ANNUAL REPORT AND CONSOLIDATED ANNUAL REPORT FOR YEAR 2015

PrivatBank

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MANAGEMENT REPORT

Dear shareholders, customers and partners!

For AS "PrivatBank" (hereinafter referred to as the "Bank"), as well as for its subsidiaries (hereinafter referred to as the "Concern"), the 2015 accounting year was the year of acquisition of new markets and attraction of new customers. The exposition of financial services offered by the Bank at the local and foreign market, as well as high evaluation of customers, by utilizing the services provided by the Bank in an even more intensive manner, allowed for increasing the operating income.

Pursuant to the data of Association of Latvian Commercial Banks as of 31 December 2015, in the rating of the banks of Latvia, the Bank ranks 11th by the asset amount, 9th by the capital amount, and 1st by the assets under management.

The Bank stability is certified by inclusion in the "Top101.lv" research of the most valuable enterprises of Latvia, which was organized by "Prudentia" and "Nasdaq Riga", pursuant to which, the Bank ranks 95t^{h} with high evaluation of corporate management coefficient, in the amount of 84 points.

During the accounting year, the financial stability indicators of the Bank are held at a high level, significantly exceeding normative requirements – as of 31 December 2015, the liquidity indicator was equal to 66,43%; in its part, as of the end of 2015, the capital adequacy indicator was equal to 22,06 % .

In 2015, during a confidential survey of 8 major banks of Latvia, by evaluating the quality of Bank activity services and servicing, the "Dive Latvija" company assigned an evaluation – 3rd best Bank - in the category of professional knowledge and communicative skills of employees.

The Bank continuously increases the standards of corporate customer servicing, and the customers highly appreciated the expediency of organization of solutions offered by the Bank for everyday financial transactions – in 2015, the amount of the Bank customers – small and medium enterprises – increased by 33%. During the accounting year, leasing services also continued to develop in a successful manner – significant growth of leasing deals by 66%, , which exceeds the amount of financial leasing issued during the previous year, gives evidence thereto.

Not only there are Bank’s branches in the major cities of Latvia, but there is also a dynamically growing AS "PrivatBank" branch in Rome, which provides the residents of Italy with profitable financial services. More and more residents of Italy place their confidence in the professionalism of the branch employees and choose Bank as their bank. In 2015, the amount of customers of the PrivatBank branch of Italy increased by 42%, and the amount of deposits - by 82%.

During the accounting year, the Bank provided its customers, who use remote account management services in the Privat24 internet bank, with a range of new opportunities – print-outs of accounts and payments for customers in convenient formats, as well as with the service essential for customer –a leasing application. In its turn, in 2016, the Privat24 version for mobile phones is expected, and an opportunity is implemented for the authorized customers to use the Privat24 access data at the latvija.lv state service portal.

In consideration of the fact, that, to a great extent, money management skill defines the child’s financial independence in the future, 10 to 16 year old scholars are offered training at the “JuniorBank” financial competency school, which, since its opening on October 2011, was completed by more than 400 graduates. The JuniorBank studies take place in Riga, Liepaja, Rezekne and Daugavpils, in Latvian and Russian languages.

In the end of 2015, pursuant to the decision of the Financial and Capital Market Commission on sanction application to the Bank, a new Board was elected, the main tasks of which are the facilitation of development of the Bank and the Group, by increasing the Bank’s revenues, its market share in Latvia, as well as the amount of customers of the Bank. Equally, the new Board will dedicate particular attention to internal control and to issues, which are related to combating money laundering and terrorism financing.1

In 2016, the activities of the Bank and the Concern will be devoted to attraction of new customers at the financial markets of Latvia, financing of trade transactions, increase of the range of offered services, as well as to implementation of new technologies and improvement of the internal control system.

Kind regards on behalf of the management of the Bank and the Concern,
AS "PrivatBank"

(personal signature)

Member of the Board
Inga Rumba

29 March 2016

THE SUPERVISORY COUNCIL AND BOARD OF THE BANK

The appointment of the Board members and other changes in the Board are introduced in accordance with the Commercial Law of the Republic of Latvia and it is the competency of the Council of AS “PrivatBank”.

In accordance with internal normative documents to ensure effective work of the Board on managing and organizing the operations of AS “PrivatBank” and to allocate a specific operational oversight area to each member of the Board in order to promote preparing, adopting and executing informed and qualified Board decisions, the Board makes decisions on separating and allocating the operational oversight areas among members of the Board, which is approved by the Council.

Members of the Bank’s Council are proposed for the Council and act there in accordance with the Commercial Law which requires Council members to be independent and adamant when making their decisions. In order to ensure efficient operation of the Council, each member of the Council, by a decision, has been allocated a specific operational oversight area.

Changes to the Statutes of AS “PrivatBank” are introduced in compliance with the Commercial Law.

As at the date of signing the financial statements members of the Board and Council of the Bank were as follows:

Council

Name	Position	Date of re-appointment	Registered in Commercial Register
Yuriy Pikush	Chairman of the Council	29.09.2015.	27.11.2015.
Viktor Samarin	Deputy Chairman of the Council	29.09.2015.	27.11.2015.
Timur Novikov	Council member	29.09.2015.	27.11.2015.

Board

Name	Position	Date of appointment	Registered in Commercial Register	Rights to sign/represent*
Inga Rumba	Board member	17.12.2015.	29.12.2015.	Rights to represent individually
Sņežana Daļecka	Board member	18.12.2015.	29.12.2015.	Rights to represent with at least one other Board member
Vaira Filipsone	Board member	22.12.2015.	29.12.2015.	Rights to represent with at least one other Board member
Una Jansone	Board member	15.02.2015.	29.12.2015.	Rights to represent with at least one other Board member

* Board members have no rights to issue or repurchase shares.
Board:
On 17 December 2015 Oleksandr Trubakov, Olexandr Mekekchko, Iveta Kerpe, Rolands Petersons were released from the Board – effective from 18 December2015 (changes registered in Commercial Register on 29 December 2015).
Council:
On 29 September 2015 Yuriy Kandaurov resigned from the Council (changes registered in Commercial Register on 27 November 2015).
There have been no other changes in the Council and Board during the year.

On behalf of the Bank’s management

(personal signature)

Deputy Chairman of the Council
Viktor Samarin

(personal signature)

Member of the Board
Inga Rumba

29 March 2016

STATEMENT OF THE MANAGEMENT’S RESPONSIBILITIES

The Management of AS “PrivatBank” (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 Consolidated and Separate financial statements on pages 9 to 99 are prepared in accordance with the source documents and present fairly the financial position of the Group as at 31 December 2015 and the results of its operations and cash flows for the year ended 31 December 2015 as well as the financial position of the Bank as at 31 December 2015 and the results of its operations and cash flows for the year ended 31 December 2015.

