BANKING / INVESTMENTS \ ADVISORY

ABLV

ABLV Bank, AS

Consolidated and separate financial statements

for the year ended 31 December 2015

Together with independent auditors' report

Contents

Bank's Management Report

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

During 2015, development of the bank and other companies of ABLV Group was continued, due to consistent implementation of the group's strategy. Despite tense geopolitical situation prevailing in several our target regions, the planned results have been attained. This achievement resulted from our choice of business model, implemented risk management, and maintained cautious policy. According to the business model, our focus remains to be on rendering services to private and corporate clients in Latvia, as well as on exporting high-class financial services under servicing foreign clients, mostly those from the CIS states.

To improve the capital adequacy and ensure funds required for development, another issue of ABLV Bank shares was performed at the beginning of the year for the sake of share capital increase. Under the issue, there were 2 385 000 registered shares issued, and 82 shareholders of the bank applied for acquisition of those. The sale price of one share was EUR 13.85. Whereas at the end of the year 265 000 personnel shares were issued. Following the increase, the share capital of ABLV Bank amounts to EUR 35.3 million, and the same is comprised of 31 770 000 ordinary shares and 3 530 000 personnel shares.

Continuing the bond issue programme, in 2015 we performed 7 issues of bonds: two coupon bond issues under the Fourth Bond Offer Programme, and four ones – under the Fifth Bond Offer Programme, as well as one issue of subordinated bonds performed under the Fifth Bond Offer Programme. The total amount of issues performed last year constituted USD 225 million and EUR 80 million. The bank initiated gradual replacement of long-term deposits with bonds at the end of 2011. Including new bonds and those already redeemed, we have performed 32 public bond issues till the end of 2015. As at the end of 2015, there were 21 bond issues included in the Nasdaq Riga list of debt securities.

In 2015, we continued strengthening the compliance and risk management functions, as well as process development and maintenance, and the number of workplaces in the respective structural units was increased. In 2015, there were 36 new workplaces created in the bank only. ABLV Bank and other companies of the group are an important employer and taxpayer in the financial sector and in the country in general. Last year, different taxes paid by the group to the state budget amounted to EUR 20.8 million.

In 2015, ABLV Bank was named one of the best Latvian export brands. To determine the best exporting brands, the export support movement The Red Jackets, in cooperation with the export advice company GatewayBaltic and financial advice company BDO, examined the performance of more than 1300 Latvian exporting companies the export turnover of which exceeds one million euros. Following the examination, 100 best Latvian exporting brands were determined, and the expert panel nominated 25 most prominent export brands, including ABLV Bank, for the title The Red Jackets.

Financial results

The bank's major financial indicators of 2015 evidence stable upswing. ABLV Bank, AS, is the largest bank in Latvia with local capital and is ranked second in terms of the amount of assets.

- The bank's profit in 2015 amounted to EUR 69.0 million. Whereas in 2014 it equalled EUR 58.7 million.
- The bank's operating income totalled EUR 126.3 million. Compared with 2014, operating income has increased by 15.9%.
- The amount of the clients' deposits equalled EUR 3.79 billion as at the end of the reporting period.
- The amount of issued debt securities reached EUR 558.4 million.
- As at 31 December 2015, the amount of the bank's assets was EUR 4.93 billion. Over the year, the amount of assets has grown by 18.2%, the total assets increasing by EUR 758.3 million.
- The bank's loan portfolio equalled EUR 873.5 million, as at the end of December.
- The bank's capital and reserves amounted to EUR 281.5 million.
- As at 31 December 2015, common equity Tier 1 capital adequacy ratio was equal to 10.79%, the bank's capital adequacy ratio was 17.27%, and liquidity – 82.68%.
- ROE reached 27.76%, and ROA – 1.49%, as at 31 December 2015.

Good performance is substantially based on the work of our team of private bankers. The client service standards are constantly improved and the offer is enhanced, therefore the business volumes grow not just due to acquiring new clients, but also because of current clients starting to use different products of the bank.

The bank continued investing available funds in securities. The total amount of the securities portfolio was equal to EUR 2.77 billion, as at 31 December 2015. The bank's securities portfolio is mostly composed of fixed-income debt securities, and 74.6% of the portfolio is constituted by securities having credit rating AA- and higher. In terms of the major countries, securities are allocated as follows: USA – 35.8%, Germany – 14,2%, Latvia – 9,8%, Russia – 8.1%, Canada – 7.8%, Sweden – 5.7%, Netherlands – 2.1%, Norway – 1.8%, and Finland – 1.5%. Whereas 3.4% is constituted by securities issued by international institutions – The International Bank of Reconstruction and Development, Council of Europe Development Bank, European Investment Bank etc. In the reporting period, average annual yield of the securities portfolio amounted to 1.8%.

In the reporting period, we have implemented several new products and services for the convenience of our clients. Settlement services were supplemented with payments in five new currencies: THB (Thai baht), TRY (Turkish lira), HKD (Hong Kong dollar), AMD (Armenian dram), and GEL (Georgian lari).

Whereas expanding the range of our financing services, the bank resumed offering cargo ship financing that meets the market demand. The bank offers financing of the ships having the cargo capacity above 3 000 DWT (deadweight tonnes). These are mostly general cargo vessels, bulk carriers, and reefer ships. Maximum amount of financing of one ship is EUR 10 million, and the ship's maximum age – 25 years as at the moment of the loan repayment. Financing of finished ships can be granted to companies from the Baltic states, the Black Sea and Mediterranean region, as well as Russian East. The company should have at least 10-year experience in ship transport area and impeccable reputation.

In the reporting period, we started offering one more new financing service to our clients – transactional trade finance for commodities traded on stock exchange and over the counter. This service is interesting for trading companies that have successful experience of trading in highly liquid raw materials. We offer transactional trade finance for such commodities as energy raw materials (crude oil, oil products, coal, gas), chemicals (methanol, benzene, mineral fertilizers, etc.), and different metals. These commodities should be moved from Baltic or CIS states to any place in the world. Within this service, we are ready to provide financing of the whole transaction cycle – from prepayment to the supplier to payment after delivery by the end buyer. The maximum loan amount can be up to EUR 20 million.

Whereas on 16 June 2015, ABLV Bank signed an agreement with the development finance institution ALTUM on cooperation within the programme of providing guarantees under housing loans. Within the programme, ALTUM provides guarantees under loans for housing acquisition or construction granted by commercial banks to families with children. Although our bank primarily focuses on private banking services, mortgage lending is an important line of business, and we will continue its development by offering new competitive products. Currently, we offer six different mortgage lending programmes.

Whereas under insurance of residential property, ABLV Bank, acting as insurance agent, in cooperation with the insurers – Latvian branches of Seesam Insurance AS and Compensa TU S.A. Vienna Insurance Group – has developed two unique insurance programmes for the clients: ABLV Apartment Insurance and ABLV House Insurance. Besides real estate insurance, these insurance programmes include insurance of movable property, landscape elements, and civil liability.

Under development of remote account management services, we pay great attention to security of using our Internetbank and therefore introduced considerable changes in client recognition, which form a part of the remote service improvement project. Now two-factor authentication (recognition) will be applied to clients who have one representative, one Internetbank user, and one authorization tool – when logging in to the Internetbank, those clients will need to provide not just user ID and password (the first factor that the client knows) but also code card or Digipass value (the other factor that the client owns).

To ensure even more convenient and secure use of Internetbank, in May 2015 we implemented new code cards – electronic code cards Digipass GO 100, which generate unique codes for authorization of each transaction. Well-known multifunctional devices Digipass 270 and large Digipass 300 Comfort will be also available upon the client's request.

Investments

In 2015, intense instability was observed at global financial markets, regularly causing strong price fluctuations. Nevertheless, open-end mutual funds managed by ABLV Asset Management, IPAS demonstrated good results. As at the end of 2015, their total asset value amounted to EUR 129.7 million. Since the beginning of the year, the total value of funds has increased by 21.7%, i.e., approximately by EUR 23.1 million. The growth of the funds' value was due to increasing interest in financial markets and clients more and more willing to diversify their investment portfolios by acquiring shares of ABLV funds.

Just like in previous years, in 2015 we also started offering new ABLV mutual fund to the clients: from 17 September 2015 ABLV Emerging Markets Corporate USD Bond Fund is available to our clients. The base currency of the new mutual fund is USD, and its assets are invested in debt securities issued or guaranteed by companies and credit institutions registered in emerging countries.

Together with the new fund, 12 mutual funds are currently available to our clients, and those funds cover wide range of investments – from government bond to total return funds. At the same time, we introduced single principle of charging the fees for issue of investment certificates. From 17 September 2015, for all bond funds this fee will be equal to 1.00%, and for stock and total return funds – to 1.50%

As at the end of December 2015, total assets under ABLV Asset Management, IPAS management amounted to EUR 131.2 million, of which EUR 129.7 million were the clients' investments in mutual funds managed by the company, and EUR 1.5 million were the clients' funds invested in individual investment programmes.

The year 2015 was also positive for ABLV Capital Markets, IBAS, which executes the clients' instructions for purchasing and selling all types of financial instruments in the world's major securities markets. Profit of ABLV Capital Markets, IBAS, amounted to EUR 5.4 million. As at 31 December 2015, the total assets of the company's clients invested in more than 1400 different financial instruments were equal to EUR 1.15 billion.

Developing our brokerage services, from the beginning of 2016 we offer SWAP agreements on oil products to the clients, i.e., the agreements on changing floating price of the asset (oil product) to fixed one, or vice versa, for a set term and to the agreed amount. Such transactions are made over-the-counter, but settlement is ensured by stock exchange.

In the reporting period, long and labour-intensive process was completed, and thus ABLV Bank acquired the status of Qualified Intermediary (QI) of the US Internal Revenue Service (IRS). This status ensures significant competitive advantages for our bank and the clients. Due to acquisition of QI status, we will be able to apply reduced US tax rates to coupon payments on bonds of the US issuers that are included in the clients' securities portfolios, according to the tax residence declared by the client. For example, if our client is not a resident of the USA, the tax rate of 30% applied to coupon payments on bonds of the US issuers earlier will be reduced to 0%.

In the reporting period, ABLV Bank provided support to the issuer – AmberStone Group by successfully arranging subscription to newly issued shares. Following the issue of shares, share capital of AmberStone Group has been increased by EUR 21.0 million, reaching EUR 35.0 million in total. The issue was aimed at raising additional funds for the company's development and also at increasing the number of the company's shareholders. 96 applicants took part in the share capital increase – they were current shareholders of AmberStone Group, including ABLV Bank, as well as third parties – particular clients, shareholders, and employees of the bank. AmberStone Group, AS is a holding company established in 2013, and it manages its affiliate and associated companies operating in various fields – agriculture, trade, manufacturing, and healthcare.

Real estate

The year 2015 brought changes in the real estate development and trading group Pillar: reorganization necessary for the new stage of operations was performed, and the number of supervised properties was significantly decreased. Last year, stability and moderate growth were resumed at real estate market, and therefore Pillar was able to report good performance.

In 2015, Pillar made 373 sale transactions, the total amount of which reached EUR 18.1 million. Compared with 2014, the number of sale transactions has halved, which is due to substantial decrease in the managed property portfolio – over the year, the number of properties was reduced from 730 to 420.

In 2015, the number of private house and land sale transactions was doubled – there were 90 private houses and 32 land plots sold. Whereas the number of sold uniform apartments reached 203 – 118 of those in Riga and 85 outside Riga. There were 37 apartments in new and renovated projects sold. It should be noted that the last available apartment in premium-class block Elizabetes Park House was sold in 2015 as well.

One of the major events last year was the commissioning of the apartment block Miera Park House in Riga, at 57a Miera Street. Pillar purchased this new building from affiliate company of SEB bank for EUR 2.4 million at the beginning of 2013. The amount of investments in reconstruction and finishing works reached EUR 5.8 million. The quality of this project has already been appreciated by many clients: 25% of the premium-class apartments available in the building were sold till the end of the year.

In September, structural reorganization of Pillar group companies was completed successfully. The main objective of the reorganization was to ensure appropriate structure and divide the responsibilities within the real estate line of business, taking into account that future operations of Pillar will primarily concern implementation of large-scale New Hanza City project. Under the reorganization, three groups of companies were formed: Pillar Management, SIA, Pillar

Holding Company, KS, and New Hanza City group of companies. Each of those is assigned its own tasks. The areas of operations of several companies have been changed or extended, and thus Pillar will be able to implement all stages of real estate development on its own – from project development, organization of construction works, supervision of their quality, and sale of properties to rendering utility and management services.

Owing to contribution and thorough work of Pillar Architekten, SIA (former name – Schaller Kyncl Architekten Riga), which is a part of Pillar group, another significant event took place at the very end of 2015 – construction design of ABLV Bank headquarters building, multifunctional office building, and utility lines installation was approved. Therefore, first construction works of laying necessary utility lines will be started at New Hanza City territory already in Q2 2016. The street network in the territory around the said buildings is planned to be built during the year, alongside installation of water supply, sewage, heat and electricity supply systems, so that the construction of the buildings can be started afterwards.

Advisory

In the reporting period, the bank's affiliate company ABLV Corporate Services, SIA, improved its range of services by starting to offer accounting services of new quality to the clients. There is a team of 15 professional accountants working in ABLV Corporate Services and having the experience of rendering services to companies in such jurisdictions as Latvia, Cyprus, and Singapore. The company's specialists can render accounting services to the companies during the whole year, making monthly and quarterly reports, providing profound advice on taxes and law amendments, etc. Currently, almost 100 clients use the services of ABLV Corporate Services, SIA.

To expand into new target regions and to be closer to its clients, in the reporting period ABLV Group company ABLV Consulting Services, AS, has opened new representative office – in global financial centre of Hong Kong. Its main task is to inform prospective and current clients about financial, investment, and advisory services offered by ABLV Group. Major advantages of Hong Kong are liberal tax system and developed sector of financial services. Moreover, many clients from Russia and CIS states register companies in Hong Kong to establish their business.

Currently, ABLV Group has 11 representative offices in 8 countries – Russia, Ukraine, Belarus, Kazakhstan, Azerbaijan, Uzbekistan, Hong Kong, and Cyprus.

Luxembourg

Our subsidiary bank in Luxembourg, ABLV Bank Luxembourg, S.A., renders services to the clients during more than two years already, and as at 31 December 2015 ABLV Bank Luxembourg assets and assets under management amounted to EUR 174.7 million.

For investment portfolio management, the Luxembourg bank offers two services to the clients – Active Investment Advisory and Discretionary Portfolio Management. Under the said services, the clients were able to choose among three types of investment strategies: Capital Preservation, Defensive, and Balanced ones. Taking into account the demand, ABLV Bank Luxembourg started offering new investment strategy – Growth. This strategy is supposed for substantial increase of invested assets with acceptance of considerable risk of loss. Compared with the other strategies, the new one implies including much higher portion of shares in the client's portfolio.

Lombard lending is now available to the clients of ABLV Bank Luxembourg, and this service is actually an overdraft on the current account, granted against pledge of the portfolio under Active Investment Advisory or Discretionary Portfolio Management. Using this service, the clients are able to obtain funds without selling their investment portfolios, and those funds can be applied towards various purposes, e.g., increase of the investment portfolio. The term of the lombard loan is not limited (whereas the bank is entitled to request early repayment of the loan), and it can be obtained in USD and EUR.

It should be noted that in the reporting period Risk Committee of the international payment system VISA Europe approved assignment of VISA Associate Membership status to ABLV Bank Luxembourg, S.A. Thus ABLV Bank Luxembourg is able to offer payment cards to the clients on its own – from debit cards to premium cards VISA Platinum and Infinite.

For society

In 2015, ABLV Group continued to provide its support for different projects which are significant for the society. Last year the companies of ABLV Group donated a total of more than EUR 1.000.000 for charity projects and projects of social significance.

Alongside with donations for children with hearing problems and children from impoverished families, as well as support for contemporary art and creation of modern public space in Riga, ABLV Bank donated funds for several embassies of the Republic of Latvia in order to help them to organise 18 November celebration and promote our country abroad.

In 2015, as each year, in ABLV Group the annual Christmas Charitable Campaign aimed at collecting funds for charity programmes of ABLV Charitable Foundation was organized. More than two hundred of bank employees and clients, as well as other people, took part in the campaign. As a result, the budget of such significant programmes as New Riga, Let's Help Them to Grow Up!, Let's Help Them to Hear! and Support for Contemporary Art Exhibitions was increased for EUR 482.534.

As previous years, in July 2015 the exhibition of Alexander Vasilyev, the worldwide famous Russian fashion historian, took place in Riga with support of ABLV Bank. It was already the seventh exhibition of costumes from the collection of the historian supported by ABLV Bank, and this time it covered a whole century from 1915 to 2015. For the first time, the visitors could enjoy the exhibition catalogue in Latvian, Russian and English published by the Latvian National Museum of Art in collaboration with ABLV Bank.

Plans for 2016

In 2016, strengthening of the bank's compliance and risk management functions will be continued. A number of projects aimed at automatization of supervision processes is supposed to be completed. The number of workplaces is not planned to grow as rapidly as before, because of higher tax burden and the consequent increase in administrative expenses.

The tense situation in financial markets and our target regions, as well as growing requirements of different supervisory institutions do not allow expecting the business development to be as rapid as in previous years, but since our business model is efficient and risk management – strong and elaborate, we can forecast the results to be similar to those in 2015.

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

Chairman of the Council
Oļegs Fiļs

Chairman of the Board
Ernests Bernis

Riga, 26 February 2016

The Statement of Corporate Governance is published on the bank's website www.ablv.com .

The council and the board

The council of the bank:

Chairman of the Council:	Date of re-election:
Oļegs Fiļs	01.04.2013
Deputy Chairman of the Council:	Date of re-election:
Jānis Krīgers	01.04.2013
Council Member:	Date of re-election:
Igors Rapoports	01.04.2013

The board of the bank:

Chairman of the Board:	Date of re-election:
Ernests Bernis - Chief Executive Officer (CEO)	01.05.2014
Deputy Chairman of the Board:	Date of re-election:
Vadims Reinfelds – Deputy Chief Executive Officer (dCEO)	01.05.2014
Board Members:	Date of re-election:
Aleksandrs Pāže – Chief Compliance Officer (CCO)	01.05.2014
Edgars Pavlovičs – Chief Risk Officer (CRO)	01.05.2014
Māris Kannenieks – Chief Financial Officer (CFO)	01.05.2014
Rolands Citajevs – Chief IT Officer (CIO)	01.05.2014
Romans Surnačovs – Chief Operating Officer (COO)	01.05.2014

There were no changes in the council of the bank and board of the bank during the reporting year.

Statement of management's responsibility

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

The financial statements and notes thereto set out on pages 10 to 82 are prepared in accordance with the source documents and present truly and fairly the financial position of the bank and the group as at 31 December 2015 and 2014, and the results of their operations, changes in the shareholders' equity and cash flows for the years then ended.

