2015 Annual Report

RIETUMU
BANK

Contents

Report of Council and Board of Directors

2015 was another very successful year for the Rietumu Banka Group with profits of

EUR 70 m

Dear Shareholders, Customers and Business Partners,

2015 was another very successful year for the Rietumu Banka Group with profits of EUR 70 million and assets growing by 9.1%. Despite the low interest rate environment the Group continued to operate very efficiently with a cost to income ratio of 34% and operating income per employee of EUR 153 thousand.

Quality and Individual approach

The Group offers a comprehensive range of banking products to corporate customers and high net worth individuals. The Group has extensive experience in the EU and CIS countries and many of its customers operate in Latvia, the Baltic States, Western Europe, Russia and other CIS countries. The Group understands the business environments in both Western and Eastern Europe.

Given the geographical area that the Group operates in, the turbulent geopolitical and economic environment has resulted in elevated risks in these regions. Exchange rate volatility and especially the devaluation of the Russian Ruble resulted in significant challenges to the Group and our customers. However, by maintaining a close contact to our clients through our extensive network of representative offices, we continued to successfully cooperate with our customers. During 2015 the Group opened new representative office in Tel Aviv. The Group expended the range of products offered to its customers such as various improvements in payment solutions and technological advances such as Android application, Windows mobile token and an Apple watch extension. The Bank increased its product range by improving online availability of investment services.

The Group made significant changes to its customer commission structure. The strategy behind these changes is that the Group wants to focus on larger European Union based customers to which we can offer a broader range of products.

Card and E-commerce development and growth

The Bank completed the development of its own card processing center which will improve the range of e-commerce and card products available to clients while further improving the Group's efficiency. During 2015, the processing center has been certified and the Bank is currently switching traffic from its existing provider to the processing center. The Bank again hosted its annual e-commerce conference which is the largest e-commerce forum in the Baltic States with more than 600 participants from 40 countries. Based on demand for e-commerce services we expect that growth will continue in 2016.

Lending

The Bank follows a very conservative lending policy while offering innovative and individually tailored products that suit the requirements of each individual customer the best. This includes not only lending services but other services such as legal assistance, consulting and corporate support.

As a result of the uncertain environment in the region the Bank has slowed down its commercial lending in the CIS. The CIS portfolio has been stable over recent years with mature loans that have been quite robust in this challenging environment. In addition since 2011, the Group focussed on reducing concentration risks of large lending projects. This resulted in the lending portfolio being diversified over a large group of medium sized loans rather than the portfolio being concentrated in a smaller group of larger loans. As at 31 December 2015, the average outstanding

The average outstanding amount of commercial loans to individual groups of customers was approximately

EUR 1.4 m

amount of commercial loans to individual groups of customers was approximately EUR 1.4 m.
During 2015 the Group focussed on industries that have not been significantly affected in times of crises and need significant efforts to grow its trade finance and transport finance businesses. By focussing on trade finance business the Bank also offered its customers new opportunities to develop their international expansion. Trade finance as well as developing new lending markets such as Ireland and the United Kingdom are the areas the Bank will focus on in developing its lending business.

Treasury

During 2015 the Bank issued preference shares that were purchased by the Bank's customers.
The Bank also significantly increased its bond portfolio during 2015 to reach a total of EUR 674 million (2014: EUR 193 million). The income from this portfolio in 2015 was EUR 13 million with an annualized income of the newly created portfolio of 5.4 m. The bond portfolio is invested in a widely diversified range of bonds with an average maturity of 2.17 years.

Innovations and modern technologies

In April 2015 the Bank hosted the first Rietumu Fintech Challenge in which a number of financial technology start-up companies participated. Two companies that participated in the challenge have since launched their products and one of these was supported financially by the Bank. The Bank plans to continue to promote the annual Fintech Challenge.

Group Companies

The major non-banking companies include leasing and consumer finance companies, repossessed real estate and other repossessed collateral maintenance companies and asset management and financial companies. It is the Bank's strategy as much as possible to fully integrate its subsidiaries into the Bank's management and control systems. The activities of Group companies are financed by the Bank via capital investments and loans. In most cases the Bank owns 100% of the shares of its subsidiaries.
The Group fully owns an asset management company called Rietumu Asset Management that provides asset management services to the Bank's customers. The asset management company provides individual portfolios for customers as well as investment into four Latvian registered funds.
The Group's Belorussian leasing business focuses on industrial equipment leasing which contributed to the Group's profit in the amount of EUR 1.8 million for the year ended 31 December 2015. The Bank partly owns and finances a consumer leasing company named InCredit Group Ltd which is registered and operates in Latvia. As of 31 December 2015, the net leasing portfolio of InCredit Group Ltd was EUR 32 m and it contributed to the net profit after tax of the Group in the amount of EUR 1 m.
RB Investments Group, owns most of the significant real estate that the Bank repossessed as well as other assets that the Bank took over on defaulted loans. Most of the repossessed assets are located in Riga and the Riga region. RB Investments Group is renting out a portion of these assets and plans to sell most of its portfolio of assets in the coming years. As of 31 December 2015 RB Investments had total assets of EUR 52 m, shareholders' equity of EUR 17.6 million.

Report of Council and Board of Directors

As at 31 December 2015 the Group's total assets were

EUR 3.794 m

This represents an increase of 9.1% compared to 2014

Profitability

After tax profit attributable to the equity holders for the year 2015 was EUR 70 m (2014: 74.1 m). The Group generated an after tax return on equity of 17.5% (2014: 23.7%) and an after tax return on assets of 1.9% (2014: 2.3%). Operating income reached EUR 158.7 m which represents an increase of 2.7% from 2014. Net interest income increased to EUR 83.2 m (2014: EUR 76.9 m) due to growth in the bond portfolio. Net fee and commission income was EUR 44.1 m (2014: EUR 45.7 m). Customers transacting more per card but spending less per transaction resulted in a significant increase in commission expense of 24%. The Group's cost to income ratio was 34% for the year ended 31 December 2015 (2014: 31%). The Group's goal is to continue to maintain a cost income ratio of less than 40%. As a result of increasing tax exempt income such as income from listed securities, the effective income tax rate for the 2015 year was 14% (2014: 15%). The cumulative result of the above is that the Group reached a profit margin of 51.1% compared to 56.3% in 2014.

Assets

As at 31 December 2015 the Group's total assets were EUR 3,794 m. This represents an increase of 9.1% compared to 2014. The Group follows a conservative approach to asset allocation and about 50% of the Group's assets invested in liquidity management portfolios. About 73% of the liquidity management portfolio is invested in short term money market placement with large mainly European banks. The tenure of these placements is up to 7 days. The remaining 27% of the liquidity management portfolios are invested in collateralized instruments with large and stable financial institutions and a short term bond portfolio. The Group increased its available for sale bond portfolio from EUR 99.5 m as at 31 December 2014 to EUR 456.1 m at the end of 2015. The held to maturity portfolio was EUR 221 m as at 31 December 2015 compared to 2014 balance of EUR 93 m. The bond portfolio is primarily invested in corporate investment grade securities.

Loans and receivables due from customers represent about 29% of total assets. Since 2010 this ratio has not exceeded 45% and the Bank does not plan that this ratio exceeds 45% in the nearest future. Loans and receivable to customers were EUR 1,102 m compared to the balance of 2014 of EUR 1,041 m due to a conservative approach to Russian lending exposure. The commercial loan portfolio represents about 89% of the total Bank's loans of EUR 1,152 m and the effective average interest rate for 2015 was 6.3%. Latvia, Russia and Belarus represent the largest commercial lending markets with real estate management, financial services and transport representing the largest industries in the commercial loan portfolio. The second largest category of lending is margin lending to customers against liquid securities as collateral and this represents about 8% of the total loan portfolio. The effective average interest rate for 2015 for margin loans was 3.9%.

Group total shareholders' equity reached

EUR 457 m

as of 31 December 2015

This represents an increase of 34% compared to 2014

Funding, Equity and Expand Capital Base

Current accounts and deposits due to customers reached EUR 3,204 m and increased by 4% compared to 2014. Current accounts represented EUR 2,828 m or 88.3% of total current accounts and customer deposits. Current accounts can be withdrawn at any time but they can be considered a relatively stable funding source as outlined in Note 4 d) Liquidity risk. Term deposits amounted to EUR 376 m as at 31 December 2015 and included in this are EUR 123 m of subordinated deposits. The average remaining tenor of term deposits is 2.2 years with the average effective interest rate in 2015 of 2.2%. The average effective interest rate for subordinated deposits in 2015 was 5%. During 2015, the Bank raised 35 m in issued senior bonds that are listed on the NASDAQ OMX Riga Stock Exchange. These bonds were sold to the Bank's customers to diversify the funding base of the Bank.

In 2015 the Bank raised additional capital of EUR 8.1 m in form of preference shares to be used for the general development of the Bank. In 2016 the Bank plans to continue to issue additional tranches of preference shares to support the general activities of the Bank.

Group total shareholders' equity reached EUR 457 m as of 31 December 2015 representing a 34% increase from 2014. Group Tier I and total capital adequacy capital adequacy ratios were 13.02% (2014: 12.7%) and 19.2% (2014: 19%) respectively. The Bank plans continue its dividend policy of paying a dividend equal to 50% of the annual profit.

2016 and Beyond

2015 presented many new opportunities to the Bank and we believe that 2016 will also prove to be very successful. We achieved our results while maintaining a conservative asset allocation which we believe is the basis to continue our stable development. We owe our success to our customers and business partners and the trust that they have placed in us. We are looking forward to continue developing the Bank in 2016 successfully.

Statement on Corporate Governance published on Bank's website http://www.rietumu.lv/.

Financial results of the Group

	2015	2014	2013	2012
At year end (EUR'000)				
Total assets	3,794,153	3,477,763	2,927,779	2,347,926
Loans and receivables due from customers	1,101,772	1,041,444	1,125,278	944,576
Due to customers	3,203,992	3,082,706	2,564,705	2,049,581
Total shareholder's equity	456,869	341,903	282,870	230,171
For the year (EUR'000)				
Net profit before tax	81,176	87,021	71,573	36,972
Net profit after tax	70,043	74,130	62,279	31,555
Operating income	158,736	154,553	140,174	110,136
Ratios				
Earnings per share (EUR)				
After tax*	0.65	0.66	0.54	0.29
Before tax*	0.75	0.78	0.61	0.34
Dividend per share (EUR)	0.30	0.31	0.27	0.07
Return on equity				
Before tax	20.33%	27.86%	27.90%	17.14%
After tax	17.54%	23.73%	24.28%	14.63%
Return on assets				
Before tax	2.23%	2.72%	2.71%	1.71%
After tax	1.93%	2.31%	2.36%	1.46%
Capital adequacy ratio	19.20%	18.96%	17.80%	18.79%
Profit margin	51.14%	56.30%	51.06%	33.57%
Loan portfolio to total assets ratio	29.04%	29.95%	38.43%	40.23%
Number of employees	1,037	968	893	1,008

* Since 2015, the Bank has 101,633,700 ordinary shares and 19,020,308 preference shares (2014: 101,633,700 ordinary shares and 13,254,238 preference shares).

Financial results of the Bank

	2015	2014	2013	2012
At year end (EUR'000)				
Total assets	3,785,767	3,475,041	2,920,546	2,332,040
Loans and receivables due from customers	1,151,789	1,087,989	1,175,947	1,002,420
Due to customers	3,231,558	3,107,957	2,579,621	1,757,001
Total shareholder's equity	432,841	323,380	272,201	224,272
For the year (EUR'000)				
Net profit before tax	81,940	83,786	60,705	33,722
Net profit after tax	72,179	71,500	53,544	28,823
Operating income	151,164	146,336	125,544	97,250
Ratios				
Earnings per share (EUR)				
After tax*	0.65	0.66	0.54	0.29
Before tax*	0.75	0.78	0.61	0.34
Dividend per share (EUR)	0.30	0.31	0.27	0.07
Return on equity				
Before tax	21.67%	28.14%	24.45%	16.14%
After tax	19.09%	24.01%	21.57%	13.80%
Return on assets				
Before tax	2.26%	2.62%	2.31%	1.57%
After tax	1.99%	2.24%	2.04%	1.34%
Capital adequacy ratio	19.43%	18.91%	18.49%	19.51%
Profit margin	54.21%	57.26%	48.35%	34.68%
Loan portfolio to total assets ratio	30.42%	31.31%	40.26%	42.98%
Number of employees	769	758	689	654

* Since 2015, the Bank has 101,633,700 ordinary shares and 19,020,308 preference shares (2014: 101,633,700 ordinary shares and 13,254,238 preference shares).

Statement of Management Responsibility

The Management of Rietumu Banka AS (the Bank) is responsible for the preparation of the consolidated financial statements of the Bank and its subsidiaries (the Group) as well as for the preparation of the separate financial statements of the Bank.

The separate and consolidated financial statements on pages 4 to 106 are prepared in accordance with source documents and present fairly the financial position of the Bank and the Group as of 31 December 2015 and the results of their operations and cash flows for the year ended 31 December 2015.

The separate and consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union on a going concern basis. Appropriate accounting policies have been applied on a consistent basis. In the preparation of the financial statements the Management has made prudent and reasonable judgements and estimates.

The Management of Rietumu Banka AS is responsible for the maintenance of proper accounting records, the safeguarding of the Bank's and the Group's assets and the prevention and detection of fraud and other irregularities in the Bank and in the Group. The Management is also responsible for operating the Bank in compliance with the Law on Credit Institutions, regulations of the Finance and Capital Markets Commission and other legislation of the Republic of Latvia.

On behalf of the Management of Rietumu Banka AS:

Chairman of the Board
Alexander Pankov

Member of the Board
Rolf Paul Fuls

24 February 2016

The Council and the Board of Directors

During the year and as of the date of the signing of the financial statements:

The Council of Rietumu Banka

1 January 2015 – 27 March 2015

Name	Position	Date of appointment
Leonids Esterkins	Chairman of the Council	25/09/97 (24/03/14-24/03/17)
Arkadijs Suharenko	Deputy Chairman of the Council	25/09/97 (24/03/14-24/03/17)
Brendan Thomas Murphy	Deputy Chairman of the Council	07/09/05 (24/03/14-24/03/17)
Dermot Fachtna Desmond	Member of the Council	07/09/05 (24/03/14-24/03/17)
Alexander Gafin	Member of the Council	25/03/10 (24/03/14-24/03/17)
Aleksandrs Kalinovskis	Member of the Council	05/11/10 (24/03/14-27/03/15)
Valentins Blugers	Member of the Council	25/03/11 (24/03/14-24/03/17)

27 March 2015 – 31 December 2015

Name	Position	Date of appointment
Leonids Esterkins	Chairman of the Council	25/09/97 (27/03/15-27/03/18)
Arkadijs Suharenko	Deputy Chairman of the Council	25/09/97 (27/03/15-27/03/18)
Brendan Thomas Murphy	Deputy Chairman of the Council	07/09/05 (27/03/15-27/03/18)
Dermot Fachtna Desmond	Member of the Council	07/09/05 (27/03/15-27/03/18)
Alexander Gafin	Member of the Council	25/03/10 (27/03/15-27/03/18)
Valentins Blugers	Member of the Council	25/03/11 (27/03/15-27/03/18)

The Board of Directors

1 January 2015 – 1 June 2015

Name	Position	Date of appointment
Alexander Pankov	Chairman of the Board, President	04/07/06 (04/10/13-04/10/16)
Ruslans Stecjuks	Member of the Board, First Vice President	18/10/10 (04/10/13-04/10/16)
Dmitrijs Piskins	Member of the Board, Senior Vice President	04/07/06 (04/10/13-01/06/15)
Jevgenijs Djugajevs	Member of the Board, Senior Vice President	18/10/10 (04/10/13-04/10/16)
Ilja Suharenko	Member of the Board, Senior Vice President	18/10/10 (04/10/13-04/10/16)
Rolf Paul Fuls	Member of the Board, Senior Vice President	26/11/10 (04/10/13-04/10/16)
Renats Lokomets	Member of the Board, Senior Vice President	10/12/12 (04/10/13-04/10/16)

1 June 2015 – 31 December 2015

Name	Position	Date of appointment
Alexander Pankov	Chairman of the Board, President	04/07/06 (04/10/13-04/10/16)
Ruslans Stecjuks	Member of the Board, First Vice President	18/10/10 (04/10/13-04/10/16)
Jevgenijs Djugajevs	Member of the Board, Senior Vice President	18/10/10 (04/10/13-04/10/16)
Ilja Suharenko	Member of the Board, Senior Vice President	18/10/10 (04/10/13-04/10/16)
Rolf Paul Fuls	Member of the Board, Senior Vice President	26/11/10 (04/10/13-04/10/16)
Renats Lokomets	Member of the Board, Senior Vice President	10/12/12 (04/10/13-04/10/16)

Independent Auditors' Report

KPMG Baltics SIA
Vesetas iela 7
Riga LV 1013, Latvia

Phone +371 670 380 00
Fax +371 670 380 02
www.kpmg.lv

To the shareholders of AS Rietumu Banka

Report on the Separate and Consolidated Financial Statements

We have audited the accompanying separate financial statements of AS Rietumu Banka ("the Bank"), which comprise the separate statement of financial position as at 31 December 2015, the separate statements of profit and loss and other 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 16 to 106. We have also audited the accompanying consolidated financial statements of AS Rietumu Banka and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2015, the consolidated statements of profit and loss and other 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 16 to 106.

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 Banks'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 Bank'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 Bank 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.

Independent Auditors' Report

KPMG

Opinion

In our opinion, the separate financial statements give a true and fair view of the financial position of the AS Rietumu Banka 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 AS Rietumu Banka 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.

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 4 to 9, 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 obtained Statement of corporate governance for the year ended 31 December 2015 prepared by the Bank. In our opinion, the Statement contains information required by Article 56.2 (third paragraph, clause 1) of the Financial Instruments Market Law of the Republic of Latvia.

KPMG Baltics SIA

License No 55

Ondrej Fikrle
Partner pp KPMG Baltics SIA
Riga, Latvia

Valda Užāne
Sworn Auditor
Certificate No 4

24 February 2016

Contents, continued

Separate and Consolidated Statement of Profit or Loss

For the year ended 31 December 2015

	Note	2015 '000 EUR Group	2015 '000 EUR Bank	2014 '000 EUR Group	2014 '000 EUR Bank
Interest income	6	106,489	98,965	97,466	89,350
Interest expense	6	(23,331)	(22,635)	(20,530)	(19,448)
Net interest income		**83,158**	**76,330**	**76,936**	**69,902**
Fee and commission income	7	69,503	69,172	66,203	65,820
Fee and commission expense	8	(25,379)	(25,488)	(20,481)	(20,332)
Net fee and commission income		**44,124**	**43,684**	**45,722**	**45,488**
Net gain/(loss) on financial instruments at fair value through profit or loss	9	(1,141)	(187)	(85)	250
Net foreign exchange gain	10	23,740	24,386	22,077	23,412
Net realised gain on available-for-sale assets	11	458	458	762	762
Share of losses of equity accounted investees (net of income tax)		(1)	-	(19)	-
Other income/(expense)	12	8,398	6,493	9,160	6,522
Operating income		**158,736**	**151,164**	**154,553**	**146,336**
Impairment losses	13	(23,791)	(22,980)	(20,033)	(21,986)
General administrative expenses	14	(53,769)	(46,244)	(47,499)	(40,564)
Profit before income tax		**81,176**	**81,940**	**87,021**	**83,786**
Income tax expense	15	(11,133)	(9,761)	(12,891)	(12,286)
Profit for the period		**70,043**	**72,179**	**74,130**	**71,500**
Attributable to:					
Equity holders of the Bank		**69,415**		**73,125**	
Non-controlling interest		**628**		**1,005**	

The separate and consolidated statement of profit or loss is to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 26–106.

Chairman of the Board
Alexander Pankov

Member of the Board
Rolf Paul Fuls

24 February 2016

Separate and Consolidated Statement of Comprehensive Income

For the year ended 31 December 2015

	Note	2015 '000 EUR Group	2015 '000 EUR Bank	2014 '000 EUR Group	2014 '000 EUR Bank
Profit for the period		**70,043**	**72,179**	**74,130**	**71,500**
Other comprehensive income					
Items that are or may be reclassified to profit or loss					
Foreign currency translation differences for foreign operations		(1,560)	-	3,640	-
Other reserves - net change		3	-	1	-
Available-for-sale financial assets – net change in fair value		28,444	28,191	(6,215)	(6,552)
Related tax	15	(156)	(156)	177	177
		26,731	**28,035**	**(2,397)**	**(6,375)**
Other comprehensive income for the period		**26,731**	**28,035**	**(2,397)**	**(6,375)**
Total comprehensive income for the period		**96,774**	**100,214**	**71,733**	**65,125**
Attributable to:					
Equity holders of the Group		**96,146**		**70,728**	
Non-controlling interest		**628**		**1,005**	

The separate and consolidated statement of comprehensive income is to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 26–106.

Chairman of the Board
Alexander Pankov

Member of the Board
Rolf Paul Fuls

24 February 2016

Separate and Consolidated Statement of Financial Position

As at 31 December 2015

	Note	31 Dec 2015 '000 EUR Group	31 Dec 2015 '000 EUR Bank	31 Dec 2014 '000 EUR Group	31 Dec 2014 '000 EUR Bank
Assets					
Cash and balances with the central bank	16	881,868	881,816	158,574	158,552
Financial instruments at fair value through profit or loss	17	16,439	1,166	11,558	5,141
Loans and receivables due from banks	18	841,210	840,803	1,771,391	1,770,718
Loans and receivables due from customers	19	1,101,772	1,151,789	1,041,444	1,087,989
Reverse repo	37	88,566	88,566	153,235	153,235
Available-for-sale assets	20	484,064	529,789	100,192	144,666
Non-current assets held for sale		50	-	108	-
Held-to-maturity investments	21	220,510	217,901	92,825	89,808
Investments in subsidiaries	22	-	28,882	-	28,854
Equity accounted investees	23	21	-	22	-
Investment property	26	82,968	8,447	76,399	5,406
Property and equipment	24	46,492	8,150	45,045	6,470
Intangible assets	25	4,005	2,910	3,659	2,458
Current tax asset		3,625	3,218	271	-
Deferred tax asset	32	376	-	485	128
Other assets	27	22,187	22,330	22,555	21,616
Total Assets		**3,794,153**	**3,785,767**	**3,477,763**	**3,475,041**

The separate and consolidated statement of financial position is to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 26 to 106.