The Consolidated and Separate 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. Prudent and reasonable judgments and estimates have been made by the Management in the preparation of the financial statements.

The management of AS “PrivatBank” and of the Group is responsible for the maintenance of a proper accounting system, safeguarding the Group’s and Bank’s assets, and prevention and detection of fraud and other irregularities in the Group and Bank. 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 applicable to credit institutions.

On behalf of the Bank’s management,

(personal signature)

Member of the Board
Inga Rumba

29 March 2016

KPMG Baltics SIA
Vesetas iela 7
Riga, LV-1013
Latvia

Telephone +371 67038000
Telefax +371 67038002
kpmg.com/lv

Independent Auditors' Report

To the shareholders of PrivatBank AS

Report on the Separate and Consolidated Financial Statements

We have audited the accompanying separate financial statements of PrivatBank AS ("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 9 to 99. We have also audited the accompanying consolidated financial statements of PrivatBank AS 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 9 to 99.

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 Bank'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.

Opinion

In our opinion, the separate financial statements give a true and fair view of the financial position of the PrivatBank AS as at 31 December 2015, and of its financial performance and

KPMG

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 PrivatBank AS and its subsidiaries (the Group) as at 31 December 2015, and of the consolidated financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 40 to the separate and consolidated financial statements which describes the significant deterioration in Ukraine's political and economic situation, and management's assessment of potential impact of the events in Ukraine on the Bank's and the Group's operating activities and the separate and consolidated financial statements as at and for the year ended 31 December 2015.

Further we draw attention to Note 41 to the separate and consolidated financial statements which discusses the outcome of the reviews that were made at the Bank by the Financial and Capital Market Commission (FCMC) during the reporting year, including the imposed fine and other sanctions against the Bank and the Group. These events and conditions increase the Bank's and the Group's exposure to compliance and reputational risks. The note further describes the management's action plans aimed to remediate control deficiencies identified by FCMC in relation to Anti Money Laundering policies and procedures and other areas of internal control as well as improve the business sustainability of the Bank and the Group.

The events referred to in Note 40 and 41 could adversely affect the Group's and/or the Bank's results and financial position, and the ability to continue as a going concern in a manner not currently determinable. Our opinion is not qualified in respect of this matter.

Report on Other Legal and Regulatory Requirements

In addition, our responsibility is to assess whether the accounting information included in the Consolidated Management Report, as set out on pages 3 to 4, 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.

KPMG Baltics SIA
Licence No 55

Armine Movsisjana
Chairperson of the Board
Sworn Auditor
Certificate No 178
Riga, Latvia
29 March 2016

AUDITORS' REPORT

Auditors' report

	Note	Group 2015 '000 EUR	Bank 2015 '000 EUR	Group 2014 '000 EUR	Bank 2014 '000 EUR
Interest income	4	16 192	16 415	10 720	11 035
Interest expense	4	(6 246)	(6 247)	(8 283)	(8 265)
Net interest income/(loss)		**9 946**	**10 168**	**2 437**	**2 770**
Fee and commission income	5	13 432	13 391	15 808	15 778
Fee and commission expense	5	(2 637)	(2 626)	(2 524)	(2 524)
Net fee and commission income		**10 795**	**10 765**	**13 284**	**13 254**
Net gain on financial instruments at fair value through profit or loss		460	460	17	17
Net foreign exchange income	6	2 452	2 408	3 296	3 259
Other income/(expenses)		1 232	749	1 833	174
Operating income		**24 885**	**24 550**	**20 867**	**19 474**
Impairment losses	7	(10 300)	(10 172)	(2 406)	(2 200)
General administrative expenses	8	(13 987)	(13 601)	(11 900)	(10 995)
Profit/(loss) before income tax		**598**	**777**	**6 561**	**6 279**
Income tax expense	9	(284)	(284)	(571)	(571)
Profit/(loss) for the year		**314**	**493**	**5 990**	**5 708**
Change in revaluation reserve of available for sale financial assets		5 434	5 434	79	79
Total comprehensive income/(loss) for the year		**5 748**	**5 927**	**6 069**	**5 787**

The accompanying notes on pages 18 to 114 form an integral part of these Consolidated and Separate financial statements.
The Consolidated and Separate financial statements as set out on pages 9 to 99 were approved by the Management Board and Supervisory Council on 29 March 2016.

(personal signature) (personal signature)

Deputy Chairman of the Council
Viktor Samarin
29 March 2016

Member of the Board
Inga Rumba

Auditors' report

	Note	Group 2015 ’000 EUR	Bank 2015 ’000 EUR	Group 2014 ’000 EUR	Bank 2014 ’000 EUR
ASSETS					
Cash and balances with the Bank of Latvia	10	184 378	184 378	74 356	74 356
Financial instruments at fair value through profit or loss	12	9 275	9 275	189	189
Loans and receivables from banks	11	69 498	69 498	318 845	318 845
Loans and receivables from customers	13	239 746	281 205	169 925	216 583
Available-for-sale financial assets	14	12 451	12 451	14 538	14 538
Held-to-maturity financial assets	15	38 175	38 175	42 286	42 286
Investments in subsidiaries	16	-	418	-	418
Property and equipment	17	35 256	35 142	11 247	11 077
Intangible assets	18	589	564	515	477
Investment property	19	2 846	2 846	2 884	2 884
Overpaid income tax		94	92	101	75
Other assets	20	40 186	4 509	43 781	5 695
Total Assets		**632 494**	**638 553**	**678 667**	**687 423**

The accompanying notes on pages 18 to 114 form an integral part of these Consolidated and Separate financial statements.
The Consolidated and Separate financial statements as set out on pages 9 to 99 were approved by the Management Board and Supervisory Council on 29 March 2016.