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

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

Chairman of the Council
Oļegs Fiļs

Chairman of the Board
Ernests Bernis

Riga, 26 February 2016

Statements of comprehensive income

EUR'000

	Notes	Group 01.01.2015-31.12.2015	Group 01.01.2014-31.12.2014	Bank 01.01.2015-31.12.2015	Bank 01.01.2014-31.12.2014
Interest income	3	85 548	70 163	83 547	68 618
Interest expense	3	(20 589)	(16 684)	(20 508)	(17 093)
Net interest income		**64 959**	**53 479**	**63 039**	**51 525**
Commision and fee income	4	65 564	63 916	55 778	57 944
Commision and fee expense	4	(10 431)	(10 897)	(15 543)	(16 443)
Net commision and fee income		**55 133**	**53 019**	**40 235**	**41 501**
Net gain on transactions with financial instruments and foreign exchange	5	21 499	18 992	21 304	19 315
Net gain on non-financial assets held for sale	6	(2 272)	3 041	-	-
Other income	7	9 581	18 445	3 646	3 835
Other expense	7	(6 522)	(11 395)	(1 264)	(890)
Income from dividends		259	195	9 352	6 111
Impairment allowance for loans	8	(5 888)	(1 003)	(5 483)	(999)
Provisions for impairment of investments in subsidiaries	18	-	-	(2 840)	(7 769)
Provisions for impairment of financial instruments		(1 670)	(3 670)	(1 670)	(3 670)
Operating income		**135 079**	**131 103**	**126 319**	**108 959**
Personnel expense	9	(43 099)	(39 370)	(33 955)	(30 530)
Other administrative expense	9	(18 952)	(18 528)	(14 661)	(12 890)
Amortisation and depreciation		(5 019)	(5 310)	(3 377)	(2 992)
Impairment reversal		237	-	237	-
Profit before corporate income tax		**68 246**	**67 895**	**74 563**	**62 547**
Corporate income tax	10	(6 372)	(4 088)	(5 524)	(3 873)
Net profit for the year		**61 874**	**63 807**	**69 039**	**58 674**
Attributable to:					
Equity holders of the bank		61 277	63 353		
Non-controlling interests		597	454		
Other comprehensive income which has been or is to be reclassified to profit or loss					
Changes in fair value revaluation reserve of available-for-sale financial assets		11 921	(4 338)	11 828	(4 324)
Change to income statement as a result of sale of available-for-sale securities		(1 763)	(300)	(1 711)	(237)
Change to income statement due to recognised impairment of available-for-sale securities		1 111	1 684	1 111	1 684
Changes in deferred corporate income tax		(304)	467	(304)	467
Other comprehensive income, total		**10 965**	**(2 487)**	**10 924**	**(2 410)**
Total comprehensive income		**72 839**	**61 320**	**79 963**	**56 264**
Attributable to:					
Equity holders of the bank		72 242	60 866		
Non-controlling interests		597	454		

Chairman of the Council
Oļegs Fiļs

Chairman of the Board
Ernests Bernis

Riga, 26 February 2016

Statements of financial position

EUR'000

Assets	Notes	Group 31.12.2015	Group 31.12.2014	Bank 31.12.2015	Bank 31.12.2014
Cash and deposits with central banks	11	449 136	259 872	448 187	258 908
Balances due from credit institutions	12	669 980	816 936	671 772	795 282
Derivatives	16	121	4 079	121	4 079
Financial assets at fair value through profit or loss	13	26 121	21 165	22 286	14 884
Available-for-sale financial assets	14	1 833 073	1 271 227	1 780 554	1 209 073
Loans	17	874 003	790 113	873 499	790 247
Held-to-maturity investments	15	1 015 047	958 423	965 253	930 579
Investments in subsidiaries	18	-	-	111 266	115 099
Investments in associates	18	9 068	2	8 770	-
Investment properties	19	22 976	30 057	25 069	25 033
Property and equipment	20	23 867	37 877	9 529	10 606
Intangible assets	20	6 365	6 309	6 036	5 700
Current corporate income tax receivables		3 148	3 596	3 042	3 257
Deferred corporate income tax	10	379	2 300	-	1 457
Repossessed real estate		52 312	59 774	-	-
Other assets	21	5 992	8 356	2 737	5 640
Total assets		**4 991 588**	**4 270 086**	**4 928 121**	**4 169 844**

Liabilities	Notes	Group 31.12.2015	Group 31.12.2014	Bank 31.12.2015	Bank 31.12.2014
Derivatives	16	365	5,630	365	5,630
Balances held with Bank of Latvia	22	180,072	16,797	180,072	16,797
Demand deposits from credit institutions		49,154	23,869	63,294	28,962
Term deposits from credit institutions		-	6,319	-	2,971
Deposits	23	3,875,455	3,488,516	3,793,192	3,406,032
Current corporate income tax liabilities		322	423	-	-
Other liabilities	27	41,737	29,603	35,072	13,205
Deferred corporate income tax	10	1,016	524	1,001	-
Provisions		-	352	-	352
Issued securities	24	550,877	441,598	558,411	454,581
Subordinated deposits	25	15,261	14,413	15,261	14,413
Total liabilities		**4,714,259**	**4,028,044**	**4,646,668**	**3,942,943**
Shareholders' equity					
Paid-in share capital	26	35,300	32,650	35,300	32,650
Share premium		96,918	66,270	96,918	66,270
Reserve capital and other reserves		2,238	2,174	2,134	2,134
Fair value revaluation reserve of available-for-sale financial assets		9,461	(1,504)	9,497	(1,427)
Retained earnings brought forward		71,259	66,762	68,565	68,600
Retained earnings for the period		61,277	63,353	69,039	58,674
Attributable to the equity holders of the bank		**276,453**	**229,705**	**281,453**	**226,901**
Non-controlling interests		**876**	**12,337**	**-**	**-**
Total shareholders' equity		**277,329**	**242,042**	**281,453**	**226,901**
Total liabilities and shareholders' equity		**4,991,588**	**4,270,086**	**4,928,121**	**4,169,844**
Memorandum items					
Contingent liabilities	28	9,949	9,531	9,516	9,444
Financial commitments	28	75,610	61,318	68,907	60,228

Chairman of the Council
Oļegs Fiļs

Chairman of the Board
Ernests Bernis

Riga, 26 February 2016

The accompanying notes set out on pages 15 through 82 form an integral part of these financial statements.

Statement of changes in shareholders’ equity of the group

EUR'000

	Paid-in share capital	Share premium	Reserve capital and other reserves	Fair value revaluation reserve of available-for-sale financial assets	Retained earnings	Attributable to the equity holders of the bank	Non-controlling interests	Total shareholders' equity
01.01.2014	**30,003**	**41,485**	**2,134**	**983**	**110,685**	**185,290**	**3,896**	**189,186**
Net profit for the year	-	-	-	-	63,353	63,353	454	63,807
Other comprehensive income/(expense) for the year	-	-	-	(2,487)	-	(2,487)	-	(2,487)
Total comprehensive income	**-**	**-**	**-**	**(2,487)**	**63,353**	**60,866**	**454**	**61,320**
Increase in reserves	-	-	40	-	-	40	-	40
Dividends paid (see Note 26)	-	-	-	-	(43,453)	(43,453)	(333)	(43,786)
Issue of personal shares (see Note 26)	405	-	-	-	(470)	(65)	65	-
Issue of shares (see Note 26)	2,242	24,785	-	-	-	27,027	-	27,027
Increase in non-controlling interests (see Note 18)	-	-	-	-	-	-	8,255	8,255
31.12.2014	**32,650**	**66,270**	**2,174**	**(1,504)**	**130,115**	**229,705**	**12,337**	**242,042**
01.01.2015	**32,650**	**66,270**	**2,174**	**(1,504)**	**130,115**	**229,705**	**12,337**	**242,042**
Net profit for the year	-	-	-	-	61,277	61,277	597	61,874
Other comprehensive income/(expense) for the year	-	-	-	10,965	-	10,965	-	10,965
Total comprehensive income	**-**	**-**	**-**	**10,965**	**61,277**	**72,242**	**597**	**72,839**
Increase in reserves	-	-	64	-	-	64	-	64
Dividends paid (see Note 26)	-	-	-	-	(58,555)	(58,555)	(292)	(58,847)
Issue of personnel shares (see Note 26)	265	-	-	-	(301)	(36)	36	-
Issue of shares (see Note 26)	2,385	30,648	-	-	-	33,033	-	33,033
Increase in non-controlling interests (see Note 18)	-	-	-	-	-	-	(11,802)	(11,802)
31.12.2015	**35,300**	**96,918**	**2,238**	**9,461**	**132,536**	**276,453**	**876**	**277,329**

The accompanying notes set out on pages 15 through 82 form an integral part of these financial statements.

Statement of changes in shareholders’ equity of the bank

EUR'000

	Paid-in share capital	Share premium	Reserve capital and other reserves	Fair value revaluation reserve	Retained earnings	Total shareholders' equity
01.01.2014	**30,003**	**41,485**	**2,134**	**983**	**112,432**	**187,037**
Net profit for the year	-	-	-	-	58,674	58,674
Other comprehensive income/(expense) for the year	-	-	-	(2,410)	-	(2,410)
Total comprehensive income for the year	**-**	**-**	**-**	**(2,410)**	**58,674**	**56,264**
Dividends paid (see Note 25)	-	-	-	-	(43,427)	(43,427)
Issue of personnel shares (see Note 25)	405	-	-	-	(405)	-
Issue of shares (see Note 25)	2,242	24,785	-	-	-	27,027
31.12.2014	**32,650**	**66,270**	**2,134**	**(1,427)**	**127,274**	**226,901**
01.01.2015	**32,650**	**66,270**	**2,134**	**(1,427)**	**127,274**	**226,901**
Net profit for the year	-	-	-	-	69,039	69,039
Other comprehensive income/(expense) for the year	-	-	-	10,924	-	10,924
Total comprehenisve income for the year	**-**	**-**	**-**	**10,924**	**69,039**	**79,963**
Dividends paid (see Note 25)	-	-	-	-	(58,444)	(58,444)
Issue of personnel shares (see Note 25)	265	-	-	-	(265)	-
Issue of shares (see Note 25)	2,385	30,648	-	-	-	33,033
31.12.2015	**35,300**	**96,918**	**2,134**	**9,497**	**137,604**	**281,453**

The accompanying notes set out on pages 15 through 82 form an integral part of these financial statements.

Statement of cash flows

Cash flows from operating activities	Group 01.01.2015-31.12.2015	Group 01.01.2014-31.12.2014	Bank 01.01.2015-31.12.2015	Bank 01.01.2014-31.12.2014
				EUR'000
Profit before corporate income tax	68,246	67,895	74,563	62,547
Amortisation and depreciation of fixed assets and investment properties	5,019	5,310	3,377	2,992
Impairment allowance for loans	5,888	1,003	5,483	999
Impairment of financial instruments	1,670	3,670	1,670	3,670
Interest (income)	(85,548)	(70,163)	(83,547)	(68,618)
Interest expense	20,589	16,684	20,508	17,093
Other non-cash items	(1,737)	11,754	1,546	9,784
Net cash flows from operating activities before changes in assets and liabilities	**14,127**	**36,153**	**23,600**	**28,467**
Decrease/(increase) in balances due from credit institutions	(7,878)	(18,482)	(12,831)	(19,638)
(Increase)/decrease in loans	(70,698)	(17,928)	(69,656)	(6,996)
(Increase)/decrease in financial assets at fair value through profit or loss	(4,901)	(4,160)	(7,063)	2,121
Decrease/(increase) in other assets	9,879	7,784	2,902	(184)
Increase/(decrease) in balances due to credit institutions	156,890	19,483	160,238	19,768
Increase in deposits	175,238	528,196	175,459	437,424
(Decrease) in derivatives	(1,307)	(495)	(1,307)	(495)
(Decrease)/increase in other liabilities	11,837	12,720	21,747	2,094
Net cash flows from operating activities before corporate income tax	**283,187**	**563,271**	**293,089**	**462,561**
Interest received in the reporting year	87,170	63,899	85,170	62,354
Interest (paid) in the reporting year	(19,937)	(18,618)	(19,857)	(18,918)
Corporate income tax (paid)	(3,237)	(14,096)	(2,952)	(13,233)
Net cash flows from operating activities	**347,183**	**594,456**	**355,450**	**492,764**
Cash flows from investing activities				
(Purchase) of held-to-maturity investments	(118,729)	(311,867)	(97,391)	(285,648)
Redemption of held-to-maturity investments	141,209	67,607	140,009	67,607
(Purchase) of available-for-sale financial assets	(1,373,698)	(1,162,196)	(1,288,302)	(1,082,537)
Sale of available-for-sale financial assets	957,295	709,452	859,890	684,964
(Purchase) of intangible and tangible fixed assets and investment properties	(4,435)	(7,069)	(3,718)	(5,561)
Sale of intangible and tangible fixed assets and investment properties	122	2,453	1,046	944
(Increase) in investments in subsidiaries and associates	-	6,632	3,321	16,728
Decrease in cash and cash quivalents due to loss of control	(282)	-	-	-
Decrease in investments in subsidiaries and associates	-	-	(11,098)	(6,767)
Net cash flows from investing activities	**(398,518)**	**(694,988)**	**(396,243)**	**(610,270)**
Cash flows from financing activities				
Increase in subordinated loans	1,560	3,388	1,560	3,388
(Repayment) of subordinated loans	(1,600)	-	(1,600)	-
Sale of issued securities	239,691	254,540	239,691	267,523
(Repurchase) of issued securities	(168,522)	(150,152)	(173,972)	(150,152)
Dividends (paid)	(58,847)	(43,786)	(58,443)	(43,415)
Increase in non-controlling interest	126	-	-	-
Issue of shares	33,033	27,027	33,033	27,027
Net cash flows from financing activities	**45,441**	**91,017**	**40,269**	**104,371**
(Decrease)/increase in cash and cash equivalents	**(5,894)**	**(9,515)**	**(524)**	**(13,135)**
Cash and cash equivalents at the beginning of the year	**1,009,756**	**961,829**	**987,436**	**943,129**
Result from revaluation of foreign currency positions	11,122	57,442	15,214	57,442
Cash and cash equivalents at the end of the year	**1,014,984**	**1,009,756**	**1,002,126**	**987,436**

EUR'000

Cash and cash equivalents	Group 31.12.2015	Group 31.12.2014	Bank 31.12.2015	Bank 31.12.2014
Cash and deposits with central banks	449,136	259,872	448,187	258,908
Balances due from credit institutions	615,002	773,753	617,233	757,490
Balances due to credit institutions	(49,154)	(23,869)	(63,294)	(28,962)
Total cash and cash equivalents	**1,014,984**	**1,009,756**	**1,002,126**	**987,436**

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

Notes to the financial statements

Note 1

General information

ABLV Bank, AS (hereinafter - the bank) was registered in Aizkraukle, Republic of Latvia, on 17 September 1993, as a joint stock company. At present, the legal address of the bank is Elizabetes Street 23, Riga, LV-1010, Latvia.

The bank operates in accordance with the laws and regulations of the Republic of Latvia and the licence issued by the Financial and Capital Market Commission that allows the bank to render all the financial services specified in the Law on Credit Institutions.

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

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

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

The following abbreviations are used in the notes to these financial statements: International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), International Accounting Standards Board (IASB), International Financial Reporting Interpretations Committee (IFRIC), Financial and Capital Market Commission of the Republic of Latvia (FCMC), European Monetary Union (EMU), European Union (EU), Organisation for Economic Cooperation and Development (OECD), European Central Bank (ECB).

The consolidated financial statements of the group and the separate financial statements of the bank for the year ended 31 December 2015 are approved by the bank's board and council on 26 February 2016 (see paragraph (v)).

Note 2

Information on principal accounting policies

a) Basis of Preparation

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

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

During the year ended 31 December 2015, the group and the bank consistently applied accounting policies in line with those disclosed in the prior-year financial statements, except for the changes in IFRS that came effective in the reporting period.

The accounting policies are applied consistently by all entities of the group.
The positions of items in Statements of other comprehensive income have been reallocated in these financial statements without any effect on the financial results.

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

These consolidated and separate financial statements are reported in thousands of the euro (EUR'000), unless otherwise stated. Information given herein in brackets represents comparative figures for the year ended 31 December 2014 or for the year ended 31 December 2014 respectively.

b) Significant Estimates and Assumptions

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

The significant areas of estimation and assumptions relate to the calculation of deferred corporate income tax (see paragraph (i)), determining the impairment allowance for loans (see paragraph (o)) and the collateral (pledge) value (see Note 35), estimation of impairment of other assets (see paragraph (p)) and the fair value of assets and liabilities (see paragraph (e) and Note 32), assumptions regarding control and material impact on subsidiaries and associations (see paragraph (c)), as well as assumptions regarding the power that bank has over open-ended investment funds (see paragraph (c)).

c) Basis of Consolidation

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

Investments in subsidiaries are presented in the bank's separate financial statements in accordance with the cost method.

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

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

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

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

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

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

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

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

d) Recognition and Derecognition of Financial Assets and Liabilities

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

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

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

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

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

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

e) Fair Value of Financial Assets and Liabilities

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

f) Offsetting of Financial Assets and Financial Liabilities

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

g) Income and Expense Recognition

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

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

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

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

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

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

h) Foreign Currency Translation

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

i) Taxation

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

taxable profits together with future tax planning strategies. Therefore, deferred tax asset is only recognised if it is justifiably expected to be recovered.

j) Financial Instruments

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:
- those that the group and the bank intend to sell immediately or in the near term and those that the group and the bank upon initial recognition designate as at fair value through profit or loss;
- those that the group and the bank, upon initial recognition, designate as available for sale; or
- those for which the group and the bank may not recover substantially all of its initial investment, other than because of credit deterioration.

This portfolio includes loans and balances due from credit institutions which are carried at amortised cost using the effective interest method less the allowance for credit losses (impairment expense) as presented in Note 8. Gains or losses are recognised in the statement of comprehensive income upon derecognition or impairment of these assets, as well as through amortisation. Gains and losses are recognised in the statement of comprehensive income as interest income/ expense when the liabilities are derecognised through the amortisation process.
For the purposes of these financial statements, finance lease receivables are classified as loans.

Held-to-maturity investments

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

Available-for-sale financial assets

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

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

After initial recognition at fair value, including direct transaction costs, available-for-sale securities are measured at fair value. The revaluation result is charged through the statement of comprehensive income to the shareholders' equity as the fair value revaluation reserve of available-for-sale financial assets. Financial assets having no quoted prices available and whose fair value cannot be determined reliably using other models are stated at cost.

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

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

Financial assets at fair value through profit or loss

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

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

Derivatives

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

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

Securities repo agreements

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

Issued debt securities

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

Other financial liabilities measured at amortised cost

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

k) Repossessed real estate

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

l) Finance Leases – Where the Bank is Lessor

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

m) Off-balance Sheet Financial Commitments and Contingent Liabilities

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

n) Provisions

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

o) Impairment of Financial Assets and Financial Commitments

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

According to the approved impairment assessment policy, the group and the bank determine allowance for credit losses (impairment allowance). When a loan has been classified as troubled, an allowance for credit losses is established for that specific loan or amount of the outstanding balance, which is deemed impaired. The level of the allowance is based on the present value of expected future cash flows considering relevant factors including, but not limited to, the group's and bank's past loan loss experience, known and inherent risks in the portfolio of loans and advances, adverse situations that may affect the borrowers' ability to repay, the collateral value and current economic conditions as well as other relevant factors affecting loan and advances collectability and collateral values. Ultimate losses may vary from the current estimates. The value of the collateral held in connection with loans and advances is based on the estimated realisable value of the asset and is taken into account when determining expected cash flows and, accordingly, the allowance. The group and the bank determine individual and collective (portfolio) impairment.
The above estimates are reviewed periodically. As changes to the allowance become necessary as a result of the review made, respective allowance changes are taken to the statement of comprehensive income of the reporting period. The management of the group and the bank have made their best estimates of losses and believe the estimates presented in the financial statements to be reasonable in the light of the available facts and information.

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

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

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

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

In determining the rates of allowances for homogeneous pools of mortgage loans, the bank relies on the recoverable amount of loans and the historical number of loans, which become collectible over a certain period, and which in 12 months are brought to the pool with the highest credit risk (incl. the status of collectible loans). When determining the rate for impairment allowances 'incurred, but not yet known to the bank', the identification period of a loss event is assumed to be 3 months.
In determining the rates of allowances for individually assessed business loans which have no individual impairment, the bank relies on the historical proportion of loans, which become collectible over a 12 month period and the recoverable value

of these loans. When determining the rate for impairment allowances ‘incurred, but not yet known to the bank’, the identification period of a loss event is assumed to be 6 months.
In determining the amount of allowance for unsecured balances of current accounts and payment cards, it is assumed that these loans become non-recoverable after a specified number of days of delay (between 15-60 days of delay).

The existing allowances are decreased, if any of the following occurs:
- the bank obtains reliable information about additional sources of loan repayment;
- the recoverable amount of the loan has increased as a result of the improvement of the borrower’s financial situation or growth of the collateral value. Changes in the market value of collateral may be taken into consideration only if the growth is observed for at least three months.

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

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

The group/bank conducts an analysis and measures held-to-maturity investments on a regular basis and determines the amount of allowances according to the following principles:
- if objective evidence exists that a listed financial instrument is impaired the amount of allowance to be recognised is determined as the difference between the carrying amount and the current market value of the security;
- financial instruments that have been defaulted are measured based on the information at the group’s/bank’s disposal concerning debt restructuring. In this case, the amount of allowance is determined as the difference between the carrying amount of the security and the present value of the expected future cash flows expected to be received as a result of debt restructuring;
- if objective evidence exists that a held-to-maturity investment is impaired the required amount of allowance is determined using the discounted cash flow analysis as the difference between the carrying amount of the security and the present value of the expected future cash flows discounted at the effective interest rate of a similar financial asset.

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

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

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

p) Impairment of Non-financial Assets

The group and the bank assesses at each reporting date or more frequently if events or changes in circumstances indicate that there is an indication that a non-financial asset may be impaired. If any such indication exists, the bank makes an estimate of the asset’s recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount. This written down amount constitutes an impairment loss.

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

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

q) Intangible Assets

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

r) Property and equipment

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

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

Category	Annual rate
Buildings and property improvements	1.25% - 20%
Vehicles	14%
Office equipment, EDP equipment and software	10% - 50%

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

s) Investment Properties

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

t) Employee Benefits

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

u) Cash and Cash Equivalents

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

v) Adjustments to financial statements after their publication

Following the issuance of financial statements to their approval at shareholders’ meeting, the shareholders of the bank are entitled to adjust these statements.

w) Subsequent Events

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

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

The group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2015.
The application of new standards and amendments did not have any impact on these consolidated financial statements:

- IFRIC 21 guidance on a levy imposed by government
- Annual Improvements to IFRSs

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

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

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

IFRS 11: Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016)

These Amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business. Business combination accounting also applies to the acquisition of additional interests in a joint operation while the joint operator retains joint control. The additional interest acquired will be measured at fair value. The previously held interests in the joint operation will not be remeasured. It is expected that the Amendments, when initially applied, will not have a material impact on the bank's and group's financial statements because the bank and group do not have participation in joint operations.

IAS 1 – Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2016)

The Amendments to include five, narrow-focus improvements to the disclosure requirements contained in the standard. The group expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the group.