Separate and Consolidated Statement of Financial Position

As at 31 December 2015

	Note	31 Dec 2015 '000 EUR Group	31 Dec 2015 '000 EUR Bank	31 Dec 2014 '000 EUR Group	31 Dec 2014 '000 EUR Bank
Liabilities and Shareholders' Equity					
Financial instruments at fair value through profit or loss	17	19	19	161	161
Deposits and balances due to banks	28	50,390	49,710	13,196	11,738
Current accounts and deposits due to customers	29	3,203,992	3,231,558	3,082,706	3,107,957
Issued debt securities	30	55,784	56,785	19,498	19,498
Current tax liability		102	-	1,602	1,499
Deferred tax liability	32	3,246	191	2,571	-
Other liabilities and accruals	31	23,751	14,663	16,126	10,808
Total Liabilities		**3,337,284**	**3,352,926**	**3,135,860**	**3,151,661**
Share capital	33	168,916	168,916	160,843	160,843
Share premium	33	52,543	52,543	33,882	33,882
Revaluation reserve	33	1,364	-	1,387	-
Fair value reserve	33	23,252	25,377	(5,036)	(2,658)
Currency translation reserve		(1,517)	-	43	-
Other reserves	33	106	23	104	23
Retained earnings		198,357	185,982	146,405	131,290
Total Equity Attributable to Equity Holders of the Bank		**443,021**	**432,841**	**337,628**	**323,380**
Non-controlling Interest		**13,848**	**-**	**4,275**	**-**
Total Shareholders' Equity		**456,869**	**432,841**	**341,903**	**323,380**
Total Liabilities and Shareholders' Equity		**3,794,153**	**3,785,767**	**3,477,763**	**3,475,041**

The separate and consolidated statement of financial position is to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 26 to 106.

Chairman of the Board
Alexander Pankov

Member of the Board
Rolf Paul Fuls

24 February 2016

Separate and Consolidated Statement of Cash Flows

For the year ended 31 December 2015

	Note	2015 '000 EUR Group	2015 '000 EUR Bank	2014 '000 EUR Group	2014 '000 EUR Bank
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before income tax		81,176	81,940	87,021	83,786
Amortisation and depreciation	24, 25	3,681	1,820	2,930	1,449
(Gain) from sale of investment property		(496)	-	(686)	(443)
Negative goodwill write-off		33	-	-	-
Revaluation of investment property		(744)	(1,626)	598	(619)
Share of loss of equity accounted investees		1	-	19	-
Gain/(Losses) on disposal of property and equipment		24	(75)	(18)	50
Gain/(Losses) on sale of subsidiaries		(171)	-	(1,276)	80
Impairment losses	13	23,791	22,980	20,033	21,985
Increase in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations		**107,295**	**105,039**	**108,621**	**106,288**
(Increase)/Decrease in financial instruments at fair value through profit or loss		(4,881)	3,975	7,092	12,692
(Increase)/Decrease in loans and receivables due from banks – term deposits		197,311	197,311	(91,239)	(93,684)
(Increase)/Decrease in loans and receivables from customers		(81,816)	(84,619)	64,347	73,389
(Increase)/Decrease in receivable under reverse repurchase agreements		64,669	64,669	(2,927)	(2,927)
(Increase) in available-for-sale assets		(355,428)	(356,899)	(29,134)	(41,900)
(Increase)/Decrease in other assets		(4,559)	(5,043)	3,937	(3,723)
(Decrease) in derivative liabilities		(142)	(142)	(454)	(454)
(Decrease) in term deposits due to banks		(2,971)	-	(2,110)	(279)
Increase in current accounts and deposits from customers		120,865	123,086	519,117	528,336
(Increase)/Decrease in non-current assets held for sale		58	-	(107)	-
Increase/(Decrease) in other liabilities and accruals		7,112	3,855	(2,525)	(2,776)
(Increase/(Decrease) in cash and cash equivalents from operating activities before corporate income tax		**47,513**	**51,232**	**574,618**	**574,962**
Corporate income tax paid		(15,303)	(14,315)	(16,001)	(14,495)
Net cash and cash equivalents from operating activities		**32,210**	**36,917**	**558,617**	**560,467**

The separate and consolidated statement of cash flows is to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 26 to 106.

Separate and Consolidated Statement of Cash Flows

For the year ended 31 December 2015

	Note	2015 '000 EUR Group	2015 '000 EUR Bank	2014 '000 EUR Group	2014 '000 EUR Bank
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property and equipment and intangible assets	24, 25	(2,588)	(1,722)	(5,512)	(2,720)
Proceeds from sale of property, plant and equipment and other assets		160	-	88	-
(Increase) in equity investments in other entities and acquisition of subsidiaries		(1,291)	(48)	(2,313)	(5,941)
(Acquisition)/sale of investment property	26	(4,567)	(1,415)	1,363	1,106
Proceeds from sales of investment property		2,625	-	-	-
Proceeds from sale of subsidiaries		-	-	2,884	648
(Increase) in held-to-maturity financial assets		(127,685)	(128,093)	(64,247)	(61,230)
Sale of non-controlling interest (Note 44)		9,584	-	2,310	-
Cash and cash equivalents used in / from investing activities		**(123,762)**	**(131,278)**	**(65,427)**	**(68,137)**

The separate and consolidated statement of cash flows is to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 26 to 106.

Separate and Consolidated Statement of Cash Flows

For the year ended 31 December 2015

	Note	2015 '000 EUR Group	2015 '000 EUR Bank	2014 '000 EUR Group	2014 '000 EUR Bank
CASH FLOWS FROM FINANCING ACTIVITIES					
Shares issued		8,073	8,073	18,556	18,556
Share premium		18,661	18,661	27,039	27,039
Payment of other reserves		-	-	(14,228)	(14,228)
Decrease in other reserves		2	-	-	-
Issued debt securities		36,286	37,287	1,024	1,024
Dividends paid		(18,075)	(17,487)	(45,971)	(45,313)
Cash and cash equivalents used in/from financing activities		**44,947**	**46,534**	**(13,580)**	**(12,922)**
Net cash flow for the period		**(46,605)**	**(47,827)**	**479,610**	**479,408**
Cash and cash equivalents at the beginning of the year		**1,698,340**	**1,699,103**	**1,218,730**	**1,219,695**
Cash and cash equivalents at the end of the year	34	**1,651,735**	**1,651,276**	**1,698,340**	**1,699,103**

The separate and consolidated statement of cash flows is to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 26 to 106.

Chairman of the Board
Alexander Pankov

Member of the Board
Rolf Paul Fuls

24 February 2016

Group Consolidated Statement of Changes in the Shareholders' Equity

For the year ended 31 December 2015
Attributable to Equity Holders of the Bank

	Share capital '000 EUR	Share premium '000 EUR	Revaluation reserve '000 EUR	Fair value reserve '000 EUR	Foreign currency translation reserve '000 EUR	Other reserves '000 EUR	Retained earnings '000 EUR	Total '000 EUR	Non-controlling interest '000 EUR	Total Equity '000 EUR
Balance at 1 January 2014	**142,287**	**6,843**	**2,217**	**1,002**	**(3,597)**	**14,331**	**117,763**	**280,846**	**2,024**	**282,870**
Transactions with shareholders recorded directly in equity										
Dividends paid	-	-	-	-	-	-	(45,313)	(45,313)	-	(45,313)
Preference share issued (Note 33)	18,556	-	-	-	-	-	-	18,556	-	18,556
Share premium received (Note 33)	-	27,039	-	-	-	-	-	27,039	-	27,039
Payment of other reserves	-	-	-	-	-	(14,228)	-	(14,228)	-	(14,228)
Transactions with non-controlling interest										
Dividends paid to non-controlling interest shareholders	-	-	-	-	-	-	-	-	(659)	(659)
Change in ownership interests										
Loss of control in subsidiaries	-	-	(756)	-	-	-	756	-	(405)	(405)
Transactions with thirds parties related to units of funds controlled by Group	-	-	-	-	-	-	-	-	2,310	2,310
Total comprehensive income										
Profit for the current year	-	-	-	-	-	-	73,125	73,125	1,005	74,130
Other comprehensive income	-	-	-	(6,038)	3,640	1	-	(2,397)	-	(2,397)
Other										
Sale of revalued property	-	-	(50)	-	-	-	50	-	-	-
Depreciation of revalued property	-	-	(24)	-	-	-	24	-	-	-
Balance at 31 December 2014	**160,843**	**33,882**	**1,387**	**(5,036)**	**43**	**104**	**146,405**	**337,628**	**4,275**	**341,903**

The Group consolidated statement of changes in the shareholders' equity is to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 26 to 106.

Group Consolidated Statement of Changes in the Shareholders' Equity

For the year ended 31 December 2015
Attributable to Equity Holders of the Bank

	Share capital '000 EUR	Share premium '000 EUR	Revaluation reserve '000 EUR	Fair value reserve '000 EUR	Foreign currency translation reserve '000 EUR	Other reserves '000 EUR	Retained earnings '000 EUR	Total '000 EUR	Non-controlling interest '000 EUR	Total Equity '000 EUR
Balance at 1 January 2015	**160,843**	**33,882**	**1,387**	**(5,036)**	**43**	**104**	**146,405**	**337,628**	**4,275**	**341,903**
Transactions with shareholders recorded directly in equity										
Dividends paid	-	-	-	-	-	-	(17,487)	(17,487)	-	(17,487)
Preference share issued (Note 33)	8,073	-	-	-	-	-	-	8,073	-	8,073
Share premium received (Note 33)	-	18,661	-	-	-	-	-	18,661	-	18,661
Transactions with non-controlling interest										
Dividends paid to non-controlling interest shareholders	-	-	-	-	-	-	-	-	(588)	(588)
Transactions with thirds parties related to units of funds controlled by Group (Note 44)	-	-	-	-	-	-	-	-	9,584	9,584
Change in ownership interests										
Purchase of subsidiaries with non-controlling interest (Note 46)	-	-	-	-	-	-	-	-	(51)	(51)
Total comprehensive income										
Profit for the current year	-	-	-	-	-	-	69,415	69,415	628	70,043
Other comprehensive income	-	-	-	28,288	(1,560)	3	-	26,731	-	26,731
Other										
Depreciation of revalued property	-	-	(24)	-	-	-	24	-	-	-
Other reserve transfer	-	-	1	-	-	(1)	-	-	-	-
Balance at 31 December 2015	**168,916**	**52,543**	**1,364**	**23,252**	**(1,517)**	**106**	**198,357**	**443,021**	**13,848**	**456,869**

The Group consolidated statement of changes in the shareholders' equity is to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 26 to 106.

Chairman of the Board
Alexander Pankov

Member of the Board
Rolf Paul Fuls

24 February 2016

Bank's Separate Statement of Changes in Shareholders' Equity

For the year ended 31 December 2015

	Share capital '000 EUR	Share premium '000 EUR	Revaluation reserve '000 EUR	Fair value reserve '000 EUR	Other reserves '000 EUR	Retained earnings '000 EUR	Total equity '000 EUR
Balance at 1 January 2014	**142,287**	**6,843**	**-**	**3,717**	**14,251**	**105,103**	**272,201**
Transactions with shareholders recorded directly in equity							
Dividends paid	-	-	-	-	-	(45,313)	**(45,313)**
Payment of reserves	-	-	-	-	(14,228)	-	**(14,228)**
Preference share issued (Note 33)	18,556	-	-	-	-	-	**18,556**
Share premium received (Note 33)	-	27,039	-	-	-	-	**27,039**
Total comprehensive income							
Profit for the period	-	-	-	-	-	71,500	**71,500**
Other comprehensive income	-	-	-	(6,375)	-	-	**(6,375)**
Balance at 31 December 2014	**160,843**	**33,882**	**-**	**(2,658)**	**23**	**131,290**	**323,380**
Transactions with shareholders recorded directly in equity							
Dividends paid	-	-	-	-	-	(17,487)	**(17,487)**
Preference share issued (Note 33)	8,073	-	-	-	-	-	**8,073**
Share premium received (Note 33)	-	18,661	-	-	-	-	**18,661**
Total comprehensive income							
Profit for the period	-	-	-	-	-	72,179	**72,179**
Other comprehensive income	-	-	-	28,035	-	-	**28,035**
Balance at 31 December 2015	**168,916**	**52,543**	**-**	**25,377**	**23**	**185,982**	**432,841**

The Bank's separate statement of changes in shareholders' equity is to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 26 to 106.

Chairman of the Board
Alexander Pankov

Member of the Board
Rolf Paul Fuls

24 February 2016

1 | Background

Principal activities

These separate and consolidated financial statements include the financial These separate and consolidated financial statements include the financial statements of JSC "Rietumu Banka" (the "Bank") and its subsidiaries (together referred to as the "Group").

JSC "Rietumu Banka" was established in the Republic of Latvia as a Joint Stock Company and was granted it's general banking license in 1992. The principal activities of the Bank are deposit taking and customer accounts maintenance, lending, issuing guarantees, cash and settlement operations and operations with securities and foreign exchange. The activities of the Bank are regulated by the Bank of Latvia and the Financial and Capital Market Commission ("FCMC") of the Republic of Latvia. The registered address of the Bank's head office is Vesetas Street 7, Riga, Latvia. The average number of people employed by the Group during the year was 1,037 (2014: 968) and by the Bank 769 (2014: 758).

Principal subsidiaries of the Group

(total assets exceeds of EUR 5,000 thousand)

Name	Country of incorporation	Principal activities	Ownership %	
			31 Dec 2015	31 Dec 2014
RB Securities Ltd	Stasinou Str.1, Mitsi Building 1, 2nd floor, Flat/office 5, Plateia Eleftherias, P.C.1060, Nicosia, Cyprus	Financial services	99.99%	99.99%
RB Investments Ltd	Vesetas Str.7, Riga, Latvia	Investments	100%	100%
Rietumu Leasing Ltd	Odoevskogo Str.117, 6th floor, office 9, Minsk Belarus	Leasing company	100%	100%
RB Opportunity Fund I	Vesetas Str.7, Riga, Latvia	Investments	100%	100%
Vesetas 7 Ltd	Vesetas Str.7, Riga, Latvia	Real estate operating	100%	100%
Overseas Estates Ltd	Vesetas Str.7, Riga, Latvia	Terminal	100%	100%
M 322 Ltd	Vesetas Str.7, Riga, Latvia	Real estate operating	100%	100%
InCREDIT GROUP Ltd	Krisjana Barona Str.130, Riga, Latvia	Customer lending	51%	51%
KI Nekustamie ipasumi Ltd	Vesetas Str.7, Riga, Latvia	Real estate operating	100%	100%
KI Zeme Ltd	Vesetas Str.7, Riga, Latvia	Real estate operating	100%	100%
Devindesmit sesi Ltd	Juras str. 56, Jurmala, Latvia	Hotel	100%	100%
RAM Fund-Fixed Income High Yield USD	Vesetas Str.7, Riga, Latvia	Investments	57.90%	91.44%
RAM Fund-Fixed Income Investment Grade USD	Vesetas Str.7, Riga, Latvia	Investments	35.58%	68.68%

Basis of preparation | 2

(A) Statement of compliance

The accompanying separate and consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("EU IFRS"), and regulations of the Financial and Capital Market Commission of the Republic of Latvia (the 'FCMC') in force as at the reporting date.

The Board of Directors signed these separate and consolidated financial statements, and submitted for shareholders' approval on the shareholders meeting on 30 March 2016.

(B) Basis of measurement

The separate and consolidated financial statements are prepared on the historical cost basis except for the following:

- financial instruments at fair value through profit or loss are stated at fair value;
- available-for-sale assets are stated at fair value;
- non-current assets held for sale;
- owner occupied buildings which are stated at revalued amounts being the fair value at the date of valuation less subsequent accumulated depreciation and accumulated impairment losses;
- investment property which is stated at fair value.

(C) Functional and Presentation Currency

These financial statements are presented in thousands of euro (EUR 000's).

The functional currencies of the Bank and principal subsidiaries of the Bank are EUR, except for the principal subsidiaries listed below:

RB Securities Ltd	USD (US dollar)
Rietumu Asset Management funds	USD (US dollar)
Rietumu Leasing Ltd	BYR (Belarus rouble)

Significant accounting policies | 3

The following significant accounting policies have been applied in the preparation of these separate and consolidated financial statements. The accounting policies have been consistently applied to all periods presented in these financial statements, except for the change in accounting policies described in Note 3(T).

(A) Foreign currency

(I) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of the Bank and its subsidiary companies at the spot exchange rate on the date of the transaction as determined by the respective Central Bank of the respective country in which each entity operates.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Non-monetary assets and liabilities denominated in foreign currencies that are measured at cost are translated into the functional currency at the spot exchange rate at the date of transaction. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, which are recognised in equity through other comprehensive income.

(II) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into the presentation currency of the Group at exchange rates set by the European Central Bank at the reporting date. The income and expenses of foreign operations are translated into the presentation currency of the Group at average exchange rate for the reporting period. Foreign currency differences are recognised in other comprehensive income and accumulated in a currency translation reserve, except that the translation difference is allocated to non-controlling interest. Upon disposal of subsidiary, the balance of currency translation reserve is reclassified to profit and loss.

3 Significant accounting policies, continued

(III) Foreign exchange rates

	31 Dec 2015	31 Dec 2014
USD	1.0887	1.2141
BYR	20,300.00	13,310.60
RUB	80.6736	72.3370

On 1 January 2014 the Republic of Latvia joined the euro-zone and the Latvian Lat was replaced by the euro. As a result, the Group and the Bank converted its financial accounting to euros as from 1 January 2014.

(B) Basis of consolidation

(I) Subsidiaries

Subsidiaries are those enterprises controlled by the Group. The Group controls an entity when it is exposed to, or has right to, variable returns from its involvement with the entity and has ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

(II) Equity accounted investees

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50% of the voting power of associated entity. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the Group's share of losses exceeds the Group's interest in the associate, that interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

(III) Transactions eliminated on consolidation

Intra-Group balances and transactions, and any unrealised gains arising from intra-Group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

(IV) Non –controlling interest

The Group measures any non-controlling interest at its proportionate interest in the identifiable net assets of the acquiree.

(V) Investment in subsidiaries and associates in Bank's separate financial statements

Investments in subsidiaries and associates are measured in Bank's separate financial statements at cost less impairment allowance.

(VI) Assets management

The Bank and the Group hold assets which are purchased on behalf of investors. The assets held on behalf of investors are not included in the separate and consolidated financial statements except the assets held in trust.

(C) Goodwill

Goodwill represents the excess of the cost of a business combination over the Bank's or the Group's interest in the fair value of the net identifiable assets and contingent liabilities of the acquiree at the date of acquisition.

The Bank and the Group measure goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. Goodwill is included in intangible assets.

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 goodwill might be impaired and is measured at cost less accumulated impairment losses. Cash generating units for goodwill impairment testing are: payment card business and investment properties management on subsidiary level. Gains and losses on the disposal of a business include the carrying amount of goodwill relating to assets sold.

Negative goodwill arising on business combination is recognised immediately in profit or loss.

(D) Fair value measurement principles

A number of the Bank's and Group's accounting policies and disclosures require the determination of fair value for both financial and non-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 in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Fair values have been determined for measurement and/or disclosure purposes based on the following methods. In addition, when applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Significant accounting policies, continued | 3

(I) Financial assets and liabilities

When available, the Bank and the Group measure the fair value of a financial instrument using quoted prices in an active market for that financial instrument. A market is regarded as active if transactions with the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If a market for a financial instrument is not active, the Bank and the Group establish fair value using a valuation technique. Valuation techniques' assumptions are based on recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the relevant financial instrument, incorporates all factors that market participants would consider in setting the price, and is consistent with accepted economic methodologies for pricing financial instruments.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Bank and the Group have positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk.

(II) Investment property and owner occupied buildings

The fair value of property is based on internal valuations performed by the Bank and the Group that are, on a regular basis (once per year or when market conditions significantly change), corroborated with external, independent valuations prepared by valuation companies, having appropriate professional qualifications and recent experience in the location and category of property being valued. The fair values are based on market values, being the estimated amount for which property could be exchanged on the date of the valuation between willing buyer and a willing seller in an arm's length transaction after proper marketing where the parties had each acted knowledgeably and willingly. In the year when property is obtained, purchase price could be accepted as fair value.

In the absence of current prices in an active market, the valuations are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property. A yield that reflects the specific risks inherent in the net cash flows then is applied to the net annual cash flows to arrive at the property valuation.

Valuations reflect, when appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation, the allocation of maintenance and insurance responsibilities between the Group and the lessee, and remaining economic life of the property. When rent reviews or lease renewals are pending with anticipated reversionary increases, it is assumed that all notices, and when appropriate counter-notices, have been served validly and within the appropriate time.

(III) Intangible assets

The fair value of licenses acquired in a business combination is based on the discounted estimated cash flows from the business activity subject to the license. The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earning method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the rated flows.

(E) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank and the Group in the management of their short-term commitments, less balances due to credit institutions with a maturity of less than 3 months.

(F) Financial instruments

(I) Classification

Financial instruments are classified into the following categories:

Financial instruments at fair value through profit or loss are financial assets or liabilities that are derivatives or are acquired or incurred principally for the purpose of selling or repurchasing in the near term, or that are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking or that are designated to this category at initial recognition. The Bank and the Group designate financial assets and liabilities at fair value through profit or loss in the following circumstances:

- The assets or liabilities are managed, evaluated and reported internally on a fair value basis
- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise
- The asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank and the Group have the positive intention and ability to hold to maturity.

Available-for-sale assets are those financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

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

Loans and receivables include regular loans, credit card balances and finance lease.

Liabilities at amortized cost include deposits and balances due to banks, current accounts and deposits from customers and issued debt securities.