(personal signature)

Deputy Chairman of the Council
Viktor Samarin

(personal signature)

Member of the Board
Inga Rumba

29 March 2016

Auditors' report

	Note	Group 2015 '000 EUR	Bank 2015 '000 EUR	Group 2014 '000 EUR	Bank 2014 '000 EUR
LIABILITIES AND SHAREHOLDERS' EQUITY					
Financial instruments at fair value through profit or loss	12	25	25	665	665
Deposits and balances from banks	21	7 380	7 380	3 685	3 685
Current accounts and deposits from customers	22	526 087	526 163	591 271	594 199
Provisions	23	1 608	1 529	1 270	1 258
Subordinated loans	24	20 195	20 195	17 675	17 675
Other liabilities	25	19 701	19 565	12 355	12 172
Total Liabilities		**574 996**	**574 857**	**626 921**	**629 654**
Share capital	27	80 350	80 350	80 350	80 350
Other reserves	27	5 400	5 397	5 400	5 397
Revaluation reserve of available for sale financial assets	27	5 513	5 513	79	79
Accumulated losses		(33 765)	(27 564)	(34 083)	(28 057)
Total Shareholders' Equity		**57 498**	**63 696**	**51 746**	**57 769**
Total Liabilities and Shareholders' Equity		**632 494**	**638 553**	**678 667**	**687 423**
Funds under trust management	29	651 022	651 022	506 394	506 394
Commitments and Contingencies	30	4 740	4 744	4 527	4 530

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(personal signature)

Deputy Chairman of the Council
Viktor Samarin
29 March 2016

(personal signature)

Member of the Board
Inga Rumba

Auditors' report

	Piezīme	Group 2015 '000 EUR	Bank 2015 '000 EUR	Group 2014 '000 EUR	Bank 2014 '000 EUR
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit/(loss) before income tax		598	777	6 561	6 279
Amortization and depreciation	17, 18,19	1 392	1 322	1 197	1 062
Impairment losses / (recovery)	7	4 901	5 156	2 406	2 200
Foreign exchange (net)		1 553	1 553	1 204	1 204
Other changes in assets		4	-	(14)	(7)
Increase in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations		**8 448**	**8 808**	**11 354**	**10 738**
Decrease in due from Bank of Latvia		-	-	401	401
Decrease in balances due from banks		24 463	24 463	4 614	4 614
Increase in loans and advances to non-banking customers and receivables		(70 639)	(66 952)	(93 921)	(96 321)
Decrease /(increase) in available for sale assets		7 521	7 521	(14 419)	(14 419)
Increase in financial instruments at fair value through profit or loss (asset side)		(9 086)	(9 086)	(188)	(188)
Decrease/(Increase) in other assets		1 996	844	(1 346)	(1 274)
Increase in provisions		338	271	191	198
Decrease in balances due to banks		(74)	(74)	(6 215)	(6 215)
Increase/(decrease) in deposits from customers		(65 184)	(68 036)	(124 906)	(122 063)
Increase/(decrease) in financial instruments at fair value through profit and loss (liability side)		(640)	(640)	514	514
Increase/(decrease) in other liabilities		7 346	7 393	(90)	(147)
Increase in cash and cash equivalents from operating activities before corporate income tax		**(95 511)**	**(95 488)**	**(224 011)**	**(224 162)**
Corporate income tax paid		(277)	(301)	(634)	(632)
Net cash and cash equivalents from/(used in) operating activities		**(95 788)**	**(95 789)**	**(224 645)**	**(224 794)**
CASH FLOW FROM INVESTING ACTIVITIES*					
Purchase of property, plant and	17, 18	(25 466)	(25 462)	(704)	(573)

equipment and intangibles					
Disposal of property and equipment		29	26	149	167
Decrease/(increase) in held-to-maturity-assets		1 627	1 627	(1 896)	(1 896)
Cash and cash equivalents used in investing activities		**(23 810)**	**(23 809)**	**(2 451)**	**(2 302)**
CASH FLOW FROM FINANCING ACTIVITIES					
Increase in subordinated loans		967	967	2 057	2 057
Increase in cash and cash equivalents from financing activities		**967**	**967**	**2 057**	**2 057**
Net cash inflows for the year		**(118 631)**	**(118 631)**	**(225 039)**	**(225 039)**
Cash and cash equivalents at the beginning of the year		**363 856**	**363 856**	**588 895**	**588 895**
Cash and cash equivalents at the end of the year	28	**245 225**	**245 225**	**363 856**	**363 856**

*The accompanying notes on pages 18 to 114 form an integral part of these Consolidated and Separate financial statements.

The Consolidated and Separate financial statements as set out on pages 9 to 99 were approved by the Management Board and Supervisory Council on 29 March 2016.

(personal signature)

Deputy Chairman of the Council
Viktor Samarin

(personal signature)

Member of the Board
Inga Rumba

	Attributable to equity holders of the Group				
	Share capital	Other reserves	Revaluation reserve of available for sale financial assets	Accumulated losses	Total equity
	'000 EUR	'000 EUR	'000 EUR	'000 EUR	'000 EUR
Balance at 1 January 2014	**80 350**	**5 397**	**-**	**(40 057)**	**45 690**
Total comprehensive income					
Profit for the year	-	-	-	5 990	**5 990**
Other comprehensive income					
Revaluation reserve of available for sale financial assets	-	-	79	-	**79**
Transactions with shareholders recorded directly in equity:					
Increase in other reserves	-	3	-	-	**3**
Prior period corrections	-	-	-	(16)	**(16)**
Balance at 31 December 2014	**80 350**	**5 400**	**79**	**(34 083)**	**51 746**
Total comprehensive income					
Profit for the year	-	-	-	314	**314**
Other comprehensive income					
Revaluation reserve of available for sale financial	-	-	5 434	-	**5 434**

assets					
Other changes	-	-	-	4	**4**
Balance at 31 December 2015	**80 350**	**5 400**	**5 513**	**(33 765)**	**57 498**

	Attributable to equity holders of the Bank				
	Share capital	**Other reserves**	**Revaluation reserve of available for sale financial assets**	**Accumula ted losses**	**Total equity**
	'000 EUR	**'000 EUR**	**'000 EUR**	**'000 EUR**	**'000 EUR**
Balance at 1 January 2014	**80 350**	**5 397**	**-**	**(33 757)**	**51 990**
Total comprehensive income					
Profit for the year	-	-	-	5 708	**5 708**
Other comprehensive income					
Revaluation reserve of available for sale financial assets	-	-	79	-	**79**
Transactions with shareholders recorded directly in equity					
Prior period corrections	-	-	-	(8)	**(8)**
Balance at 31 December 2014	**80 350**	**5 397**	**79**	**(28 057)**	**57 769**
Total comprehensive income					
Profit for the year	-	-	-	493	**493**
Other comprehensive income					
Revaluation reserve of available for sale financial assets	-	-	5 434	-	**5 434**
Balance at 31 December 2015	**80 350**	**5 397**	**5 513**	**(27 564)**	**63 696**

*The accompanying notes on pages 18 to 114 form an integral part of these Consolidated and Separate financial statements.

The Consolidated and Separate financial statements as set out on pages 9 to 99 were approved by the Management Board and Supervisory Council on 29 March 2016.