IAS 16 – Property, Plant and Equipment and IAS 38 – Intangible Assets (effective for annual periods beginning on or after 1 January 2016)

The amendments explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. In addition, the amendments introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. This presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue. It is expected that the Amendments, when initially applied, will not have material impact on the group's financial statements, as the group does not apply revenue-based methods of amortisation/depreciation.

IAS 16 – Property, Plant and Equipment and IAS 41 – Agriculture (effective for annual periods beginning on or after 1 January 2016)

These amendments result in bearer plants being in the scope of IAS 16 Property, Plant and Equipment, instead of IAS 41 Agriculture, to reflect the fact that their operation is similar to that of manufacturing. The group does not expect that the amendments, when initially applied, will have material impact on the financial statements as the group has no bearer plants.

IAS 19 – Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 February 2015)

The amendments are relevant only to defined benefit plans that involve contributions from employees or third parties meeting certain criteria. When these criteria are met, a company is permitted (but not required) to recognise them as a reduction of the service cost in the period in which the related service is rendered. The group does not expect the amendment to have any impact on the consolidated financial statements since it does not have any defined benefit plans that involve contributions from employees or third parties.

IAS 27 – Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016)

The amendments allow an entity to use the equity method in its separate financial statements to account for investments in subsidiaries, associates and joint ventures. The Entity does not expect that the amendments, when initially applied, will have a material impact on the financial statements as the Entity intends to continue to carry its investments in subsidiaries, associates at cost/in accordance with IAS 39.

Annual Improvements to IFRSs

The improvements introduce ten amendments to ten standards and consequential amendments to other standards and interpretations. These amendments are applicable to annual periods beginning on or after either 1 February 2015 or 1 January 2016, with earlier adoption permitted. None of these amendments are expected to have a significant impact on the consolidated financial statements of the group.

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

Note 3

Interest income and expense

EUR'000

	Group	Group	Bank	Bank
	01.01.2015-31.12.2015	01.01.2014-31.12.2014	01.01.2015-31.12.2015	01.01.2014-31.12.2014
Interest income				
Total interest income on financial assets at fair value	**403**	**548**	**-**	**14**
Interest income on available-for-sale financial assets at amortised cost				
on loans and advances to customers	34,904	34,280	34,579	33,556
on held-to-maturity securities	31,827	24,775	30,831	24,570
on available-for-sale securities	16,076	8,000	15,820	7,924
on balances due from credit institutions and central banks	2,338	2,560	2,317	2,554
Total interst income on available-for-sale financial assets at amortised cost	**85,145**	**69,615**	**83,547**	**68,604**
Total interest income	**85,548**	**70,163**	**83,547**	**68,618**
Interest expense				
on ordinary bonds issued	7,304	4,817	7,361	5,254
on subordinated liabilities	5,892	4,637	5,892	4,641
on the deposit guarentee fund	4,690	6,479	4,690	6,479
Single Resolution Fund expense	1,337	-	1,337	-
on balances due to credit institutions and central banks	802	221	674	191
financial stability fee costs	425	291	425	263
on deposits from non-bank customers	139	239	129	265
Total interest expense	**20,589**	**16,684**	**20,508**	**17,093**

The group's/ bank's interest income on impaired assets totalled EUR 2.4 (2.1) million. Negative interest income has been included in interest expenses on balances due to credit institutions and central banks.

Note 4

Commission and fee income and expense

EUR'000

Commission and fee income	Group 01.01.2015-31.12.2015	Group 01.01.2014-31.12.2014	Bank 01.01.2015-31.12.2015	Bank 01.01.2014-31.12.2014
commission on payment transfer handling on behlaf of customers	30,001	33,505	29,894	33,489
commission on account service	12,325	10,274	12,087	10,169
commission on handling of settlement cards	9,034	9,105	9,037	9,108
commission on brokerage operations	8,310	5,035	-	-
commission on assets management	2,363	2,130	628	783
commission on documentary operations	1,189	1,219	1,189	1,219
other commission and fee income	2,342	2,648	2,943	3,176
Total commission and fee income	**65,564**	**63,916**	**55,778**	**57,944**
Commission and fee income				
correspondent bank service charges	4,065	4,962	4,010	4,923
commission on payment cards	2,436	2,322	2,436	2,322
commission on customer attraction	2,385	2,531	9,036	9,121
commission on brokerage operations	1,409	927	-	-
other commission and fee expense	136	155	61	77
Total commission and fee expense	**10,431**	**10,897**	**15,543**	**16,443**

Note 5

Net gain on transactions with financial instruments and foreign exchange

EUR'000

Financial instruments at fair value through profit or loss	Group 01.01.2015-31.12.2015	Group 01.01.2014-31.12.2014	Bank 01.01.2015-31.12.2015	Bank 01.01.2014-31.12.2014
Gain/ (loss) from revaluation of financial instruments at fair value through profit or loss	(699)	(1,335)	(654)	(624)
Derivatives	4	5	4	5
Securities	(703)	(1,340)	(658)	(629)
Gain/ (loss) from trading with financial instruments at fair value through profit or loss	660	84	530	(242)
Derivatives	44	10	44	10
Securities	616	74	486	(252)
Net gain/ (loss) from financial instruments at fair value through profit or loss	**(39)**	**(1,251)**	**(124)**	**(866)**
Available-for-sale financial instruments				
Gain from sale of available-for-sale securities	1,763	300	1,711	237
Net realised gain from available-for-sale financial instruments	**1,763**	**300**	**1,711**	**237**
Financial instruments at amortised cost				
(Loss) from sale of held-to-maturity investments	(52)	(1,030)	(52)	(1,030)
Net realised (loss) from sale of financial instruments	**(52)**	**(1,030)**	**(52)**	**(1,030)**
Foreign exchange				
Profit from foreign currency exchange	28,888	22,522	28,803	22,502
(Loss)/ gain from revaluation of foreign currency positions	(9,061)	(1,549)	(9,034)	(1,528)
Net result from foreign exchange trading and revaluation	**19,827**	**20,973**	**19,769**	**20,974**
Net gain on transactions with financial instruments and foreign exchange	**21,499**	**18,992**	**21,304**	**19,315**

In the reporting year, the bank's management decided to sell held-to-maturity securities totalling EUR 3,7 million issued by Russian issuers. As the sold amount of securities issued by Russian issuers is not considered to be material, i.e. 0.4% from held-to-maturity financial portfolio, the bank's management has concluded that the rest of the bank's portfolio of held-to-maturity financial instruments can be retained in this category.

Note 6

Net gain on repossessed real estate

EUR'000

	Group 01.01.2015-31.12.2015	Group 01.01.2014-31.12.2014	Bank 01.01.2015-31.12.2015	Bank 01.01.2014-31.12.2014
Proceeds from disposal of repossessed real estate	16,498	34,902	-	-
Cost of acquisition of repossessed real estate	(15,992)	(29,405)	-	
Cost of disposal of repossessed real estate	(28)	(271)	-	-
Net gain from sale	**478**	**5,226**	**-**	
Proceeds from lease and management of repossessed real estate	425	627	-	-
Expense related to management of repossessed real estate	(576)	(1,266)	-	-
Impairment of repossessed real estate	(2,713)	(1,896)	-	-
Reversal of impairment of repossessed real estate	114	350	-	-
Net gain on repossessed real estate	**(2,272)**	**3,041**	**-**	**-**

The management of the group/ bank has carried out the assessment of repossessed real estate (paragraph (p)). Following the assessment, changes in reversal of impairment have been identified.
In 2015 and 2014, the group and bank have recognised the impairment of these assets in the amount of EUR 6.8 (5.6) million.

Note 7

Other operating income and expense

EUR'000

Other income	Group 01.01.2015-31.12.2015	Group 01.01.2014-31.12.2014	Bank 01.01.2015-31.12.2015	Bank 01.01.2014-31.12.2014
other income from the sale of products of related companies	5,979	13,177	-	-
financial consulting, legal and accounting services	2,462	1,595	-	-
income from insurance	260	205	260	205
recognition of associates under the equity method	12	2,870	-	-
sale of services to subsidiaries and associates	-	-	3,222	3,547
other operating income	868	598	164	83
Total other income	**9,581**	**18,445**	**3,646**	**3,835**
Other expense				
other expense related to the sale of products of related companies	4,983	9,688	-	-
membership fees	1,363	838	1,154	701
losses of group due to loss of control	163	-	-	-
other expense	13	869	110	189
Total other expense	**6,522**	**11,395**	**1,264**	**890**

A significant decrease of other income and expense in the reporting period is due to the group's loss of control over the holding company AmberStone Group, AS (see Note 18).

Note 8

Impairment allowance for loans

EUR'000

Category	Group 01.01.2015-31.12.2015	Group 01.01.2014-31.12.2014	Bank 01.01.2015-31.12.2015	Bank 01.01.2014-31.12.2014
Loans - individual allowances	3,811	842	3,431	842
Loans - portfolio allowances	2,979	1,187	2,942	1,183
Increase/ (decrease) in allowances for the reporting year	**6,790**	**2,029**	**6,373**	**2,025**
(Recovery) of write-offs/ loss from asset write-off	(902)	(1,026)	(890)	(1,026)
Impairment allowances establsihed during the reporting year, net	**5,888**	**1,003**	**5,483**	**999**

Changes in loan impairment allowances of the group in 2015:

EUR'000

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

As at 31 December 2015, the impairment allowances for loans formed 2.7% (3.8%) of the group's loan portfolio. During the reporting period the part of loans impairment allowances had changed significantly due to both write-offs of loans and new business loans granting to Latvian corporate companies.

Changes in loan impairment allowances of the group in 2014:

EUR'000

	Mortgage	Business	Consumer	Other	**Total**
Allowances at the beginning of the year	**39,545**	**6,693**	**58**	**3,789**	**50,085**
Increase	9,926	5,235	312	1,442	16,915
(Decrease)	(9,295)	(4,373)		(1,218)	(14,886)
Total allowances for the year	**631**	**862**	**312**	**224**	**2,029**
(Decrease) in allowances for the year due to currency fluctations	-	(216)	-	-	(216)
(Elimination) of allowances for the year due to write-offs	(16,240)	(1,897)	(336)	(2,050)	(20,523)
Allowances at the end of the year	**23,936**	**5,442**	**34**	**1,963**	**31,375**
Individual allowances	223	5,057	2	-	5,282
Portfolio allowances	23,713	385	32	1,963	26,093
Total gross loans	**362,189**	**436,526**	**956**	**21,817**	**821,488**

Changes in loan impairment allowances of the bank in 2015:

EUR'000

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

Changes in loan impairment allowances of the bank in 2014:

EUR'000

	Mortgage	Business	Consumer	Other	Total
Allowances at the beginning of the year	**39,545**	**6,693**	**58**	**3,789**	**50,085**
Increase	9,926	5,233	310	1,442	16,911
(Decrease)	(9,295)	(4,373)		(1,218)	(14,886)
Total allowances for the year	**631**	**860**	**310**	**224**	**2,025**
(Decrease) in allowances for the year due to currency fluctations	-	(216)	-	-	(216)
(Elimination) of allowances for the year due to write-offs	(16,240)	(1,891)	(336)	(2,050)	(20,517)
Allowances at the end of the year	**23,936**	**5,446**	**32**	**1,963**	**31,377**
Individual allowances	223	5,057	-	-	5,280
Portfolio allowances	23,713	389	32	1,963	26,097
Total gross loans	**362,189**	**436,669**	**949**	**21,817**	**821,624**

Note 9

Administrative expense

EUR'000

Category	Group 01.01.2015-31.12.2015	Group 01.01.2014-31.12.2014	Bank 01.01.2015-31.12.2015	Bank 01.01.2014-31.12.2014
Remuneration to personnel, incl. SSIC	40,931	37,201	31,787	28,361
Remuneration to the management, incl. SSIC	2,168	2,169	2,168	2,169
Total personnel expense	**43,099**	**39,370**	**33,955**	**30,530**
Office maintenance	3,726	3,653	2,563	2,502
Consulting	3,337	2,815	2,462	1,835
IT system expense	3,312	2,380	2,762	1,861
Advertising and marketing expense	1,739	1,499	1,397	1,117
Other personnel expense	1,673	1,650	1,323	1,246
Communication expense	1,587	1,460	1,423	1,308
Non-deductible VAT	1,258	1,754	1,210	995
Donations	1,239	1,633	1,016	1,503
Other taxes	771	713	244	245
Sworn auditor statutory audit	171	204	63	85
Sworn auditor other audits	28	18	-	-
Sworn auditor tax consultation	15	-	6	-
Other administrative expense	96	749	192	193
Other administrative expense, total	**18,952**	**18,528**	**14,661**	**12,890**
Total administrative expense	**62,051**	**57,898**	**48,616**	**43,420**

In 2015 and 2014, the group employed an average of 782 (844) persons, whereas the bank employed an average of 636 (600) persons (full-time equivalent).

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

	Group 31.12.2015 number	Group 31.12.2014 number	Bank 31.12.2015 number	Bank 31.12.2014 number
Management	10	10	10	10
Heads of divisions and departments	142	148	102	99
Other personnel	645	733	542	509
Total at the end of the year	**797**	**891**	**654**	**618**

Note 10

Taxation

EUR'000

	Group 01.01.2015.-31.12.2015.	Group 01.01.2014.-31.12.2014.	Bank 01.01.2015.-31.12.2015.	Bank 01.01.2014.-31.12.2014.
Corporate income tax	4,150	5,449	3,178	4,925
Deferred tax asset from temporary differences	2,035	(1,393)	2,153	(1,159)
Tax paid aborad	197	181	197	181
Prior year corporate income tax adjustments	(10)	(149)	(4)	(74)
Total corporate income tax expense	**6,372**	**4,088**	**5,524**	**3,873**

Deferred corporate income tax calculation:

EUR'000

	Group	Group	Bank	Bank
	01.01.2015-31.12.2015	01.01.2014-31.12.2014	01.01.2015-31.12.2015	01.01.2014-31.12.2014
Profit before corporate income tax	68,246	67,895	74,563	62,547
Theoretical corporate income tax	**10,237**	**10,184**	**11,184**	**9,382**
Non-taxable portion for bonds which are publicly traded in the EU/EEA	(6,442)	(4,209)	(6,442)	(4,209)
Permanent differences	1,169	(472)	(792)	(76)
Actual corporate income tax expense for the reporting year	**4,964**	**5,503**	**3,950**	**5,097**
Adjustments to prior-year corporate income tax	2	(149)	(3)	(74)
Adjustments to prior-year deferred tax	1,847	8	1,847	10
Unrecognized deferred tax asset	424	-	426	-
Minimum tax from operation	21	-	-	-
Tax rebate	(1,083)	(1,455)	(893)	(1,341)
Tax paid abroad	197	181	197	181
Total corporate income tax expense	**6,372**	**4,088**	**5,524**	**3,873**

Deferred tax movement of group:

EUR'000

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

Deferred tax asset from tax losses in the amount of EUR 2.2 million has not been recognized as it is not certain that future profits will be sufficient to recover it.

EUR'000

	01.01.2014.				31.12.2014.	31.12.2014.	
	Net balance	Recognized in profit or loss	Recognized in other comprehen sive income	Excluded after loss of cotrol	Net balance	Deferred tax (assets)	Deferred tax liabilities
Temporary difference between tangible fixed asset carrying balance in financial accounting and for tax purposes	2,141	276	-	-	2,417	-	2,417
Fair value revaluation reserve	174	-	(468)	-	(294)	- 294	-
Revaluation of derivatives and securities	(240)	(25)	-	-	(265)	(265)	-
Revaluation of assets and reserve for unused vacations	(948)	(1,294)	-		(2,242)	(2,242)	-
Deferred tax asset from transactions within the group	311	(369)	-	-	(58)	(58)	-
Tax losses	(1,353)	19	-	-	(1,334)	(1,334)	-
Deferred tax (assets)/ liabilities before set-off						**(4,193)**	**2,417**
Set-off of tax						1,893	(1,893)
Net tax (assets)/ liabilities						**(2,300)**	**524**

Deferred tax movement of bank:

EUR'000

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

EUR'000

	01.01.2014.			31.12.2014.		31.12.2014.
	Net balance	Recognized in profit or loss	Recognized in other comprehen-sive income	Net balance	Deferred tax (assets)	Deferred tax liabilities
Temporary difference between tangible fixed asset carrying balance in financial accounting and for tax purposes	1,102	70	-	1,173	-	1,172
Fair value revaluation reserve	173	-	(467)	(294)	(294)	-
Revaluation of derivatives and securities	(240)	(25)	-	(265)	(265)	-
Revaluation of assets and reserve for unused vacations	(866)	(1,204)	-	(2,070)	(2,070)	-
Deferred tax (assets)/ liabilities before set-off					(2,629)	**1,172**
Set-off of tax					2,629	(2,629)
Net tax (assets)/ liabilities					**(1,457)**	**-**

Taxes paid by the group and the bank:

EUR'000

	Group	Group	Bank	Bank
Tax	01.01.2015.- 31.12.2015.	01.01.2014.- 31.12.2014.	01.01.2015.- 31.12.2015.	01.01.2014.- 31.12.2014.
Corporate income tax	3,609	14,300	3,111	13,437
Personal income tax	7,846	7,419	6,902	6,409
Statutory social insurance contributions	7,814	7,614	6,567	6,307
Value added tax	844	3,128	159	594
Real estate tax	652	797	244	245
Risk duty	4	5	3	3
Natural resource tax	3	-	-	-
Total	**20,772**	**33,263**	**16,986**	**26,995**

Note 11

Cash and deposits with central banks

EUR'000

	Group	Group	Bank	Bank
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Demand deposits with the Bank of Latvia	438,528	250,796	438,528	250,796
Cash on hand	9,662	8,116	9,659	8,112
Demand deposits with Banque de Luxembourg	946	960	-	-
Total cash and deposits with central banks	**449,136**	**259,872**	**448,187**	**258,908**

As at 31 December 2015 and 2014, the bank had no balances due from central banks that would be past due.

The accompanying notes set out on pages 15 through 82 form an integral part of these financial statements.

Note 12

Balances due from credit institutions

As at 31 December 2015, the bank had established correspondent relationships with 32 (31) credit institutions registered in the EU and OECD area, 4 (5) credit institutions registered in Latvia, and 38 (32) credit institutions incorporated in other countries.

As at 31 December 2015, the group's and bank's major balances due from credit institutions registered in the EU and OECD area were as follows: EUR 114,7 (0) million due from Landesbank Baden-Wuerttemberg, EUR 68,9 (74,1) million due from Sumitomo Mitsui Banking Corporation Brussels Branch, EUR 64,4 (31,5) million due from Deutsche Bank Trust Company Americas.

EUR'000

	Group	Group	Bank	Bank
Demand deposits with credit institutions	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Correspondent account balances	363,058	594,627	359,850	579,343
Overnight deposits	-	-	5,000	-
Total demand deposits with credit institutions	**363,058**	**594,627**	**364,850**	**579,343**
Other balances due from credit institutions				
Term deposits	296,893	199,775	296,893	193,405
Other balances	10,029	22,534	10,029	22,534
Total other balances due from credit institutions	**306,922**	**222,309**	**306,922**	**215,939**
Total balances due from credit institutions	**669,980**	**816,936**	**671,772**	**795,282**

As at 31 December 2015, part of the group's and bank's balances due from credit institutions totalling EUR 49.7 (33.9) million and EUR 49.2 (33.5) million respectively were pledged to secure transactions with financial instruments other than cash equivalents. Cash equivalents do not include the group's and bank's term deposits of EUR 5.3 (9.3) million and EUR 5.3 (4.3) million respectively.

As at 31 December 2015 and 2014, the group's and bank's balances due from credit institutions were neither past due nor impaired. The maximum credit risk exposure of the balances due from credit institutions is equal to the carrying amount of these assets.

Note 13

Financial assets at fair value through profit or loss

EUR'000

	Group	Group	Bank	Bank
Issuer	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Fixed-income debt securities				
Corporate companies	9,322	6,966	-	-
Credit institutions	1,479	1,765	-	-
Central governments and central banks	511	23	-	-
Financial auxillaries and other financial intermediaries	162	277	-	-
Municipalities	13	14	-	-
Total fixed-income debt securities	11,487	9,045	-	-
Equity shares				
Corporate companies	1,506	1,186	1,506	1,186
Credit institutions	1,100	1,001	1,100	1,001
Total investments in equity shares	2,606	2,187	2,606	2,187
Investments in funds	12,028	9,933	19,680	12,697
Total financial instruments at fair value	**26,121**	**21,165**	**22,286**	**14,884**

The maximum credit risk exposure of securities designated at fair value is equal to the carrying amount of these assets.

As at 31 December 2015, group's and bank's investments at fair value of EUR 11,1 (3,8) million and EUR 18,7 (11,9) million respectively in open-ended investment funds registered in Latvia, which are redeemable at net asset value, were not listed on stock exchanges.
Ten largest exposures as at 31 December 2015 amounted to 46.6 % (33.5 %) of the total group's financial assets at fair value through profit or loss, whereas ten largest exposures of the total bank's financial assets at fair value through profit or loss, amounted to 87.9 % (91.7 %).

