Baltics shall be transferred to the DNB banking entity operating in the same jurisdiction. The banks will be sufficiently capitalized and will meet all prudential requirements. After the closing of the transaction, the group will be reorganized through merger in order to maintain the headquarters and legal entity of the new combined bank in Estonia and continue serving customers of other Baltic States through branches in Latvia and Lithuania.

43 EVENTS AFTER STATEMENT OF FINANCIAL POSITION DATE

As of the last day of the reporting year until the date of signing these consolidated financial statements there have been no other events requiring adjustment of or disclosure in the consolidated financial statements or notes thereto.