(personal signature)

Deputy Chairman of the Council
Viktor Samarin

(personal signature)

Member of the Board
Inga Rumba

1 Background

Principal activities

AS "PrivatBank" (the "Bank") was established in the Republic of Latvia ("Latvia") as a joint stock company and was granted its general banking license on 31 July 1992 (reissued on 17 September 1998). The principal activities of the Bank are deposit taking and customer accounts maintenance, lending and 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 of the Republic of Latvia ("FCMC"). The Bank has 13 branches from which it conducts business throughout Latvia and 1 branch in Italy. The registered address of the Bank's head office is Muitas street 1, Riga, Latvia. The majority of the Bank's assets and liabilities are located in Latvia. The average number of people employed by the Bank during the year was 262 (2014: 286).

The Bank prepares separate and consolidated financial statements (further "financial statements"). The consolidated financial statements include the financial statements of the Bank and its subsidiaries (together referred to as the "Group").

The subsidiaries of the Bank are as follows:

			Ownership %	
Name	**Country of incorporation**	**Principal Activities**	**2015**	**2014**
SIA "PrivatLīzings" in liquidation	Latvia	Finance and operating lease activities	100	100
SIA „PrivatConsulting"	Latvia	Consulting and travel services	100	100
SIA "Amber Real"	Latvia	Real estate company	100	100
SIA "PrivatInvestment"	Latvia	Maintenance and service management of Bank`s real estate	100	100

Basis of Preparation

Statement of compliance

The financial statements of the Group and the Bank have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and regulations of the Financial and Capital Market Commission of the Republic of Latvia in force as at 31 December 2015.

The financial statements were authorized for issue by the Management Board on 29 March 2016. The shareholders have the power to reject the financial statements prepared and issued by management and the right to request that new financial statements be issued.

Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following:

- financial assets and liabilities at fair value through profit or loss are stated at fair value;
- available-for-sale financial assets are stated at fair value except those whose fair value cannot be reliably estimated.

Functional and Presentation Currency

These consolidated financial statements are presented in thousands of euro ('000 EUR), unless stated otherwise. All components of the Group operate in the functional currency of EUR.

Significant accounting policies

The following significant accounting policies have been applied in the preparation of the financial statements. The accounting policies have been consistently applied to all financial information reported in these statements.

Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the 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 on which control commences until the date on which control ceases.

(ii) 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 equity-accounted investees are eliminated to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(iii) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Bank's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets.

Goodwill is stated at cost less impairment losses.

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. For purposes of impairment tests goodwill is allocated to cash generating units. Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Negative goodwill arising on an acquisition is recognized immediately in the consolidated profit or loss.

(iv) Foreign currency translation

Transactions in foreign currencies are translated into the respective functional currencies of Group companies at the exchange rate at the date of the transaction.

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 amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period. Foreign currency differences arising on retranslation are recognized in profit and loss, except for differences arising on the retranslation of available-for-sale equity instruments or a financial liability designated as the hedging instrument in a hedge of the net investment in a foreign operation or in a qualifying cash flow hedge, which are recognized directly in other comprehensive income.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value in foreign currency are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined.

Pielietotie ārvalstu valūtu kursi nozīmīgākajām valūtām pārskata perioda beigās bija šādi (EUR pret 1 ārvalstu valūtas vienību):

Currency	Reporting date	
	31.12.2015	**31.12.2014**
USD	1.0887	1.2141
CHF	1.0835	1.2024
GBP	0.73395	0.7789
RUB	80.6736	72.337

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 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 a derivative (except for a derivative that is a designated and effective hedging instrument); or that are upon initial recognition, designated by the entity as at fair value through the profit or loss.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity, and which are not designated at fair value through profit or loss, available for sale, or loans and receivables.

Available-for-sale assets are those financial assets that are designated as available-for-sale, which 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, other than (a) those that the Bank intends to sell immediately or in the short-term, (b) those that the Bank upon initial recognition designates as at the fair value through profit or loss or as available for sale; or (c) those for which the holder may not recover substantially all of its initial investments, other than because of credit deterioration. Loans and receivables include amounts due from credit institutions on term, loans and receivables from customers and other financial assets which comply with these classification criteria.

Financial liabilities at amortized cost include deposits and balances to banks and current accounts, deposits from customers, mortgage bonds issued, as well as subordinated liabilities.

Financial liabilities carried at amortized cost are initially measured at fair value less directly attributable transaction costs and are subsequently re-measured to amortized cost using the effective interest rate.

Subordinated deposits have a fixed term of at least five years from the date of placement and they are repayable before maturity only in the event of termination of the Bank’s operations or the Bank’s bankruptcy and such deposits rank before shareholders’ claims. Subordinated debt securities are repayable before maturity only in the event of termination of the Bank’s operations or the Bank’s bankruptcy and such debt ranks before shareholders’ claims.

(ii) Recognition

The Group and Bank initially recognize loans and receivables, deposits, debt securities issued and financial liabilities at amortized cost on the date at which they are originated. All other financial assets and liabilities are recognized on the settlement date when the Group or Bank becomes a party to the contractual provisions of the instrument.

All regular way purchases and sales of investment securities are recognized at the settlement date, which is the date that an asset is delivered to or by an enterprise.

(iii) Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- Held-to-maturity investments and loans and receivables that are measured at amortized cost using the effective interest method; and
- Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost less accumulated impairment losses.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortized cost. Amortized 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 amortized based on the effective interest rate of the instrument.

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 Group and Bank estimate future cash flows considering all contractual terms of the financial instruments, but not future credit losses.

(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 recognized as follows:

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

For financial assets and liabilities carried at amortized cost, a gain or loss is recognized in profit or loss when the financial asset or liability is derecognized or impaired, and through the amortization process.

(v) Derecognition

A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire or when the Group or Bank transfer substantially all of the risks and rewards of ownership of the financial asset. Any rights or obligations created or retained in the transfer are recognized separately as assets or liabilities. A financial liability is derecognized when it is extinguished.

The Group and Bank also derecognize certain assets when they write off balances pertaining to the assets deemed to be uncollectible.

(vi) Offsetting

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

(vii) (vii) 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 recognized in profit and loss over the term of the repo agreement using the effective interest rate 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.

(viii) Derivatives

Derivative financial instruments including foreign exchange contracts, currency and interest rate swaps and other derivative financial instruments are initially recognized in the statement of financial position at their fair value. Attributable transaction costs are recognized in the profit or loss when incurred. Fair values are obtained from quoted market prices and discounted cash flow models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Neither the Group nor the Bank applies hedge accounting.

Non-financial assets

(i) Property and equipment

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenses that are directly attributable to the acquisition of the asset and its improvements.