3 Significant accounting policies, continued

(II) Initial recognition

The Bank and the Group initially recognise loans and receivables, deposits and debt securities issued on the date at which they are originated. All other financial assets and liabilities are recognised in the statement of financial position on the trade date when the Bank and the Group become a party to the contractual provisions of the instrument.

(III) Measurement

A financial asset or liability is initially measured at its fair value and, except for a financial asset or liability at fair value through profit or loss, includes transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions with the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in the profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Subsequent to initial recognition, financial assets other than loans and receivables, held to maturity investments, equity investments carried at cost and financial liabilities at amortised cost, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal.

All held to maturity investments, loans and receivables and financial liabilities at amortised cost and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost. Amortised cost is calculated using the effective interest method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

(IV) Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognised as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in profit or loss;
- a gain or loss on an available-for-sale financial asset is recognised in fair value reserve through other comprehensive income (except for impairment losses and foreign exchange gains or losses on monetary assets) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss. Interest in relation to an available-for-sale financial asset is recognised as earned in profit or loss calculated using the effective interest method.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in profit or loss when the financial asset or liability is derecognised including the instances where the terms change substantially or impaired, and through the unwinding of interest using the effective interest rate method.

(V) Derecognition

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or when the Bank and the Group transfer substantially all of the risks and rewards of ownership of the financial asset or when the Bank and the Group neither transfer, nor retain substantially all risks and rewards of ownership but does not retain control of the financial asset. Any interest in transferred financial assets that qualifies for derecognition that is created or retained by the Bank and the Group is recognised as a separate asset or liability. A financial liability is derecognised when it is extinguished.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (I) the consideration received (including any new asset obtained less any new liability assumed) and (II) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

(VI) Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase (“repo”) agreements are accounted for as secured financing transactions, with the securities retained in the statement of financial position and the counterparty liability included in amounts payable under “repo” transactions.

The difference between the sale and repurchase price represents the interest expense and is recognised in profit or loss over the term of the “repo” agreement using the effective interest method.

Securities purchased under agreements to resell (“reverse repo”) are recorded as amounts receivable under “reverse repo” transactions. The differences between the purchase and resale prices are treated as interest income and accrued over the term of the “reverse repo” agreement using the effective interest method.

If assets purchased under agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

(VII) Derivative financial instruments

Derivative financial instruments include swaps, forwards, futures, and options in interest rate, foreign exchange, precious metals and stock markets, and any combinations of these instruments. The Bank and the Group classify all derivative financial instruments as financial instruments at fair value through profit and loss.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Derivatives may be embedded in another contractual arrangement (a “host contract”). The Bank and the Group account for an embedded derivative separately from the host contract when the host contract is not itself carried at fair value through profit or loss, the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract, and the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

(VIII) Offsetting

Financial assets and liabilities are offset and the net amount reported when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Significant accounting policies, continued | 3

(G) Leases

The lease of property and equipment is classified as a finance lease if it transfers substantially all risks and rewards of ownership to the lessee. Title does not have to be transferred. All other leases are classified as operating leases.

The Company as lessor

Assets leased out under operating lease are carried in the statement of financial position analogously to property, plant and equipment or investment property. Income is recognised on a straight-line basis over each lease term. Other payments associated with the lease are recognised in profit or loss as a component other income.

When assets are held subject to finance lease, the present value of the minimum lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable before impairment allowance is recognised as unearned finance income.

The Company as lessee

Operating lease payments are recognised in profit or loss on a straight-line basis over the lease term.

Assets acquired under finance leases include equipment. Asset acquired by way of finance lease is initially measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease plus initial direct costs of the lessee. Subsequent to initial recognition, these are measured at cost less accumulated depreciation and impairment losses.

(H) Property and equipment

(I) Owned assets

Items of property and equipment are carried at cost less accumulated depreciation, less accumulated impairment losses, except for land and buildings which are carried at revalued amounts as described below. Cost is the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire an asset at the time of its acquisition or construction. The cost includes expenditures that are directly attributable to the acquisition of the asset.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

(II) Revaluation

Land and buildings of the Bank and the Group are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the land and buildings being revalued. A revaluation increase on an item of land and building is recognised in equity through other comprehensive income except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss.

A reduction in the value on an item of land or buildings is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised in other comprehensive income, in which case it is recognised in other comprehensive income.

(III) Depreciation

Depreciation is charged to the statement of profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date when the asset becomes available for use or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. Depreciation methods, useful lives and residual values are reviewed annually. The estimated useful lives are as follows:

Buildings	50 years
Equipment	2.5 to 4 years
Furniture	8 years
Vehicles	2.5 to 5 years

(I) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business or services or for administrative purposes. Investment property is measured at fair value with any change therein recognised in profit or loss in other operating income.

(J) Repossessed collateral

If the borrower fails to fulfil the contractual obligations, the Bank may decide that the loan agreement will be terminated and that the right to collateral pledged as security, will be exercised. According to Latvian law, the Bank and the Group cannot assume formal title of the asset pledge, but can initiate the sale, proceeds of which will be used to repay or partly repay the outstanding loan receivable. As the Bank and the Group are assuming the de facto title to the asset, and retain no contractual obligation to the original borrower, the Bank and the Group classify the asset as other assets. The repossessed collateral is measured at its fair value based on external valuation prepared by independent valuator.

If the collateral is property and title has been transferred to the Bank and the Group, the assets are shown as investment property.

(K) Intangible assets

Intangible assets, which are acquired by the Bank and the Group, are stated at cost less accumulated amortisation and impairment losses. Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Amortisation is charged to the statement of profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are 5 to 7 years.

(L) Impairment

(I) Financial assets

At each reporting date the Bank and the Group assess whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Bank and the Group on terms that the Bank and the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

3 | Significant accounting policies, continued

Significant loans and receivables due from customers, except for lease contracts, and held-to-maturity investment securities are assessed individually for impairment indication and specific impairment allowance is established if necessary.

All loans and receivables for which no objective evidence of impairment is identified on an individual basis are grouped into sub-portfolios with similar credit risk characteristics according to the Bank's and the Group's internal loan portfolio rating procedure and a collective impairment allowance is assessed using statistical modelling of historical trends of the probability of default and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses and recoveries are recognised monthly based on regular loan reviews and are recognised in profit or loss.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables or held to maturity financial investments. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss. If the impaired financial asset is derecognised (due to repossessing of collateral (see Note 3J) or restructuring (see Note 19), the related impairment allowance is written off.

Impairment losses on available-for-sale assets are recognised by transferring the cumulative loss that has been recognised in fair value reserve through other comprehensive income to profit or loss. The cumulative loss that is removed from fair value reserve and recognised in profit and loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss.

If, in a subsequent period, the fair value of an impaired available-for-sale bond 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. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(II) Non-financial assets

The carrying amounts of the Bank's and the Group's non-financial assets, other than investment property and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. The recoverable amount of goodwill is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis. The cash-generating units for non-financial assets impairment testing are payment card business and non-banking activities on individual subsidiaries level.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(M) Provisions

A provision is recognised when the Bank and the Group have a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits, which can be estimated reliably, will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(N) Credit related commitments

In the normal course of business, the Bank and the Group enter into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees.

Financial guarantees are contracts that require the Bank and the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably. Financial guarantee liabilities and provisions for other credit related commitments are included within other liabilities.

(O) Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or directly in equity respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future.

Significant accounting policies, continued | 3

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(P) Income and expense recognition

(I) Interest income and expense

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability. When calculating the effective interest rate, the Bank and the Group estimate future cash flows considering all contractual terms of the financial instruments, but not future credit losses.

Fees and commission income and expenses that are integral part to the effective interest rate on financial assets and liabilities are included in the measurement of the effective interest rate.

(II) Fee and commission income and expense

Fee and commission income, including mainly account servicing fees, investment management fees and credit card servicing fees, are recognised as the related services are provided. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fee and commission expenses relate mainly to transaction and service fees, which are expressed as the services are receives.

(III) Net gain/loss on financial instrument at fair value through profit or loss

Net gain/loss on financial instrument at fair value through profit or loss comprises gains less losses related to trading assets and liabilities and derivatives held for risk management purposes, and includes realised and unrealised fair value changes and foreign exchange differences.

(Q) Dividends

The Bank and the Group receive dividends from the equity instruments that are recorded to income when the right to receive payment is established. Proposed dividends are recognised in the financial statements only when approved by shareholders.

(R) Employee benefits

Short term employee benefits, including salaries and social security contributions, bonuses and vacation benefits are included in general administrative expenses. The Bank and The Group pay fixed security contributions to the State Social Fund on behalf of its employees during the employment period in accordance with local legal requirements.

(S) Non-current assets held for sale

Non-current assets that are expected to be recovered primarily through sale or distribution rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets are remeasured in accordance with Group's and Bank's accounting policies. Thereafter the assets are measured at the lower of their carrying amount and fair value less cost to sell. Impairment losses on initial classification as non-current assets held for sale and subsequent gains and losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Once classified as held for sale, assets are no longer depreciated.

(T) Changes in accounting policies

Except for the changes below, the Group has consistently applied the accounting policies set out in Note 3 to all periods presented in these separate and consolidated financial statements.

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 following guidance with effective date of 1 January 2015 did not have any impact on these consolidated financial statements:

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

(U) New standards and interpretations

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these separate and consolidated financial statements. Those which may be relevant to the Bank and/or the Group are set out below. The Bank and/or the Group do not plan to adopt these standards early.

(I) 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.

The Bank and/or the Group is not a party to any joint arrangements.

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

The Amendments to include the five, narrow-focus improvements to the disclosure requirements contained in the standard.

The Bank and/or 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.

3 | Significant accounting policies, continued

(III) 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 Bank and/or the Group's financial statements, as the Bank and/or the Group do not apply revenue-based methods of amortisation/depreciation.

(IV) 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 Bank and/or the Group do not expect that the amendments, when initially applied, will have material impact on the financial statements as the Group has no bearer plants.

(V) 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 Bank and/or the Group do 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.

(VI) 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 Bank and/or the Group do not expect that the amendments, when initially applied, will have a material impact on the financial statements as the Bank and/or the Group intend to continue to carry its investments in subsidiaries, associates or joint ventures at cost.

(VII) 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 separate and consolidated financial statements of the Bank and/or the Group.

Risk management | 4

The Bank and the Group have exposure to the following risks:

- market risk
- credit risk
- liquidity risks

This note presents information about the Bank's and the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk.

(A) Risk management policies and procedures

The Bank's and the Group's risk management policies aim to identify, analyse and manage the risks faced by the Bank and the Group, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Board of Directors of the Bank has overall responsibility for the oversight of the risk management framework for the Bank and the Group, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Board of Directors of the Bank is responsible for monitoring and implementation of risk mitigation measures and making sure that the Bank and the Group operate within the established risk parameters. Chief risk officer of the Bank is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the president of the Bank and indirectly to the Board.

Credit, market and liquidity risks both at portfolio and transactional levels are managed and controlled through a system of Credit Committees and an Asset and Liability Committee.

Both external and internal risk factors are identified and managed throughout the Bank's and the Group's organisational structure. Apart from the standard credit and market risk analysis, the Risk Management Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

(B) Market risks

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect the Bank's and the Group's income or the value of its portfolios. Market risks comprise currency risk, interest rate risk and other price risk. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising the return on risk.

Overall authority for market risk is vested in the Asset and Liability Committee (ALCO), chaired by the Chairman of the Board of Directors. Market risk limits are approved by ALCO based on recommendations of the Risk Management Department's Financial Risk Management Group.

The Bank and the Group manage their market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions and stop-loss limits, which are monitored on a regular basis and reviewed and approved by the Board of Directors.

In addition, the Bank and the Group use a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Bank and the Group's overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by the Bank and the Group include: risk factor stress testing, where stress movements are applied to each risk category and ad hoc stress testing, which includes applying possible stress events to specific positions.

The management of interest rate risk by monitoring interest rate gap is supplemented by monitoring the sensitivity of the Bank's and the Group's net interest margin to various standard and non-standard interest rate scenarios.

(I) Interest rate risk

Interest rate risk is the risk that movements in interest rates will affect the Bank's and the Group's income or the value of its portfolios of financial instruments.

The Bank and the Group are exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements arise. For further analysis of interest repricing refer to Note 42 Interest rate risk analysis.

An analysis of sensitivity of the net income for the year to changes of market interest rate impacting the interest income on variable interest rate financial instrument and the fair value of fixed interest rate financial instruments measured at fair value based on a scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves, all other variables remaining constant, is as follows:

Group	2015		2014	
'000 EUR	Profit for the period	Other comprehensive income	Profit for the period	Other comprehensive income
100bp parallel increase	5,082	-	7,622	-
100bp parallel decrease	(5,082)	-	(7,622)	-

Bank	2015		2014	
'000 EUR	Profit for the period	Other comprehensive income	Profit for the period	Other comprehensive income
100bp parallel increase	5,746	-	8,112	-
100bp parallel decrease	(5,746)	-	(8,112)	-

4 Risk management, continued

(II) Currency risk

The Bank and the Group have assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. For further information on the Bank's and the Group's exposure to currency risk at year-end refer to Note 41 Currency analysis.

An analysis of sensitivity of the Bank's and the Group's net income and other comprehensive income for the year to changes in the foreign currency exchange rates based on positions existing as at 31 December 2015 and 2014 and a scenario of a 5% change in USD to EUR exchange rates, while the other variable remain constant, is as follows:

Group	2015		2014	
'000 EUR	Profit for the period	Other comprehensive income	Profit for the period	Other comprehensive income
5% appreciation of USD against EUR	(1,106)	10	(350)	12
5% depreciation of USD against EUR	1,106	(10)	350	(12)

Bank	2015		2014	
'000 EUR	Profit for the period	Other comprehensive income	Profit for the period	Other comprehensive income
5% appreciation of USD against EUR	(219)	693	(1,153)	633
5% depreciation of USD against EUR	219	(693)	1,153	(633)

(III) Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when the Bank and the Group take a long or short position in a financial instrument.

An analysis of sensitivity of the Bank's and the Group's net income for the year and equity to changes in securities prices based on positions existing as at 31 December 2015 and 2014 and a scenario of a 5% change in all securities prices, while the other variables remain constant, is as follows:

Group	2015		2014	
'000 EUR	Profit for the period	Other comprehensive income	Profit for the period	Other comprehensive income
5% increase in securities prices	774	24,203	541	5,010
5% decrease in securities prices	(774)	(24,203)	(541)	(5,010)

Bank	2015		2014	
'000 EUR	Profit for the period	Other comprehensive income	Profit for the period	Other comprehensive income
5% increase in securities prices	9	26,489	220	7,233
5% decrease in securities prices	(9)	(26,489)	(220)	(7,233)

Risk management, continued | 4

(C) Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Bank and the Group. The Bank and the Group have developed policies and procedures for the management of credit exposures, including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors the Group's credit risk. The Group's credit policy is reviewed and approved by the Board of Directors.

The Bank's and the Group's credit policies establish:

- Procedures for review and approval of loan/credit applications;
- Methodology for the credit assessment of borrowers (corporate, SME and retail)
- Methodology for the credit assessment of counterparties, issuers and insurance companies;
- Methodology for the evaluation of collateral;
- Credit documentation requirements;
- Procedures for the ongoing monitoring of loans and other credit exposures.

Corporate loan/credit applications are originated by the relevant client managers and are then passed on to the Lending and Investment Department, which is responsible for the Group's corporate loan portfolio. Reports produced by the department's credit analysts are based on a structured analysis focusing on the customer's business and financial performance. The Risk Management Department's Loan Analysis Division then independently reviews the loan/credit application and the report and a second opinion is given accompanied by a check that credit policy requirements have been met. The Credit Committee reviews the loan application on the basis of submissions by the Lending and Investment Department and the Risk Management Department. Individual transactions are also reviewed by the Bank's Legal and Accounting departments depending on the specific risks and pending final approval of the Credit Committee.

The Bank and the Group continuously monitor the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank or the Group. Either independent appraisal companies or the Bank's and the Group's specialists regularly assess the current market value of collateral, and in the event of negative movements in market prices the borrower is usually requested to put up additional security.

The Bank's Latvian Projects' Lending division of Lending and Investment Department through the use of scoring models and application data verification procedures developed together with the Risk Management Department reviews retail loan applications.

Apart from individual customer analysis, the whole credit portfolio is assessed by the Risk Management Department with regard to credit concentration and market risks. The Bank and the Group monitors concentrations of credit risk by industry/sector and by geographic location. For the analysis of concentration of credit risk in respect of Loans and receivables from customers refer to Note 19 "Loans and receivables due from customers".

The Bank's and the Group's maximum exposure to credit risk is set out below. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

Maximum credit risk exposure		**Gross maximum credit exposure**			
	Notes	**Group**	**Bank**	**Group**	**Bank**
31 December EUR'000		**2015**	**2015**	**2014**	**2014**
Cash and balances with the central bank	16	881,868	881,816	158,574	158,552
Loans and receivables due from banks	18	841,210	840,803	1,771,391	1,770,718
Loans and receivables due from customers, gross	19	1,197,530	1,243,437	1,131,715	1,174,802
Reverse repo	37	88,566	88,566	153,235	153,235
Financial instruments at fair value through profit or loss	17	15,846	964	10,898	4,481
Available-for-sale financial assets	20	456,102	456,102	99,478	99,478
Held-to-maturity investments	21	220,510	217,901	92,825	89,808
Total financial assets		**3,701,632**	**3,729,589**	**3,418,116**	**3,451,074**
Guarantees and letters of credit	35	9,779	9,779	17,493	17,493
Credit card commitments	35	9,027	9,028	9,503	9,504
Undrawn overdraft facilities	35	11,435	11,435	15,153	15,153
Loan and credit line commitments	35	14,396	18,515	32,400	38,184
Total guarantees and commitments		**44,637**	**48,757**	**74,549**	**80,334**
Total maximum credit risk exposure		**3,746,269**	**3,778,346**	**3,492,665**	**3,531,408**

4 Risk management, continued

(D) Liquidity risk

Liquidity risk is the risk that the Bank and the Group will encounter difficulty in raising funds to meet its commitments. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions, including the Bank and the Group. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Bank and the Group maintain liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due. The Bank's and the Group's liquidity policies are reviewed and approved by the Board of Directors of the Bank.

The Bank and the Group seek to actively support a diversified and stable funding base comprising debt securities in issue, long-term and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policies of the Bank and the Group require:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources;
- managing the concentration and profile of debts;
- maintaining debt financing plans;
- maintaining a portfolio of highly marketable assets that can easily be traded as protection against any interruption to cash flow;
- maintaining liquidity and funding contingency plans;
- monitoring balance sheet liquidity ratios against regulatory requirements.

The Treasury Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans and receivables from banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank and the Group as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department. Under normal market conditions, liquidity reports covering the liquidity position of the Bank and the Group are presented to senior management on a daily basis. Decisions on the Bank's and the Group's liquidity management are made by the Asset and Liability Management Committee and implemented by the Treasury Department.

The process of the Bank's liquidity management includes assessment and analysis of banking financing sources. A significant source of funding is customer demand deposits, most of which are current accounts. These funds are considered to be open-ended, i.e. they have no contractual maturity and are available to customers without any restrictions on withdrawals. Experience of the Bank and conducted statistical analysis, applied on historical data of changes on current account and card account balances, make it possible to estimate the effective maturity of such funds remaining in the accounts of the bank. The following table provides a breakdown of demand deposits based on the time of their presence in the account, which does not exceed 5 years.

Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. Both the interest and principal cash flows should be included in the analysis as this best represents the liquidity risk being faced by the entity.

Risk management, continued | 4

The Group

Analysis of financial liabilities' undiscounted cash flows based on effective maturity as at 31 December 2015:

	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Total gross amount outflow/(inflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances due to banks	50,390	-	-	-	-	**50,390**	**50,390**
Current accounts and deposits due to customers	542,504	109,805	212,607	2,325,571	50,911	**3,241,398**	**3,203,992**
Issued debt securities	-	-	-	62,958	-	**62,958**	**55,784**
Other financial liabilities	2,253	-	-	-	-	**2,253**	**2,253**
Derivative liabilities							
- Inflow	-	(99)	(920)	-	-	**(1,019)**	**-**
- Outflow	-	100	938	-	-	**1,038**	**19**
Total	**595,147**	**109,806**	**212,625**	**2,388,529**	**50,911**	**3,357,018**	**3,312,438**
Guarantees (maximum exposure)	**883**	**715**	**3,853**	**368**	**-**	**5,819**	**9,779**
Credit related commitments	**34,858**	**-**	**-**	**-**	**-**	**34,858**	**34,858**

Analysis of financial liabilities' undiscounted cash flows based on effective maturity as at 31 December 2014:

	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Total gross amount outflow/(inflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances due to banks	11,375	132	531	1,158	-	**13,196**	**13,196**
Current accounts and deposits due to customers	383,411	123,448	307,883	2,273,292	31,607	**3,119,641**	**3,082,706**
Issued debt securities	-	-	-	25,255	-	**25,255**	**19,498**
Derivative liabilities							
- Inflow	(7,066)	(930)	-	-	-	**(7,996)**	**-**
- Outflow	7,189	968	-	-	-	**8,157**	**161**
Total	**394,909**	**123,618**	**308,414**	**2,299,705**	**31,607**	**3,158,253**	**3,115,561**
Guarantees (maximum exposure)	**1,556**	**5,003**	**4,626**	**412**	**-**	**11,597**	**17,493**
Credit related commitments	**57,056**	**-**	**-**	**-**	**-**	**57,056**	**57,056**

4 Risk management, continued

The Bank

Analysis of financial liabilities' undiscounted cash flows based on effective maturity as at 31 December 2015:

	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances due to banks	49,710	-	-	-	-	**49,710**	**49,710**
Current accounts and deposits due to customers	570,829	109,798	212,275	2,325,048	50,898	**3,268,848**	**3,231,558**
Issued debt securities	-	-	-	63,999	-	**63,999**	**56,785**
Other financial liabilities	101	-	-	-	-	**101**	**101**
Derivative liabilities							
- Inflow	-	(99)	(920)	-	-	**(1,019)**	**-**
- Outflow	-	100	938	-	-	**1,038**	**19**
Total	**620,640**	**109,799**	**212,293**	**2,389,047**	**50,898**	**3,382,677**	**3,338,173**
Guarantees (maximum exposure)	**883**	**715**	**3,853**	**368**	**-**	**5,819**	**9,779**
Credit related commitments	**38,978**	**-**	**-**	**-**	**-**	**38,978**	**38,978**

Analysis of financial liabilities' undiscounted cash flows based on effective maturity as at 31 December 2014:

	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances due to banks	11,222	-	-	605	-	**11,827**	**11,738**
Current accounts and deposits due to customers	386,153	123,448	306,766	2,296,894	31,545	**3,144,806**	**3,107,957**
Issued debt securities	-	-	-	25,255	-	**25,255**	**19,498**
Derivative liabilities							
- Inflow	(7,066)	(930)	-	-	-	**(7,996)**	**-**
- Outflow	7,189	968	-	-	-	**8,157**	**161**
Total	**397,498**	**123,486**	**306,766**	**2,322,754**	**31,545**	**3,182,049**	**3,139,354**
Guarantees (maximum exposure)	**1,556**	**5,003**	**4,626**	**412**	**-**	**11,597**	**17,493**
Credit related commitments	**62,841**	**-**	**-**	**-**	**-**	**62,841**	**62,841**

Risk management, continued | 4

The Group

The table below analyses the Bank's and the Group's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date.