Note 14

Available-for-sale financial assets

EUR'000

Issuer	Group 31.12.2015	Group 31.12.2014	Bank 31.12.2015	Bank 31.12.2014
Fixed-income debt securities				
Central governments	1,447,424	941,709	1,425,277	922,212
Credit institutions	238,795	225,932	223,449	202,952
International organisations	64,864	57,767	64,864	57,767
Corporate companies	33,008	8,241	31,094	6,279
Municipalities	19,510	16,107	16,590	12,441
Financial auxillaries and other financial intermediaries	6,651	8,382	6,651	6,303
Total fixed-income debt securities	1,810,252	1,258,138	1,767,925	1,207,954
Equity shares				
Financial auxillaries and other financial intermediaries	12,398	139	12,398	139
Corporate companies	231	231	231	231
Total investments in equity shares	12,629	370	12,629	370
Investments in funds	10,192	12,719	-	749
Total available-for-sale financial instruments	**1,833,073**	**1,271,227**	**1,780,554**	**1,209,073**

The maximum credit risk exposure of securities designated at fair value is equal to the carrying amount of these assets. Most of the debt securities' portfolio – 90.9% (95.4%) of assets - has been invested by the bank in investment-grade securities. At the end of the reporting year, the weighted average duration of the bank's securities portfolio was 2.5 (2.6) years.

As at 31 December 2015, the following available-for-sale financial assets were not listed on stock exchanges:

- EUR 12.6 (0.4) million - equity shares in companies registered in EU;
- EUR 68.3 (0) thousand - debt securities of other country governments.

As at 31 December 2015, available-for-sale financial instruments amounting to EUR 18.4 million are involved in a lending transaction, whereas financial instruments amounting to EUR 40.2 (0) million assures longer-term refinancing operations (TLTRO).

Ten largest exposures as at 31 December 2015 amounted to 78.1 % (77.1 %) of the total group's available-for-sale financial assets, whereas ten largest exposures of the total bank's available-for-sale financial assets amounted to 79.3 % (80.0 %).

Note 15

Held-to-maturity financial instruments

EUR'000

Issuer	Group 31.12.2015	Group 31.12.2014	Bank 31.12.2015	Bank 31.12.2014
Fixed-income debt securities				
Central governments and central banks	602,613	524,164	587,571	512,920
Corporate companies	164,235	136,142	147,119	131,218
Credit institutions	150,774	170,930	137,603	163,398
Municipalities	69,339	70,588	67,014	68,502
International organisations	30,136	58,030	28,512	56,504
Financial auxillaries and other financial intermediaries	516	532	-	-
Total held-to-maturity financial instruments, gross	**1,017,613**	**960,386**	**967,819**	**932,542**
Impairment allowance	(2,566)	(1,963)	(2,566)	(1,963)
Total held-to-maturity financial instruments, net	**1,015,047**	**958,423**	**965,253**	**930,579**

The maximum credit risk exposure of held-to-maturity securities is equal to the carrying amount of these assets.

As at 31 December 2015, held-to-maturity securities of EUR 329.8 (0) thousand issued by credit institutions of other countries were not listed on stock exchanges.

As at 31 December 2015, part of the held-to-maturity financial instruments totalling EUR 9.4 (21.4) million were pledged for securing transactions with financial instruments and held-to-maturity financial instruments totalling EUR 143.4 (22.3) million for securing targeted longer-term refinancing operations (TLTRO).

Ten largest exposures as at 31 December 2015 amounted to 58.0 % (54.5 %) of the total group's held-to-maturity financial instruments, whereas ten largest exposures of the total bank's held-to-maturity financial instruments amounted to 60.1 % (55.2 %).

EUR'000

	Group/ bank 01.01.2015.- 31.12.2015.	Group/ bank 01.01.2014.- 31.12.2014.
Impairment allowance at the beginning of the period	**1,963**	**115**
Increase	1,235	1,963
Decrease	(676)	(113)
Changes in allowances for the year due to currency fluctations	44	(2)
Impairment allowance at the end of the period	**2,566**	**1,963**

Note 16

Derivatives

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

EUR'000

	Group/ bank 31.12.2015			Group/ bank 31.12.2014		
	Notional amount	Fair value		Notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Gold futures	405	4	-	390	5	-
Forwards	5,357	117	365	41,923	4,074	5,622
Swaps	-	-	-	84	-	8
Total derivatives	**5,762**	**121**	**365**	**42,397**	**4,079**	**5,630**

The bank uses derivative foreign currency exchange instruments in order to manage currency positions. As at 31 December 2015 and 31 December 2014, payments related to derivatives were not past due.

Note 17

Loans

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

EUR'000

Customer profile	Group 31.12.2015	Group 31.12.2014	Bank 31.12.2015	Bank 31.12.2014
Corporate companies	406,752	315,466	405,868	397,549
Private individuals	372,906	399,121	372,906	317,134
Financial auxillaries and other financial intermediaries	118,300	106,901	118,300	106,941
Total gross loans	897,958	821,488	897,074	821,624
Impairment allowance	(23,955)	(31,375)	(23,575)	(31,377)
Total net loans	**874,003**	**790,113**	**873,499**	**790,247**

*- during the reporting period the bank has performed a reclassification of its clients that has significantly affected the shown amount of loans issued to financial auxiliaries and other financial intermediaries. At the same time it has decreased the balance of corporate companies. Comparatives of 2014 have been accordingly reclassified.

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

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

Ten largest exposures as at 31 December 2015 amounted to 23.1% (21.9%) of the total group's/ bank's net loan portfolio. No individual impairment allowances has been established for these loans.

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

EUR'000

			31.12.2015			31.12.2014
Category	Carrying amount	Off-balance sheet amount	Total exposure, gross	Carrying amount	Off-balance sheet amount	Total exposure, gross
Group						
Ordinary loans	772,641	33,768	806,409	711,507	27,860	739,367
Credit lines	99,448	17,205	116,653	83,270	14,492	97,762
Receivables from finance intermediaries	11,790	-	11,790	11,671	-	11,671
Security payments for financial transactions	7,733	-	7,733	8,124	-	8,124
Overdrafts	4,539	-	4,539	5,160	-	5,160
Payment cards	1,807	15,708	17,515	1,756	15,906	17,662
Total gross loans	897,958	66,681	964,639	821,488	58,258	879,746
Impairment allowance	(23,955)	-	(23,955)	(31,375)	-	(31,375)
Total net loans	**874,003**	**66,681**	**940,684**	**790,113**	**58,258**	**848,371**
Bank						
Ordinary loans	771,757	33,768	805,525	710,681	27,860	738,541
Credit lines	99,448	17,205	116,653	84,246	14,752	98,998
Receivables from finance intermediaries	11,790	-	11,790	11,671	-	11,671
Security payments for financial transactions	7,733	-	7,733	8,124	-	8,124
Overdrafts	4,539	-	4,539	5,146	-	5,146
Payment cards	1,807	15,775	17,582	1,756	15,976	17,732
Total gross loans	897,074	66,748	963,822	821,624	58,588	880,212
Impairment allowance	(23,575)	-	(23,575)	(31,377)	-	(31,377)
Total net loans	**873,499**	**66,748**	**940,247**	**790,247**	**58,588**	**848,835**

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

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

EUR'000

	31.12.2015				31.12.2014			
	Individual allowances	Portfolio		Total	Individual allowances	Portfolio		Total
Category		allowances for impaired loans	allowances for not impaired loans			allowances for impaired loans	allowances for not impaired loans	
Group								
Mortgage	234	13,241	976	14,451	223	23,236	477	23,936
Business	6,164	185	1,410	7,759	5,057	217	168	5,442
Other	-	1,676	-	1,676	-	1,963	-	1,963
Consumer	-	69	-	69	2	32	-	34
Total impairment allowances for loans	**6,398**	**15,171**	**2,386**	**23,955**	**5,282**	**25,448**	**645**	**31,375**
Bank								
Mortgage	234	13,241	976	14,451	223	23,236	477	23,936
Business	5,785	185	1,410	7,380	5,057	221	168	5,446
Other	-	1,675	-	1,675	-	1,963	-	1,963
Consumer	-	69	-	69	-	32	-	32
Total impairment allowances for loans	**6,019**	**15,170**	**2,386**	**23,575**	**5,280**	**25,452**	**645**	**31,377**

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

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

EUR'000

Industry	Group 31.12.2015	Group 31.12.2014	Bank 31.12.2015	Bank 31.12.2014
Mortgage loans to private individuals	324,731	331,525	324,731	331,525
Real estate management	255,112	163,922	255,112	163,922
Financial and insurance activities	118,086	117,581	118,087	110,613
Trading	47,951	63,022	47,951	63,020
Other loans to private individuals	30,646	38,903	30,646	38,898
Manufacturing	9,964	5,555	9,964	5,555
Transportation and logistics	9,912	11,488	9,912	11,488
Energy	5,148	-	5,148	3,061
Agriculture	4,751	1,258	4,751	5,212
Construction	60	1,390	60	1,390
Other industries	67,642	55,469	67,137	55,563
Total net loans	**874,003**	**790,113**	**873,499**	**790,247**

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

EUR'000

Country	Group 31.12.2015	Group 31.12.2014	Bank 31.12.2015	Bank 31.12.2014
Latvia	639,138	563,572	638,634	572,989
Russian Federation	111,867	110,074	111,867	110,069
Cyprus	19,770	27,152	19,770	17,878
Great Britain	19,285	14,339	19,285	14,338
Ukraine	18,001	17,686	18,001	17,685
Total other countries	65,942	57,290	65,942	57,288
Total net loans	**874,003**	**790,113**	**873,499**	**790,247**

Collateral analysis for the group's loans:

EUR'000

Category	Total gross loans	Deposit	Securities	Real estate	Other collateral	Fair value of collateral, total
						31.12.2015
Mortgage	345,728	7	-	361,203	100	361,310
Business	529,836	22,845	314,832	518,402	69,497	925,576
Other	21,242	-	-	-	1	1
Consumer	1,152	2,002	-	-	-	2,002
Total gross loans	**897,958**	**24,854**	**314,832**	**879,605**	**69,598**	**1,288,889**
Impairment allowance	(23,955)					
Total net loans	**874,003**					
Category						31.12.2014.
Mortgage	362,189	7	-	342,229	-	342,236
Business	436,526	11,265	250,438	480,674	44,402	786,779
Other	21,817	-	-	-	1	1
Consumer	956	2,064	-	-	-	2,064
Total gross loans	**821,488**	**13,336**	**250,438**	**822,903**	**44,403**	**1,131,080**
Impairment allowance	(31,375)					
Total net loans	**790,113**					

Collateral analysis for the bank's loans:

EUR'000

Category	Total gross loans	Deposit	Securities	Real estate	Other collateral	Fair value of collateral, total
						31.12.2015
Mortgage	345,728	7	-	361,203	100	361,310
Business	528,953	22,845	314,832	512,802	67,257	917,736
Other	21,241	-	-	-	1	1
Consumer	1,152	2,002	-	-	-	2,002
Total gross loans	**897,074**	**24,854**	**314,832**	**874,005**	**67,358**	**1,281,049**
Impairment allowance	(23,575)					
Total net loans	**873,499**					
Category						31.12.2014.
Mortgage	362,189	7	-	342,230	-	342,237
Business	436,669	11,265	270,333	479,481	45,240	806,319
Other	21,817	-	-	-	1	1
Consumer	949	2,064	-	-	-	2,064
Total gross loans	**821,624**	**13,336**	**270,333**	**821,711**	**45,241**	**1,150,621**
Impairment allowance	(31,377)					
Total net loans	**790,247**					

The principles for determining the fair value of collateral are described in Note 32.
During the reporting year, the real estate with a total value of EUR 8.6 (13.1) million was taken over.

Note 18

Investments in subsidiaries and associates

The group's investments in associates:

EUR'000

		31.12.2015				31.12.2014			
Company	Country of incor-poration	Share capital	Equity	Group's share of total share capital, %	Carrying amount under equity method	Share capital	Equity	Group's share of total share capital, %	Carrying amount under equity method
AmberStone Group, AS	LV	35,000	40,158	24.64	9,068	-	-	-	-
TO klīnika Ādaži	LV	-	-	-	-	2	8	30	2
Total investments in associates		**35,000**	**40,158**	**x**	**9,068**	**2**	**8**	**x**	**2**

The bank’s investments in associates:

EUR'000

Company	Country of incor-poration	Share capital	Equity	Bank's share of total share capital, %	Carrying amount	Share capital	Equity	Bank's share of total share capital, %	Carrying amount
	31.12.2015					31.12.2014			
AmberStone Group, AS	LV	35,000	40,158	24.64	8,770	-	-	-	-
Total investments in associates		**35,000**	**40,158**	**x**	**8,770**	**-**	**-**	**x**	**-**

Movements in the investments in subsidiaries and associates:

EUR'000

	Group 01.01.2015-31.12.2015	Group 01.01.2014-31.12.2014	Bank 01.01.2015-31.12.2015	Bank 01.01.2014-31.12.2014
Investments at the beginning of the year	**2**	**6,635**	**-**	**-**
Establishment/(disposal) of associates	(2)	(6,632)	-	-
Change in investments in associates under equity method	12	(1)	-	-
Increase in investments in associates as a result of loss of control	9,056	-	8,770	-
Investments at the end of the year	**9,068**	**2**	**8,770**	**-**

In the reporting year, the holding company AmberStone Group, AS increased its share capital by issuing new shares totalling EUR 21.0 million. The bank acquired new shares amounting to EUR 3.0 million of the holding company AmberStone Group, AS. New investors were brought in and, therefore, the bank’s investment in AmberStone Group, AS was diluted from 40.89% to 24.64%.

The management believes that, as a result of this issue, de facto control over the holding company AmberStone Group, AS and its subsidiaries, previously ensured by 40.89% of the votes, has been lost. In these financial statements holding company AmberStone Group, AS and its subsidiaries are recognised as the group's/ bank's associates.

As at the date of loss of control the net assets of AmberStone Group, AS and its subsidiaries were as follows:

EUR'000

Company name	AmberStone Group, AS
Financial assets at fair value through profit or loss	(4,549)
Tangible Assets	(22,132)
Cash and cash equivalents held outside of the group	(282)
Cash and cash equivalents held inside of the group	(24,245)
Other assets	(2,604)
Due to credit institutions	9,084
Other liabilities	4,581
Non-controlling interest	30,928
Net assets and liabilities	**(9,219)**
Fair value assessment of investment in associated company	(9,056)
Group profit from loss of control	**(163)**

As at 31 December 2015, the group comprised the following entities:

No	Company	Country of incorporation	Registration number	Business profile	Share in the entity's capital (%)	Share in the entity's capital with voting rights (%) (%)
1	ABLV Bank, AS	LV	50003149401	Financial services	100	100
2	ABLV Bank Luxembourg, S.A.	LU	B 162048	Financial services	100	100
3	ABLV Consulting Services, AS	LV	40003540368	Consulting services	100	100
4	ABLV Corporate Services Holding Company, SIA	LV	40103799987	Holding company	100	100
5	ABLV Corporate Services, SIA	LV	40103283479	Consulting services	100	100
6	ABLV Corporate Services, LTD	CY	HE273600	Consulting services	100	100
7	Pillar Holding Company, KS	LV	40103260921	Holding company	100	100
8	Pillar, SIA	LV	40103554468	Holding company	100	100
9	Pillar Management, SIA	LV	40103193211	Real estate management and administration	100	100
10	Pillar 2, 12 & 14, SIA	LV	50103313991	Real estate transactions	100	100
11	Pillar 3, SIA	LV	40103193067	Real estate transactions	100	100
12	Pillar 4 & 6, SIA	LV	40103210494	Real estate transactions	100	100
13	Pillar 7 & 8, SIA	LV	40103240484	Real estate transactions	100	100
14	Pillar 9, SIA	LV	40103241210	Real estate transactions	100	100
15	Pillar 10, SIA	LV	50103247681	Real estate transactions	100	100
16	Pillar 11, SIA	LV	40103258310	Real estate transactions	100	100
17	Pillar 18, SIA	LV	40103492079	Real estate transactions	100	100
18	Pillar 19, SIA	LV	40103766952	Real estate transactions	100	100
19	Pillar 20, SIA	LV	40103903056	Real estate transactions	100	100
20	Pillar 21, SIA	LV	40103929286	Real estate transactions	100	100
21	Pillar Investment Group, SIA	LV	50003831571	Real estate transactions	91.6	91.6
22	Schaller Kyncl Architekten Riga, SIA	LV	40103437217	Designing and designer's supervision	100	100
23	Pillar RE Services, SIA	LV	40103731804	Parking management	100	100
24	Pillar Contractor, SIA	LV	40103929498	Management and coordination of construction processes	100	100
25	New Hanza City, SIA	LV	40103222826	Infrastructure maintenance	100	100
26	NHC Utilities, SIA	LV	40103693339	Infrastructure management	100	100
27	ABLV Asset Management, IPAS	LV	40003814724	Financial services	90	100
28	ABLV Capital Markets, IBAS	LV	40003814705	Financial services	90	100
29	ABLV Private Equity Management, SIA	LV	40103286757	Investment project management	100	100
30	ABLV Private Equity Fund 2010, KS	LV	40103307758	Investment activities	100	100

Open-ended mutual funds included in the group as at 31 December 2015:

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

Open-ended mutual funds included in the group as at 31 December 2014:

No	Open-end mutual fund	Country of registration	ISIN	Fund type	Share in the entity's capital (%)
1	ABLV High Yield CIS RUB Bond Fund	LV	LV0000400778	Corporate bond fund	65.6
2	ABLV European Industry EUR Equity Fund	LV	LV0000400844	Equity fund	60.4
3	ABLV US Industry USD Equity Fund	LV	LV0000400836	Equity fund	38.4
4	ABLV European Corporate EUR Bond Fund	LV	LV0000400810	Corporate bond fund	37.5

The bank's investments in subsidiaries:

EUR'000

Company	Country of incor-poration	31.12.2015 Share capital	Equity	Bank's share of total share capital, %	Carrying amount	31.12.2014 Share capital	Equity	Bank's share of total share capital, %	Carrying amount
Pillar Holding Company, KS	LV	85,000	81,639	100	85,000	80,000	76,836	100	80,000
ABLV Bank Luxembourg, S.A.	LU	25,000	14,430	100	25,000	25,000	16,315	100	25,000
New Hanza City, SIA	LV	12,300	11,275	100	12,300	10,500	10,039	100	10,500
Pillar Management, SIA	LV	1,000	975	100	1,073	-	-	-	-
ABLV Capital Markets, IBAS	LV	1,000	6,423	90	900	784	3,834	91.83	720
ABLV Consulting services, AS	LV	711	802	100	711	711	817	100	711
ABLV Asset Management, IPAS	LV	650	1,032	90	585	650	894	90	585
ABLV Private Equity Mangement, SIA	LV	100	(256)	100	100	171	201	100	171
ABLV Corporate Services Holding Company, SIA	LV	100	141	100	100	100	98	100	100
ABLV Private Equity Fund 2010, KS	LV	50	2,492	100	50	3,300	11,318	100	3,300
Pillar, SIA	LV	3	2	100	6	3	2	100	6
AmberStone Group, AS	LV	-	-	-	-	14,000	13,863	40.89	5,725
Total bank's investments in subsidiaries, gross		**125,914**	**118,955**	**x**	**125,825**	**135,219**	**134,217**	**x**	**126,818**
Allowance for impairment					(14,559)				(11,719)
Total bank's investments in subsidiaries, net					**111,266**				**115,099**

Management believes that there is no impairment regarding Bank's subsidiary ABLV Bank Luxembourg, S.A., as the value in use of the estimated exceeds the carrying value of the bank's investment in the subsidiary. The value in use is determined by discounting estimated cash flows applying the discount rate of 11%, which is equivalent to the investors' expected level of return from the largest banks in Europe. Forecasts are based on the planned income of ABLV Bank Luxembourg, S.A. in the period from 2016 to 2025. The first operating years of ABLV Bank Luxembourg, S.A. were planned with significant losses due to administrative expenses and low income. In further periods the expected income from client commissions and interest income increase significantly, thus exceeding the administrative costs and achieving profit.

In the IBAS reporting year, ABLV Capital Market issued name shares without voting rights (personnel shares) amounting to EUR 36.0 thousand.

Customer assets under trust management by ABLV Asset Management, IPAS and assets of the open investment funds managed by ABLV Asset Management, IPAS at the end of the reporting period amount to EUR 131.2 (107.2) million. Customer financial instruments of ABLV Capital Markets, IBAS at the end of the reporting period amount to EUR 1.15 (0.93) billion. The bank and ABLV Capital Markets, IBAS provide investments services to customers jointly: ABLV Capital Markets, IBAS accepts customer orders for transactions with financial instruments and the bank executes these orders and acts as the custodian of customer financial instruments.

Credit risk and other risks related to these assets are borne by the customer, who provided these assets the group and/or the bank for trust management.