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.

Depreciation is charged to the profit and loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date when available for use or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Depreciation methods, useful lives and residual values are reviewed annually.

The annual depreciation rates are as follows:

Category	Annual Rate (average)
Buildings	2 %
Computers and equipment	28,77 %
Aircraft	5 %*
Network equipment and servers	37,90 %
Furniture	20,57 %
Vehicles	16,66 %

*aircraft is depreciated to a 15% residual value

(ii) Investment property

Investment property is land, building or its part that the Bank and Group holds (as an owner or a lessee under finance lease) in order to collect rental fees or wait for price appreciation (increase in value) rather than use the property for administrative purposes or sale within the course of ordinary business operations.

Investment property is initially measured at acquisition cost and subsequently carried at its cost less any accumulated depreciation and impairment losses. The estimated useful life of investment property is 50 years with annual depreciation rate of 2 %.

(iii) Intangible assets

Intangible assets, which are acquired by the Group or Bank, are stated at cost less accumulated amortization and impairment losses.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. Amortization is charged to the profit and loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are 2 to 10 years.

(iv) Repossession of assets

As part of the normal course of business, the Group and Bank occasionally take title and possession of property that originally was pledged as security for a loan. When the Group, or the Bank acquire (i.e. gain a full title to) a property in this way, the property’s classification follows the nature of its intended use by the Group or Bank. When the Group or Bank is uncertain of their intentions with respect to the repossessed property, those properties are classified as investment property. Other types of collateral (repossessed finance lease objects) are classified as other assets.

One of the subsidiaries of the Bank was established for the purpose of management and disposal of real estate properties (previously loan collateral that was repossessed by the Bank). Real estates, i.e. land and commercial spaces, apartments and living houses (some occupied by tenants) are acquired by the subsidiary through statutory auctions. Real estate, i.e. land and buildings are classified as repossessed and other assets, due to that, the Group’s and Bank’s intention is to sell these properties in short-term. The holding period (short-term) is considered in the context of the business model rather than as a formal threshold. The Management believes that respective properties are to be classified as current other assets as the properties are “marked” as trading properties, rather than long-term investment property as these properties are not being held for capital appreciation, or held-for-sale assets as they do not meet classification requirements applicable to non-current assets that are classified as held-for-sale.

(v) Investment in subsidiaries

Investments in subsidiaries are carried at cost, less impairment in the Bank’s separate financial statements. The Bank recognizes income from the investment only to the extent that the Bank receives distributions from accumulated profits of the subsidiary arising after the date of acquisition.

Income and expense recognition

All significant income and expense categories are recognized on an accrual basis.

Interest income and expense are recognized in the statement of comprehensive income as they accrue, taking into account the effective interest rate of the asset/liability. Interest income and expense include the amortization of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

In case of impairment of interest bearing assets, interest continues to be accrued on the net carrying amount using the effective interest method.

Fees and commissions (excluding commissions for long-term loans issued) are accounted for when collected or incurred. Income and expense that refer to the accounting period are recognized in the profit and loss regardless of the date of receipt or payment.

Loan origination fees and other fees that are considered to be integral to the overall profitability of a loan, together with related direct costs, are deferred and amortized to the interest income over the estimated life of the financial instrument using the effective interest rate method.

Fair value measurement principles

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 and the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

A number of the Group’s and the Bank’s accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The methods described below have been used for the determination of fair values.

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 the 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 recognized in profit or loss depending on the individual facts and circumstances of the transaction but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

When available, the Group and Bank measure the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm’s length basis.

If a market for a financial instrument is not active, the Group and Bank establish fair value using a valuation technique. Valuation techniques include 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

Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Bank calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data. Where third-party information, such as broker quotes or pricing services, are used to measure fair value, the Group and the Bank assess and document the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS as adopted by EU. This includes:

Verifying that equity broker or pricing service is approved by the Group and the Bank for use in pricing the relevant type of financial instrument;

Understanding how the fair value has been arrived at and the extent to which it represents actual market transactions;

When prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement;

When measuring the fair value of an asset or a liability, the Group and the Bank use market observable data as far as possible. Fair values are categorized 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 categorized in different levels of the fair value hierarchy, the fair value measurement is categorized 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 Group and the Bank recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

The Group and the Bank have an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the Risk department director.

Specific controls include:

Verification of observable pricing;

Re-performance of model valuations;

A review and approval process for new models against observed market transactions;

Analysis and investigation of significant daily valuation movements;

Review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments compared to previous month.

The Group and the Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred. For further analysis of basis for financial instruments fair value see Note 33.

Fair value measurement principles for non-financial assets are described in notes 17, 19 and 20.

Impairment

(i) Financial assets

At each reporting date the Group and Bank 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 Group and the Bank on terms that the Group and Bank 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.

The Group and Bank consider evidence of impairment for loans and advances and held-to-maturity investment securities at specific asset level.

Impairment losses on assets carried at amortized 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. When future cash flows expected from sale of collateral, collateral value is assessed using two generally accepted methodologies: income approach using discounted cash flow model valuation technique and market approach using market comparable valuation method. Losses are recognized in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognized 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.

Impairment losses on available-for-sale investment securities are recognized by transferring the cumulative loss that has been recognized through other comprehensive income in equity to profit or loss. The cumulative loss that is removed from equity and recognized in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in profit or loss.

(ii) Non-financial assets

The carrying amounts of the Group’s and Bank’s non-financial assets, other than deferred tax assets and repossessed and other 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 recognized if the carrying amount of an asset or its cash-generating unit (CGU) 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 recognized in profit or loss. Impairment losses recognized 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. CGUs identified by the Group for investment in subsidiary and goodwill impairment testing purposes are net assets of individual subsidiaries. For other non-financial assets impairment is assessed on individual asset basis.

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 recognized 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 amortization, if no impairment loss had been recognized.

Credit related commitments

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

Financial guarantees are contracts that require the Group or Bank 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 recognized as commitments and contingencies initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognized less cumulative amortization or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognized when losses are considered probable and can be measured reliably.

Financial guarantee liabilities and obligations for other credit related commitments are included within impairment allowance.

Taxation

Income tax expense comprises current and deferred tax for the reporting period. Income tax expense is recognized in the profit and loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

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 recognized for the following temporary differences: 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. 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 recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. 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 realized.

Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with Bank of Latvia 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 Group and Bank in the management of its short-term commitments.