Analysis of financial liabilities' contractual undiscounted cash flows as at 31 December 2015:

	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances due to banks	50,390	-	-	-	-	**50,390**	**50,390**
Current accounts and deposits due to customers	2,852,097	32,626	100,060	205,704	50,911	**3,241,398**	**3,203,992**
Issued debt securities	-	-	-	62,958	-	**62,958**	**55,784**
Other financial liabilities	2,253	-	-	-	-	**2,253**	**2,253**
Derivative liabilities							
- Inflow	-	(99)	(920)	-	-	**(1,019)**	**-**
- Outflow	-	100	938	-	-	**1,038**	**19**
Total	**2,904,740**	**32,627**	**100,078**	**268,662**	**50,911**	**3,357,018**	**3,312,438**
Guarantees (maximum exposure)	**883**	**715**	**3,853**	**368**	**-**	**5,819**	**9,779**
Credit related commitments	**34,858**	**-**	**-**	**-**	**-**	**34,858**	**34,858**

Analysis of financial liabilities' contractual undiscounted cash flows as at 31 December 2014:

	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances due to banks	11,375	132	531	1,158	-	**13,196**	**13,196**
Current accounts and deposits due to customers	2,670,035	11,495	149,834	256,670	31,607	**3,119,641**	**3,082,706**
Issued debt securities	-	-	-	25,255	-	**25,255**	**19,498**
Derivative liabilities							
- Inflow	(7,066)	(930)	-	-	-	**(7,996)**	**-**
- Outflow	7,189	968	-	-	-	**8,157**	**161**
Total	**2,681,533**	**11,665**	**150,365**	**283,083**	**31,607**	**3,158,253**	**3,115,561**
Guarantees (maximum exposure)	**1,556**	**5,003**	**4,626**	**412**	**-**	**11,597**	**17,493**
Credit related commitments	**57,056**	**-**	**-**	**-**	**-**	**57,056**	**57,056**

4 Risk management, continued

The Bank

Analysis of financial liabilities' contractual undiscounted cash flows as at 31 December 2015:

	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances due to banks	49,710	-	-	-	-	**49,710**	**49,710**
Current accounts and deposits due to customers	2,880,422	32,619	99,728	205,181	50,898	**3,268,848**	**3,231,558**
Issued debt securities	-	-	-	63,999	-	**63,999**	**56,785**
Other financial liabilities	101	-	-	-	-	**101**	**101**
Derivative liabilities							
- Inflow	-	(99)	(920)	-	-	**(1,019)**	**-**
- Outflow	-	100	938	-	-	**1,038**	**19**
Total	**2,930,233**	**32,620**	**99,746**	**269,180**	**50,898**	**3,382,677**	**3,338,173**
Guarantees (maximum exposure)	**883**	**715**	**3,853**	**368**	**-**	**5,819**	**9,779**
Credit related commitments	**38,978**	**-**	**-**	**-**	**-**	**38,978**	**38,978**

Analysis of financial liabilities' contractual undiscounted cash flows as at 31 December 2014:

	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances due to banks	11,222	-	-	605	-	**11,827**	**11,738**
Current accounts and deposits due to customers	2,696,386	11,495	148,717	256,663	31,545	**3,144,806**	**3,107,957**
Issued debt securities	-	-	-	25,255	-	**25,255**	**19,498**
Derivative liabilities							
- Inflow	(7,066)	(930)	-	-	-	**(7,996)**	-
- Outflow	7,189	968	-	-	-	**8,157**	**161**
Total	**2,707,731**	**11,533**	**148,717**	**282,523**	**31,545**	**3,182,049**	**3,139,354**
Guarantees (maximum exposure)	**1,556**	**5,003**	**4,626**	**412**	**-**	**11,597**	**17,493**
Credit related commitments	**62,841**	**-**	**-**	**-**	**-**	**62,841**	**62,841**

Risk management, continued | 4

(E) Capital Management

The Bank's and the Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders returns is also recognised and the Bank and the Group recognise the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantage and security afforded by a solid capitalization. The Financial and Capital Market Commission sets and monitors capital requirements for the Bank and for the Group.

The Bank and the Group define as capital those items defined by statutory regulation as capital. Under the current capital requirements set by Financial and Capital Market Commission, banks must maintain a ratio of capital to risk weighted assets ("statutory capital ratio") above the prescribed minimum level. As at 31 December 2015, the individual minimum level is 15.6% (2014: 15.8%). The Bank and the Group were in compliance with the statutory capital ratio during the years ended 31 December 2015 and 31 December 2014.

The following table shows the composition of the Bank's and the Group's capital position calculated in accordance with the requirements of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (CRR):

	2015 '000 EUR Group	2015 '000 EUR Bank	2014 '000 EUR Group	2014 '000 EUR Bank
Tier 1 capital				
Share capital	142,287	142,287	142,287	142,287
Share premium	6,843	6,843	6,843	6,843
Other reserves	41	23	104	23
Accumulated other comprehensive income	22,399	25,377	-	-
Value adjustments due to the requirements for prudent valuation	(22,479)	(16,812)	(11,472)	(3,693)
Non-controlling interest	7,055	-	3,877	-
Currency translation reserve	-	-	43	-
Retained earnings from prior years	124,905	113,803	91,821	78,331
Current year profit	69,012	72,179	73,125	71,500
Intangible assets	(4,004)	(2,910)	(3,659)	(2,458)
Additional deductions of CET1 Capital due to Article 3 (CRR)	(18,295)	(15,905)	(8,116)	(5,731)
Dividends declared or proposed	(36,090)	(36,090)	(36,028)	(36,028)
Total tier 1 capital	**291,674**	**288,795**	**258,825**	**251,074**
Tier 2 capital				
Paid up capital instruments (preference shares)	26,629	26,629	18,556	18,556
Share premium (preference shares)	45,700	45,700	27,039	27,039
Long term deposits qualifying as regulatory capital	84,514	84,514	90,905	90,905
Additional deductions of T2 Capital due to Article 3 CRR	(18,295)	(15,905)	(8,116)	(5,731)
Total tier 2 capital	**138,548**	**140,938**	**128,384**	**130,769**
Total capital	**430,222**	**429,733**	**387,209**	**381,843**
Total risk exposure amount	**2,241,227**	**2,211,793**	**2,042,586**	**2,018,763**
Total capital ratio	**19.20%**	**19.43%**	**18.96%**	**18.91%**

Calculations are performed based on prudential consolidation group according to the Basel Accord of (EU) Regulation No 575/2013 p.19.

4 Risk management, continued

The regulatory requirement represents risk-weighted assets adjusted for capital requirement related to operating risks. The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for unrecognised credit commitments, with some adjustments to reflect the more contingent nature of the potential losses.

5 Use of estimates and judgements

The preparation of financial statements in conformity with IFRS as adopted by the EU requires management to make judgments, estimates and assumption that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

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

Key sources of estimation uncertainty and judgement:

(I) Allowances for credit losses on loans and receivables

The specific counterparty component of the total allowances for impairment applies to loans and receivables evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about each counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Valuation Committee. The cash flows may be realised from repayment of the loan, from sale of collateral, from operating the collateral etc., depending on the specific situation and terms of the loan agreement. The estimated net realisable value of collateral is based on a combination of internal fair value assessment conducted by internal valuation specialists and independent external valuation reports and is reviewed on a regular basis. The estimated future cash flows are discounted using the financial asset's original effective interest rate.

Collectively assessed impairment allowance covers credit losses inherent in a portfolio of loans with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired loans, but individual impaired items cannot yet be identified. In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentration and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowance depends on the estimates of future cash flows for specific counterparty allowance and the model assumptions and parameters used in determining collective allowance.

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in the accounting policies. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

(II) Determining fair value of financial instruments

All financial instruments that are carried at fair value were valued based on their market value, except for units in RB Opportunity Fund and shares in Visa Europe Limited. Units in RB Opportunity Fund are valued based on the estimated fair value of underlying assets, mostly properties. To determine fair value of the properties valuation techniques were used that are based on market prices for similar properties sold on the market or based on discounted estimated future income. Shares in Visa Europe Limited are valued based on the calculation received from Visa Europe Limited as part of the acquisition by Visa Inc. To determine fair value of Visa Europe Limited shares 100% of the cash consideration and 50% of the estimated value of the share consideration were used.

Fair value of financial instruments carried at amortised cost is stated at present value of future estimated cash flows discounted by a market interest rate. For short term financial assets and liabilities the fair value approximate amortised cost.

(III) Impairment of held-to-maturity investments

The determination of impairment indication is based on comparison of the financial instrument's carrying amount and fair value. In the event of a significant decline and subsequent significant fluctuations in financial and capital markets or the existence of an illiquid capital market, the market price may not always represent fair value, i.e. is not the best indication of impairment of a financial asset. The Bank and the Group use valuation models based on quoted market prices of similar products.

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

(IV) Determining fair value of investment property and owner occupied property

Investment property is stated at its fair value with all changes in fair value recorded in profit or loss. Property used in own business operation is revaluated to fair value on regular periodic basis with changes in revaluation recognised through other comprehensive income in a revaluation reserve and subsequent amortisation is recognised in the profit and loss statement. When measuring the fair value of the property, management relies on external valuations based either on income valuation method or comparative valuation method and assesses the reliability of such valuation in light of the current market situation. Income method is based on discounted estimated future cash flows from the property. Comparative method is based on recent market transactions with comparable property.

(V) Impairment of assets shown under other assets

Assets assumed as collateral are valued at lower of cost and net realisable value. When assessing net realisable value of assets, management prepares several valuation models (e.g. replacement cost, discounted future cash flows) and compares them to observable market data (e.g. similar transactions taking place on the market, offer made by potential buyers).

Use of estimates and judgements, continued 5

(VI) Impairment of investments in subsidiaries

Investments in subsidiaries are valued at cost less accumulated impairment losses in the Bank's separate financial statements. On a regular basis, the Bank compares the cost of investment with the carrying amount of net assets of a subsidiary to see whether any impairment indication exists. If impairment indication exists, the recoverable amount of the investment is calculated based on discounted estimated future cash flows of the subsidiary. Future cash flows are based on budgets and projections prepared by the subsidiary and assessed for reasonableness. Discount rate is equal to the cost of financing interest rate, i.e. rate charged on deposits to customers increased by a risk margin of 2 to 6 basis points. An impairment loss is considered to be recorded when the decline in value of subsidiary is significant and prolonged.

(VII) Impairment of goodwill

Goodwill is assessed for impairment on an annual basis by discounting estimated future cash flows for the underlying cash generating unit using a discount rate equal to return on equity expected by shareholders. The estimated future cash flows are projected based on historical experience adjusted for expected changes in the business.

(VIII) Useful lives of equipment

Estimated useful lives of equipment are based on practical experience over using similar equipment in the past. Each year damaged items and technically out-of-date items are identified and their useful life or carrying amount is adjusted individually.

(IX) Deferred tax asset recognition

A deferred tax asset is recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

(X) Consolidation of investment funds

The Group is holding units of investment funds for which it acts as asset management company, i.e. has power over investment decisions within the investment strategy published in the fund prospectus. At each reporting date the Group evaluates the linkage between power and exposure to variable returns and decides whether the respective fund shall be consolidated or not. See Note 44.

(XI) Acquisition of new subsidiaries

Upon each acquisition of a subsidiary, the Group evaluates whether it obtained control over business as defined by IFRS 3 Business combinations, in which case acquisition accounting is applied. If control gained only over individual assets and liabilities, the consideration paid is allocated to the acquired assets and liabilities. See Note 46.

Net interest income 6

	2015 '000 EUR Group	2015 '000 EUR Bank	2014 '000 EUR Group	2014 '000 EUR Bank
Interest income				
Loans and receivables due from customers	89,804	82,312	87,488	79,443
Loans and receivables due from financial institutions	3,260	3,245	4,091	4,023
Available for sale assets	6,254	6,254	2,519	2,519
Held-to-maturity investments	6,592	6,575	2,661	2,658
Amounts receivable under reverse repurchase agreements	532	532	546	546
Financial instruments at fair value through profit or loss	47	47	161	161
	106,489	**98,965**	**97,466**	**89,350**
Interest expense				
Current accounts and deposits due to customers	14,771	14,754	13,877	13,858
Loans and receivables due from financial institutions	1,406	1,406	-	-
Deposits and balances due to financial institutions	154	-	297	86
Other interest expense	7,000	6,475	6,356	5,504
	23,331	**22,635**	**20,530**	**19,448**

Included within interest income from loans and receivables due from customers for the year ended 31 December 2015 is interest income of EUR 6,966 thousand (2014: EUR 2,422 thousand) relating to impaired loans issued by the Bank and EUR 7,199 thousand (2014: EUR 2,443 thousand) accordingly by the Group.

7 Fee and commission income

	2015 '000 EUR Group	2015 '000 EUR Bank	2014 '000 EUR Group	2014 '000 EUR Bank
E-commerce	19,865	19,865	16,448	16,448
Money transfers	19,321	19,321	21,284	21,284
Commission income from payment cards	10,632	10,632	10,452	10,452
Commission from account servicing	9,617	9,617	9,072	9,072
Revenue from customer asset management and brokerage commissions	5,097	4,754	3,951	3,976
Commission from documentary operations	599	599	901	901
Cash withdrawals	230	230	222	222
Remote system fee	166	166	187	187
Other	3,976	3,988	3,686	3,278
	69,503	**69,172**	**66,203**	**65,820**

8 Fee and commission expense

	2015 '000 EUR Group	2015 '000 EUR Bank	2014 '000 EUR Group	2014 '000 EUR Bank
E-commerce	10,854	10,854	8,759	8,759
Payment card expenses	8,054	8,054	5,193	5,193
Agent commissions	2,624	2,440	2,911	2,746
On correspondent accounts	2,115	2,115	1,668	1,668
Brokerage fees	804	832	889	882
Other	928	1,193	1,061	1,084
	25,379	**25,488**	**20,481**	**20,332**

Net gain/(loss) on financial instruments at fair value through profit or loss 9

	2015 '000 EUR Group	2015 '000 EUR Bank	2014 '000 EUR Group	2014 '000 EUR Bank
Equity instruments	(278)	(278)	(116)	(57)
Debt instruments	(901)	27	64	340
Derivatives	38	64	(33)	(33)
	(1,141)	**(187)**	**(85)**	**250**

Net foreign exchange gain/(loss) 10

	2015 '000 EUR Group	2015 '000 EUR Bank	2014 '000 EUR Group	2014 '000 EUR Bank
Loss from revaluation of financial assets and liabilities	(729)	(86)	(1,354)	(19)
Gain on spot transactions and derivatives	24,469	24,472	23,431	23,431
	23,740	**24,386**	**22,077**	**23,412**

Net realised gain on available-for-sale assets 11

	2015 '000 EUR Group	2015 '000 EUR Bank	2014 '000 EUR Group	2014 '000 EUR Bank
Equity instruments	193	193	625	625
Debt instruments	265	265	137	137
	458	**458**	**762**	**762**

12 Other income/ (expense)

	2015 '000 EUR Group	2015 '000 EUR Bank	2014 '000 EUR Group	2014 '000 EUR Bank
Rental income from operating leases	3,542	760	3,399	863
Fair value change in investment property	744	1,626	(598)	619
Penalties received	1,148	962	744	499
(Written off)/Recovery of assets written off	(30)	12	112	112
Gain/ (Loss) from sale of property and equipment	(24)	-	18	-
Gain from sale of Investment property	496	-	686	443
Dividends received	4	2,334	121	2,266
Gain/ (Loss) from sale of subsidiaries	171	-	1,276	(80)
Negative goodwill write-off	33	-	-	-
Income from production of electricity and heating	1,823	-	1,522	-
Other	491	799	1,880	1,800
	8,398	**6,493**	**9,160**	**6,522**

13 Impairment losses

	2015 '000 EUR Group	2015 '000 EUR Bank	2014 '000 EUR Group	2014 '000 EUR Bank
Impairment losses				
Loans and receivables due from customers	(26,015)	(25,600)	(21,522)	(20,732)
Intangible assets	-	-	(1,443)	-
Available-for-sale financial assets	-	-	-	(1,896)
Investments in subsidiaries	-	(20)	-	(5,500)
Other financial assets	(354)	(354)	-	-
Other non-financial assets	(1,956)	(1,827)	(132)	(55)
	(28,325)	**(27,801)**	**(23,097)**	**(28,183)**
Reversals of impairment losses				
Loans and receivables due from customers	4,527	4,781	3,030	6,163
Available-for-sale financial assets	-	33	11	11
Other non-financial assets	7	7	23	23
	4,534	**4,821**	**3,064**	**6,197**
Net impairment losses	**(23,791)**	**(22,980)**	**(20,033)**	**(21,986)**

General administrative expenses 14

	2015 '000 EUR Group	2015 '000 EUR Bank	2014 '000 EUR Group	2014 '000 EUR Bank
Employee compensation	19,794	16,493	18,883	15,897
Salaries to Board of Directors and Council	4,558	3,573	3,620	2,811
Payroll related taxes on employee remuneration	4,358	3,534	4,104	3,382
Depreciation and amortisation	3,681	1,820	2,930	1,449
Repairs and maintenance	2,317	815	1,980	823
Taxes other than on corporate income and payroll	2,066	1,175	2,224	1,264
IT related costs	1,983	1,983	1,845	1,845
Rent	1,903	3,627	1,748	3,711
Representative offices	1,883	1,426	1,779	1,290
Advertising and marketing	1,512	1,002	964	585
Communications and information services	1,344	1,254	1,354	1,212
Travel expenses	1,302	1,214	1,240	1,141
Professional services	1,183	1,061	1,142*	901*
Provision for bonus and payroll related taxes	906	906	2,762	2,762
Representation	774	438	759	441
Charity and sponsorship	723	2,203	1,023	2,241
Credit card service	489	489	1,702	1,702
Insurance	285	236	311	205
Employee health insurance	295	278	287	272
Audit services	231	142	313	142
Subscription of information	197	154	139	139
Office supplies (Stationery)	116	64	142	82
Security	95	98	86	68
Other	3,493	3,978	1,282	1,319
Reverse of provisions for the management bonus	(1,719)	(1,719)	(5,120)	(5,120)
	53,769	**46,244**	**47,499**	**40,564**

* In 2014 the Bank reclassified legal services expenses in amount of EUR 680 thousand from other administrative expenses to professional services expenses.

15 Income tax expense

(A) Income tax expense recognised in the profit and loss

	2015 '000 EUR Group	2015 '000 EUR Bank	2014 '000 EUR Group	2014 '000 EUR Bank
Current tax expense				
Current tax expense	10,449	9,598	12,903	11,957
Deferred tax	684	163	(12)	329
Total income tax expense in the profit and loss	**11,133**	**9,761**	**12,891**	**12,286**

The tax rate applicable in countries in which group entities operate:	2015 '000 EUR	2014 '000 EUR
Latvia	15.00%	15.00%
Belarus	18.00%	18.00%
Cyprus	12.50%	12.50%
Russia	20.00%	20.00%
Azerbaijan	20.00%	20.00%

(B) Reconciliation of effective tax rate:

The Group	2015 '000 EUR	%	2014 '000 EUR	%
Profit before tax	81,176		87,021	
Income tax at the applicable tax rate	12,176	15.00%	13,053	15.00%
Non-deductible expenses	1,940	2.39%	1,704	1.96%
Tax exempt income	(2,146)	(2.65%)	(605)	(0.70%)
Tax paid abroad	459	0.57%	903	1.04%
Tax relief on donations	(1,919)	(2.37%)	(1,802)	(2.07%)
Tax loss carried forward	-	-	59	0.07%
Change in unrecognised deferred tax asset	353	0.44%	68	0.08%
Under/(over) provided in prior years	193	0.24%	(584)	(0.68%)
Effect of different tax rate in other countries	77	0.10%	95	0.11%
	11,133	**13.72%**	**12,891**	**14.81%**

Income tax expense, continued | 15

The Bank	2015 '000 EUR	%	2014 '000 EUR	%
Profit before tax	81,940		83,786	
Income tax at the applicable tax rate	12,291	15.00%	12,568	15.00%
Non-deductible expenses	910	1.11%	671	0.80%
Tax exempt income	(2,146)	(2.62%)	(928)	(1.11%)
Tax relief on donations	(1,859)	(2.27%)	(1,802)	(2.15%)
Change in unrecognised deferred tax asset	106	0.13%	1,222	1.46%
Tax paid abroad	459	0.56%	996	1.19%
Under/(over) provided in prior years	-	-	(441)	(0.53%)
	9,761	**11.91%**	**12,286**	**14.66%**

(C) Income tax recognised in other comprehensive income and directly in equity

Group	2015 '000 EUR		2014 '000 EUR	
Deferred tax expense	**Tax Base**	**Deferred income tax**	**Tax Base**	**Deferred income tax**
Change in fair value reserve	711	(107)	(1,176)	177
Change in fair value reserve on which deferred tax asset is not recognized	-	-	(5,039)	-
Under provided in previous years	-	(49)	-	-
Total income tax recognised in other comprehensive income	**711**	**(156)**	**(6,215)**	**177**
Change in revaluation reserve (Note 33e)	-	-	(83)	9
Total income tax recognised directly in equity	-	-	**(83)**	**9**

Bank	2015 '000 EUR		2014 '000 EUR	
Deferred tax expense	**Tax Base**	**Deferred income tax**	**Tax Base**	**Deferred income tax**
Change in fair value reserve	711	(107)	(1,179)	177
Change in fair value reserve on which deferred tax asset is not recognized	(205)	-	(5,373)	-
Under provided in previous years	-	(49)	-	-
Total income tax recognised in other comprehensive income	**506**	**(156)**	**(6,552)**	**177**

Change in fair value reserve in the amount Group EUR 27,733 thousand and The Bank of EUR 27,685 thousand revaluation of securities gains of which are not subject to income tax.