Movements in the allowance for impairment of subsidiaries:

EUR'000

	Group 01.01.2015-31.12.2015	Group 01.01.2014-31.12.2014	Bank 01.01.2015-31.12.2015	Bank 01.01.2014-31.12.2014
Allowance for impairement at the beginning of the period	**-**	**-**	**11,719**	**3,950**
Increase in allowance for impairement	-	-	2,840	7,769
Allowance for impairement at the end of the period	**-**	**-**	**14,559**	**11,719**

During the reporting period the bank recognised allowance impairment of its subsidiary Pillar Holding Company, KS amounting to EUR 2.8 (7.8) million. This allowance impairment is due to the decrease in estimated cash flow. The investment was measured at value in use determined by discounting future cash flows from the sale of property owned by subsidiaries at the expected market value on the date of sale net of selling and maintenance costs of this property. Cash flows were discounted at a 5% (5%) rate, which corresponds to the bank's expected return on investment.

Movements in the bank's investment in subsidiaries:

EUR'000

	Group 01.01.2015-31.12.2015	Group 01.01.2014-31.12.2014	Bank 01.01.2015-31.12.2015	Bank 01.01.2014-31.12.2014
Investments at the beginning of period, gross	**-**	**-**	**126,818**	**136,779**
Established/ (dispossessed) subsidiaries	-	-	1,073	72
(Decrease) in investments due to the loss of control	-	-	(5,725)	-
Increase in investments in subsidiaries	-	-	6,980	6,667
Decrease in investments in subsidiaries	-	-	(3,321)	(16,700)
Investments at the end of the period, gross	**-**	**-**	**125,825**	**126,818**
Allowance for impairment	-	-	(14,559)	(11,719)
Investments at the end of the period, net	**-**	**-**	**111,266**	**115,099**

Note 19

Investment properties

EUR'000

	Group 31.12.2015	Group 31.12.2014	Bank 31.12.2015	Bank 31.12.2014
Investment properties	22,976	29,996	25,069	25,029
Prepayments for investment properties	-	61	-	4
Total investment properties	**22,976**	**30,057**	**25,069**	**25,033**

In 2015, lease and rent income from investments in real estate amounted to EUR 29.8 (12.7) thousand, maintenance expense – EUR 187.8 (193.1) thousand, including maintenance expense for non-performing real estate – EUR 161.4 (175.6) thousand.
The fair value of investment properties is provided in Note 32.

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

EUR'000

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

The group and the bank have conducted preparation works to initiate the construction of the bank's new head office. Thus a decision was made to reclassify land and buildings with carrying amount of EUR 7.1 million from investment properties to property and equipment. This was done considering that for the group and bank the future benefit from these assets is expected to arise from own use.

Movements in the group's and bank's investment properties in 2014:

EUR'000

	Group				Bank		
	Land	Construction in progress	Buildings	Total, excl. prepayments	Land	Buildings	Total, excl. prepayments
Acquisition value as at 01.01.2014	**27,983**	**-**	**3,916**	**31,899**	**24,188**	**225**	**24,413**
Additions	784	-	-	784	671	-	671
Reclassification	(6,673)	7,073	(2,890)	(2,490)	-	79	79
Disposals	-	-	(79)	(79)	-	(79)	(79)
Acquisition value as at 31.12.2014	**22,094**	**7,073**	**947**	**30,114**	**24,859**	**225**	**25,084**
Accumulated depreciation as at 01.01.2014	**-**	**-**	**112**	**106**	**-**	**86**	**86**
Depreciation charge	-	-	48	48	-	11	6
Depreciation of disposals	-	-	(42)	(42)	-	(42)	(2)
Accumulated depreciation as at 31.12.2014	**-**	**-**	**118**	**118**	**-**	**55**	**55**
Net carrying amount as at 01.01.2014	**27,983**	**-**	**3,804**	**31,793**	**24,188**	**139**	**24,327**
Net carrying amount as at 31.12.2014	**22,094**	**7,073**	**829**	**29,996**	**24,859**	**170**	**25,029**

Note 20

Intangible assets, property and equipment

EUR'000

	Group	Group	Bank	Bank
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Intangible assets	6 133	5 263	5 811	4 896
Goodwill	-	229	-	-
Prepayments for intangible fixed assets	232	817	225	804
Total intangible assets	**6 365**	**6 309**	**6 036**	**5 700**
Buildings and property improvements	6 280	20 669	4 167	4 512
Construction in progress	8 162	199	-	-
Office equipment and IT hardware	3 375	4 277	2 616	3 089
Land	2 938	4 055	173	173
Vehicles	1 441	1 570	984	782
Art objects	866	821	866	821
Leasehold improvements	509	601	509	601
Production equipment	-	5 057	-	-
Prepayments for tangible fixed assets	296	628	214	628
Total property and equipment	**23 867**	**37 877**	**9 529**	**10 606**

As at 31 December 2015, the group had intangible assets, property and equipment with the carrying amount of 0, and amortised cost of EUR 6.1 (8.3) million, whereas the cost of the bank's intangible assets, property and equipment was EUR 5.9 (7.9) million.

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

EUR'000

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

Movements in the group's intangible assets, property and equipment in 2014:

EUR'000

	Goodwill	Intangib le fixed assets	Land	Production equipment	Construction in progress and leasehold improv-ements	Buildings and property improv-ements	Vehicles	Office equipment and IT hardware	Total, excl. Prepay-ments
Acquisition value as at 01.01.2014	**229**	**9,720**	**1,234**	**6,773**	**1,567**	**23,968**	**2,084**	**12,331**	**57,906**
Additions	-	1,348	65	380	422	1,203	454	2,008	5,880
Reclassification	-	-	2,765	130	(222)	2,545	(4)	543	5,757
Disposals	-	(106)	(9)	(13)	(221)	(894)	(261)	(917)	(2,421)
Acquisition value as at 31.12.2014	**229**	**10,962**	**4,055**	**7,270**	**1,546**	**26,822**	**2,273**	**13,965**	**67,122**
Accumulated depreciation as at 01.01.2014	**-**	**4,767**	**-**	**1,443**	**858**	**4,911**	**613**	**7,974**	**20,566**
Depreciation charge	-	1,037	-	783	109	1,242	305	1,786	5,262
Reclassification	-	-	-	-	-	-	(4)	-	(4)
Depreciation of disposals	-	(105)	-	(13)	(221)	-	(211)	(893)	(1,443)
Accumulated depreciation as at 31.12.2014	**-**	**5,699**	**-**	**2,213**	**746**	**6,153**	**703**	**8,867**	**24,381**
Net carrying amount as at 01.01.2014	**229**	**4,953**	**1,234**	**5,330**	**709**	**19,057**	**1,471**	**4,357**	**37,340**
Net carrying amount as at 31.12.2014	**229**	**5,263**	**4,055**	**5,057**	**800**	**20,669**	**1,570**	**5,098**	**42,741**

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

EUR'000

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

Movements in the bank's intangible assets, property and equipment in 2014:

EUR'000

	Intangible assets	Land	Buildings and property improvements	Leasehold improvements	Vehicles	Office equipment	Total, excl. Prepayments
Acquisition value as at 01.01.2014	**8,976**	**182**	**7,590**	**1,191**	**1,172**	**10,453**	**29,564**
Additions	1,271	-	1,194	121	126	1,660	4,372
Reclassification	-	-	-	-	(4)	543	539
Disposals	(120)	(9)	(894)	(221)	(144)	(873)	(2,261)
Acquisition value as at 31.12.2014	**10,127**	**173**	**7,890**	**1,091**	**1,150**	**11,783**	**32,214**
Accumulated depreciation as at 01.01.2014	**4,414**	**-**	**3,025**	**602**	**375**	**7,298**	**15,714**
Depreciation charge	937	-	353	109	141	1,441	2,981
Reclassification	-	-	-	-	(4)	-	(4)
Depreciation of disposals	(120)	-	-	(221)	(144)	(866)	(1,351)
Accumulated depreciation as at 31.12.2014	**5,231**	**-**	**3,378**	**490**	**368**	**7,873**	**17,340**
Net carrying amount as at 01.01.2014	**4,562**	**182**	**4,565**	**589**	**797**	**3,155**	**13,850**
Net carrying amount as at 31.12.2014	**4,896**	**173**	**4,512**	**601**	**782**	**3,910**	**14,874**

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

Note 21

Other assets

EUR'000

	Group 31.12.2015	Group 31.12.2014	Bank 31.12.2015	Bank 31.12.2014
Receivables	1,363	1,613	504	2,726
Payments for financial instruments	102	761	102	761
Total other financial assets	**1,465**	**2,374**	**606**	**3,487**
Prepaid expense	1,928	1,626	1,239	1,079
Other tax assets	419	430	-	5
Precious metals	401	402	401	402
Other assets	2,115	3,882	669	932
Total other non-financial assets	**4,863**	**6,340**	**2,309**	**2,418**
Impairment expense	(336)	(358)	(178)	(265)
Total other assets, net	**5,992**	**8,356**	**2,737**	**5,640**

Note 22

Due to Bank of Latvia

EUR'000

	Group 31.12.2015	Group 31.12.2014	Bank 31.12.2015	Bank 31.12.2014
Targeted longer term refinancing operation (TLTRO) liabilities	180,072	16,797	180,072	16,797
Total balances due to Bank of Latvia	**180,072**	**16,797**	**180,072**	**16,797**

During the reporting period, the bank participated in all four targeted longer-term refinancing operations actions (TLTRO) organized by ECB and obtained long-term financial resources of EUR 163.0 (16.8) million. Financial resources are granted under TLTROs for 3 years at a fixed interest rate of 0.05% p.a.

Note 23

Deposits

EUR'000

Customer type		Group 31.12.2015	Group 31.12.2014	Bank 31.12.2015	Bank 31.12.2014
Corporate companies					
	current accounts	2,850,172	2,629,278	2,797,758	2,576,455
	term deposits	37,516	40,908	37,465	40,216
Total corporate companies		2,887,688	2,670,186	2,835,223	2,616,671
Other financial intermediaries					
	current accounts	330,460	244,168	338,620	268,304
	term deposits	778	550	778	550
Total other financial intermediaries		331,238	244,718	339,398	268,854
Other customers					
	current accounts	1,796	1,075	1,796	1,075
	term deposits	-	-	-	-
Total other customers		1,796	1,075	1,796	1,075
Total deposits from corporate customers		**3,220,722**	**2,915,979**	**3,176,417**	**2,886,600**
Private individuals					
	current accounts	639,554	536,949	601,596	502,086
	term deposits	15,179	35,588	15,179	17,346
Total deposits from private individuals		654,733	572,537	616,775	519,432
Total deposits		**3,875,455**	**3,488,516**	**3,793,192**	**3,406,032**

*- the bank has reviewed its client classification during the reporting period and has made significant changes to the classification of other financial intermediaries (reducing corporate companies deposits). Comparatives as at 31 December 2014 have been adjusted accordingly.

The group's/ bank's top 20 customers in terms of the deposit amount account 14.4% (8.2%) of the total deposits.

Of the total deposits placed with the group and the bank, 85.7% (88.1%) are from customers whose beneficiaries are CIS residents.

Note 24

Issued securities

EUR'000

ISIN	Currency	Number of initially issued securities	Par value	Date of emission	Date of maturity	Discount/ coupon rate, %	Group 31.12.2015.	Group 31.12.2014.	Bank 31.12.2015.	Bank 31.12.2014.
Subordinated bonds										
LV0000800845	USD	200,000	100	15.09.2010	15.09.2020.	6.5	-	15,733	-	15,733
LV0000800936	EUR	150,000	100	22.12.2011	22.12.2021.	4.8	14,316	13,650	14,316	13,650
LV0000800977	EUR	50,000	100	25.06.2012	25.06.2022.	4.5	4,669	4,458	4,669	4,465
LV0000800985	USD	200,000	100	27.06.2012	27.06.2022.	4.5	18,380	16,482	18,380	16,482
LV0000801124	USD	200,000	100	18.03.2013	18.03.2023.	4.5	16,474	14,130	16,474	14,130
LV0000801173	USD	200,000	100	27.06.2013	27.06.2023.	4.3	16,537	14,219	16,537	14,219
LV0000801181	EUR	200,000	100	27.06.2013	27.06.2023.	4.3	17,948	17,010	17,948	17,211
LV0000801223	USD	150,000	100	23.10.2013	23.10.2018.	4.3	13,650	12,294	13,650	12,294
LV0000801520	EUR	200,000	100	27.10.2014	27.10.2024.	4.1	16,844	5,191	16,844	5,191
LV0000801835	EUR	200,000	100	26.10.2015	26.10.2025.	3.8	2,299	-	2,299	-
Subordinated bonds, total							**121,117**	**113,167**	**121,117**	**113,375**
Ordinary bonds										
LV0000801108	EUR	20,000	1,000	25.02.2013	25.02.2015.	1.68	-	9,893	-	18,566
LV0000801116	USD	50,000	1,000	25.02.2013	25.02.2015.	1.70	-	36,824	-	36,824
LV0000801199	USD	50,000	1,000	21.06.2013	21.06.2015.	1.73	-	34,830	-	34,830
LV0000801207	EUR	20,000	1,000	21.06.2013	21.06.2015.	1.73	-	17,971	-	19,559
LV0000801215	USD	50,000	1,000	16.10.2013	16.10.2015.	1.90	-	36,810	-	36,810
LV0000801298	USD	75,000	1,000	17.02.2014	17.02.2016.	1.98	34,795	30,830	34,795	30,830
LV0000801306	EUR	20,000	1,000	17.02.2014	17.02.2016.	1.98	12,811	13,036	14,322	14,547
LV0000801421	USD	75,000	1,000	08.07.2014	08.07.2016.	2.00	60,734	59,996	60,734	59,996
LV0000801439	EUR	20,000	1,000	08.07.2014	08.07.2016.	2.05	19,705	19,747	19,705	19,747
LV0000801504	USD	75,000	1,000	28.10.2014	28.10.2016.	2.10	66,437	51,010	66,437	51,010
LV0000801512	EUR	20,000	1,000	28.10.2014	28.10.2016.	1.90	17,143	17,484	18,147	18,487
LV0000801645	USD	75,000	1,000	23.02.2015	23.02.2017.	2.20	68,031	-	68,031	-
LV0000801652	EUR	20,000	1,000	23.02.2015	23.02.2017.	1.80	17,763	-	19,273	-
LV0000801751	USD	75,000	1,000	07.07.2015	07.07.2017.	1.55	50,636	-	50,636	-
LV0000801769	EUR	20,000	1,000	07.07.2015	07.07.2017.	0.80	17,768	-	19,274	-
LV0000801850	USD	75,000	1,000	26.10.2015	26.10.2017.	1.65	57,579	-	57,579	-
LV0000801868	EUR	20,000	1,000	26.10.2015	26.10.2017.	0.80	6,358	-	8,361	-
Ordinary bonds, total							**429,760**	**328,431**	**437,294**	**341,206**
Issued securities, total							**550,877**	**441,598**	**558,411**	**454,581**

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

Note 25

Subordinated liabilities

As at 31 December 2015, the group's and bank's subordinated liabilities of EUR 136.4 (127.6) million comprised subordinated bonds amounting to EUR 121.1 (113.2) million and subordinated deposits amounting to EUR 15.3 (14.4) million. Subordinated deposits by currencies amount to USD 9.9 (10.6) million and EUR 6.2 (5.7) million.

The information on the subordinated bonds issued by the bank are disclosed in Note 24.

The analysis of subordinated deposits as at 31 December 2015:

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

The analysis of subordinated loans as at 31 December 2014:

Lenders	Loan amount, EUR'000	Accumulated interest, EUR'000	Total subordinated loans, EUR'000	Interest rate, %	Currency
non-residents	8,603	106	8,709	1.75 - 3.15	USD
non-residents	5,695	9	5,704	3.00 - 3.90	EUR
Total subordinated deposits	**14,298**	**115**	**14,413**		

The proportionate share of lenders (for each individual lender) does not exceed 10% of the total amount of the subordinated liabilities.
The remaining weighted average maturity of subordinated deposits from lenders is 3.4 (3.8) years.

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

Note 26

Paid-in share capital

As at 31 December 2015, the paid-in share capital of the bank amounted to EUR 35.3 million (32.7 million). The par value of each share is EUR 1.0 (1.0).
The bank's share capital consists of 31 770 000 (29 385 000) ordinary registered voting shares and 3 530 000 (3 265 000) registered non-voting shares (personnel shares).
As at 31 December 2015, the bank had 135 (128) voting shareholders.

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

	31.12.2015		31.12.2014	
	Share of the bank's share capital, EUR'000	Share of the bank's voting capital, (%)	Share of the bank's share capital, EUR'000	Share of the bank's voting capital, (%)
Group of shareholders related to Ernests Bernis				
Ernests Bernis	1,568	4.93	1,450	4.93
Nika Berne	270	0.85	250	0.85
Cassandra Holding Company, SIA	11,864	37.34	10,970	37.33
Group of shareholders related to Ernests Bernis, total	**13,702**	**43.12**	**12,670**	**43.11**
Group of shareholders related to Oļegs Fiļs				
OF Holding, SIA	13,702	43.13	12,670	43.12
Group of shareholders related to Oļegs Fiļs, total	**13,702**	**43.13**	**12,670**	**43.12**
Other shareholders, total	4,366	13.75	4,045	13.77
Total voting shares	**31,770**	**100.00**	**29,385**	**100.00**
Non-voting shares (personnel shares)	3,530		3,265	
Total share capital	**35,300**		**32,650**	

In the reporting year, the bank issued 2 385 000 ordinary registered voting shares (based on the decisions of the ordinary shareholders' meeting of 31 March 2015). The par value of all the issued shares was EUR 1.0, while the emission price of each ordinary registered voting share was EUR 13.85, comprised of the par value of EUR 1.0 and the share premium of EUR 12.85. The issues were intended to ensure steady development of the group/ bank in the future. During the reporting period, the bank issued 265,000 personnel shares (from the previous years retained earnings) with nominal value EUR 1.0 (based on the decision of the Extraordinary Shareholders' Meeting of 30 October 2015).
After this issue, share capital of the bank consisted of 31,770,000 name shares with voting rights and 3,530,000 personnel shares. All name shares with voting rights rank equal with respect to dividends, liquidation quota and voting rights in the Shareholders meeting. All personnel shares grant equal rights to dividends. Personnel shares do not grant any right to vote or receive liquidation quotas. Most of the issued voting shares have been acquired by the existing shareholders of the bank - Cassandra Holding Company, SIA and OF Holding, SIA.

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

	31.12.2015			31.12.2014		
	Number of employees	Number of personnel shares	Share of the bank's share capital, EUR'000	Number of employees	Number of personnel shares	Share of the bank's share capital, EUR'000
Chairman of the council and council members	3	-	-	3	-	-
Chairman of the board	1	-	-	1	-	-
Board members	6	1,633,800	1,634	6	1,550,528	1,551
Heads and deputy heads of divisions	21	1,566,200	1,566	18	1,465,242	1,465
Non-distributed	-	330,000	330	-	249,230	249
Registered non-voting shares (personnel shares), total	**x**	**3,530,000**	**3,530**	**x**	**3,265,000**	**3,265**

Dividends declared and paid:

EUR'000

	Group	Group	Bank	Bank
	01.01.2015-31.12.2015	01.01.2014-31.12.2014	01.01.2015-31.12.2015	01.01.2014-31.12.2014
Dividends declared	58,753	43,786	58,444	43,427
Dividends paid	58,752	43,786	58,443	43,415

EUR

	Bank	Bank
	01.01.2015-31.12.2015	01.01.2014-31.12.2014
Bank's share par value	1.00	1.00
Dividends declared per bank's value	1.79	1.44
Dividends paid per bank's value	1.79	1.44

Note 27

Other liabilities

EUR'000

	Group	Group	Bank	Bank
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Fund shares owned by third parties	4,088	10,910	-	-
Payments on progress for transactions with financial instruments	23,568	3,139	23,568	3,139
Other liabilities	843	659	843	618
Payments to subsidiaries	-	-	293	-
Payables to suppliers	1,465	1,622	29	25
Total other financial liabilities	**29,964**	**16,330**	**24,733**	**3,782**
Accrual for employee vacation pay	1,612	2,022	1,417	1,729
Accrued expense	8,935	8,238	8,816	6,708
Other liabilities	1,226	3,013	106	986
Total other non-financial liabilities	**11,773**	**13,273**	**10,339**	**9,423**
Total other liabilities	**41,737**	**29,603**	**35,072**	**13,205**

Note 28

Memorandum items

EUR'000

Contingent liabilities	Group 31.12.2015	Group 31.12.2014	Bank 31.12.2015	Bank 31.12.2014
Outstanding guarantees	9,949	9,531	9,516	9,444
Total contingent liabilities	**9,949**	**9,531**	**9,516**	**9,444**
Financial commitments				
Loan commitments	33,768	27,860	33,768	27,860
Undrawn credit facilities on settlement cards	15,708	15,906	15,775	15,976
Unutilised credit lines	17,205	14,492	17,205	14,752
Contractual commitments on purchase of non-financial assets	6,855	2,297	85	877
Letters of credit	2,074	763	2,074	763
Total financial commitments	**75,610**	**61,318**	**68,907**	**60,228**
Total contingent liabilities and financial commitments	**85,559**	**70,849**	**78,423**	**69,672**

Note 29

Funds under trust management

As at 31 December 2015, funds under trust management by the group amounted to EUR 226.3 (160.6) million, while funds under trust management by the bank amounted to EUR 39.7 (48.2) million. The bank's funds under trust management comprise loans issued from the funds specifically assigned by customers to the bank. Meanwhile, the group's funds under trust management also include funds of the customers of ABLV Asset Management, IPAS managed by the said company based on the customers' authorisation and the funds under trust management of ABLV Bank Luxembourg, S.A.
More detailed information on the funds of the customers of ABLV Asset Management, IPAS is disclosed in Note 18.
The related credit risk and other risks remain fully with the customer, which provided these funds to the group and/or the bank.