Leases (Group and Bank are lessors)

11. Classification of lease

Only risks and rewards incidental to ownership of the leased asset during the lease period should be considered when determining lease classification. Relevant risks include the possibility of losses from idle capacity or technological obsolescence and from decreases in the value of the asset; relevant rewards may include the gain from the increase in value of the asset or realization of the residual value at the end of the lease. Conversely, risks associated with construction of the asset prior to lease commencement, financing such construction and the costs of providing services using the leased asset, are not incidental to ownership of the leased asset during the lease period and, in our view generally should be disregarded in evaluating the classification of the lease. The classification of a lease is determined at the inception of the lease and is not revised unless the lease agreement is modified.

12. Finance lease

A finance lease is lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

When assets are leased out under a finance lease, the net investment in finance lease is recognized as a receivable. The net investment in finance lease represents the difference between the gross receivable and unearned finance income.

13. Operating lease

An operating lease is a lease other than a finance lease.

Assets leased out under an operating lease, are presented within property and equipment less accumulated depreciation. They are depreciated over their expected useful lives on a basis consistent with similar owned property and equipment.

Provisions

A provision is recognized in the statement of financial position when the Group and Bank have a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits 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.

A provision for restructuring is recognized when the Group or Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

Dividends

The Group or Bank recognizes dividends as income when the right to receive payment is established.

Proposed dividends are recognized in the financial statements only when approved by shareholders.

Employee benefits

Short term employee benefits, including salaries and social contributions, bonuses and vacation benefits are included in net operating expenses on an accrual basis as the service is provided. The Bank pays fixed security contributions to the State Social Fund on behalf of its employees during the employment period in accordance with local legal requirements and will have no obligations to pay further contributions relating to employee services in respect to pension of retired employees.

Adoption of new and/or changed IFRSs and IFRIC interpretations

(a) Changes in accounting policies

Except for the changes below, the Group has consistently applied the accounting policies set out in Note 1 to all periods presented in these 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

(b) New standards and interpretations not yet adopted

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 consolidated financial statements. Those which may be relevant to the Group are set out below. The Group does 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 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 five, narrow-focus improvements to the disclosure requirements contained in the standard.

The Group expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the Group.

(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 Group’s financial statements, as the Group does 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 Group does not expect that the amendments, when initially applied, will have material impact on the financial statements as the Group has no bearer plants.

(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 Group does not expect the amendment to have any impact on the consolidated financial statements since it does not have any defined benefit plans that involve contributions from employees or third parties.

(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 does not expect that the amendments, when initially applied, will have a material impact on the financial statements as the Entity intends to continue to carry its investments in subsidiaries 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 consolidated financial statements of the Group.

2 Risk management

Introduction

The Group's and the Bank's activities result in exposure to a variety of financial and non-financial risks. The Group's and the Bank's strategic aim is to achieve an appropriate balance between risks assumed by the Group and Bank and returns, and to minimize the potential adverse effect on the Group's and the Bank's financial performance and operations.

The risk management system is integrated in the framework of the Group's and Bank's internal control based on the effective bank supervision requirements laid down by the Financial and Capital Market Commission and the Basel Committee on Banking Supervision (Corporate Governance principles for banks) to provide for a risk control function and operational compliance control function independent from business units. Risk measurement, assessment and control functions are separated from the business unit (risk acceptance) functions.

The Group and Bank identify all inherent significant risks and develop documents and implement appropriate policies for risk management, including measurement, assessment, control, mitigation, and risk reporting and disclosures. Policies are reviewed at least on an annual basis in line with changes in the Group's and Bank's operations and external factors impacting the Group's and Bank's activities.

In order to identify risks in due time and completely and assess the acceptable levels of risks prior to launching new products and services the Group and Bank assess the potential inherent risks and approves internal normative documents related to risk management that include appropriate procedures, restrictions and limits, and hedging methods. The most important types of risk are credit risk, concentration risk, liquidity risk, interest rate risk, foreign currency and market prices risk, operational risk and money laundering and terrorism financing (further - AML) risk. Concentration risk is closely related to different risks of Bank and assessments are carried out as part of risk management of these risks. The independent risk control process does not include business risks such as changes in the environment, technology and industry. The impact of these risks has been taken into account during strategic planning.

Risk appetite

Risk appetite is the maximum level of risk that the Bank and the Group is willing to accept to achieve its business goals.

The parameters of the Bank’s and the Group’s risk appetite are determined by the Bank’s supervisory board:

- ensuring strategic management and guidance;
- upon review and approval of the Bank’s and the Group’s annual budgets and estimates for both normal operations and stress situations;
- continuously monitoring the Bank’s and the Group’s level of risk.

Stress testing

In determining the capital adequacy management strategy the Group and the Bank evaluates and records the possible development scenarios depending on various external event scenarios, taking into consideration the possible development scenarios of macroeconomic indicators of the countries that the Group and the Bank operates in or plans to conduct operations, development trends in industries affecting the operations of the Bank and the Group, possible changes in legislation and regulatory standards, actions of competitors and other factors that can significantly affect the Group’s and the Bank’s success in achieving its goals. As part of the analysis of external factors stress testing is conducted to identify any possible events or changes in the operating environment that can have negative effects on the operations of the Group or the Bank and that may hinder the Bank’s and the Group’s success, and the possible effect that such events may have on the Bank’s and the Group’s capital is evaluated.

The stress testing procedures include sensitivity analysis, scenario analysis and reverse stress testing. Sensitivity analysis is employed to determine the effect of a single risk factor or several simultaneous risk factors on the risk level and financial and capital indicators of the Bank and the Group (i.e. to determine the sensitivity of financial and capital indicators to changes in one or more risk factors). Scenario analysis is used to the effects of a particular unfavorable scenario (i.e. the effects of an internal or external unfavorable event or changes in the macroeconomic indicators or operating environment) on all significant risk indicators related to the Bank’s and the Group’s operations and all financial and capital indicators. Reverse stress testing is a method employed to identify such negative outcomes (i.e. operational losses, decline of asset value, loss of asset liquidity, deposit outflows, unavailability of financing, etc.), which may result in the Bank’s or the Group’s inability to continue its operations.

Stress testing is an integral part of the Bank’s and the Group’s internal capital adequacy assessment process (ICAAP).

The supervisory board relies on the results of the stress tests in determining the risk appetite of the Bank and the Group.

2.1. Market risks

Market risks represent potential losses from revaluation of items of financial position and contingent liabilities and commitments due to movements in foreign exchange rates, market prices of securities, interest rate fluctuations, etc.