16 Cash and balances with the central bank

Cash and balances with central bank comprised of the following items:

	31 Dec 2015 '000 EUR Group	31 Dec 2015 '000 EUR Bank	31 Dec 2014 '000 EUR Group	31 Dec 2014 '000 EUR Bank
Cash	4,671	4,619	5,279	5,257
Balances due from the Bank of Latvia	877,197	877,197	153,295	153,295
	881,868	**881,816**	**158,574**	**158,552**

Deposits with the Bank of Latvia represent the balance outstanding on the correspondent account with the Bank of Latvia in EUR. That consists of compulsory reserves.

In accordance with the Bank of Latvia's regulations, the Bank is required to maintain a compulsory reserve set based on the average monthly balance of its liabilities.

The compulsory reserve is compared to the Bank's average monthly correspondent account balance in EUR. The Bank's average correspondent balance should exceed the compulsory reserve requirement. The Bank was in compliance with the aforementioned compulsory reserve requirement at the end of the reporting year.

17 Financial instruments at fair value through profit or loss

	31 Dec 2015 '000 EUR Group	31 Dec 2015 '000 EUR Bank	31 Dec 2014 '000 EUR Group	31 Dec 2014 '000 EUR Bank
Bonds				
- with rating from AAA to A	1,552	-	881	-
- with rating from BBB+ to BBB-	8,048	-	6,324	3,903
- non-investment grade	5,233	-	3,115	-
- not rated	74	-	-	-
Equity investments	574	183	499	499
Derivative financial instruments	958	983	739	739
Financial assets at fair value through profit or loss	**16,439**	**1,166**	**11,558**	**5,141**
Derivative financial instruments	(19)	(19)	(161)	(161)
Financial liabilities at fair value through profit or loss	**(19)**	**(19)**	**(161)**	**(161)**

Financial instruments at fair value through profit or loss, continued 17

The Bank and the Group classify derivative financial instruments and trading portfolio under this category.

Derivative financial assets and liabilities

The Group	31 Dec 2015 '000 EUR Carrying amount	31 Dec 2015 '000 EUR Notional amount	31 Dec 2014 '000 EUR Carrying amount	31 Dec 2014 '000 EUR Notional amount
Assets				
Forward contracts	675	5,636	135	16,152
Option premium	283	n/a	195	n/a
Swap contracts	-	-	409	5,030
Total derivative financial assets	**958**		**739**	
Liabilities				
Forward contracts	19	1,038	161	8,157
Total derivative liabilities	**19**		**161**	

The Bank	31 Dec 2015 '000 EUR Carrying amount	31 Dec 2015 '000 EUR Notional amount	31 Dec 2014 '000 EUR Carrying amount	31 Dec 2014 '000 EUR Notional amount
Assets				
Forward contracts	700	6,686	135	16,152
Option premium	283	n/a	195	n/a
Swap contracts	-	-	409	5,030
Total derivative financial assets	**983**		**739**	
Liabilities				
Forward contracts	19	1,038	161	8,157
Total derivative liabilities	**19**		**161**	

18 Loans and receivables due from banks

	31 Dec 2015 '000 EUR Group	31 Dec 2015 '000 EUR Bank	31 Dec 2014 '000 EUR Group	31 Dec 2014 '000 EUR Bank
Demand accounts				
Latvian commercial banks	3,144	2,996	7,372	7,226
OECD banks	779,148	779,148	1,432,273	1,432,273
Other non-OECD banks	37,285	37,026	112,802	112,275
Total Demand accounts	**819,577**	**819,170**	**1,552,447**	**1,551,774**
Deposit accounts				
OECD banks	15,000	15,000	192,970	192,970
Other non-OECD banks	6,633	6,633	25,974	25,974
Total loans and deposits	**21,633**	**21,633**	**218,944**	**218,944**
	841,210	**840,803**	**1,771,391**	**1,770,718**

Concentration of placements with banks

As at 31 December 2015 the Bank and the Group had 3 balances (2014: none), which exceeded 10% of total loans and receivables from banks.

The largest balances due from credit institutions as of 31 December 2015 in the Bank and the Group were as follows:

	31 Dec 2015 '000 EUR	%
Deutsche Bank NY	112,650	13.40
Erste Bank Vienna	91,853	10.92
HSH Nordbank AG	91,853	10.92
KBC Bank NV	65,037	7.74
Raiffeisen Zentralbank	64,297	7.65
NORD/LB	64,297	7.65
The Bank of Tokyo	64,297	7.65
Lloyds TSB Bank	62,459	7.43
Unicredit Bank	41,181	4.90
Total	**657,924**	**78.26**

The largest balances due from credit institutions as of 31 December 2014 in the Bank were as follows:

	31 Dec 2014 '000 EUR	%
Euroclear Bank	103,316	5.7
Deutsche Bank NY	97,635	5.4
KBC Bank NV	91,267	5.1
Clearstream Banking SA	86,205	4.8
Erste Bank Vienna	82,366	4.6
HSH Nordbank AG	82,366	4.6
Mizuho Corporation	82,366	4.6
Banco Bilbao	80,126	4.4
WGZ-Bank AG	80,000	4.4
Raiffeisen Zentralbank	78,941	4.4
Total	**864,588**	**48.0**

Loans and receivables due from customers | 19

	31 Dec 2015 '000 EUR Group	31 Dec 2015 '000 EUR Bank	31 Dec 2014 '000 EUR Group	31 Dec 2014 '000 EUR Bank
Companies				
Finance leases	17,609	-	28,372	-
Loans	1,034,907	1,133,827	970,621	1,073,657
Individuals				
Finance leases	33,939	-	29,685	-
Loans	111,075	109,610	103,037	101,145
Specific impairment allowance	(93,285)	(91,648)	(88,025)	(86,813)
Collective impairment allowance	(2,473)	-	(2,246)	-
Net Loans and receivables from customers	**1,101,772**	**1,151,789**	**1,041,444**	**1,087,989**

(A) Finance leases

Loans and receivables from customers include the following finance lease receivables for leases of certain property and equipment where the Group is the lessor:

	31 Dec 2015 '000 EUR Group	31 Dec 2014 '000 EUR Group
Gross investment in finance leases, receivable		
Less than one year	26,598	30,198
Between one and five years	39,168	43,512
Total gross investment in finance leases	65,766	73,710
Unearned finance income	(14,218)	(15,653)
Net investment in finance lease before allowance	51,548	58,057
Impairment allowance	(2,706)	(2,343)
Net investment in finance lease	**48,842**	**55,714**

	31 Dec 2015 '000 EUR Group	31 Dec 2014 '000 EUR Group
The net investment in finance leases comprises:		
Less than one year	20,721	23,567
Between one and five years	28,121	32,147
Net investment in finance lease	**48,842**	**55,714**

19 Loans and receivables due from customers, continued

(B) Credit quality of loan portfolio

(I) Ageing structure of loan portfolio

Out of which impaired include net carrying amount for loans and receivables due from customers with specific impairment allowance.

The Group			Of which past due by the following terms				
As at 31 Dec 2015	Total EUR'000	Of which not past due on the reporting date	Less than 30 days	31-90 days	91-180 days	More than 180 days	Net carrying amount of overdue loans
Net carrying amount	**1,101,772**	894,322	57,477	45,796	42,451	61,726	207,450
Out of which impaired	**189,829**	72,898	4,641	42,775	17,883	51,632	116,931
Assessed fair value of collateral	**1,541,860**	1,274,016	96,094	31,308	46,183	94,259	267,844
As at 31 Dec 2014							
Net carrying amount	**1,041,444**	872,717	73,931	46,005	38,779	10,012	168,727
Out of which impaired	**140,775**	62,772	27,796	13,094	29,719	7,398	78,003
Assessed fair value of collateral	**1,540,909**	1,304,780	98,585	70,804	48,051	18,689	236,129

The Bank			Of which past due by the following terms				
As at 31 Dec 2015	Total EUR'000	Of which not past due on the reporting date	Less than 30 days	31-90 days	91-180 days	More than 180 days	Net carrying amount of overdue loans
Net carrying amount	**1,151,789**	947,014	56,164	44,617	42,309	61,685	204,775
Out of which impaired	**190,971**	75,157	4,618	41,795	17,810	51,591	115,814
Assessed fair value of collateral	**1,603,155**	1,339,924	92,844	30,129	46,040	94,218	263,231
As at 31 Dec 2014							
Net carrying amount	**1,087,989**	927,442	72,383	45,278	32,820	10,066	160,547
Out of which impaired	**142,507**	71,503	27,312	12,422	23,824	7,446	71,004
Assessed fair value of collateral	**1,624,152**	1,397,912	98,069	69,720	39,762	18,689	226,240

Loans and receivables due from customers, continued | 19

(II) Analysis of loan portfolio by type of collateral

The following table provides the analysis of the loan portfolio, net of impairment, by types of collateral as at 31 December 2015:

The Group EUR'000	31 Dec 2015	% of loan portfolio	31 Dec 2014	% of loan portfolio
Commercial buildings	379,316	34.42	357,650	34.34
Commercial assets pledge	360,226	32.70	349,176	33.53
Traded securities	92,337	8.38	55,712	5.35
Other mortgage	90,182	8.19	117,641	10.79
Land mortgage	74,690	6.78	75,567	7.26
Without collateral	40,252	3.65	34,130	3.28
Mortgage on residential properties	35,478	3.22	36,781	3.53
Guarantee	26,150	2.37	7,220	0.69
Deposit	2,068	0.19	6,368	0.61
Non-traded securities	1,073	0.10	1,199	0.12
Total	**1,101,772**	**100.00**	**1,041,444**	**100.00**

The Bank EUR'000	31 Dec 2015	% of loan portfolio	31 Dec 2014	% of loan portfolio
Commercial buildings	413,042	35.86	399,238	36.70
Commercial assets pledge	380,701	33.05	358,130	32.92
Traded securities	92,336	8.02	55,712	5.12
Other mortgage	81,649	7.09	103,480	9.51
Land mortgage	74,690	6.48	75,567	6.94
Without collateral	44,602	3.87	41,813	3.84
Mortgage on residential properties	35,478	3.08	39,263	3.61
Guarantee	26,150	2.27	7,220	0.66
Deposit	2,068	0.18	6,367	0.59
Non-traded securities	1,073	0.10	1,199	0.11
Total	**1,151,789**	**100.00**	**1,087,989**	**100.00**

The amounts shown in the table above represent the carrying amount of the loans, and not the fair value of the collateral.

19 Loans and receivables due from customers, continued

(III) Impaired loans

	31 Dec 2015 '000 EUR Group	31 Dec 2015 '000 EUR Bank	31 Dec 2014 '000 EUR Group	31 Dec 2014 '000 EUR Bank
Impaired loans gross	283,114	282,619	228,800	229,320
Specific impairment allowance	(93,285)	(91,648)	(88,025)	(86,813)
Net loans and receivables from customers	**189,829**	**190,971**	**140,775**	**142,507**
Fair value of collateral related to impaired loans	**189,747**	**191,404**	**169,556**	**172,310**

When reviewing loans the Bank and the Group set the following categories for individual loans to assess their credit risk:

The Group	31 Dec 2015 '000 EUR Gross	Specific impairment allowance	Collective impairment allowance	31 Dec 2014 '000 EUR Gross	Specific impairment allowance	Collective impairment allowance
Standard	936,123	(2,240)	(817)	950,415	(4,422)	(920)
Watch	156,186	(23,575)	(22)	66,326	(10,837)	(26)
Substandard	38,571	(15,191)	(85)	53,568	(24,925)	(84)
Doubtful	52,641	(39,713)	(106)	42,462	(30,032)	(85)
Lost	14,009	(12,566)	(1,443)	18,944	(17,809)	(1,131)
Total	**1,197,530**	**(93,285)**	**(2,473)**	**1,131,715**	**(88,025)**	**(2,246)**

The Bank	31 Dec 2015 '000 EUR Gross	Specific impairment allowance	31 Dec 2014 '000 EUR Gross	Specific impairment allowance
Standard	984,643	(2,240)	997,673	(4,647)
Watch	158,392	(23,815)	65,447	(10,776)
Substandard	38,254	(15,192)	54,396	(25,372)
Doubtful	50,830	(39,083)	40,789	(29,521)
Lost	11,318	(11,318)	16,497	(16,497)
Total	**1,243,437**	**(91,648)**	**1,174,802**	**(86,813)**

Loans and receivables due from customers, continued 19

(IV) Movements in the impairment allowance

Movements in the loan impairment allowance for the year ended 31 December 2015 and 2014 are as follows:

EUR'000	2015 '000 EUR Group	2015 '000 EUR Bank	2014 '000 EUR Group	2014 '000 EUR Bank
Allowance for impairment				
Balance at 1 January	90,271	86,813	81,343	80,435
Sale of subsidiary	-	-	(1,455)	-
Charge for the year:				
Specific impairment allowance	25,610	25,600	21,068	20,732
Collective impairment allowance	405	-	454	-
Reversal of specific impairment allowance loss				
Specific impairment allowance	(4,360)	(4,781)	(3,030)	(6,163)
Collective impairment allowance	(167)	-	-	-
Effect of foreign currency translation	2,468	2,415	1,258	1,176
Write offs	(18,469)	(18,399)	(9,367)	(9,367)
Balance at 31 December	**95,758**	**91,648**	**90,271**	**86,813**

(V) Restructured loans

As at 31 December 2015, the Group held restructured loans of EUR 237,037 thousand (2014: EUR 98,072 thousand) and the Bank held restructured loans of EUR 243,062 thousand (2014: EUR 104,570 thousand). Main forms of restructuring were the reduction of the interest rate, postponing of interest payments or principal payments.

19 Loans and receivables due from customers, continued

(C) Industry analysis of the loan portfolio

	31 Dec 2015 '000 EUR Group	31 Dec 2015 '000 EUR Bank	31 Dec 2014 '000 EUR Group	31 Dec 2014 '000 EUR Bank
Financial services	268,904	311,764	237,904	287,312
Real estate management	258,859	308,229	272,791	319,442
Transport and communication	200,111	203,292	164,110	166,747
Individuals	99,907	98,941	84,564	83,553
Wholesale and retailing	81,021	81,022	77,858	77,824
Investments in finance lease	48,842	-	55,555	-
Construction	41,028	41,028	37,462	38,462
Manufacturing	16,879	17,523	31,751	31,693
Food industry	9,322	9,322	-	-
Tourism	6,414	6,414	11,767	11,760
Other	70,485	74,254	67,682	71,196
	1,101,772	**1,151,789**	**1,041,444**	**1,087,989**

(D) Geographical analysis of the loan portfolio

	31 Dec 2015 '000 EUR Group	31 Dec 2015 '000 EUR Bank	31 Dec 2014 '000 EUR Group	31 Dec 2014 '000 EUR Bank
Latvia	239,637	293,898	240,921	292,858
OECD countries	76,428	76,392	127,869	127,836
Other non-OECD countries	785,707	781,499	672,654	667,295
	1,101,772	**1,151,789**	**1,041,444**	**1,087,989**

(E) Significant credit exposures

As at 31 December 2015 and 2014 the Bank and the Group had no borrowers or groups of related borrowers, respectively, whose loan balances exceeded 10% of loans and receivables from customers.

According to regulatory requirements, the Bank and the Group are not allowed to have a credit exposure to one client or group of related clients more than 25% of its equity. As at December 31, 2015 and 2014 the Bank and the Group were in compliance with this requirement.

Available-for-sale assets | 20

	31 Dec 2015 '000 EUR Group	31 Dec 2015 '000 EUR Bank	31 Dec 2014 '000 EUR Group	31 Dec 2014 '000 EUR Bank
Bonds				
- with rating from AAA to A	330,731	330,731	18,685	18,685
- with rating from BBB+ to BBB-	54,644	54,644	42,782	42,782
- non-investment grade	68,889	68,889	36,351	36,351
- without rating	1,838	1,838	1,660	1,660
Rietumu Asset Management Funds				
RB Opportunity Fund I	-	32,269	-	32,237
Cash Reserve Fund	-	4,610	-	4,118
Fixed Income High Yield Fund	-	4,153	-	3,882
Fixed Income Investment Grade Fund	-	4,503	-	4,053
Global Equity Fund	-	381	-	375
Other equity instruments	687	496	714	523
VISA Europe share	27,275	27,275	-	-
Available for sale assets	**484,064**	**529,789**	**100,192**	**144,666**

Acquisition cost	462,305	509,702	106,877	152,803
Revaluation	23,407	26,011	(5,037)	(2,180)
Impairment allowance	(1,648)	(5,924)	(1,648)	(5,957)
Available-for-sale	**484,064**	**529,789**	**100,192**	**144,666**

21 Held-to-maturity investments

	31 Dec 2015 '000 EUR Group	31 Dec 2015 '000 EUR Bank	31 Dec 2014 '000 EUR Group	31 Dec 2014 '000 EUR Bank
Debt and other fixed-income instruments				
- Government and municipal bonds				
Latvia	1,837	1,837	1,642	1,642
Russia	13,153	13,153	743	743
Lithuania	-	-	170	-
Total government and municipal bonds	**14,990**	**14,990**	**2,555**	**2,385**
- Corporate bonds				
Latvia	-	-	16,830	16,830
Russia	45,888	45,888	14,469	14,469
USA	60,786	59,764	8,704	7,365
Other European Union countries	16,045	15,207	18,103	17,099
Other non-European Union countries	82,801	82,052	32,164	31,660
Total corporate bonds	**205,520**	**202,911**	**90,270**	**87,423**
	220,510	**217,901**	**92,825**	**89,808**

Investments in subsidiaries | 22

Investment in subsidiaries at 31 December 2015 ('000 EUR):

Company	Address	Share Capital	Equity	Bank's share of total share capital, %	Carrying amount
RB Investments Ltd	Vesetas str.7, Riga, Latvia	14,228	10,614	100%	14,228
RB Securities Ltd	Stasinou str.1, Mitsi Building 1, 2nd floor, Flat/office 5, Plateia Eleftherias, P.C.1060, Nicosia, Cyprus	12,557	7,388	99.99%	10,956
Overseas Estates Ltd	Vesetas str.7, Riga, Latvia	9,480	349	100%	7,346
Rietumu Asset Management IPS	Vesetas str.7, Riga, Latvia	500	581	100%	500
Rietumu Leasing Ltd	Odoevskogo str.117, 6th floor, office 9, Minsk, Belarus	275	3,547	99.5%	2,362
KI Invest Ltd	Naucnij pr.19, 8th Floor, Office 12, Moscow, Russia	43	27	100%	48
InCREDIT GROUP Ltd	Krisjana Barona Str.130, Riga, Latvia	500	4,547	51%	255
RB Drosiba Ltd	Vesetas str.7, Riga, Latvia	71	112	100%	71
RB Namu Serviss Ltd	Vesetas str.7, Riga, Latvia	3	24	100%	3
RB Baki Ltd	Atartuk prospekt 2-9, Baku, AZ1110, Azerbaijan	-	-	90%	4
Langervaldes 2 Ltd	Vesetas str.7, Riga, Latvia	462	313	100%	463
SBD Ltd	Vesetas str.7, Riga, Latvia	460	60	66.89%	1
Vesetas 7 Ltd	Vesetas str.7, Riga, Latvia	142	4,804	100%	3,263
Rietumu Bankas Labdaribas Fonds	Vesetas str.7, Riga, Latvia	-	2,686	100%	-
Euro Textile Group Ltd	Ganibu dambis str. 30, Riga, Latvia	887	(490)	100%	1,000
Impairment allowance		-	-	-	(11,618)
Total Bank's investment in subsidiaries, net					**28,882**

22 Investments in subsidiaries, continued

Investment in subsidiaries at 31 December 2014 ('000 EUR):

Company	Address	Share Capital	Equity	Bank's share of total share capital, %	Carrying amount
RB Investments Ltd	Vesetas str.7, Riga, Latvia	14,228	11,338	100%	14,228
RB Securities Ltd	Stasinou Str.1, Mitsi Building 1, 2nd floor, Flat/office 5, Plateia Eleftherias, P.C.1060, Nicosia, Cyprus	10,942	7,434	99.99%	10,956
Overseas Estates Ltd	Vesetas str.7, Riga, Latvia	9,480	459	100%	7,346
Rietumu Asset Management IPS	Vesetas str.7, Riga, Latvia	500	427	100%	500
Westtransinvest Ltd	Odojevskovo Street 117, Office 9, Minsk, Belarus	129	4,211	50%	2,322
InCREDIT GROUP Ltd	Krisjana Barona Str.130, Riga, Latvia	500	3,977	99.5%	255
Westleasing Ltd	Odojevskovo Street 117, Office 19, Minsk, Belarus, 190510668	146	82	99.5%	108
RB Drosiba Ltd	Vesetas str.7, Riga, Latvia	71	107	100%	71
RB Namu Serviss Ltd	Vesetas str.7, Riga, Latvia	3	24	100%	3
RB Baki Ltd	Atartuk prospekt 2-9, Baku, AZ1110, Azerbaijan	5	(161)	90%	4
Langervaldes 2 Ltd	Vesetas str.7, Riga, Latvia	462	456	100%	463
SBD Ltd	Vesetas str.7, Riga, Latvia	460	70	66.89%	1
Vesetas 7 Ltd	Vesetas str.7, Riga, Latvia	142	3,931	100%	3,263
Rietumu Bankas Labdaribas Fonds	Vesetas str.7, Riga, Latvia	-	3,141	100%	-
Euro Textile Group Ltd	Ganibu dambis str. 30, Riga, Latvia	887	(187)	100%	1,000

Impairment allowance		-	-	-	(11,666)
Total Bank's investment in subsidiaries, net					**28,854**

On March 6, 2015 the Bank established subsidiary "KI Invest" Ltd (100% shareholding) in Russia. Two subsidiaries Westleasing Ltd and Rietumu Leasing Ltd (previously named Westtransinvest Ltd) were merged and new company Rietumu Leasing Ltd (Belarus) continued providing financial leasing services in Belarus.