Note 30

Related party disclosures

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

Group's transactions with related parties:

EUR'000

	31.12.2015					31.12.2014			
Assets	Shareholders	Management	Related companies	Associated companies	Other related individuals	Shareholders	Management	Related companies	Other related individuals
Loans	29	2,318	9,263	9,838	109	14	1,705	217	187
Liabilities									
Deposits	3,111	2,255	9,988	7,737	1,884	948	2,517	7,978	1,510
Ordinary bonds	150	45	1,139	14,063	28	-	30	411	18
Subordinated bonds		5,081	1,096	1,748	820	43	3,219	1,156	1,004
Memorandum items									
Undrawn credit facilities and payment card limits	-	150	198	937	29	-	149	43	20
Guarantees	-	125	-		-	-	125	-	-

	01.01.2015 - 31.12.2015					01.01.2014 - 31.12.2014			
Income/ expense	Shareholders	Management	Related companies	Associated companies	Other related individuals	Shareholders	Management	Related companies	Other related individuals
Interest income	20	65	173	298	2	-	51	16	4
Interest expense	(2)	(167)	(71)	(127)	(28)	(2)	(106)	(52)	(34)
Commission and fee income	1	16	268	4	3	-	16	16	4
Net result from assets held for sale	-	-	-	72	-	-	-	264	-

Bank's transactions with related parties:

EUR'000

	31.12.2015					31.12.2014				
Assets	Shareholders	Management	Related companies	Subsidiaries	Other related individuals	Shareholders	Management	Related companies	Subsidiaries	Other related individuals
Due from credit institutions	-	-	-	5,000	-	-	-	-	6,000	-
Loans	29	2,318	9,263	9,838	109	14	1,705	668	13,026	169
Liabilities										
Due to credit institutions	-	-	-	14,663	-	-	-	-	5,091	-
Deposits	3,111	2,245	9,988	26,317	1,884	948	2,517	7,978	14,765	1,374
Ordinary bonds	150	45	1,139	21,596	28	-	30	411	12,775	18
Subordinated bonds	-	5,081	1,096	1,748	820	43	3,219	1,156	36	564
Memorandum items										
Undrawn credit facilities and payment card limits	-	150	198	1,004	29	-	149	43	330	20
Guarantees	-	125	-	8	-	-	125	-	8	-

	01.01.2015 - 31.12.2015					01.01.2014 - 31.12.2014				
Income/ expense	Shareholders	Management	Related companies	Subsidiaries	Other related individuals	Shareholders	Management	Related companies	Subsidiaries	Other related individuals
Interest income	20	65	173	521	2	-	51	16	941	3
Interest expense	(2)	(167)	(71)	(207)	(28)	(2)	(106)	(52)	(438)	(20)
Income from dividends	-	-	-	9,201	-	-	-	-	5,966	-
Commission and fee income	1	16	268	853	3	-	16	16	630	4
Commission and fee expense	-	-	-	(6,651)	-	-	-	-	(6,590)	-
Other operating income	-	-	-	3,222	-	-	-	-	3,547	-
Recognised impairment, net	-	-	-	(2,840)	-	-	-	-	(7,769)	-

Information on registered non-voting shares (personnel shares) is presented in Note 26. Meanwhile, information on changes in investments in subsidiaries and associates is disclosed in Note 18.

Note 31

Segment information

The group and the bank believe that the group's operations can be organised into four segments based on the core business activities as follows: banking services, advisory services, investment management services, and management of repossessed properties and investments in real estate.
The group defines its operating segments based on its organisational structure.

The bank views its operations as one single segment, without making any separate disclosures, while at the group level the bank and all its subsidiaries are attributed to the group's operating segments as follows:
- banking services: ABLV Bank, AS, ABLV Bank Luxembourg, S.A;
- advisory services: ABLV Consulting Services, AS, ABLV Corporate Services Holding Company, SIA, ABLV Corporate Services, SIA, ABLV Corporate Services, LTD;
- investment management services: ABLV Asset Management, IPAS, ABLV Capital Markets, IBAS, ABLV Private Equity Management, SIA, ABLV Private Equity Fund 2010, KS investment funds included in the group (see Note 18).
- management of repossessed properties and investments in real estate: Pillar Holding Company, KS, Pillar, SIA, Pillar 3, SIA, Pillar 4 & 6, SIA, Pillar 7 & 8, SIA, Pillar 9, SIA, Pillar 10, SIA, Pillar 11, SIA, Pillar 2, 12 & 14 SIA, Pillar 18, SIA, Pillar 19, SIA, Pillar 20, SIA Pillar 21, SIA Pillar Investment Group, SIA, New Hanza City, SIA, NHC Utilities, SIA, Pillar Management, SIA, Pillar RE Services, SIA, Pillar Contractor, SIA, Schaller Kyncl Architekten Riga, SIA.

Operating segment information is prepared on the basis of internal reports. Part of investment management services segment over which the group has lost control (see Note 18) has been presented separately.

Analysis of the operating segments of the group:

EUR'000

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

EUR'000

01.01.2014.-31.12.2014.

	Banking	Investment management	Investment managemen excluded due to loss of control	Consultation services	Management of repossessed properties and investments in real estate	Excluded or corrected on consolidation	Group, total
Net interest income	51,891	1,881	(663)	-	31	339	53,479
incl. external transactions	51,872	1,607	-	-	-		
incl. Internal transactions	19	274	(663)		31		
Net commission income	41,828	7,111	(22)	(21)	(7)	4,130	53,019
incl. external transactions	47,830	5,199	-	10	-		
incl. Internal transactions	(6,002)	1,912	(22)	(11)	(7)		
Net result of transactions with securities and foreign exchange	25,517	(189)	(39)	(30)	(23)	462	19,187
incl. external transactions	19,538	(336)	-	24	-		
incl. Internal transactions	5,979	147	(39)	(6)	(23)		
Net other income/expenses	2,766	6,847	3,370	6,769	167	(9,828)	10,091
Personnel expense and other administrative expenses	(47,079)	(3,803)	(1,134)	(6,120)	(4,803)	5,041	(57,898)
Depreciation	(3,217)	(44)	(1,696)	(103)	(250)	-	(5,310)
Impairment allownace and other provisions	(12,442)	-	-	-	-	7,769	(4,673)
Corporate income tax	(3,993)	(469)	(8)	(91)	106	367	(4,088)
Total segment profit/ (loss)	**55,271**	**11,334**	**(192)**	**404**	**(4,779)**	8,280	**63,807**
Total segment assets	**4,293,942**	**44,014**	**50,869**	**2,702**	**153,154**	(274,595)	**4,270,086**
Total segment liabilities	**4,050,725**	**8,838**	**22,646**	**1,440**	**34,917**	(90,522)	**4,028,044**

Note 32

Fair values

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

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

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

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

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

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

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

EUR'000

	31.12.2015		31.12.2014	
Assets at fair value	Carrying amount	Fair value	Carrying amount	Fair value
Derivatives	121	121	4,079	4,079
At fair value through profit or loss				
Financial assets at fair value through profit or loss	26,121	26,121	21,165	21,165
Available-for-sale				
Available-for-sale financial assets	1,833,073	1,833,073	1,271,227	1,271,227
Total assets at fair value	**1,859,315**	**1,859,315**	**1,296,471**	**1,296,471**
Assets at amortised cost				
Cash and deposits with central banks	449,136	449,136	259,872	259,872
Balances due from credit institutions	669,980	669,980	816,936	816,936
Loans	874,003	873,744	790,113	789,850
Held-to-maturity investments	1,015,047	1,029,737	958,423	959,298
Investment properties	22,976	22,976	30,057	30,057
Other financial assets	1,465	1,465	2,374	2,374
Total assets at amortised cost	**3,032,607**	**3,047,038**	**2,857,775**	**2,858,387**
Liabilities at fair value				
Derivatives	365	365	5,630	5,630
Group's consolidated fund shares owned by 3rd parties	4,088	4,088	10,910	10,910
Total liabilities at fair value	**4,453**	**4,453**	**16,540**	**16,540**
Liabilities at amortised cost				
Financial liabilities at amortised cost	4,696,695	4,692,565	3,996,932	3,993,702
Total liabilities at amortised cost	**4,696,695**	**4,692,565**	**3,996,932**	**3,993,702**

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

EUR'000

	31.12.2015.		31.12.2014.	
Assets at fair value	Carrying amount	Fair value	Carrying amount	Fair value
Derivatives	121	121	4,079	4,079
At fair value through profit or loss				
Financial assets at fair value through profit or loss	22,286	22,286	14,884	14,884
Available-for-sale				
Available-for-sale financial assets	1,780,554	1,780,554	1,209,073	1,209,073
Total assets at fair value	**1,802,961**	**1,802,961**	**1,228,036**	**1,228,036**
Assets at amortised cost				
Cash and deposits with central banks	448,187	448,187	258,908	258,908
Balances due from credit institutions	671,772	671,772	795,282	795,282
Loans	873,499	873,240	790,247	789,984
Held-to-maturity investments	965,253	980,771	930,579	929,894
Investment properties	25,069	25,069	25,033	25,033
Other financial assets	606	606	3,487	3,487
Total assets at amortised cost	**2,984,386**	**2,999,645**	**2,803,536**	**2,802,588**
Liabilities at fair value				
Derivatives	365	365	5,630	5,630
Total liabilities at fair value	**365**	**365**	**5,630**	**5,630**
Liabilities at amortised cost				
Financial liabilities at amortised cost	4,634,963	4,630,767	3,927,538	3,926,160
Total liabilities at amortised cost	**4,634,963**	**4,630,767**	**3,927,538**	**3,926,160**

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

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

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

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

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

EUR'000

	31.12.2015				31.12.2014			
Assets at fair value	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Derivatives	4	117	-	121	5	4,074	-	4,079
Financial assets at fair value through profit or loss	19,504	6,617	-	26,121	17,318	3,847	-	21,165
Available-for-sale financial assets	1,760,689	59,687	12,697	1,833,073	1,267,246	2,859	1,122	1,271,227
Total assets at fair value	**1,780,197**	**66,421**	**12,697**	**1,859,315**	**1,284,569**	**10,780**	**1,122**	**1,296,471**
Assets at amortised cost								
Loans	-	-	874,003	874,003	-	-	790,113	790,113
Held-to-maturity investments	996,477	18,240	330	1,015,047	873,611	84,002	810	958,423
Investment properties	-	-	22,976	22,976	-	-	30,057	30,057
Total asets at amortised cost	**996,477**	**18,240**	**897,309**	**1,912,026**	**873,611**	**84,002**	**820,980**	**1,778,593**
Liabilities at fair value								
Derivatives	-	365	-	365	-	5,630	-	5,630
Group's consolidated fund shares owned by 3rd parties	-	4,088	-	4,088	-	10,910	-	10,910
Total liabilities at fair value	**-**	**4,453**	**-**	**4,453**	**-**	**16,540**	**-**	**16,540**
Liabilities at amortised cost								
Financial liabilities at amortised cost	-	741,687	68,734	810,421	-	472,332	91,459	563,791
Total liabilities at amortised cost	**-**	**741,687**	**68,734**	**810,421**	**-**	**472,332**	**91,459**	**563,791**

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

EUR'000

	31.12.2015				31.12.2014			
Assets at fair value	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Derivatives	4	117	-	121	5	4,074	-	4,079
Financial assets at fair value through profit or loss	3,545	18,741	-	22,286	2,939	11,945	-	14,884
Available-for-sale financial assets	1,718,362	49,495	12,697	1,780,554	1,205,092	2,859	1,122	1,209,073
Total assets at fair value	**1,721,911**	**68,353**	**12,697**	**1,802,961**	**1,208,036**	**18,878**	**1,122**	**1,228,036**
Assets at amortised cost								
Loans	-	-	873,499	873,499	-	-	790,247	790,247
Held-to-maturity investments	946,683	18,240	330	965,253	845,767	84,002	810	930,579
Investment properties	-	-	25,069	25,069	-	-	25,033	25,033
Total asets at amortised cost	**946,683**	**18,240**	**898,898**	**1,863,821**	**845,767**	**84,002**	**816,090**	**1,745,859**
Liabilities at fair value								
Derivatives	-	365	-	365	-	5,630	-	5,630
Total liabilities at fair value	**-**	**365**	**-**	**365**	**-**	**5,630**	**-**	**5,630**
Liabilities at amortised cost								
Financial liabilities at amortised cost	-	749,221	68,683	817,904	-	485,315	72,525	557,840
Total liabilities at amortised cost	**-**	**749,221**	**68,683**	**817,904**	**-**	**485,315**	**72,525**	**557,840**

The analysis of fair value measurement‘s hierarchy of assets does not include cash on hands, deposits with central banks, balances due from credit institutions and other financial assets, due to the fact that these assets have not differences between the carrying amount and fair value in terms of short residual maturity. The analysis of fair value measurement‘s hierarchy of liabilities, which are not recognized at fair value, does not include demand deposits amounted to 3.89 (3.43) billion EUR in the group and demand deposits amounted to 3.82 (3.4) billion EUR in the bank, as these liabilities do not have differences between carrying amount and fair value.

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

EUR'000

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

Group and bank has recognized a EUR 12.3 million revaluation of Visa Europe Limited shares based on a share repurchase offer. According to the received offer, the bank should receive a cash transfer of EUR 12.3 million during 3rd quarter of 2016 and VISA Inc. shares with a nominal value of EUR 4.2 million as well as possibility to receive a share from future profit if certain prequisites will be fulfilled. The group and bank has recognized part of repurchase offer based on the expected cash consideration.

EUR'000

Assets at fair value	31.12.2014	Redemption	Impairment	Acquisition	Effect of foreign exchange	31.12.2013
Available-for-sale financial assets	1,122	(194)	(518)	203	83	1,548
Total assets at fair value	**1,122**	**(194)**	**(518)**	**203**	**83**	**1,548**

Note 33

Capital management and capital adequacy

The primary objective of the group's and bank's capital management is to ensure that the group and the bank comply with externally imposed capital requirements and maintain healthy capital ratios in order to support their business and maximise the shareholders' value.

The goals of the group's and bank's capital management are consistent with those of the previous years. According to Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (hereinafter referred to as "the Regulation") the group and the bank use the Standardised Approach for credit risk and market risk capital requirements, the Basic Indicator Approach for operational risk capital requirement, and the Standardised Approach to calculate the capital requirement for credit valuation adjustment (CVA) risk of OTC derivatives.

Capital adequacy refers to the sufficiency of the group's and bank's capital resources to cover credit risk, operational risk, and market risks.

The reserve capital is the value of the group's and bank's property, which, following the defined procedure, is accrued to cover unexpected losses or for other financing needs, based on the decision of the shareholders' meeting. There are no legal restrictions on utilisation of the reserves.

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

The methods employed for the ICAAP purposes and the calculation procedure are detailed in the Statement on Information Disclosure published on the bank's website www.ablv.com.

It is specified in the Regulation that Common equity Tier 1 capital ratio (CET1) should be 4.5%, Tier 1 capital ratio should be 6.0% and the Total capital ratio should be at least 8%. In addition, a capital conservation buffer of 2.5% has been set which restricts dividend payment and redemption of certain Tier 1 equity instruments. The group and the bank are in compliance with the requirements of the Regulation.

Own funds and capital requirements:

EUR'000

Tier 1	Group 31.12.2015	Group 31.12.2014	Bank 31.12.2015	Bank 31.12.2014
paid-in share capital	35,300	32,650	35,300	32,650
share premium	96,918	66,270	96,918	66,270
reserve capital and other reserves	2,134	2,134	2,134	2,134
retained earnings	72,188	68,257	68,565	68,600
current year's profit	-	32,936	-	32,936
intangible assets	(6,333)	(6,072)	(6,036)	(5,700)
revaluation reserve of available-for-sale financial assets	3,784	(1,504)	3,799	(1,427)
non-controlling interests	558	8,661	-	-
Total Tier 1	**204,549**	**203,332**	**200,680**	**195,463**
Common equity tier 1 capital (CET1)	**204,549**	**203,332**	**200,680**	**195,463**
Additional Tier 1 capital	**-**	**-**	**-**	**-**
Tier 2				
subordinated capital	120,323	114,458	120,323	114,458
Total Tier 2 capital	**120,323**	**114,458**	**120,323**	**114,458**
Total own funds	**324,872**	**317,790**	**321,003**	**309,921**
Capital requirement				
Capital requirement for credit risk	125,680	112,892	125,612	112,048
Total capital requirement for market risks	7,240	5,479	7,240	5,174
incl. capital requirement for foreign currency risk	496	1,023	496	718
incl. capital requirement for position risk	6,744	4,456	6,744	4,456
Capital requirement for counterparty credit risk	11	340	11	340
CVA	3	92	3	92
Capital requirement for operational risk	20,907	17,609	15,867	14,234
Total capital requirement	**153,841**	**136,412**	**148,733**	**131,888**
Common equity tier 1 capital ratio (CET1) (%)	10.64	11.92	10.79	11.86
Total capital ratio (%)	16.89	18.64	17.27	18.80

The group's and bank's capital requirement for credit risk exposures by the following exposure categories:

EUR'000

Exposure category	Group 31.12.2015	Group 31.12.2014	Bank 31.12.2015	Bank 31.12.2014
Commercial companies	62,455	49,343	61,462	48,087
Low risk portfolio	15,301	15,572	15,301	15,572
Institutions	14,832	22,843	14,076	21,483
Other items	12,883	14,658	7,100	9,031
Central governments or central banks	4,566	3,537	4,275	3,367
Past due exposures	1,586	1,990	1,586	1,990
Remaining risk exposures	14,057	4,949	21,812	12,518
Total capital requirement for credit risk	**125,680**	**112,892**	**125,612**	**112,048**

Note 34

Risk management

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

In the ordinary course of business, the group and the bank are exposed to various risks, the most significant of them being credit risk, market risk, liquidity risk, operational risk, AML/CTF risk and other unquantifiable risks (reputation risk, compliance risk, strategy and business risk, commission fee income and expenses volatility risk).

Risk management stands for identification, assessment and control of potential risks; it is a structured, coordinated and ongoing process across all levels of the entity aimed at identifying and assessing potential threats and making decisions on the prevention of such threats, maintaining the appropriate balance between risks and profits and minimising potential adverse effects of risks on the entity's financial position and operations.

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

For the purposes of risk management, a risk strategy has been articulated. This strategy defines risks assumed by the bank both individually and at the group level in carrying on its operations and providing services, the level of risk tolerance and actions to ensure compliance with this level. The risk strategy, which has been approved by the council of the bank, is based on the Operational Strategy of the ABLV Group 2014 – 2016. Apart from the risk strategy, risk management policies have been developed and approved by the council of the bank. The introduction and effectiveness of these policies are controlled by the board and the Chief Risk Officer (CRO), while the practical implementation is provided by the respective structural units, including the Risk Management Division whose functions are strictly segregated from the business functions.

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

The goal of the risk management policies is to ensure efficient risk management, identify and analyse the risks inherent in the group's and bank's business, set relevant limits, introduce reliable control procedures, as well as control risk and exposure compliance with the applicable limits using administrative and IT resources.

The risk management system has been constantly improved following the group's and bank's operational and financial market development. The improvement process is controlled by the Internal Audit Department on a regular basis.

Note 35

Credit risk

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

Credit risk management framework

Credit risk is managed according to the Credit Policy, which sets out the establishment and basic principles of the credit risk management system that would allow timely detection, analysis, assessment and prevention of any potential credit risks. The group and the bank believe that their exposure to credit risk arises mainly from loans, investments in fixed income securities, and balances due from credit institutions.

The credit risk management process comprises the following:

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

The following is employed for the purposes of credit risk management:

- a system of limits, which sets restrictions as to the loan portfolio volume according to the Regulation, group's and/ or bank's financial plans and certain lending programmes;
- concentration limits, diversifying the loan portfolio by industries, collateral of the same type, geographical regions and currencies.

In order to measure credit risk, the group and the bank perform the following:

- analysis of loan portfolio quality, compliance with limits and concentration on a regular basis, at least once every quarter;
- credit risk stress testing on a regular basis, at least once every six months;
- assessment of capital adequacy on a regular basis, at least once every year.

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

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

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

For effective credit risk management, the bank has set up the permanent Assets Evaluation Committee which performs a regular analysis of assets and memorandum items, i.e., their recoverability. Depending on the results of such analysis, the amount of the allowance for credit losses (impairment) is determined. For the purposes of such analysis, both specific and collective (portfolio) risks are considered.