The Group and the Bank have determined the following components of market risk:

- Position (market price) risk – Position risk is the risk of losses of financial instrument position due to changes in the security's price;
- Interest rate risk – Interest rate risk represents the Group's and Bank's exposure in the event that changes in interest rates have an adverse impact on the Group's and Bank's income and expenses and result in a decrease of the Group's and Bank's equity;
- Foreign exchange risk – Foreign exchange risk represents potential loss from revaluation of items of financial position and contingent liabilities and commitments denominated in foreign

currencies due to movements in foreign exchange rates;

- Commodity price risk – Commodity price risk arises from the possibility of losses of commodity position due to changes in commodity prices. Commodities in this context are physical objects, which can be sold or resold in the secondary market, e.g. agricultural products, oil, precious metals (excl. gold), etc.

The Bank and the Group have not held securitization positions in 2015.

(i) Interest rate risk

Interest rate risk represents the Group's and Bank's exposure in the event that changes in interest rates have an adverse impact on the Group's and Bank's income and expenses and result in a decrease of the Group's and Bank's equity.

Interest rate risk arises from:

- price risk;
- profitability risk;
- base risk;
- optionality risk - the possibility of incurring losses if a financial instrument directly (options) or indirectly (demand deposits, etc.) provides an option to choose.

The assessment of interest rate risk, price risk and profitability risk is conducted jointly as a single element - the maturity gap. The maturity gap is used as joint element for assessing price risk and profitability risk as part of interest rate risk.

Interest rate risk management process

The interest rate risk management policy states risk management principles, tasks and responsibilities of the Group's and Bank's management and structural units in interest rate risk management, interest rate risk measurement, setting of limits, and control processes, stress testing, as well as reporting and disclosure procedures.

The Group and Bank assess the impact produced by changes in interest rates on the entire Group's and Bank's business, as well as transactions belonging to the Group's and Bank's trading and non-trading portfolios, and interest rate risk in each currency for which assets or liabilities exceed 5% of the total balance, and all currencies in total.

Interest rate risk control and mitigation are performed through:

- Interest rate risk limits are determined: net annual interest income, interest rates changing in parallel by 1% (or 100 base points), changes and decrease of economic value assuming that unexpected changes in interest rates represent 200 base points.
- Ensuring interest rate sensitive assets and liabilities are maintained within levels of interest rate risk that are acceptable to the Group and Bank;
- Control of optionality in clients agreements;
- Constant monitoring of changes in the interest rates on the financial instrument and money markets;
- If necessary an interest rate hedge is applied and interest rate options of the

Group's and Bank's products are limited.
The interest rate risk management policies and procedures are reviewed at least once per year in accordance with any changes in the operating environment of the Bank and the Group.

Further quantitative disclosures in respect of interest rate risk are presented in Note 37.

(ii) Foreign exchange risk

Foreign exchange risk represents potential loss from revaluation of items of financial position and contingent liabilities and commitments denominated in foreign currencies due to movements in foreign exchange rates.

Foreign exchange risk management process

The foreign exchange risk management policy determines and regulates the tasks to be performed by the Group's and Bank's management and structural units and their responsibilities in managing foreign exchange risk, and foreign exchange risk control regulations and mitigation measures relevant for the Group's and Bank's transactions in foreign currencies, as well as measurement, reporting and disclosure procedures.

Limits on the foreign exchange open position in a single currency and the total open position in foreign currencies are set both on open currency positions to be maintained during the business day and open positions at the end of the day which are monitored and controlled.

Further quantitative disclosures in respect of foreign exchange risk are presented in Note 35.

Below is a sensitivity analysis for the Bank’s and the Group’s net income and capital against changes in foreign exchange rates, based on the simplified scenario of 5% changes in open currency positions on December 31, 2014 and 2015. Changes are in EUR and USD:

	Group 2015 ’000 EUR	Bank 2015 ’000 EUR	Group 2014 ’000 EUR	Bank 2014 ’000 EUR
Profit or loss				
5% USD appreciation against EUR	47	47	70	(73)
5% USD depreciation against EUR	(47)	(47)	(70)	73

The possible effect of changes in other currency exchange rates on the Bank’s profit level on December 31, 2014 and 2015 are insignificant.

(iii) Position (market price) risk

Position risk is the risk of losses of financial instrument position due to changes in the security's price.

The Bank by creation of the trading and investment portfolio is exposed to securities price fluctuations. Position risk management is addressed in Trading and Investment policies, as well as in the procedures and methodologies that set the limits and limitations. The Bank uses Value at Risk (Value-at-Risk) calculation to estimate maximal loss due to fair value change and assess risks by market stress scenarios.

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

	December 31, 2015		December 31, 2014	
	Profit/loss '000 EUR	Other comprehensive income '000 EUR	Profit/loss '000 EUR	Other comprehensive income '000 EUR
5% increase in value of securities	463	623	24	727
5% decrease in value of securities	(463)	(623)	(24)	(727)

2.2. Credit risk

Credit risk represents the Group's and Bank's exposure to potential loss in case a borrower (debtor) or a business partner fails or refuses to fulfil its contractual liabilities towards the Group and Bank. The Group and Bank are exposed to credit risk which is a significant inherent risk for the Group and Bank. Therefore, credit risk management is performed with particular care.

The Bank and the Group have developed a policy for managing credit risk, approved by the supervisory board, which describes the credit risk management process and defines responsibilities and tasks within the process. The Assets and Liabilities Management Committee is responsible for evaluating the asset quality within the Bank and the Group.

Sources of credit risk

The key source for credit risk of the Group and Bank is amounts due from credit institutions, which represent a material asset for the Group and Bank. Credit risk exists also in connection with lending operations, investments in securities, letters of credit and warranties/guarantees.

For the Group and Bank mostly as a payment bank, exposure to credit risk may interfere with liquidity management activities as the Group and Bank should maintain sufficient funds on accounts with several principal correspondents to provide necessary customers' payments in relevant currencies, which sometimes causes also significant concentrations with particular counterparties.

Management and control of credit exposures

The Group and Bank ensure ongoing monitoring of concentrations of credit risk especially to individual counterparties or groups of counterparties, and to industries and countries.

The Group and Bank structure the levels of credit risk they undertake by placing limits on the amount of risk accepted in relation to one counterparty, or a group of counterparties, and to geographical and industry segments, and for a specific type of transaction. Such limits are subject to an annual or more frequent review, taking into account changes in the Group's and Bank's operations or external circumstances that can affect the Group's and Bank's operations.

The credit risk monitoring system applied by the Group and Bank comprises of regular review of the borrower's/ counterparty's credit standing as well as monitoring of the credit ratings granted by the international credit rating agencies, compliance with the contractual terms and conditions, fulfilment of the obligations, collateral control, as well as ongoing limit control.