Equity accounted investees | 23

The Group owns a share in the following associates, both associated companies provide information services and their assets consist mainly from property and equipment for their operations. The total assets and revenues are not material to the Group.

Name	Country of incorporation	Principal activities	Ownership %	Amount of investment	Ownership %	Amount of investment
			31 December 2015		31 December 2014	
AED Rail Service Ltd	Latvia	Information services for the railway	43.00%	21	43.00%	22
Dzelzcelu Tranzits Ltd	Latvia	Information services for the railway	49.12%	-	49.12%	-
Total				**21**		**22**

24 Property and equipment

The Group

Cost/Revalued amount '000 EUR	Land and buildings	Construction in progress	Vehicles	Office equipment and machinery	Advances	Total
At 1 January 2015	**38,467**	**32**	**2,868**	**22,668**	**-**	**64,035**
Additions	-	236	399	1,426	-	**2,061**
Disposals	-	-	(665)	(1,403)	-	**(2,068)**
Transfer from other assets	-	1,737	-	-	64	**1,801**
Sale of subsidiary	-	-	-	(11)	-	**(11)**
Reclassification to investment property	-	(6)	-	-	-	**(6)**
Acquisition of subsidiary	-	-	-	767	-	**767**
FX translation effect	13	-	(8)	(28)	-	**(23)**
At 31 December 2015	**38,480**	**1,999**	**2,594**	**23,419**	**64**	**66,556**
Depreciation						
At 1 January 2015	**3,712**	**-**	**1,597**	**13,681**	**-**	**18,990**
Depreciation charge	778	-	393	1,826	-	**2,997**
Disposals	-	-	(589)	(1,296)	-	**(1,885)**
Transfer	-	-	1	(1)	-	**-**
Sale of subsidiary	-	-	-	(4)	-	**(4)**
FX translation effect	(12)	-	(2)	(20)	-	**(34)**
At 31 December 2015	**4,478**	**-**	**1,400**	**14,186**	**-**	**20,064**
Net carrying amount						
At 31 December 2015	**34,002**	**1,999**	**1,194**	**9,233**	**64**	**46,492**
At 31 December 2014	**34,755**	**32**	**1,271**	**8,987**	**-**	**45,045**

Property and equipment, continued | 24

The Group

Cost/Revalued amount '000 EUR	Land and buildings	Construction in progress	Vehicles	Office equipment and machinery	Total
At 1 January 2014	**39,834**	**60**	**2,426**	**19,299**	**61,619**
Additions	265	-	1,031	3,500	**4,796**
Disposals	-	-	(584)	(873)	**(1,457)**
Sale of subsidiary	(1,186)	-	-	(26)	**(1,212)**
Reclassification to investment property	-	(28)	-	-	**(28)**
Purchase of subsidiary	224	1	-	755	**980**
FX translation effect	(670)	(1)	(5)	13	**(663)**
At 31 December 2014	**38,467**	**32**	**2,868**	**22,668**	**64,035**
Depreciation					
At 1 January 2014	**3,106**	**-**	**1,879**	**13,199**	**18,184**
Depreciation charge	799	-	284	1,303	**2,386**
Disposals	-	-	(544)	(843)	**(1,387)**
Sale of subsidiary	(122)	-	-	-	**(122)**
FX translation effect	(71)	-	(22)	22	**(71)**
At 31 December 2014	**3,712**	**-**	**1,597**	**13,681**	**18,990**
Net carrying amount					
At 31 December 2014	**34,755**	**32**	**1,271**	**8,987**	**45,045**
At 31 December 2013	**36,728**	**60**	**547**	**6,100**	**43,435**

24 Property and equipment, continued

Revalued assets

At 31 December 2015 and 2014 property consisting of office buildings and land, was revalued to its fair value as determined by external, independent property appraisers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The independent appraisers provide the fair value of the property portfolio every year.

The fair value measurement for property (land and buildings) has been categorised as a Level 3 in the fair value hierarchy.

The following table shows the valuation technique used in measuring the fair value of the significant items of property, as well as the significant unobservable inputs used:

Type	Valuation technique	Significant unobservable inputs	Inter-relation between significant unobservable inputs and fair value measurement
Office premises in administrative building in the net carrying amount of EUR 839 thousand (2014: EUR 826 thousand) located in Minsk, Belarus	Market comparison technique: The fair value was based on results of comparable sales of similar buildings	Price per m^2 –EUR 1,312 (2014: EUR 1,290)	The fair value would increase (decreased) if the price per m^2 was higher (lower).
Office building (17,071 m^2) and land in the amount of EUR 32,503 thousand (2014: EUR 33,225 thousand) located in Riga, Latvia	Discounted cash flows technique: The model is based on discounted cash flows from rental income.	Rental income per m^2 of EUR 13-16 (2014: EUR 13.2) Discount rate of 7% (2014: 9%)	The estimated fair value would increase (decrease) if: – Rental income per m^2 was higher (lower) – The discount rate was lower (higher) – Annual capital expense are lower (higher) – The occupancy rate was higher (lower)

The Bank

'000 EUR	Construction in progress	Vehicles	Office equipment	Advances	Total
Cost/Revalued amount					
1 January 2015	**-**	**2,809**	**14,684**	**-**	**17,493**
Additions	236	391	583	-	**1,210**
Disposals	-	(658)	(1,105)	-	**(1,763)**
Transfer from other assets	1,737	-	-	64	**1,801**
At 31 December 2015	**1,973**	**2,542**	**14,162**	**64**	**18,741**
Depreciation and impairment losses					
At 1 January 2015	**-**	**1,561**	**9,462**	**-**	**11,023**
Depreciation charge	-	385	872	-	**1,257**
Disposals	-	(588)	(1,101)	-	**(1,689)**
At 31 December 2015	**-**	**1,358**	**9,233**	**-**	**10,591**
Net carrying amount					
At 31 December 2015	**1,973**	**1,184**	**4,929**	**64**	**8,150**
At 31 December 2014	**-**	**1,248**	**5,222**	**-**	**6,470**

Property and equipment, continued 24

The Bank

’000 EUR	Construction in progress	Vehicles	Office equipment	Advances	Total
Cost/Revalued amount					
1 January 2014	-	**2,364**	**14,403**	-	**16,767**
Additions	-	1,015	1,004	-	**2,019**
Disposals	-	(570)	(723)	-	**(1,293)**
At 31 December 2014	-	**2,809**	**14,684**	-	**17,493**
Depreciation and impairment losses					
At 1 January 2014	-	**1,809**	**9,420**	-	**11,229**
Depreciation charge	-	281	757	-	**1,038**
Disposals	-	(529)	(715)	-	**(1,244)**
At 31 December 2014	-	**1,561**	**9,462**	-	**11,023**
Net carrying amount					
At 31 December 2014	-	**1,248**	**5,222**	-	**6,470**
At 31 December 2013	-	**555**	**4,983**	-	**5,538**

25 Intangible assets

The Group

’000 EUR	Goodwill	Software	Other	Advances	Total
Cost amount					
At 1 January 2015	**2,512**	**11,658**	**2,056**	**-**	**16,226**
Additions	-	493	34	-	**527**
Disposals	-	-	(28)	-	**(28)**
Goodwill write off	(1,443)	-	-	-	**(1,443)**
Reclassification	-	78	(78)	-	**-**
Transfer from other assets	-	-	-	504	**504**
At 31 December 2015	**1,069**	**12,229**	**1,984**	**504**	**15,786**
Amortisation and impairment losses					
At 1 January 2015	**1,443**	**10,350**	**774**	**-**	**12,567**
Amortisation charge	-	559	125	-	**684**
Disposals	-	-	(27)	-	**(27)**
Impairment of goodwill write off	(1,443)	-	-	-	**(1,443)**
At 31 December 2015	**-**	**10,909**	**872**	**-**	**11,781**
Net carrying amount					
At 31 December 2015	**1,069**	**1,320**	**1,112**	**504**	**4,005**
At 31 December 2014	**1,069**	**1,308**	**1,282**	**-**	**3,659**

Intangible assets, continued | 25

The Group

'000 EUR	Goodwill	Software	Other	Advances	Total
Cost amount					
At 1 January 2014	**1,069**	**10,977**	**2,124**	**-**	**14,170**
Additions	-	684	32	-	**716**
Disposals	-	-	(100)	-	**(100)**
Purchase of subsidiary	1,443	-	-	-	**1,443**
Sale of subsidiary	-	(3)	-	-	**(3)**
At 31 December 2014	**2,512**	**11,658**	**2,056**	**-**	**16,226**
Amortisation and impairment losses					
At 1 January 2014	**-**	**9,943**	**740**	**-**	**10,683**
Amortisation charge		410	134	-	**544**
Disposals	-	-	(100)	-	**(100)**
Sale of subsidiary	-	(3)	-	-	**(3)**
Impairment loss	1,443	-	-	-	**1,443**
At 31 December 2014	**1,443**	**10,350**	**774**	**-**	**12,567**
Net carrying amount					
At 31 December 2014	**1,069**	**1,308**	**1,282**	**-**	**3,659**
At 31 December 2013	**1,069**	**1,034**	**1,384**	**-**	**3,487**

25 Intangible assets, continued

The Bank

’000 EUR	Goodwill	Software	Other	Advances	Total
Cost amount					
At 1 January 2015	**1,069**	**11,645**	**115**	**-**	**12,829**
Additions	-	493	19	-	**512**
Disposals	-	-	(14)	-	**(14)**
Reclassification	-	78	(78)	-	**-**
Advances	-	-	-	504	**504**
At 31 December 2015	**1,069**	**12,216**	**42**	**504**	**13,831**
Amortisation and impairment losses					
At 1 January 2015	**-**	**10,336**	**35**	**-**	**10,371**
Amortisation charge	-	562	1	-	**563**
Disposals	-	-	(13)	-	**(13)**
At 31 December 2015	**-**	**10,898**	**23**	**-**	**10,921**
Net carrying amount					
At 31 December 2015	**1,069**	**1,318**	**19**	**504**	**2,910**
At 31 December 2014	**1,069**	**1,309**	**80**	**-**	**2,458**

’000 EUR					
Cost amount					
At 1 January 2014	**1,069**	**10,962**	**97**	**-**	**12,128**
Additions	-	683	18	-	701
At 31 December 2014	**1,069**	**11,645**	**115**	**-**	**12,829**
Amortisation and impairment losses					
At 1 January 2014	**-**	**9,928**	**32**	**-**	**9,960**
Amortisation charge	-	408	3	-	**411**
At 31 December 2014	**-**	**10,336**	**35**	**-**	**10,371**
Net carrying amount					
At 31 December 2014	**1,069**	**1,309**	**80**	**-**	**2,458**
At 31 December 2013	**1,069**	**1,034**	**65**	**-**	**2,168**

Goodwill in amount of EUR 1,443 thousand that arose from acquisition of investment property managing subsidiaries and was impaired in 2014 was written off in 2015.

Investment property | 26

Investment property comprises residential properties and commercial properties, such as land or parts of buildings, and premises owned by the Group companies, which the Group does not occupy and which are leased to third parties, food product terminal and a hotel.

	31 Dec 2015 '000 EUR Group	31 Dec 2015 '000 EUR Bank	31 Dec 2014 '000 EUR Group	31 Dec 2014 '000 EUR Bank
Balance at 1 January	76,399	5,406	70,875	4,455
Collateral from loans assumed	-	-	995	995
Transferred from advances	17	-	2,867	-
Purchase of subsidiary	4,028	-	5,048	-
Transferred from property	6	-	28	-
Additions	4,567	1,451	3,504	189
Disposals	(2,129)	(36)	(4,181)	(852)
Revaluations	744	1,626	(598)	619
Currency revaluation	(664)	-	102	-
Sale of subsidiary	-	-	(2,241)	-
Balance at 31 December	**82,968**	**8,447**	**76,399**	**5,406**

Rental income and operating expense for the year ended 31 December 2015, the Group

	Carrying amount '000 EUR	Rental income '000 EUR	Operating expenses '000 EUR
Investment property rented out	55,245	2,566	1,709
Investment property held for value appreciation	27,723	-	327
Total	**82,968**	**2,566**	**2,036**

Rental income and operating expense for the year ended 31 December 2014, the Group

	Carrying amount '000 EUR	Rental income '000 EUR	Operating expenses '000 EUR
Investment property rented out	41,176	2,450	1,053
Investment property held for value appreciation	35,223	32	452
Total	**76,399**	**2,482**	**1,505**

Rental income and operating expenses are presented under Other income (expenses) in profit or loss.

26 | Investment property, continued

The following table shows the valuation technique used in measuring fair value of investment property of the Group and significant unobservable inputs used as at December 31, 2015:

Type	Valuation technique	Significant unobservable inputs	Carrying amount
Residential property		Average price per m^2	
- Riga - Jurmala - Other areas in Latvia	Market comparison technique: The fair value was based on results of comparable sales of similar properties	EUR 270-2,743 EUR 895-4,463 EUR 224-1,440	11,266 6,347 6,600
Land		Average price per m^2	
- Riga - Jurmala - Other areas in Latvia	Market comparison technique: The fair value was based on results of comparable sales of similar land plots	EUR 3-126 EUR 40-61 EUR 0.1-50	7,921 2,313 11,770
Commercial property		Average price per m^2	
- Riga - Other areas in Latvia - Belarus	Market comparison technique: The fair value was based on results of comparable sales of similar properties	EUR 205-1,500 EUR 295 EUR 329-806	13,845 541 1,667
- Riga region	Discounted cash flows technique: The model is based on discounted cash flows from rental income	Rental income per m^2 EUR 4.5-5.0 Annual discount rate of 7%	1,308
Commercial property			
- Hotels (Jurmala)	Discounted cash flows technique: The model is based on discounted cash flows from rental income	Annual discount rate of 7% EUR 65 – 365 income per hotel room The occupancy rate increasing over time from 40% to 50%	4,659
- Industrial production premises for rent (Riga region)	Market comparison technique: The fair value was based on results of comparable sales of similar properties	Average price per m^2 EUR 309	3,520
- Terminal (Ventspils)	Discounted cash flows technique: The model is based on discounted cash flows from transshipment, storage and blending of molasses	Income from molasses transshipment 11-13 EUR/t. Transshipment volumes 100 – 150 thousand tons per year. Annual discount rate of EBITDA 11%. Capitalization rate 9%.	3,880
- Shop (Riga)	Discounted cash flows technique: The model is based on discounted cash flows from rental income	Annual discount rate of 8.5% Occupancy rate 98% Rental income EUR 5.53 per m^2	3,254
- Commercial premises (Riga)	Discounted cash flows technique: The model is based on discounted cash flows from sales income after property reconstruction	Annual discount rate 5-15% Sales price for m2 EUR 2,800-3,300 Sales price for a car parking lot EUR 10,000	2,028
- Residential, office and shop premises (Riga)	Market comparison technique: The fair value was based on results of comparable sales of similar properties	Average price per m^2 EUR 727	2,049

Investment property, continued | 26

The following table shows the valuation technique used in measuring fair value of investment property of the Group and significant unobservable inputs used as at December 31, 2014:

Type	Valuation technique	Significant unobservable inputs	Carrying amount
Residential property		Average price per m^2	
- Riga - Jurmala - Other areas in Latvia	Market comparison technique: The fair value was based on results of comparable sales of similar properties	EUR 270-2,993 EUR 963-3,815 EUR 179-1,048	8,542 5,944 6,159
Land		Average price per m^2	
- Riga - Jurmala - Other areas in Latvia	Market comparison technique: The fair value was based on results of comparable sales of similar land plots	EUR 11-156 EUR 40-62 EUR 0.1-100	7,150 2,057 9,342
Commercial property		Average price per m^2	
- Riga - Riga region - Other areas in Latvia - Belarus	Market comparison technique: The fair value was based on results of comparable sales of similar properties	EUR 170-1,580 EUR 53-617 EUR 295 EUR 309-1,565	13,868 1,614 653 2,123
Commercial property			
- Hotels (Jurmala)	Discounted cash flows technique: The model is based on discounted cash flows from rental income	Annual discount rate of 7% EUR 65 – 365 income per hotel room The occupancy rate increasing over time from 40% to 50%	4,761
- Industrial production premises for rent (Riga region)	Discounted cash flows technique: The model is based on discounted cash flows from rental income	Annual discount rate of 6% Rental income EUR 1.6 - 2.0 per m^2	3,579
- Terminal (Ventspils)	Discounted cash flows technique: The model is based on discounted cash flows from transshipment, storage and blending of molasses	Income from molasses transshipment 11-13 EUR/t. Transshipment volumes 100 – 150 thousand tons per year. Annual discount rate of EBITDA 11%.	3,800
- Shop (Riga)	Discounted cash flows technique: The model is based on discounted cash flows from rental income	Annual discount rate of 7.5% Occupancy rate 99% Rental income EUR 6.7 per m^2	3,648
- Commercial premises (Riga)	Discounted cash flows technique: The model is based on discounted cash flows from sales income after property reconstruction	Annual discount rate 5-15% Sales price for m^2 EUR 1,600-2,500 Sales price for a car parking lot EUR 10,000	2,129
- Office and shop premises (Riga)	Market comparison technique: The fair value was based on results of comparable sales of similar properties	Average price per m^2 EUR 750	1,030

27 Other assets

	31 Dec 2015 '000 EUR Group	31 Dec 2015 '000 EUR Bank	31 Dec 2014 '000 EUR Group	31 Dec 2014 '000 EUR Bank
Other financial assets				
Cash in transit	6,058	4,669	15	138
Guarantee receivable from borrower	1,432	1,432	-	-
Other	380	357	-	-
Impairment allowance on guarantee receivable	(354)	(354)	-	-
Other non-financial assets				
Collateral assumed on non-performing loans	6,812	6,812	8,918	8,918
Prepayments	598	483	1,559	1,178
Prepayments for property obtained in auctions	-	-	648	-
Guarantee receivable from borrower	3,568	3,568	3,560	3,560
Recoverable VAT	459	94	1,619	177
Tax prepayments	3	-	4	-
Other	7,019	8,720	8,477	9,578
Impairment allowance	(3,788)	(3,451)	(2,245)	(1,933)
	22,187	**22,330**	**22,555**	**21,616**

Analysis of movements in the value of collateral assumed on non-performing loans	2015 '000 EUR Group	2015 '000 EUR Bank	2014 '000 EUR Group	2014 '000 EUR Bank
Balance at the beginning of the year	8,918	8,918	10,013	10,013
Sale of collateral completed	(103)	(103)	(36)	(36)
Reclassified to investment property	-	-	(995)	(995)
Reclassifies to property and equipment	(1,737)	(1,737)	-	-
Write-offs	(266)	(266)	(64)	(64)
Balance at the end of the year	**6,812**	**6,812**	**8,918**	**8,918**

Other assets, continued | 27

Collateral assumed on non-performing loans by type of property	31 Dec 2015 '000 EUR Group	31 Dec 2015 '000 EUR Bank	31 Dec 2014 '000 EUR Group	31 Dec 2014 '000 EUR Bank
Residential property	6,174	6,174	7,991	7,991
Land	565	565	832	832
Commercial property	73	73	95	95
	6,812	**6,812**	**8,918**	**8,918**

Analysis of movements in the impairment allowance	2015 '000 EUR Group	2015 '000 EUR Bank	2014 '000 EUR Group	2014 '000 EUR Bank
Balance at the beginning of the year	2,245	1,933	2,561	2,327
Charge for the year	2,310	2,181	132	55
Recovery	(7)	(7)	(23)	(23)
Written off	(406)	(302)	(428)	(428)
Currency revaluation	-	-	3	2
Balance at the end of the year	**4,142**	**3,805**	**2,245**	**1,933**

Deposits and balances due to banks | 28

	31 Dec 2015 '000 EUR Group	31 Dec 2015 '000 EUR Bank	31 Dec 2014 '000 EUR Group	31 Dec 2014 '000 EUR Bank
Vostro accounts	49,710	49,710	12,681	11,223
Term deposits	680	-	515	515
	50,390	**49,710**	**13,196**	**11,738**

Concentration of deposits and balances due to banks

As at 31 December 2015 the Bank and the Group had balances with two clients (two as at 31 December 2014), which exceeded 10 % of total deposits and balances from banks. The gross value of these balances as of 31 December 2015 was EUR 15,609 thousand and EUR 15,229 thousand accordingly (2014: EUR 5,344 thousand and EUR 15,711 thousand).

29 Current accounts and deposits due to customers

	31 Dec 2015 '000 EUR Group	31 Dec 2015 '000 EUR Bank	31 Dec 2014 '000 EUR Group	31 Dec 2014 '000 EUR Bank
Private companies				
- current accounts	2,211,610	2,242,376	2,116,564	2,142,843
- term deposits	155,232	153,090	241,770	182,380
Total private companies	**2,366,842**	**2,395,466**	**2,358,334**	**2,325,223**
Government				
- current accounts	40	40	39	39
- term deposits	47	-	-	-
Total government	**87**	**40**	**39**	**39**
Private individuals				
- current accounts	616,140	616,218	544,159	544,159
- term deposits	220,923	219,834	180,174	238,536
Total private individuals	**837,063**	**836,052**	**724,333**	**782,695**
Total current accounts and deposits due to customers	**3,203,992**	**3,231,558**	**3,082,706**	**3,107,957**

(A) Blocked accounts

As of 31 December 2015, the Bank maintained customer deposit balances of EUR 6,028 thousand (2014: EUR 12,242 thousand) which were blocked by the Bank as collateral for loans and financial guarantees and letters of credit granted by the Bank.