The bank analyses the quality of its loan portfolio on a regular basis to identify loss events. If a loss event is identified, the loan is assessed for impairment. The age of past due loans is used as one of the quality criteria. The criteria applied to corporate loans also include the borrower's business performance and prospects, its existing and forecasted cash flows to meet the liabilities, compliance with the monitoring/ risk factors set, collateral value, etc. Past due loans are loans with delayed contractual interest and/or principal payments. Different loan groups (mortgage loans, corporate loans, consumer loans, etc.) have different aging criteria (8 to 90 days) which are determined by assessing and considering risks inherent in the relevant loan group.
Information on delayed credit payments is disclosed starting from the first day of delay. Impaired loans are loans for which the bank has recognised impairment allowances as a result of a loss event.

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

Loss events are the following:

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

Credit quality analysis for the group:

EUR'000

	Mortgage	Business	Consumer	Other	Total gross loans	Fair value of collateral
						31.12.2015
Neither past due nor impaired loans	280,325	510,619	912	19,523	811,379	1,221,800
Past due but not impaired loans, incl.:	30,948	4,445	126	-	35,519	33,667
less than 30 days	26,448	697	76	-	27,221	24,454
31 to 59 days	3,107	1,325	26	-	4,458	4,731
60 to 89 days	414	1,159	12	-	1,585	1,866
more than 90 days	979	1,264	12	-	2,255	2,616
Impaired loans	34,455	14,772	114	1,719	51,060	33,422
Total gross loans	**345,728**	**529,836**	**1,152**	**21,242**	**897,958**	**1,288,889**
Impairment allowance	(14,451)	(7,759)	(69)	(1,676)	(23,955)	
Total net loans	**331,277**	**522,077**	**1,083**	**19,566**	**874,003**	
						31.12.2014.
Neither past due nor impaired loans	271,494	418,412	784	19,795	710,485	1,039,274
Past due but not impaired loans, incl.:	39,214	5,460	128	-	44,802	40,843
less than 30 days	27,200	3,044	82	-	30,326	27,644
31 to 59 days	10,811	2,029	17	-	12,857	11,559
60 to 89 days	1,203	387	29	-	1,619	1,640
more than 90 days	-	-	-	-	-	-
Impaired loans	51,481	12,654	44	2,022	66,201	50,963
Total gross loans	**362,189**	**436,526**	**956**	**21,817**	**821,488**	**1,131,080**
Impairment allowance	(23,936)	(5,442)	(34)	(1,963)	(31,375)	
Total net loans	**338,253**	**431,084**	**922**	**19,854**	**790,113**	

Credit quality analysis for the bank:

EUR'000

	Mortgage	Business	Consumer	Other	Total gross loans	Fair value of collateral
						31.12.2015
Neither past due nor impaired loans	280,325	510,620	912	19,523	811,380	1,213,960
Past due but not impaired loans, incl.:	30,948	4,445	126	-	35,519	33,667
less than 30 days	26,448	697	76	-	27,221	24,454
31 to 59 days	3,107	1,325	26	-	4,458	4,731
60 to 89 days	414	1,159	12	-	1,585	1,866
more than 90 days	979	1,264	12	-	2,255	2,616
Impaired loans	34,455	13,888	114	1,718	50,175	33,422
Total gross loans	**345,728**	**528,953**	**1,152**	**21,241**	**897,074**	**1,281,049**
Impairment allowance	(14,451)	(7,380)	(69)	(1,675)	(23,575)	
Total net loans	**331,277**	**521,573**	**1,083**	**19,566**	**873,499**	
						31.12.2014.
Neither past due nor impaired loans	271,494	419,733	777	19,795	711,799	1,069,007
Past due but not impaired loans, incl.:	39,214	5,460	128	-	44,802	40,843
less than 30 days	27,200	3,044	82	-	30,326	27,644
31 to 59 days	10,811	2,029	17	-	12,857	11,559
60 to 89 days	1,203	387	29	-	1,619	1,640
more than 90 days	-	-	-	-	-	-
Impaired loans	51,481	11,476	44	2,022	65,023	40,771
Total gross loans	**362,189**	**436,669**	**949**	**21,817**	**821,624**	**1,150,621**
Impairment allowance	(23,936)	(5,446)	(32)	(1,963)	(31,377)	
Total net loans	**338,253**	**431,223**	**917**	**19,854**	**790,247**	

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

As at 31 December 2015, the gross amount of loans having the maturity date for principal or interest changed totalled EUR 82.6 (74.2) million. These changes were made on the basis of the agreements between the group or the bank and customers amending respective loan conditions, as otherwise the loans might be past due. A loan is considered to be restructured from the date of the above mutual agreement to the date when at least two years have passed without delays of contractual payments by more than 30 days or any of the loss events has taken place.

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

Financial assets of the group by risk rating:

EUR'000

Financial assets	Assets neither past due nor impaired		Assets past due			
	Higher rating	Lower rating	Individually assessed	Portfolio allowance and impaired	Portfolio allowance and not impaired	**Gross financial assets**
						31.12.2015
Cash and deposits with central banks	449,136	-	-	-	-	449,136
Balances due from credit institutions	580,075	89,905	-	-	-	669,980
Derivatives	121	-	-	-	-	121
Financial assets at fair value through profit or loss	19,601	6,520	-	-	-	26,121
Available-for-sale financial assets	1,794,532	38,541	99	-	-	1,833,172
Held-to-maturity investments	823,776	189,391	4,445	-	-	1,017,612
Loans to customers	742,358	69,022	15,765	36,093	34,720	897,958
Mortgage	279,288	1,037	537	34,066	30,800	345,728
Business	442,635	67,985	15,130	194	3,892	529,836
Other	19,523	-	-	1,719	-	21,242
Consumer	912	-	98	114	28	1,152
Other financial assets	-	1,465	-	-	-	1,465
Total financial assets, gross	**4,409,599**	**394,844**	**20,309**	**36,093**	**34,720**	**4,895,565**
						31.12.2014
Cash and deposits with central banks	259,872	-	-	-	-	259,872
Balances due from credit institutions	744,365	72,571	-	-	-	816,936
Derivatives	4,079	-	-	-	-	4,079
Financial assets at fair value through profit or loss	16,547	4,618	-	-	-	21,165
Available-for-sale financial assets	1,263,298	6,917	1,172	-	-	1,271,387
Held-to-maturity investments	884,819	71,098	4,469	-	-	960,386
Loans to customers	690,963	19,522	13,286	82,528	15,189	821,488
Mortgage	270,038	1,456	585	80,120	9,990	362,189
Business	400,346	18,066	12,599	345	5,170	436,526
Other	19,795	-	-	2,022	-	21,817
Consumer	784	-	102	41	29	956
Other financial assets	-	2,374	-	-	-	2,374
Total financial assets, gross	**3,863,943**	**177,100**	**18,927**	**82,528**	**15,189**	**4,157,687**

Financial assets of the bank by risk rating:

EUR'000

Financial assets	Assets neither past due nor impaired: Higher rating	Assets neither past due nor impaired: Lower rating	Assets past due: Individually assessed	Assets past due: Portfolio allowance and impaired	Assets past due: Portfolio allowance and not impaired	Gross financial assets
						31.12.2015
Cash and deposits with central banks	448,187	-	-	-	-	448,187
Balances due from credit institutions	585,203	86,569	-	-	-	671,772
Derivatives	121	-	-	-	-	121
Financial assets at fair value through profit or loss	20,708	1,578	-	-	-	22,286
Available-for-sale financial assets	1,742,013	38,541	99	-	-	1,780,653
Held-to-maturity investments	775,869	187,504	4,445	-	-	967,818
Loans to customers	742,357	69,022	14,882	36,093	34,720	897,074
Mortgage	279,288	1,037	537	34,066	30,800	345,728
Business	442,635	67,985	14,247	194	3,892	528,953
Other	19,522	-	-	1,719	-	21,241
Consumer	912	-	98	114	28	1,152
Other financial assets	-	606	-	-	-	606
Total financial assets, gross	**4,314,458**	**383,820**	**19,426**	**36,093**	**34,720**	**4,788,517**
						31.12.2014
Cash and deposits with central banks	258,908	-	-	-	-	258,908
Balances due from credit institutions	722,919	72,363	-	-	-	795,282
Derivatives	4,079	-	-	-	-	4,079
Financial assets at fair value through profit or loss	14,884	-	-	-	-	14,884
Available-for-sale financial assets	1,201,144	6,917	1,172	-	-	1,209,233
Held-to-maturity investments	856,975	71,098	4,469	-	-	932,542
Loans to customers	689,214	22,584	12,109	82,528	15,189	821,624
Mortgage	270,038	1,456	585	80,120	9,990	362,189
Business	398,604	21,128	11,422	345	5,170	436,669
Other	19,795	-	-	2,022	-	21,817
Consumer	777	-	102	41	29	949
Other financial assets	-	3,487	-	-	-	3,487
Total financial assets, gross	**3,748,123**	**176,449**	**17,750**	**82,528**	**15,189**	**4,040,039**

Credit risk concentration

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

The credit risk concentration is analysed also by estimating the credit exposure ratio to eligible capital. According to the Regulation, the group and the bank treat credit exposure as a high risk transaction if it exceeds 10% of the eligible capital.
For the purposes of the credit risk concentration analysis, the issuers incorporated in a country only for the attraction of funds are disclosed as attributable to the country or region where the guarantors of the issue are located.
The credit risk inherent in the group's and bank's securities portfolios is reflected by the credit rating granted to respective securities and issuers. The group's and bank's securities portfolios are well-diversified and portfolio diversification is based on issues, credit rating classes, issuers and maturities.

Apart from the effective management of credit risk concentration, the bank has set limits for credit institutions and financial companies in order to restrict balances held with one institution and group of related institutions as well as defined the limit control regulations specifying the independent procedure for controlling compliance with the limits.
To enhance the effectiveness of credit risk management, which is associated with the assessment of existing and potential counterparties, the bank has designed an internal model for the assessment of credit institutions. With the model, the group determines the maximum recommended co-operation limits of credit institutions, which are used for decision-making when assigning cooperation limits. Accordingly the internal rules provide execution control in accordance to stated limits.

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

EUR'000

Assets	Latvia	EMU countries	Other EU member states	Other OECD countries	International organisations	Other countries	Total
Cash and deposits with central banks	448,187	949	-	-	-	-	449,136
Balances due from credit institutions	4,568	247,719	34,125	267,271	-	116,297	669,980
Derivatives	-	-	99	19	-	3	121
Financial assets at fair value through profit or loss	5,793	3,262	1,901	6,386	-	8,779	26,121
Available-for-sale financial assets	53,330	409,938	200,664	1,056,246	64,864	48,031	1,833,073
Loans	639,138	23,008	19,299	33,794	-	158,764	874,003
Held-to-maturity investments	203,714	191,200	77,837	288,454	29,428	224,414	1,015,047
Other financial assets	1,363	102	-	-	-	-	1,465
Total financial assets	**1,356,093**	**876,178**	**333,925**	**1,652,170**	**94,292**	**556,288**	**4,868,946**
Liabilities							
Derivatives	1	187	114	59	-	4	365
Financial liabilities at amortised cost	458,178	321,858	1,000,321	1,211,759	-	1,678,703	4,670,819
Other financial liabilities	4,017	23,653	799	611	-	884	29,964
Total financial liabilities	**462,196**	**345,698**	**1,001,234**	**1,212,429**	-	**1,679,591**	**4,701,148**
Memorandum items	**45,398**	**11,792**	**6,864**	**8,589**	**-**	**12,916**	**85,559**

Analysis of concentration of the group's financial assets and liabilities by geographical area as at 31 December 2014:

EUR'000

Assets	Latvia	EMU countries	Other EU member states	Other OECD countries	International organisations	Other countries	Total
Cash and deposits with central banks	258,912	960	-	-	-	-	259,872
Balances due from credit institutions	8,949	492,078	67,811	192,096	-	56,002	816,936
Derivatives	-	82	3,911	-	-	86	4,079
Financial assets at fair value through profit or loss	4,069	7,199	1,727	5,483	-	2,687	21,165
Available-for-sale financial assets	12,528	299,806	230,858	640,855	57,767	29,413	1,271,227
Loans	563,572	27,407	14,349	13,144	-	171,641	790,113
Held-to-maturity investments	180,640	151,650	101,462	257,703	57,324	209,644	958,423
Other financial assets	1,318	1,056	-	-	-	-	2,374
Total financial assets	**1,029,988**	**980,238**	**420,118**	**1,109,281**	**115,091**	**469,473**	**4,124,189**
Liabilities							
Derivatives	-	5,564	8	-	-	58	5,630
Financial liabilities at amortised cost	153,721	330,893	954,163	73,657	-	2,479,078	3,991,512
Other financial liabilities	8,658	3,039	102	2,016	-	2,515	16,330
Total financial liabilities	**162,379**	**339,496**	**954,273**	**75,673**	-	**2,481,651**	**4,013,472**
Memorandum items	**37,822**	**3,383**	**3,341**	**206**	**-**	**26,097**	**70,849**

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

EUR'000

Assets	Latvia	EMU countries	Other EU member states	Other OECD countries	International organisations	Other countries	Total
Cash and deposits with central banks	448,187	-	-	-	-	-	448,187
Balances due from credit institutions	4,566	249,583	34,125	267,271	-	116,227	671,772
Derivatives	-	-	99	19	-	3	121
Financial assets at fair value through profit or loss	18,950	191	-	1,567	-	1,578	22,286
Available-for-sale financial assets	53,330	389,891	197,273	1,028,084	64,864	47,112	1,780,554
Loans	638,634	23,008	19,299	33,794	-	158,764	873,499
Held-to-maturity investments	199,770	179,369	68,207	270,517	28,512	218,878	965,253
Other financial assets	504	102	-	-	-	-	606
Total financial assets	**1,363,941**	**842,144**	**319,003**	**1,601,252**	**93,376**	**542,562**	**4,762,278**
Liabilities							
Derivatives	1	187	114	59	-	4	365
Financial liabilities at amortised cost	484,239	333,939	985,551	1,175,846	-	1,630,655	4,610,230
Other financial liabilities	1,165	23,568	-	-	-	-	24,733
Total financial liabilities	**485,405**	**357,694**	**985,665**	**1,175,905**	**-**	**1,630,659**	**4,635,328**
Memorandum items	**38,262**	**11,792**	**6,864**	**8,589**	**-**	**12,916**	**78,423**

Analysis of concentration of the bank's financial assets and liabilities by geographical area as at 31 December 2014:

EUR'000

Assets	Latvia	EMU countries	Other EU member states	Other OECD countries	International organisations	Other countries	Total
Cash and deposits with central banks	258,908	-	-	-	-	-	258,908
Balances due from credit institutions	8,569	470,845	67,810	192,095	-	55,963	795,282
Derivatives	-	82	3,911	-	-	86	4,079
Financial assets at fair value through profit or loss	12,237	213	-	1,318	-	1,116	14,884
Available-for-sale financial assets	12,528	263,708	226,360	620,960	57,767	27,750	1,209,073
Loans	572,989	18,133	14,347	13,144	-	171,634	790,247
Held-to-maturity investments	176,846	142,847	92,895	253,546	56,504	207,941	930,579
Other financial assets	2,726	1,056	-	-	-	-	3,782
Total financial assets	**1,044,803**	**896,884**	**405,323**	**1,081,063**	**114,271**	**464,490**	**4,006,834**
Liabilities							
Derivatives	-	5,564	8	-	-	58	5,630
Financial liabilities at amortised cost	181,507	335,594	925,236	72,815	-	2,408,604	3,923,756
Other financial liabilities	886	2,896	-	-	-	-	3,782
Total financial liabilities	**182,393**	**344,054**	**925,244**	**72,815**	**-**	**2,408,662**	**3,933,168**
Memorandum items	**36,631**	**3,398**	**3,340**	**206**	**-**	**26,097**	**69,672**

Note 36

Other financial risks

Liquidity risk

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

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

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

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

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

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

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

As at 31 December 2015, the bank's liquidity ratio was 82.68% (74.74%).

As at 31 December 2015, the liquidity coverage ratio (LCR) of the group and the bank was 448% and 437%, respectively. According to the Regulation, as at 31 December 2015 the group and the bank were required to maintain an LCR of at least 60%.

The bank manages funding liquidity risk and controls the funding structure by assessing the following:

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

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

Contingency liquidity risk

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

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

Liquidity gap analysis

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

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

Securities in the bank's portfolio are included in the maturity range in which they can be sold without loss, i.e. at the market value, except for held-to-maturity investments. Securities of the held-to-maturity portfolio are disclosed in the maturity range based on the ability to perform repo transactions with these securities in exchange for a secured loan. The share of the securities qualifying for repo transactions is presented in the “on demand and up to 1 month” maturity range, while the share of the securities not qualifying for repo transactions is disclosed according to the maturity date.

According to the bank's experience, current accounts and other similar deposits constitute a sound source of financing. Current accounts and conceptually similar deposit types due "on demand" are classified in line with the bank's experience regarding the life cycle of these deposits with the bank, although customers may receive demand deposits from the bank at any time and without any penalties applied. The breakdown of demand deposits by maturity does not exceed 5 years and complies with the bank's historical experience regarding the length of the period and the extent of the outflow of demand deposits from the bank. This principle is not applied to demand deposits placed by large customers as the bank considers them less stable and these deposits are included in the maturity band of "on demand and up to 1 month”.

Term deposits are disclosed according to contractual terms; however, customers may claim term deposits from the bank before the maturity date, subject to the deduction of a certain amount from the respective term deposit.

Impaired assets are stated net of allowances.

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

EUR'000

Assets	On demand and up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	More than 5 years and undated	Total
Cash and deposits with central banks	449,136	-	-	-	-	449,136
Balances due from credit institutions	631,612	7,350	7,805	-	23,213	669,980
Derivatives	53	68	-	-	-	121
Financial assets at fair value through profit or loss	6,369	19,543	209	-	-	26,121
Available-for-sale financial assets	1,690,252	71,037	31,099	33,616	7,069	1,833,073
Loans	98,911	24,841	69,314	475,839	205,098	874,003
Held-to-maturity investments	588,257	11,897	58,984	237,393	118,516	1,015,047
Other assets	59,227	228	3,524	-	61,128	124,107
Total assets	**3,523,817**	**134,964**	**170,935**	**746,848**	**415,024**	**4,991,588**
Liabilities						
Derivatives	150	215	-	-	-	365
Financial assets at amortised cost	902,149	199,120	693,950	2,752,584	123,016	4,670,819
Other liabilities	43,075	-	-	-	-	43,075
Total liabilities	**945,374**	**199,335**	**693,950**	**2,752,584**	**123,016**	**4,714,259**
Shareholders' equity	-	-	-	-	277,329	277,329
Total liabilities and shareholders' equity	**945,374**	**199,335**	**693,950**	**2,752,584**	**400,345**	**4,991,588**
Total memorandum items	35,450	3,763	5,511	16,038	24,797	85,559
Net liquidity position	2,542,993	(68,134)	(528,526)	(2,021,774)	(10,118)	x
Total liquidity position	2,542,993	2,474,859	1,946,333	(75,441)	(85,559)	x

Liquidity gap analysis for the group’s assets, liabilities and memorandum items as at 31 December 2014:

EUR'000

Assets	On demand and up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	More than 5 years and undated	Total
Cash and deposits with central banks	259,872	-	-	-	-	259,872
Balances due from credit institutions	758,394	25,003	9,245	-	24,294	816,936
Derivatives	627	1,659	1,793	-	-	4,079
Financial assets at fair value through profit or loss	20,872	-	293	-	-	21,165
Available-for-sale financial assets	1,208,011	12,468	9,042	33,673	8,033	1,271,227
Loans	99,750	22,369	77,172	384,900	205,922	790,113
Held-to-maturity investments	373,351	9,297	101,265	300,149	174,361	958,423
Other assets	11,406	-	2,846	-	134,019	148,271
Total assets	**2,732,283**	**70,796**	**201,656**	**718,722**	**546,629**	**4,270,086**
Liabilities						
Derivatives	2,180	1,656	1,794	-	-	5,630
Financial assets at amortised cost	311,414	219,221	667,420	2,674,748	118,709	3,991,512
Other liabilities	29,722	-	1,180	-	-	30,902
Total liabilities	**343,316**	**220,877**	**670,394**	**2,674,748**	**118,709**	**4,028,044**
Shareholders' equity	-	-	-	-	242,042	242,042
Total liabilities and shareholders' equity	**343,316**	**220,877**	**670,394**	**2,674,748**	**360,751**	**4,270,086**
Total memorandum items	21,687	1,859	15,140	4,456	27,707	70,849
Net liquidity position	2,367,280	(151,940)	(483,878)	(1,960,482)	158,171	x
Total liquidity position	2,367,280	2,215,340	1,731,462	(229,020)	(70,849)	x

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

EUR'000

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

Liquidity gap analysis for the bank’s assets, liabilities and memorandum items as at 31 December 2014:

EUR'000

Assets	On demand and up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	More than 5 years and undated	Total
Cash and deposits with central banks	258,908	-	-	-	-	258,908
Balances due from credit institutions	742,130	25,003	4,288	-	23,861	795,282
Derivatives	627	1,659	1,793	-	-	4,079
Financial assets at fair value through profit or loss	14,591	-	293	-	-	14,884
Available-for-sale financial assets	1,193,936	9,930	4,089	-	1,118	1,209,073
Loans	99,780	22,369	77,172	385,004	205,922	790,247
Held-to-maturity investments	373,351	9,297	100,014	279,554	168,363	930,579
Other assets	7,665	-	2,690	-	156,437	166,792
Total assets	**2,690,988**	**68,258**	**190,339**	**664,558**	**555,701**	**4,169,844**
Liabilities						
Derivatives	2,180	1,656	1,794	-	-	5,630
Financial assets at amortised cost	333,899	215,397	649,676	2,605,867	118,917	3,923,756
Other liabilities	13,557	-	-	-	-	13,557
Total liabilities	**349,636**	**217,053**	**651,470**	**2,605,867**	**118,917**	**3,942,943**
Shareholders' equity	-	-	-	-	226,901	226,901
Total liabilities and shareholders' equity	**349,636**	**217,053**	**651,470**	**2,605,867**	**345,818**	**4,169,844**
Total memorandum items	20,250	1,859	15,140	4,456	27,967	69,672
Net liquidity position	2,321,102	(150,654)	(476,271)	(1,945,765)	181,916	x
Total liquidity position	2,321,102	2,170,448	1,694,177	(251,588)	(69,672)	x

In estimating the amount of expected financial liabilities, the group and the bank have included in the maturity gap analysis also interest payable on financial liabilities and memorandum items effective as at 31 December 2015 and 2014 which is expected in the future but has not been assessed at the reporting date.