(B) Concentrations of current accounts and customer deposits

As of 31 December 2015 and 2014, the Bank and the Group had no customers, whose balances exceeded 10% of total customer accounts.

Issued debt securities | 30

Subordinated bonds and ordinary bonds have a fixed term at their origination. Subordinated bonds are repayable before maturity only on winding up or bankruptcy of the Bank. Subordinated bonds rank before shareholders' claims. All bonds are listed on the Nasdaq OMX Riga exchange with the following maturities and carrying amounts:

ISIN	Currency	Number of initially issued securities	Par value	Date of issue	Date of maturity	Discount /coupon rate, %	Group 31/12/2015	Bank 31/12/2015	Group/ Bank 31/12/2014
Subordinated bonds									
LV0000800993	EUR	200	50 000	07.12.2012	07.09.2019	7.0	10,222	10,222	10,222
LV0000801009	USD	80	75 000	07.12.2012	07.09.2019	7.0	5,633	5,633	5,051
LV0000801025	USD	67	75 000	07.12.2012	14.09.2019	7.0	4,712	4,712	4,225
Subordinated bonds, total							**20,567**	**20,567**	**19,498**
Ordinary bonds									
LV0000801918	USD	280	75 000	10.12.2015	10.12.2017	2.25	19,314	19,314	-
LV0000801900	EUR	200	50 000	10.12.2015	10.12.2017	2.00	10,012	10,012	-
LV0000801975	USD	100	75 000	22.12.2015	22.12.2017	2.25	5,891	6,892	-
Ordinary bonds, total							**35,217**	**36,218**	**-**
Issued debt securities, total ('000 EUR)							**55,784**	**56,785**	**19,498**

There were no defaults on interest or other breaches with respect to issued debt securities.

31 Other liabilities and accruals

	31 Dec 2015 '000 EUR Group	31 Dec 2015 '000 EUR Bank	31 Dec 2014 '000 EUR Group	31 Dec 2014 '000 EUR Bank
Other financial liabilities				
Cash in transit	2,152	-	-	-
Other	101	101	-	-
Other non-financial liabilities				
Management bonus accrual	4,303	4,230	5,118	5,042
Deferred income	3,570	1,355	3,217	1,261
Annual leave accrual	1,986	1,753	1,219	1,072
Deposits guarantee fund	1,705	1,232	1,112	1,062
VAT payable	928	-	547	-
Prepayments	156	9	311	20
Dividends payable	24	6	24	6
Accounts payable to suppliers and other	8,826	5,977	4,578	2,345
	23,751	**14,663**	**16,126**	**10,808**

Deferred tax asset and liability 32

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities as of 31 December 2015 and 2014.

These taxable and tax deductible temporary differences, which have no expiry dates, are listed below at their tax affected accumulated values:

The Group

	Assets		Liabilities		Net	
’000 EUR	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Financial instruments at fair value through profit or loss	87	39	-	-	87	39
Loans and advances to customers	489	394	(500)	-	(11)	394
Available-for-sale financial assets	825	806	(156)	-	669	806
Property and equipment	16	8	(1,640)	(1,351)	(1,624)	(1,343)
Intangible assets	-	-	(162)	-	(162)	-
Investment property	-	-	(2,260)	(2,318)	(2,260)	(2,318)
Other assets	462	282	(50)	(34)	412	248
Tax loss carried forward	344	59	-	-	344	59
Other liabilities	1,173	1,193	-	-	1,173	1,193
Total recognised deferred tax assets/(liabilities)	**3,396**	**2,781**	**(4,768)**	**(3,703)**	**(1,372)**	**(922)**
Unrecognised deferred tax assets					**(1,498)**	**(1,164)**
Recognised deferred tax liabilities					**(2,870)**	**(2,086)**

The rate of tax applicable for deferred taxes equals tax rates applicable in countries in which subsidiaries operate, as disclosed in Note 15.

32 Deferred tax asset and liability, continued

Movement in temporary differences during the year ended 31 December 2015	2015 '000 EUR	2014 '000 EUR
Balance at 1 January – deferred tax liability	(2,571)	(2,803)
Balance at 1 January – deferred tax asset	485	472
Prior year adjustment		26
Purchase of subsidiaries	-	(1)
Sale of subsidiary	-	(43)
Charge / Release to profit for the year	(684)	12
Transfer to retained earnings	-	9
Charge / Release in other comprehensive income	(156)	177
Currency revaluation	56	65
Balance at 31 December	**(2,870)**	**(2,086)**
Deferred tax asset	**376**	**485**
Deferred tax liability	**(3,246)**	**(2,571)**

Deferred tax asset and liability are shown net on individual subsidiaries level, but are not netted on Group level.

The Bank

	Assets		Liabilities		Net	
'000 EUR	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Financial instruments at fair value through profit or loss	87	39		-	87	39
Loans and advances to customers	154	120		-	154	120
Available-for-sale financial assets	1,714	1,699	(635)	(479)	1,079	1,220
Investments in subsidiaries	1,743	1,750	-	-	1,743	1,750
Property and equipment	-	152	(1,280)	(1,162)	(1,280)	(1,010)
Investment property	-	-	(302)	(47)	(302)	(47)
Other assets	425	192	-	-	425	192
Other liabilities	1,136	972	-	-	1,136	972
Total recognised deferred tax assets/(liabilities)	**5,259**	**4,924**	**(2,217)**	**(1,688)**	**3,042**	**3,236**
Unrecognised deferred tax assets					**(3,233)**	**(3,108)**
Recognised deferred tax assets/(liabilities)					**(191)**	**128**

The rate of tax applicable for deferred taxes was 15% (2014: 15%).

Share capital and reserves | 33

(A) Issued capital and share premium

The largest shareholders of the Bank as of December 31, 2015 and December 31, 2014 are as follows:

	2015 '000 EUR	%	2014 '000 EUR	%
Ordinary shares				
Companies non-residents				
Boswell (International) Consulting Limited	47,111	33.11%	47,111	33.11%
Companies residents			-	
Esterkin Family Investments Ltd	47,125	33.12%	-	-
Suharenko Family Investments Ltd	24,665	17.34%	-	-
Other	1,579	1.1%	-	-
Private persons				
Leonid Esterkin	-	-	47,126	33.12%
Arkady Suharenko	-	-	24,665	17.34%
Others	21,807	15.33%	23,385	16.43%
Ordinary shares, total	**142,287**	**100%**	**142,287**	**100%**
Preference shares				
Companies	11,637		7,963	
Private persons	14,992		10,593	
Preference shares, total	**26,629**		**18,556**	
Issued capital	**168,916**		**160,843**	
Share premium	**52,543**		**33,882**	

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank and to residual assets.

(A) Issue of preference shares

Preference shares are shares which have preference over ordinary shares for payment of dividend. The dividend is defined as percentage of issuance price and if not paid, it is accumulated. It is upon Bank's discretion to delay the dividend payments indefinitely. Preference share shareholders do have voting rights if dividends are not received or are partly received for two consecutive years.

Issue date	Number of issued shares	Share value (EUR)	Share Premium (EUR)
March 2014	13,254,238	1.4	2.04
January 2015	1,915,142	1.4	3.03
March 2015	835,614	1.4	3.16
June 2015	429,869	1.4	3.02
August 2015	2,585,445	1.4	3.45

(B) Dividends

During reporting period dividends for the previous period were paid in amount of EUR 17,487 thousand. As at reporting date dividends in the amount of EUR 36,090 thousand were proposed. Paid and proposed dividends are proportionately divided between ordinary and preference shares.

(C) Other reserves

Out of all Other reserves those amounting to EUR 23 thousand at the Bank (2014: EUR 23 thousand) represent contributions made by shareholders in previous years.

(D) Fair value reserve

The fair value reserve represents the changes in fair value of available for sale assets and is reduced by deferred tax charged on unrealised gains or losses on revaluation of the available for sale financial instruments.

33 Share capital and reserves, continued

(E) Revaluation reserve

A revaluation reserve represents the increase in the fair value of real estate properties classified under Property and equipment.

	2015 '000 EUR Group	2015 '000 EUR Bank	2014 '000 EUR Group	2014 '000 EUR Bank
Revaluation reserve as at 1 January	1,387	-	2,217	-
Transfer to retained earnings	(24)	-	(24)	-
Release of revaluation reserve due to sale of property	-	-	(59)	-
Deferred tax on change in revaluation reserve	-	-	9	-
Transfer from other reserves	1	-	-	-
Sale of subsidiary	-	-	(756)	-
Revaluation reserve as at 31 December	**1,364**	**-**	**1,387**	**-**

34 Cash and cash equivalents

Cash and cash equivalents consist of the following:

	31 Dec 2015 '000 EUR Group	31 Dec 2015 '000 EUR Bank	31 Dec 2014 '000 EUR Group	31 Dec 2014 '000 EUR Bank
Cash	4,671	4,619	5,279	5,257
Balances due from the Bank of Latvia	877,197	877,197	153,295	153,295
	881,868	**881,816**	**158,574**	**158,552**
Demand loans and receivables from banks	819,577	819,170	1,552,447	1,551,774
Demand deposits and balances due to banks	(49,710)	(49,710)	(12,681)	(11,223)
Total	**1,651,735**	**1,651,276**	**1,698,340**	**1,699,103**

Commitments and guarantees | 35

At any time the Bank has outstanding commitments to extend credit. These commitments take the form of approved loans, credit card limits and overdraft facilities.

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years.

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for guarantees and letters of credit represent the maximum credit exposure that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

The total outstanding contractual commitments to extend credit indicated above does not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

	31 Dec 2015 '000 EUR Group	31 Dec 2015 '000 EUR Bank	31 Dec 2014 '000 EUR Group	31 Dec 2014 '000 EUR Bank
Contracted amount				
Loan and credit line commitments	14,396	18,515	32,400	38,184
Credit card commitments	9,027	9,028	9,503	9,504
Undrawn overdraft facilities	11,435	11,435	15,153	15,153
Guarantees and letters of credit	9,779	9,779	17,493	17,493
Total	**44,637**	**48,757**	**74,549**	**80,334**

Litigations | 36

In the ordinary course of business, the Bank is subject to legal actions and complaints. As at 31 December 2015 there were 9 legal proceedings outstanding against the Bank. Total amount disputed in these proceedings is EUR 3,329 thousand (2014: EUR 4,698 thousand). No provisions were recognised as at 31 December 2015 and 2014, as the management based on the professional advice to the Bank considers that the loss is not likely to eventuate.

37 Reverse repo

	31 Dec 2015 '000 EUR Group	31 Dec 2015 '000 EUR Bank	31 Dec 2014 '000 EUR Group	31 Dec 2014 '000 EUR Bank
Nomura International plc	88,554	88,554	59,747	59,747
KBC Bank NV	-	-	50,010	50,010
Merrill Lynch International	-	-	43,466	43,466
Brissard International	12	12	12	12
Total	**88,566**	**88,566**	**153,235**	**153,235**

38 Trust and custody activities

(A) Trust activities

Funds under trust management represent securities and other assets managed and held by the Bank and the Group on behalf of customers. The Bank and the Group earn commission income for holding such assets.

The Bank and the Group are not subject to interest, credit, liquidity, price and currency risk with respect of these securities in accordance with the agreements concluded with the customers. As at 31 December 2015 the total assets held by the Group on behalf of customers and assets under management were EUR 520,462 thousand (2014: EUR 456,453 thousand) and by the Bank EUR 519,036 thousand (2014: EUR 465,073 thousand) accordingly.

Related party transactions | 39

Related parties are defined as shareholders who have significant influence over the Bank, companies in which they have a controlling interest, members of the Council and Board of Directors, key management personnel, their close relatives and companies in which they have a controlling interest, as well as subsidiaries and associated companies.

'000 EUR	31 Dec 2015			31 Dec 2014		
	Subsidiaries and associates	Key management	Other related parties	Subsidiaries and associates	Key management	Other related parties
Loans and receivables due from customers (gross)	102,215	319	18,357	106,216	472	18,428
Specific impairment allowance	(396)	-	-	(688)	-	-
Current accounts and deposits due to customers	22,055	22,998	31,632	26,777	37,147	8,927
Issued debt securities	1,001	153	-	-	153	-
Commitments and guarantees	4,119	819	136	6,034	843	182
Interest income	6,064	13	969	5,775	20	885
Interest expense	4	1,550	1,162	-	1,329	1,092

Total remuneration included in General administrative expenses (Note 14):

	31 Dec 2015 '000 EUR Group	31 Dec 2015 '000 EUR Bank	31 Dec 2014 '000 EUR Group	31 Dec 2014 '000 EUR Bank
Members of the Council	243	203	165	312
Members of the Board of Directors	4,315	3,370	3,455	2,499
Total	**4,558**	**3,573**	**3,620**	**2,811**

During the year 2015, the Bank paid rent and maintenance expenses to its subsidiary Vesetas 7 Ltd in the amount of EUR 2,306 thousand (2014: EUR 2,475 thousand).

During the year 2015, the Bank received dividends from its subsidiaries Rietumu Leasing Ltd EUR 1,718 thousand (2014: EUR 1,292 thousand) and InCredit GROUP Ltd in the amount of EUR 612 thousand (2014: EUR 547 thousand).

40 Fair value of financial instruments

(A) Financial instruments measured at fair value

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised.

The Group

31 Dec 2015	Level (1)	Level (2)	Level (3)	Total
Financial assets				
Available for sale assets	456,380	191	27,493	484,064
Financial assets at fair value through profit or loss	15,481	958	-	16,439
Financial liabilities				
Financial investments at fair value through profit or loss	-	19	-	19

31 Dec 2014	Level (1)	Level (2)	Level (3)	Total
Financial assets				
Available for sale assets	99,573	-	619	100,192
Financial assets at fair value through profit or loss	10,819	739	-	11,558
Financial liabilities				
Financial investments at fair value through profit or loss	-	161	-	161

The Bank

31 Dec 2015	Level (1)	Level (2)	Level (3)	Total
Financial assets				
Available for sale assets	470,027	-	59,762	529,789
Financial assets at fair value through profit or loss	183	983	-	1,166
Financial liabilities				
Financial investments at fair value through profit or loss	-	19	-	19

31 Dec 2014	Level (1)	Level (2)	Level (3)	Total
Financial assets				
Available for sale assets	112,002	-	32,664	144,666
Financial assets at fair value through profit or loss	4,402	739	-	5,141
Financial liabilities				
Financial investments at fair value through profit or loss	-	161	-	161

Fair value of financial instruments, continued | 40

The following table shows the valuation techniques used in measuring Level 2 fair values:

Type	Valuation technique
Financial assets and liabilities at fair value through profit or loss	Market comparison technique: The fair values are based on broker quotes. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments.

Under Level 3 of fair value hierarchy were classified unites of RB Opportunity fund and certain shares, the fair value of which is measured based on estimated fair value of underlying assets. Shares in Visa Europe Limited are valued based on calculation received from Visa Europe Limited as part of the acquisition by Visa Inc. and management estimation, classified under Level 3.

40 | Fair value of financial instruments, continued

(B) Financial instruments not measured at fair value

The table below analyses the fair values of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised.

The Group

31 December 2015	Level 1 '000 EUR	Level 2 '000 EUR	Level 3 '000 EUR	Total fair values '000 EUR	Total carrying amount '000 EUR
Financial assets					
Cash and balances with the central banks	-	-	881,868	881,868	881,868
Loans and receivables due from banks	-	-	841,210	841,210	841,210
Loans and receivables due from customers	-	-	1,101,772	1,101,772	1,101,772
Reverse repo	-	-	88,566	88,566	88,566
Held-to-maturity instruments	222,111	-	-	222,111	220,510
Other financial assets	-	-	7,516	7,516	7,516
Financial liabilities					
Deposits and balances due to banks	-	-	50,390	50,390	50,390
Deposits and balances due to customers	-	-	3,203,992	3,203,992	3,203,992
Issued debt securities	-	-	55,784	55,784	55,784
Other financial liabilities	-	-	2,253	2,253	2,253
31 December 2014					
Financial assets					
Cash and balances with the central banks	-	-	158,574	158,574	158,574
Loans and receivables due from banks	-	-	1,771,391	1,771,391	1,771,391
Loans and receivables due from customers	-	-	1,041,444	1,041,444	1,041,444
Reverse repo	-	-	153,235	153,235	153,235
Held-to-maturity instruments	91,277	-	-	91,277	92,825
Other financial assets	-	-	15	15	15
Financial liabilities					
Deposits and balances due to banks	-	-	13,196	13,196	13,196
Deposits and balances due to customers	-	-	3,082,706	3,082,706	3,082,706
Issued debt securities	-	-	19,498	19,498	19,498

Fair value of financial instruments, continued | 40

The Bank

31 December 2015	Level 1 '000 EUR	Level 2 '000 EUR	Level 3 '000 EUR	Total fair values '000 EUR	Total carrying amount '000 EUR
Financial assets					
Cash and balances with the central banks	-	-	881,816	881,816	881,816
Loans and receivables due from banks	-	-	840,803	840,803	840,803
Loans and receivables due from customers	-	-	1,151,789	1,151,789	1,151,789
Reverse repo	-	-	88,566	88,566	88,566
Held-to-maturity instruments	219,507	-	-	219,507	217,901
Other financial assets	-	-	6,104	6,104	6,104
Financial liabilities					
Deposits and balances due to banks	-	-	49,710	49,710	49,710
Deposits and balances due to customers	-	-	3,231,558	3,231,558	3,231,558
Issued debt securities	-	-	56,785	56,785	56,785
Other financial liabilities	-	-	101	101	101
31 December 2014					
Financial assets					
Cash and balances with the central banks	-	-	158,552	158,552	158,552
Loans and receivables due from banks	-	-	1,770,718	1,770,718	1,770,718
Loans and receivables due from customers	-	-	1,087,989	1,087,989	1,087,989
Reverse repo	-	-	153,235	153,235	153,235
Held-to-maturity instruments	88,268	-	-	88,268	89,808
Other financial assets	-	-	138	138	138
Financial liabilities					
Deposits and balances due to banks	-	-	11,738	11,738	11,738
Deposits and balances due to customers	-	-	3,107,957	3,107,957	3,107,957
Issued debt securities	-	-	19,498	19,498	19,498

41 Currency analysis

The following table shows the currency structure of financial assets and liabilities of the Group as at 31 December 2015:

The Group

	EUR '000 EUR	USD '000 EUR	Other currencies '000 EUR	Total '000 EUR
Financial assets				
Cash and balances with the central bank	879,447	1,579	842	**881,868**
Financial instruments at fair value through profit or loss	898	15,460	81	**16,439**
Loans and receivables due from banks	45,433	677,716	118,061	**841,210**
Loans and receivables due from customers	373,275	720,366	8,131	**1,101,772**
Reverse repo	-	88,566	-	**88,566**
Available-for-sale assets	48,196	433,083	2,785	**484,064**
Held-to-maturity investments	4,626	215,884	-	**220,510**
Total financial assets	**1,351,875**	**2,152,654**	**129,900**	**3,634,429**
Financial liabilities				
Financial instruments at fair value through profit or loss	19	-	-	**19**
Deposits and balances due to banks	16,999	26,777	6,614	**50,390**
Current accounts and deposits due to customers	1,001,672	2,070,547	131,773	**3,203,992**
Issued debt securities	19,232	36,552	-	**55,784**
Total financial liabilities	**1,037,922**	**2,133,876**	**138,387**	**3,310,185**
Net position as of 31 December 2015	**313,953**	**18,778**	**(8,487)**	
Net off balance sheet position as of 31 December 2015	**(2,628)**	**(1,980)**	**4,608**	
Net total positions as of 31 December 2015	**311,325**	**16,798**	**(3,879)**	
Net total positions as of 31 December 2014	**221,448**	**(920)**	**(6,869)**	

Currency analysis, continued | 41

The following table shows the currency structure of financial assets and liabilities of the Group as at 31 December 2014

The Group

	EUR '000 EUR	USD '000 EUR	Other currencies '000 EUR	Total '000 EUR
Financial assets				
Cash and balances with the central bank	156,713	1,515	346	**158,574**
Financial instruments at fair value through profit or loss	851	9,358	1,349	**11,558**
Loans and receivables due from banks	639,667	1,012,099	119,625	**1,771,391**
Loans and receivables due from customers	410,374	624,539	6,531	**1,041,444**
Reverse repo	76,790	76,445	-	**153,235**
Available-for-sale assets	18,715	81,439	38	**100,192**
Held-to-maturity investments	4,625	88,200	-	**92,825**
Total financial assets	**1,307,735**	**1,893,595**	**127,889**	**3,329,219**
Financial liabilities				
Financial instruments at fair value through profit or loss	161	-	-	**161**
Deposits and balances due to banks	4,691	7,496	1,009	**13,196**
Current accounts and deposits due to customers	1,067,923	1,883,569	131,214	**3,082,706**
Issued debt securities	10,222	9,276	-	**19,498**
Total financial liabilities	**1,082,997**	**1,900,341**	**132,223**	**3,115,561**
Net position as of 31 December 2014	**224,738**	**(6,746)**	**(4,334)**	
Net off balance sheet position as of 31 December 2014	**(3,290)**	**5,826**	**(2,536)**	
Net total positions as of 31 December 2014	**221,448**	**(920)**	**(6,869)**	
Net total positions as of 31 December 2013	**110,362**	**43,961**	**6,498**	

41 Currency analysis, continued

The following table shows the currency structure of financial assets and liabilities of the Bank as at 31 December 2015:

The Bank

	EUR '000 EUR	USD '000 EUR	Other currencies '000 EUR	Total '000 EUR
Financial assets				
Cash and balances with the central bank	879,395	1,579	842	**881,816**
Financial instruments at fair value through profit or loss	849	317	-	**1,166**
Loans and receivables due from banks	45,129	677,688	117,986	**840,803**
Loans and receivables due from customers	423,476	720,182	8,131	**1,151,789**
Reverse repo	-	88,566	-	**88,566**
Available-for-sale assets	80,274	446,730	2,785	**529,789**
Held-to-maturity investments	4,626	213,275	-	**217,901**
Total financial assets	**1,433,749**	**2,148,337**	**129,744**	**3,711,830**
Financial liabilities				
Financial instruments at fair value through profit or loss	19	-	-	**19**
Deposits and balances due to banks	16,357	26,739	6,614	**49,710**
Current accounts and deposits due to customers	1,015,816	2,083,906	131,836	**3,231,558**
Issued debt securities	20,233	36,552	-	**56,785**
Total financial liabilities	**1,052,425**	**2,147,197**	**138,450**	
Net position as of 31 December 2015	**381,324**	**1,140**	**(8,706)**	
Net off balance sheet position as of 31 December 2015	**(2,628)**	**(1,980)**	**4,608**	
Net total positions as of 31 December 2015	**378,696**	**(840)**	**(4,098)**	
Net total positions as of 31 December 2014	**282,403**	**(4,576)**	**(7,072)**	

Currency analysis, continued | 41

The following table shows the currency structure of financial assets and liabilities of the Bank as at 31 December 2014:

The Bank

	EUR '000 EUR	USD '000 EUR	Other currencies '000 EUR	Total '000 EUR
Financial assets				
Cash and balances with the central bank	156,691	1,515	346	**158,552**
Financial instruments at fair value through profit or loss	851	2,941	1,349	**5,141**
Loans and receivables due from banks	639,307	1,011,960	119,451	**1,770,718**
Loans and receivables due from customers	456,517	624,941	6,531	**1,087,989**
Reverse repo	76,790	76,445	-	**153,235**
Available-for-sale assets	50,762	93,844	60	**144,666**
Held-to-maturity investments	4,625	85,183	-	**89,808**
Total financial assets	**1,385,543**	**1,896,829**	**127,737**	**3,410,109**
Financial liabilities				
Financial instruments at fair value through profit or loss	161	-	-	**161**
Deposits and balances due to banks	4,691	6,039	1,008	**11,738**
Current accounts and deposits due to customers	1,084,776	1,891,916	131,265	**3,107,957**
Issued debt securities	10,222	9,276	-	**19,498**
Total financial liabilities	**1,099,850**	**1,907,231**	**132,273**	**3,139,354**
Net position as of 31 December 2014	**285,693**	**(10,402)**	**(4,536)**	
Net off balance sheet position as of 31 December 2014	**(3,290)**	**5,826**	**(2,536)**	
Net total positions as of 31 December 2014	**282,403**	**(4,576)**	**(7,072)**	
Net total positions as of 31 December 2013	**178,861**	**44,227**	**6,231**	

42 Interest rate risk analysis

The following table shows the interest rate contracted re-pricing risk of financial assets and liabilities of the Group as at December 31, 2015, based on the earlier of contractual interest rate repricing or maturity:

	Less than 1 month '000 EUR	1 to 3 months '000 EUR	3 months to 1 year '000 EUR	1 to 5 years '000 EUR	More than 5 years '000 EUR	Non-interest bearing '000 EUR	Total '000 EUR
Financial assets							
Cash and balances with the central bank	-	-	-	-	-	881,868	**881,868**
Financial instruments at fair value through profit or loss	-	-	292	5,620	8,995	1,532	**16,439**
Loans and receivables due from banks	590,277	-	-	-	-	250,933	**841,210**
Loans and receivables due from customers	168,738	362,397	88,742	177,845	1,027	303,023	**1,101,772**
Reverse repo	88,554	-	-	-	-	12	**88,566**
Available-for-sale assets	185,404	1,594	48,761	201,317	18,809	28,179	**484,064**
Held-to-maturity investments	1,172	1,641	2,023	205,273	10,401	-	**220,510**
Total financial assets	**1,034,145**	**365,632**	**139,818**	**590,055**	**39,232**	**1,465,547**	**3,634,429**
Financial liabilities							
Financial instruments at fair value through profit or loss	-	-	-	-	-	19	**19**
Deposits and balances due to banks	-	-	-	-	-	50,390	**50,390**
Current accounts and deposits due to customers	21,590	32,020	98,069	188,725	34,017	2,829,571	**3,203,992**
Issued debt securities	-	-	-	55,784	-	-	**55,784**
Total financial liabilities	**21,590**	**32,020**	**98,069**	**244,509**	**34,017**	**2,879,980**	**3,310,185**
Net position as at 31 December 2015	**1,012,555**	**333,612**	**41,749**	**345,546**	**5,215**	**(1,414,433)**	
Net position as at 31 December 2014	**369,735**	**469,232**	**(49,085)**	**(30,142)**	**38,086**	**(584,168)**	

Interest rate risk analysis, continued 42

The following table shows the interest rate contracted re-pricing risk of financial assets and liabilities of the Group as at December 31, 2014, based on the earlier of contractual interest rate repricing or maturity:

	Less than 1 month '000 EUR	1 to 3 months '000 EUR	3 months to 1 year '000 EUR	1 to 5 years '000 EUR	More than 5 years '000 EUR	Non-interest bearing '000 EUR	Total '000 EUR
Financial assets							
Cash and balances with the central bank	-	-	-	-	-	158,574	**158,574**
Financial instruments at fair value through profit or loss	40	20	3,843	-	-	7,655	**11,558**
Loans and receivables due from banks	168,934	-	-	-	-	1,602,457	**1,771,391**
Loans and receivables due from customers	141,669	478,253	89,155	114,079	6,751	211,537	**1,041,444**
Reverse repo	50,010	-	-	-	-	103,225	**153,235**
Available-for-sale assets	1,836	2,265	3,709	63,408	27,831	1,143	**100,192**
Held-to-maturity investments	16,949	222	261	47,271	25,105	3,017	**92,825**
Total financial assets	**379,438**	**480,760**	**96,968**	**224,758**	**59,687**	**2,087,608**	**3,329,219**
Financial liabilities							
Financial instruments at fair value through profit or loss	-	-	-	-	-	161	**161**
Deposits and balances due to banks	152	132	531	1,157	-	11,224	**13,196**
Current accounts and deposits due to customers	9,551	11,396	145,522	234,245	21,601	2,660,391	**3,082,706**
Issued debt securities	-	-	-	19,498	-	-	**19,498**
Total financial liabilities	**9,703**	**11,528**	**146,053**	**254,900**	**21,601**	**2,671,776**	**3,115,561**
Net position as at 31 December 2014	**369,735**	**469,232**	**(49,085)**	**(30,142)**	**38,086**	**(584,168)**	
Net position as at 31 December 2013	**442,380**	**433,126**	**69,645**	**(18,772)**	**(19,487)**	**(746,071)**	

42 Interest rate risk analysis, continued

The following table shows the interest rate contracted re-pricing risk of financial assets and liabilities of the Bank as at December 31, 2015, based on the earlier of contractual interest rate repricing or maturity:

	Less than 1 month '000 EUR	1 to 3 months '000 EUR	3 months to 1 year '000 EUR	1 to 5 years '000 EUR	More than 5 years '000 EUR	Non-interest bearing '000 EUR	Total '000 EUR
Financial assets							
Cash and balances with the central bank	-	-	-	-	-	881,816	**881,816**
Financial instruments at fair value through profit or loss	-	-	-	-	-	1,166	**1,166**
Loans and receivables due from banks	590,277	-	-	-	-	250,526	**840,803**
Loans and receivables due from customers	180,482	419,857	82,176	165,508	1,016	302,750	**1,151,789**
Reverse repo	88,554	-	-	-	-	12	**88,566**
Available-for-sale assets	185,404	1,594	48,761	201,317	18,809	73,904	**529,789**
Held-to-maturity investments	801	893	533	205,273	10,401	-	**217,901**
Total financial assets	**1,045,518**	**422,344**	**131,470**	**572,098**	**30,226**	**1,510,174**	**3,711,830**
Financial liabilities							
Financial instruments at fair value through profit or loss	-	-	-	-	-	19	**19**
Deposits and balances due to banks	-	-	-	-	-	49,710	**49,710**
Current accounts and deposits due to customers	21,590	32,013	97,065	188,253	34,004	2,858,633	**3,231,558**
Issued debt securities	-	-	-	56,785	-	-	**56,785**
Total financial liabilities	**21,590**	**32,013**	**97,065**	**245,038**	**34,004**	**2,908,362**	**3,338,072**
Net position as at 31 December 2015	**1,023,928**	**390,331**	**34,405**	**327,060**	**(3,778)**	**(1,398,188)**	
Net position as at 31 December 2014	**366,656**	**465,775**	**(45,380)**	**22,038**	**38,138**	**(576,472)**	

Interest rate risk analysis, continued | 42

The following table shows the interest rate contracted re-pricing risk of financial assets and liabilities of the Bank as at December 31, 2014, based on the earlier of contractual interest rate repricing or maturity:

	Less than 1 month '000 EUR	1 to 3 months '000 EUR	3 months to 1 year '000 EUR	1 to 5 years '000 EUR	More than 5 years '000 EUR	Non-interest bearing '000 EUR	Total '000 EUR
Financial assets							
Cash and balances with the central bank	-	-	-	-	-	158,552	**158,552**
Financial instruments at fair value through profit or loss	40	20	3,843	-	-	1,238	**5,141**
Loans and receivables due from banks	168,934	-	-	-	-	1,601,784	**1,770,718**
Loans and receivables due from customers	138,141	474,664	92,291	164,605	6,751	211,537	**1,087,989**
Reverse repo	50,010	-	-	-	-	103,225	**153,235**
Available-for-sale assets	1,836	2,265	3,709	63,408	27,831	45,617	**144,666**
Held-to-maturity investments	16,949	222	261	47,271	25,105	-	**89,808**
Total financial assets	**375,910**	**477,171**	**100,104**	**275,284**	**59,687**	**2,121,953**	**3,410,109**
Financial liabilities							
Financial instruments at fair value through profit or loss	-	-	-	-	-	161	**161**
Deposits and balances due to banks	-	-	-	515	-	11,223	**11,738**
Current accounts and deposits due to customers	9,254	11,396	145,484	233,233	21,549	2,687,041	**3,107,957**
Issued debt securities	-	-	-	19,498	-	-	**19,498**
Total financial liabilities	**9,254**	**11,396**	**145,484**	**253,246**	**21,549**	**2,698,425**	**3,139,354**
Net position as at 31 December 2014	**366,656**	**465,775**	**(45,380)**	**22,038**	**38,138**	**(576,472)**	
Net position as at 31 December 2013	**451,259**	**478,000**	**63,568**	**(20,160)**	**(9,805)**	**(733,543)**	

43 Operating segments

The Group has four reportable segments, as described below, which are the Group`s strategic business units. The strategic business units offer different products and services, and are managed separately based on the Group's management and internal reporting structure.

For each of the strategic business units, the Group upper level management reviews internal management reports on at least monthly basis.

The following summary describes the operations in each of the Group`s reportable segments:

Lending & Investment	Includes commercial loans to customers, trade finance, private mortgages and other financing products and investments.
Customer services	Includes general banking operations, customer payments, credit card transactions and other transactions with all customers.
Financial markets & Treasury	Includes customer asset management products such as funds as well as customer securities brokerage, customer repurchase financing and includes funding of the bank's activities though customer deposits, liquidity management, foreign exchange, issues of debt securities, investing in liquid assets such as short term placements and corporate and government securities.
Investments and non-banking segments	Includes business activities of Group subsidiaries and non-banking income including real estate rental and leasing businesses.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Group upper level management. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is based on resources cost compensation, calculation based on management`s assessment of the level of risk.

The following table shows the operating segment structure of gross revenue and financial assets and liabilities of the Group as at 31 December 2015:

`000 EUR	**Lending &investment**	**Customer services**	**Financial markets & Treasury**	**Investment and non-banking segments**	**Total**
External revenue					
Net interest income	73,793	207	(3,434)	12,592	**83,158**
Net fee and commission income	(255)	40,829	3,242	308	**44,124**
Net gain/(loss) on financial instruments at fair value through profit or loss	-	-	(187)	(954)	**(1,141)**
Net foreign exchange income	-	4,432	19,954	(646)	**23,740**
Net realised gain on available-for-sale assets	-	-	458	-	**458**
Share of profit of equity accounted investees (net of income tax)	-	-	-	(1)	**(1)**
Other income/(expense)	1,687	(408)	(525)	7,644	**8,398**
Inter segment revenue	**(13,272)**	**3,432**	**9,840**	**-**	**-**
Total segment revenue	**61,953**	**48,492**	**29,348**	**18,943**	**158,736**
Impairment losses on financial assets	(23,206)	(58)	-	(527)	**(23,791)**
Reportable segment profit before income tax	**43,329**	**24,445**	**12,003**	**1,399**	**81,176**
Reportable segment assets	**926,594**	**67,608**	**2,578,131**	**145,135**	**3,717,468**
Reportable segment liabilities	**-**	**2,695,051**	**612,686**	**2,448**	**3,310,185**

Operating segments, continued | 43

The following table shows the operating segment structure of gross revenue and financial assets and liabilities of the Group as at 31 December 2014:

`000 EUR	Lending &investment	Customer services	Financial markets & Treasury	Investment and non-banking segments	Total
External revenue					
Net interest income	70,077	231	(7,306)	13,934	**76,936**
Net fee and commission income	215	43,027	2,345	135	**45,722**
Net gain/(loss) on financial instruments at fair value through profit or loss	-	-	250	(335)	**(85)**
Net foreign exchange income	-	4,407	19,005	(1,335)	**22,077**
Net realised gain on available-for-sale assets	-	-	762	-	**762**
Share of profit of equity accounted investees (net of income tax)	-	-	-	(19)	**(19)**
Other income/(expense)	2,419	16	89	6,636	**9,160**
Inter segment revenue	**(36,767)**	**9,059**	**27,708**	**-**	**-**
Total segment revenue	**35,944**	**56,740**	**42,853**	**19,016**	**154,553**
Impairment losses on financial assets	(17,540)	(22)	(1,885)	(586)	**(20,033)**
Reportable segment profit before income tax	**11,814**	**35,730**	**35,559**	**3,918**	**87,021**
Reportable segment assets	**905,714**	**141,339**	**2,065,059**	**140,401**	**3,252,513**
Reportable segment liabilities	**-**	**2,516,661**	**595,918**	**2,982**	**3,115,561**

43 Operating segments, continued

	2015 '000 EUR	2014 '000 EUR
Revenues		
Total revenue for reportable segments	158,736	154,553
Unallocated amounts	-	-
Consolidated revenue	158,736	154,553
Profit before income tax		
Total profit or loss for reportable segments	81,176	87,021
Unallocated amounts	-	-
Consolidates profit before income tax	81,176	87,021
Assets		
Total assets for reportable segments	3,717,468	3,252,513
Other unallocated amounts	76,685	225,250
Consolidated total amounts	3,794,153	3,477,763

Other unallocated amounts to assets: Property and equipment, Intangible assets, Current tax asset, Deferred tax asset and Other assets (excluding collateral assumed on non -performing loans).

Liabilities		
Total liabilities for reportable segments	3,310,185	3,115,561
Other unallocated amounts	27,099	20,299
Consolidated total amounts	3,337,284	3,135,860

Other unallocated amounts to liabilities: Current tax liability, Deferred tax liability and Other liabilities.

Interest in other entities | 44

(A) Non-controlling interest in subsidiaries

The following table summarises the information relating to each of the Group`s subsidiaries that have material non-controlling interests (NCI), before any intra-group eliminations as at 31 December 2015 and for the year ended:

`000 EUR	InCredit Group Ltd	RAM Fund-Fixed income High Yield USD	RAM Fund-Fixed income Investment grade USD	Other subsidiaries	Total
Percentage of Non-controlling interest	**49%**	**42.10%**	**64.42%**		
Financial instruments at fair value through profit or loss	-	5,404	9,503		
Loans and advances due from customers	31,915	-	-		
Loans and receivables due from banks	-	1,847	3,192		
Other assets	981	-	-		
Deposits and balances due to financial institutions	(24,757)	-	-		
Current accounts and deposits due to customers	(1,004)	-	-		
Other liabilities	(2,588)	(12)	(13)		
Net assets	**4,547**	**7,239**	**12,682**		
Carrying amount of Non-controlling interest	**2,228**	**3,048**	**8,170**	**402**	**13,848**
Revenue	8,425	(591)	(260)		
Profit after tax	1,771	(591)	(260)		
Total comprehensive income	**1,771**	**(591)**	**(260)**		
Profit/(loss) allocated to Non-controlling interest	**868**	**(249)**	**(167)**	**176**	**628**
Cash flows from operating activities	(1,837)	(2,391)	(6,041)		
Cash flows from investment activities	(125)	-	-		
Cash flows from financing activities, before dividends to NCI	3,200	2,924	6,097		
Cash flows from financing activities - cash dividends to NCI	(1,200)	-	-		
Net increase (decrease) in cash and cash equivalents	**38**	**533**	**56**		

44 Non-controlling interest in subsidiaries, continued

The following table summarises the information relating to each of the Group`s subsidiaries that has material non-controlling interests (NCI), before any intra-group eliminations as at 31 December 2014 and for the year ended:

`000 EUR	InCredit Group Ltd	RAM Fund-FI Investment grade USD	Other subsidiaries	Total
Percentage of Non-controlling interest	**49%**	**31.32%**		
Financial instruments at fair value through profit or loss	-	3,129		
Loans and advances due from customers	28,023	-		
Other assets	934	2,811		
Deposits and balances due to financial institutions	(21,554)	-		
Current accounts and deposits due to customers	(1,004)	-		
Other liabilities	(2,422)	(13)		
Net assets	**3,977**	**5,927**		
Carrying amount of Non-controlling interest	**1,949**	**1,856**	**470**	**4,275**
Revenue	8,322	(40)		
Profit after tax	2,099	58		
Total comprehensive income	**2,099**	**58**		
Profit/(loss) allocated to Non-controlling interest	**1,028**	**18**	**(41)**	**1,005**
Cash flows from operating activities	(3,611)	(3,112)		
Cash flows from investment activities	(93)	-		
Cash flows from financing activities, before dividends to NCI	4,492	5,869		
Cash flows from financing activities - cash dividends to NCI	(1,000)	-		
Net increase (decrease) in cash and cash equivalents	**(212)**	**2,757**		

The Group is holding units of investment funds for which it acts as asset management company, i.e. has power over individual investment decisions in line with investment strategy published in the prospectus. The Group is obtaining fixed fee for asset management and custodian services. As at 31 December 2015 and 2014, the Group evaluated that it has control over the investment funds and the funds are consolidated. Units of the funds are traded on regular basis, and for the year ended on 31 December 2015 the trades resulted in net increase in non-controlling interest amounting to EUR 9,584 thousands (2014: EUR 2,310 thousands).

Disposal of subsidiaries 45

The disposal of the subsidiaries had the following effect on the Group`s assets and liabilities at the date of disposal:

	RB Baki Ltd	Oshadna Kompanija Ltd	Total
Disposed shares %	**100%**	**67%**	**100%**
Assets	**EUR '000**	**EUR '000**	**EUR '000**
Loans and advances due from banks	4	0.10	**4**
Property and equipment	7	-	**7**
Other assets	2	0.02	**2**
Liabilities			
Deposits and balances due to banks	(181)	-	**(181)**
Other liabilities	(3)	(0.10)	**(3)**
Net identifiable assets and liabilities	**(171)**	**0.02**	**(171)**
Attributable to equity holders of the Bank	**(171)**	**0.02**	**(171)**
Consideration received	**-**	**-**	**-**

46 Acquisition of subsidiaries

In 2015, RB Investments Ltd. (a subsidiary of the Bank) acquired the following subsidiaries:

	ESP European Steel Production Ltd	U-10 Ltd	Aleksandra Muiza Ltd	KINI LAND Ltd
Date of acquisition	06.10.2015	03.03.2015	30.06.2015	28.08.2015
Acquired shares %	100%	67%	100%	100%

The acquisition of the subsidiaries had the following effect on the Group`s assets and liabilities at the date acquisition:

`000 EUR	**ESP European Steel Production Ltd**	**U-10 Ltd**	**Aleksandra Muiza Ltd**	**KINI LAND Ltd**	**Total**
Assets					
Loans and advances due from banks	5	12	3	24	44
Property and equipment	766	1	-	-	767
Investment property	-	2,824	74	1,130	4,028
Other assets	619	51	-	17	687
Liabilities					
Deposits and balances due to banks	(712)	(2,605)	-	-	(3,317)
Current accounts and deposits due to customers	(25)	(396)	-	-	(421)
Other liabilities	(471)	(43)	(74)	(34)	(622)
Net identifiable assets and liabilities	**182**	**(156)**	**3**	**1,137**	**1,166**
Net identifiable assets and liabilities attributableto equity holders of the bank	**182**	**(104)**	**3**	**1,137**	**1,218**
Adjustment to identifiable assets	**-**	**106**	**-**	**-**	**106**
Goodwill	**(33)**	**-**	**-**	**-**	**(33)**
Consideration paid	**149**	**2**	**3**	**1,137**	**1,291**

Acquisition of business

On October 6 2015, the Group acquired full control over a business combination ESP European Steel Production Ltd the main operating activity of which is production of non-standard steel, stainless steel and aluminium structures. The facility operates in Latvia and is acquired for further development.

Acquisition of investment property through purchase of subsidiaries

The Group acquired subsidiaries that do not constitute business. The consideration paid is allocated to the acquired assets and liabilities.

On 28 August 2015 the Group has reversed the sale of KINI Land Ltd executed on 25 September 2013 as the agreed consideration has not been covered in full. The company manages investment property in various regions of Latvia which is valued at fair value by independent external appraisers.

On 3 March 2015, the Group acquired shares in U-10 Ltd. The investment property consists of residential and commercial premises in central Riga location that has been acquired for further development.

On 30 June 2015, the Group acquired shares in Aleksandra Muiza Ltd that manages investment property in Riga region. The investment property is valued at fair value based on independent appraisers report.

RIETUMU
BANK

www.rietumu.com