Financial liabilities, memorandum items and interest which is payable in the future, has been split, into relevant maturity bands based on the remaining period, as at the reporting date, to the contractual maturity date.

Financial liabilities and memorandum items of the group as at 31 December 2015:

EUR'000

Financial liabilities	Carrying amount	Up to 1 month	1 -12 months	1 - 5 years	More than 5 years	**Total**
Demand deposits from credit institutions	49,154	49,154	-	-	-	49,154
Derivative inflow amount	365	(2,804)	(2,641)	-	-	(5,445)
Derivative outflow amount	-	2,899	2,712	-	-	5,611
Financial liabilities at amortised cost	4,621,665	3,835,839	264,020	415,857	123,664	4,639,380
Other financial liabilities	29,964	-	-	-	-	29,964
Total financial liabilities	**4,671,184**	**3,885,088**	**264,091**	**415,857**	**123,664**	**4,688,700**
Memorandum items	85,559	35,450	9,274	16,038	24,797	85,559
Total financial liabilities and memorandum items	**4,756,743**	**3,920,538**	**273,365**	**431,895**	**148,461**	**4,774,259**

Financial liabilities and memorandum items of the group as at 31 December 2014:

EUR'000

Financial liabilities	Carrying amount	Up to 1 month	1 -12 months	1 - 5 years	More than 5 years	**Total**
Demand deposits from credit institutions	23,869	23,869	-	-	-	23,869
Derivative inflow amount	5,630	(17,177)	(24,830)	-	-	(42,007)
Derivative outflow amount	-	18,578	24,804	-	-	43,382
Financial liabilities at amortised cost	3,967,643	3,442,618	198,895	224,434	119,219	3,985,166
Other financial liabilities	16,330	-	-	-	-	16,330
Total financial liabilities	**3,997,142**	**3,467,888**	**198,869**	**224,434**	**119,219**	**4,010,410**
Memorandum items	70,849	21,687	16,999	4,456	27,707	70,849
Total financial liabilities and memorandum items	**4,067,991**	**3,489,575**	**215,868**	**228,890**	**146,926**	**4,081,259**

Financial liabilities and memorandum items of the bank as at 31 December 2015:

EUR'000

Financial liabilities	Carrying amount	Up to 1 month	1 -12 months	1 - 5 years	More than 5 years	Total
Demand deposits from credit institutions	63,294	63,294	-	-	-	63,294
Derivative inflow amount	365	(2,804)	(2,641)	-	-	(5,445)
Derivative outflow amount	-	2,899	2,712	-	-	5,611
Financial liabilities at amortised cost	4,546,936	3,753,521	266,568	420,966	123,664	4,564,719
Other financial liabilities	24,733	-	-	-	-	24,733
Total financial liabilities	**4,610,595**	**3,816,910**	**266,639**	**420,966**	**123,664**	**4,628,179**
Memorandum items	78,423	28,314	9,274	16,038	24,797	78,423
Total financial liabilities and memorandum items	**4,689,018**	**3,845,224**	**275,913**	**437,004**	**148,461**	**4,706,602**

Financial liabilities and memorandum items of the bank as at 31 December 2014:

EUR'000

Financial liabilities	Carrying amount	Up to 1 month	1 -12 months	1 - 5 years	More than 5 years	Total
Demand deposits from credit institutions	28,962	28,962	-	-	-	28,962
Derivative inflow amount	5,630	(17,177)	(24,830)	-	-	(42,007)
Derivative outflow amount	-	18,578	24,804	-	-	43,382
Financial liabilities at amortised cost	3,894,794	3,368,054	196,950	227,884	119,427	3,912,315
Pārējās finanšu saistības	3,782	-	-	-	-	3,782
Total financial liabilities	**3,929,386**	**3,398,417**	**196,924**	**227,884**	**119,427**	**3,942,652**
Memorandum items	69,672	20,250	16,999	4,456	27,967	69,672
Total financial liabilities and memorandum items	**3,999,058**	**3,418,667**	**213,923**	**232,340**	**147,394**	**4,012,324**

Market risks

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

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

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

In 2015, the bank and group has not engaged in any securitizations.

Price risk

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

Non-fixed income financial instruments are held in the bank’s trading portfolio.
The exposure to equity securities not held in the bank’s and group’s trading portfolio has not been material in 2015 and as of the balance sheet date amounts to EUR 12.6 (0.4) million.
In 2015, the estimated value-at-risk of non-fixed income securities totalled EUR 1.1 (1.2) million.

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

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

Currency risk

The group and the bank are exposed to negative effects of fluctuations in foreign currency exchange rates on their financial position and cash flows. The exposure to currency risk is calculated for each separate currency and includes assets and liabilities denominated in foreign currencies, as well as cash flows arising from derivatives.
According to the bank’s policy, the bank may use derivatives to limit its exposure to currency risk. Any transactions involving derivatives with aim to earn profits are prohibited.

The bank has major open positions in EUR and USD (US dollars). The bank’s open currency position in USD is rather small as it is hedged by using currency forwards/ futures. As at 31 December 2014, the bank’s open currency position in USD was 0.7% (2.7%) of bank’s eligible capital and, therefore, the effect of changes in the USD exchange rate is insignificant, and the bank does not conduct a more detailed sensitivity analysis, only controlling this risk by applying the limits specified in the Limits Policy. As at 31 December 2015, all the above limits were met.

The group’s Limits Policy defines major principles for limits application and control; limits for open foreign currency positions stipulate restrictions for each separate currency open position and total open position that are controlled on a daily basis. The amount of capital required to cover currency risk is determined using the internal value at risk model.
According to Credit Institution Law of Latvia open positions in each foreign currency may not exceed 10% of the bank’s eligible capital and that the total foreign currency open position may not exceed 20% of eligible capital. As at 31 December 2015 the bank was in compliance with this requirement.

Group’s currency position as at 31 December 2015:

EUR'000

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

Group's currency position as at 31 December 2014:

EUR'000

Assets	EUR	USD	RUB	Other currencies	Total
Cash and deposits with central banks	256,930	2,678	1	263	259,872
Balances due from credit institutions	54,204	697,724	12,765	52,243	816,936
Derivatives	4,079	-	-	-	4,079
Financial assets at fair value through profit or loss	10,009	9,958	1,198	-	21,165
Available-for-sale financial assets	112,005	1,147,423	6,924	4,875	1,271,227
Loans	585,466	192,353	1,108	11,186	790,113
Held-to-maturity investments	190,164	757,312	10,521	426	958,423
Other assets	147,825	42	1	403	148,271
Total assets	**1,360,682**	**2,807,490**	**32,518**	**69,396**	**4,270,086**
Liabilities					
Derivatives	5,630	-	-	-	5,630
Financial liabilities at amortised cost	1,096,764	2,798,006	29,729	67,013	3,991,512
Other liabilities	23,635	6,808	430	29	30,902
Total liabilities	**1,126,029**	**2,804,814**	**30,159**	**67,042**	**4,028,044**
Net long/ (short) balance sheet position	**-**	**2,676**	**2,359**	**2,354**	**x**
Net off-balance sheet position from FX transactions	-	(11,103)	(2,074)	1,176	x
Net open long/ (short) currency position	**-**	**(8,427)**	**285**	**3,530**	**x**
Sensitivity gap if exchange rate against the national currency drops by 15%	**-**	**1,264**	**(43)**	**(530)**	**x**

Bank's currency position as at 31 December 2015:

EUR'000

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

Bank's currency position as at 31 December 2014:

EUR'000

Assets	EUR	USD	RUB	Other currencies	**Total**
Cash and deposits with central banks	255,966	2,678	1	263	258,908
Balances due from credit institutions	57,818	672,491	12,755	52,218	795,282
Derivatives	4,079	-	-	-	4,079
Financial assets at fair value through profit or loss	5,798	8,299	787	-	14,884
Available-for-sale financial assets	71,336	1,125,938	6,924	4,875	1,209,073
Loans	585,556	192,343	1,148	11,200	790,247
Held-to-maturity investments	174,982	744,650	10,521	426	930,579
Other assets	166,347	41	1	403	166,792
Total assets	**1,321,882**	**2,746,440**	**32,137**	**69,385**	**4,169,844**
Liabilities					
Derivatives	5,630	-	-	-	5,630
Financial liabilities at amortised cost	1,087,042	2,739,958	29,737	67,019	3,923,756
Other liabilities	9,718	3,792	18	29	13,557
Total liabilities	**1,102,390**	**2,743,750**	**29,755**	**67,048**	**3,942,943**
Net long/ (short) balance sheet position	**219,492**	**2,690**	**2,382**	**2,337**	**x**
Net off-balance sheet position from FX transactions	-	(11,103)	(2,074)	1,176	x
Net open long/ (short) currency position	**-**	**(8,413)**	**308**	**3,513**	**x**
Sensitivity gap if exchange rate against the national currency drops by 15%	**-**	**1,262**	**(46)**	**(527)**	**x**

Interest rate risk

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

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

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

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

Assets, liabilities and contingent liabilities are distributed into maturity bands according to the following conditions:

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

Derivatives are disclosed simultaneously as long and short off-balance-sheet positions. The impact of interest rate risk on the economic value of equity is calculated based on the duration method – a parallel increase in interest rates by 1 per cent (or 100 basis points) while the impact on profit is analysed using GAP analysis, i.e. analysis of the term structure of interest rate sensitive assets and liabilities and summing up the impact (profit or loss) calculated in each term interval up to one year.

In determining the impact of interest rate risk on equity the analysis is conducted by taking into consideration potential changes in the market value of debt securities in the available-for-sale portfolio upon changes in market interest rates. The impact on profit is comprised of changes in interest income resulting from changes in market interest rates taking into consideration all assets and liabilities exposed to interest rate risk.

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

EUR'000

		Group		Bank		Group/ bank	
		01.01.2015-31.12.2015		01.01.2015-31.12.2015		01.01.2014-31.12.2014	
		+100bps	-100bps	+100bps	-100bps	+100bps	-100bps
Total for all currencies	Effect of changes on equity	(30,492)	30,492	(29,907)	29,907	(20,580)	20,580
	Effect of changes on profit	5,842	(5,842)	6,197	(6,197)	(2,971)	2,971
USD	Effect of changes on equity	(28,666)	28,666	(28,149)	28,149	(19,150)	19,150
	Effect of changes on profit	2,348	(2,348)	2,603	(2,603)	(3,359)	3,359
EUR	Effect of changes on equity	(1,826)	1,826	(1,758)	1,758	(1,430)	1,430
	Effect of changes on profit	3,494	(3,494)	3,594	(3,594)	388	(388)

Commodity risk

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

Settlement risk

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

Counterparty credit risk

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

Note 37

Non-financial risks

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

Operational risk

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

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

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

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

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

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

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

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

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

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

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

During the reporting year, 990 (1 349) events were registered in the database, of which only 61 (49) events were those which resulted in actual losses amounting to EUR 95.5 (4044) thousand. The considerable number of the identified and registered events and, at the same time, rather a small amount of loss testify to the active involvement of the group's and bank's employees in the operational risk management and to the effectiveness of the control environment.

Money laundering and terrorism financing risk

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

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

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

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

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

Bank's ML/TF risk management regulations lay down the following:

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

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

Other risks

Other unquantifiable risks include:
- reputational risk;
- compliance risk;
- strategic and business risk;
- commission fee income and expenses volatility risk.

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

Reputational risk

Reputation risk is the risk of potential harm to reputation which may lead to adverse publicity, revenue decrease, costly litigation, reduction in the customer base or departure of key employees.
Reputational risk is a non-quantifiable risk and the consequences and losses that may be caused by this risk can hardly be determined. Reputational risk management by the bank (measurement, applicable methods, control) is governed by the Reputational Risk Management Policy.
Reputation risk is managed by the following methods:
- risk identification and assessment;
- risk monitoring;
- risk control and prevention;
- set up of a risk communication and action plan.

Certain risk assessment criteria and indicators signalling changes in the level of risk have been introduced to support the assessment of reputation risk.
Reputation risk is assessed using the expert method and the appointed experts are Deputy Chief Executive Officer, Chief Risk Officer, Chief Operations Officer, Head of Public Relations and an employee of the Risk Analysis Department.

Monitoring measures are carried out in order to learn in due time and take immediate action in response to information on group companies or related parties published in the mass media that may impact the level of reputation risk. Monitoring and management reporting upon discovering information that may have an adverse impact on reputation is ensured by the Head of Public Relations.
The group and the bank have documented rules in place for communication in reputation crisis, which aim to ensure that all structural units act in a prompt and consistent manner and there is optimum communication to prevent the crisis to the extent possible and to mitigate the harm to the bank's operations, reputation and image.
Reputation risk is mitigated by:
- control over compliance with legal requirements;
- analysis of reputation risk factors, impact on financial indicators and data;
- ensuring and controlling that settlements with customers and cooperation partners are made in due time;
- control of reliability of accounting data and reports;
- raising staff qualifications.

Compliance risk

Compliance risk is the risk that the bank or its subsidiary may incur losses or legal obligations, be subject to sanctions or suffer impairment of reputation as a result of a failure to comply or a breach of compliance laws, regulations and standards.
Compliance risk is unquantifiable and its consequences and losses are difficult to determine. Compliance risk is managed according to the Compliance risk management policy.
The core elements of compliance risk management are:
- identification of compliance laws, regulations and standards and problems and critical areas;
- analysis of compliance risk and its impact;
- determination and implementation of measures to prevent (mitigate) compliance risk;
- monitoring of compliance risk.

Data required for the assessment of compliance risk are gathered and summarised by way of surveys and interviews conducted by a compliance expert. Interviews are conducted with heads of the bank's structural units and subsidiaries and, where required, with other employees (specialists, subject matter experts) who have knowledge and experience that may help in the risk assessment. In addition, the following is used: case studies, information from the litigation register, risk events registered in the risk event and loss data base, findings from regulator reviews and other sources of information.
Compliance risk is assessed using expert valuations.

The assigned level of risk indicates the type of reaction that needs to be taken, i.e. the level of detail of the preventive and corrective measures for the respective risk, what level of employees need to be assigned responsibility for the prevention of risk, and in what timeframe and manner one should react when the risk has materialised.
Compliance risk is monitored in order to be able to learn about and take immediate action in response to changes in compliance laws, regulations and standards. Monitoring is carried out by the Compliance Expert Unit.
Compliance risk is mitigated by the following measures:

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

Strategic and business risk

Strategic and business risk is the risk of adverse impact on the group's and bank's profit, capital and liquidity caused by changes in the business environment and the group's and bank's inability to react to these changes in due time or choosing an inappropriate or wrong development strategy, or the group's and bank's inability to secure resources required to implement the strategy. Strategic and business risk is managed and mitigated at the bank using a strategic planning system.
The strategic planning is a process aimed at focussing resources and securing that the actions of all structural units are directed towards the same objectives and helping determine what decisions and action plans need to be in place for a successful implementation of the operational strategy.
The group and the bank have a documented Strategic Planning Regulation which specifies that strategic planning involves the following:

- operational strategy;
- financial plan for one year;
- budget for one year;
- preliminary financial plan for three years;
- worst-case scenario for a two year period.

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

Commission fee income and expenses volatility risk

Commission fee income and expenses volatility risk is the risk that the group and the bank may fail to receive the planned net commission income.
Commission fee income and expenses represent a significant part of operating income and changes in the types of operations or services that generate such income may have a significant impact on the operational result and capital of the group and the bank.
Commission fee income and expenses volatility risk is managed as part of strategy and business risk.

Information system risk

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

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

Note 38

Litigation and claims

In the ordinary course of business, the bank has been involved in a number of legal proceedings to recover outstanding credit balances and maintain collateral, as well as other proceedings related to specific transactions. The management believe that any legal proceedings pending as at 31 December 2015 will not result in material losses for the bank and/ or the group, excepted below mentioned.

During the reporting year, the Financial and Capital Market Commission conducted a number of reviews at the bank which resulted in initiating an administrative case on 18 December 2015. By the date of approval of the consolidated and separate financial statements, no administrative act has been issued and no decision has been taken to terminate the matter. According to the management of the bank, there have been no significant violations in the Bank's activities in relation to the results of these reviews and the management believes it will be possible to enter into an administrative agreement with the Financial and Capital Market Commission. The management of the bank has not recognized any provisions in these separate and consolidated financial statements as a material uncertainty exists regarding the potential outcome of this matter and it is not possible to estimate the amount of provision reliably. The potential irregularities may be interpreted in a number of ways and the amount of the fine to be imposed may differ accordingly depending on the provisions of the Credit Institution Law in effect at the date of the potential violation.

Note 39

Events after the reporting date

As of the last day of the reporting year until the date of signing of these consolidated and separate financial statements there have been no events requiring adjustment of or disclosure in these consolidated and separate financial statements or notes thereto, excepted below mentioned.
The board of the bank will recommend to the shareholder to pay dividends of EUR 69.0 million and issue new ordinary shares in April 2016 to increase equity of the bank by EUR 37.9 million.

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Independent Auditors' Report

To the shareholders of ABLV Bank AS

Report on the Separate and Consolidated Financial Statements

We have audited the accompanying separate financial statements of ABLV Bank AS ("the Bank"), which comprise the separate statements of financial position as at 31 December 2015, the separate statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 10 to 82. We have also audited the accompanying consolidated financial statements of ABLV Bank AS and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2015, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 10 to 82.

Management's Responsibility for the Separate and Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate and consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of these separate and consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the Company's and the Group's preparation and fair presentation of these separate and consolidated financial statements 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 Company's and the Group's internal controls. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by the Company and the Group management, as well as evaluating the overall presentation of the separate and consolidated financial statements.

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

Opinion

In our opinion, the separate financial statements give a true and fair view of the financial position of the ABLV Bank AS as at 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the ABLV Bank AS and its subsidiaries as at 31 December 2015, and of the consolidated financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 38 to the separate and consolidated financial statements. As indicated in Note 38, during the reporting year, the Financial and Capital Market Commission conducted a number of reviews at the Bank which resulted in initiating an administrative case on 18 December 2015. As of the date of approval of the consolidated and separate financial statements, no administrative act has been issued and no decision taken to terminate the matter. The management of the Bank has not recognized any provisions in these separate and consolidated financial statements in relation to this matter as a material uncertainty exists regarding the potential outcome of this matter and it is not possible to estimate the amount of the provision reliably. The potential irregularities may be interpreted in a number of ways and the amount of the fine to be imposed may differ depending on the provisions of the Credit Institution Law in effect at the date of the potential violation.

Other matters

The respective corresponding figures are based on the Bank's separate and the Group's consolidated financial statements as at and for the year ended 31 December 2014, which were audited by another independent audit firm who expressed an unqualified opinion on these financial statements in their auditors' report dated 25 February 2015.

Report on Other Legal and Regulatory Requirements

In addition, our responsibility is to assess whether the accounting information included in the Consolidated Management Report, as set out on pages 3 to 7, the preparation of which is the responsibility of management, is consistent with the consolidated financial statements. Our work with respect to the Consolidated Management Report was limited to the aforementioned scope and did not include a review of any information other than drawn from the consolidated financial statements of the Group. In our opinion, the Consolidated Management Report is consistent with the consolidated financial statements.

Furthermore, we have seen the statement of corporate governance prepared by the Bank for the year ended 31 December 2015. In our opinion, the statement of corporate governance entails the information required in section 56.[2] third paragraph clause 1 of the Financial Instruments Market Law.

KPMG Baltics SIA
License No 55

Armine Movsisjana
Chairman of the Board
Sworn Auditor
Certificate No 178
Riga, Latvia
26 February 2016