The Group and Bank ensure regular monitoring of the quality of receivables from counterparties/borrowers and the assessment of credit risk is performed by reference to expected loss and the amount of capital required for addressing credit risk.

Exposures to related groups of counterparties and counterparties related to the Group and Bank are also subject to regulatory requirements.

Credit risk mitigation policies

The Group and the Bank employ several credit risk mitigation methods in accordance with the rules set out in 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 Text with EEA relevance (further – EU Regulation 575/2013).

In order to mitigate credit risk, the Group and the Bank:

- set limits on specific borrowers (related party groups), industries, countries, etc., and monitor compliance of these limits;
- set limits on counterparties in accordance with the approved methodology, considering the counterparties' credit ratings, and monitor the compliance of these limits;
- set limits in accordance with regulatory requirements;
- regularly perform asset quality evaluations, including an extensive analysis of the credit portfolio and identification of potential losses;
- perform credit risk diversification of the portfolio by distributing exposures over different loan and borrower types, maturities, etc.;
- perform credit risk diversification of counterparties by distributing exposures over different counterparties within the regulatory limits;
- with the goal of further diversification of credit risk, create an investment portfolio of highly liquid EU central government bonds and corporate bonds;
- conduct quarterly stress testing of the counterparty risk asset portfolio and separate stress testing of the credit portfolio, estimating the potential unexpected losses that the Bank

may incur in certain stress scenarios;

- conduct an analysis of external factors (macroeconomic indicators), which affect the solvency of the Bank’s existing and potential clients, and estimate the possible changes in these factors. The Bank evaluates the probability of the stress testing scenarios materializing, the potential losses and the amount of capital required for addressing them.

Further information in respect of credit risk is presented in Note 13 and Note 36.

2.3. Concentration risk

Concentration risk of risk transactions arises from exposures to any risk transactions or transaction groups, which may cause losses significant enough to impair the Bank’s and the Group’s solvency or ability to continue operations. The risk is distinguished as a risk that arises from large risk transactions with clients or client groups, whose creditworthiness is heavily affected by a shared factor (e.g. industry, geographic region, currency, credit risk mitigation instrument (one type of collateral or collateral provider, etc.)).

As part of the concentration risk management process the Group and the Bank regularly analyze the level of individual concentration risk (with significant borrowers or related borrower groups), industry concentration based on borrowers’ industries, concentration of collateral type, currency mismatch concentration risk and concentration risk between credit risk and foreign exchange risk, and credit risk and operational risk.

The acceptable level of risk is determined based on the concentration risk estimate of the Bank’s planned credit portfolio, as well as claims against counterparties according to the Bank’s internal capital adequacy assessment methodology and Concentration risk management procedure and calculation method, which is reviewed at least once per year based on any changes in the Bank’s operations or relevant external factors.

Concentration risk mitigation policies

In order to mitigate concentration risk the Bank sets limits for clients and counterparties and related client and counterparty groups and monitors the daily compliance of these limits. Limits are also set for industries, currencies and collateral types and monitored in the same way. The Bank conducts quarterly stress testing of credit portfolio and counterparty concentration risk and monitors the concentration of risk transactions, where the currency of the loan differs from the currency of the borrower’s income (currency mismatch concentration risk), along with the indirect risk concentration, which arises from transactions having the same type of collateral or transactions, where the risk has been mitigated by collateral provided by the same party (collateral concentration risk).

2.4. Country risk

Country risk is the risk that arises in transactions with non-residents due to economic, social and political factors of the clients’ (incl. governments) country of residence affecting the clients’ ability to fulfill their obligations to the Group and the Bank in due time. A further component of country risk is transfer risk, which is related to the counterparty’s ability to obtain sufficient amounts of foreign currencies, and ensure sound risk management policies.

Country risk mitigation policies

The Group and Bank manages country risk and transfer risk on a continuous basis by setting internal country limits and limits for asset categories (country limits on interbank transactions, credit portfolio and securities portfolio) and daily monitoring of compliance. The Bank performs quarterly analysis of the economic and political situation of countries rated with non-investment grade credit ratings, and develops and runs stress testing scenarios for such countries, where the Group and Bank have country risk exposures.

The Group and Bank manage country risk in accordance with the Country risk management policy, which is reviewed at least once per year based on any changes in the Bank’s operations or relevant external factors.

2.5. Liquidity risk

Liquidity risk represents the Bank's exposure to significant loss in the event that Bank does not have a sufficient amount of liquid assets to meet legally substantiated claims or overcome unplanned changes in the Group's and Bank's assets and/or market conditions on a timely basis.

Liquidity risk management process

The Group's and Bank's liquidity risk management policy sets the key principles and processes of liquidity risk management, tasks of management and structural units and their responsibilities in liquidity management and maintenance, methods and conditions, asset and liability management procedure, measures for preventing and managing liquidity crisis, and reporting and disclosure procedure.

Liquidity risk management is performed by the Group and Bank on the basis of the asset and liability management method ensuring a balanced asset and liability term structure and analyzing funding concentration.

Liquidity risk mitigation policies

The following techniques are used to manage liquidity:

- calculation and continuous review of internal limits on assets’ and liabilities’ term structure gaps in EUR and all other currencies, in which the Bank has significant exposures, and determining the course of action in case of non-compliance;
- calculation of the possible requirements for liquid assets based on the client structure of the Bank;
- assessment and regular analysis of early warning indicators that help identify adverse trends that may impact the Group's and Bank's liquidity;
- analysis of concentration of financing, in which the funds from individual depositors (or groups of related depositors) are evaluated;
- stress testing of possible scenarios of crisis on the Bank level, the Latvian banking system level and the global level, including an evaluation of the effect of credit risk and reputational risk on liquidity risk;

- monitoring of Liquidity Coverage requirement (LCR) set by EU Regulation 575/2013;
- contingency plan development for managing potential scenarios of a liquidity crisis (e.g. a significant decline of the deposit base, departure of major clients, etc.);
- continuous liquidity forecasting, considering any planned liquidity inflows and outflows;
- maintaining a liquid asset reserve in the form of a bond portfolio consisting of bonds classified as eligible collateral by the ECB.

The Bank calculates the capital requirement for addressing liquidity risk considering potential expenses that may arise from obtaining additional funds for covering current liabilities.

Further quantitative disclosures in respect of liquidity risk are presented in Note 34.

2.6. Operational risk

Operational risk is the risk that the Group and Bank may suffer loss as a result of noncompliant, unsuccessful or incomplete internal processes or due to staff activities and system operations, or due to external impacts, including risks connected with information technologies and legal risks but excluding reputational risk and strategy and business risk.

Operational risk includes the following types of events, which may cause losses to the Group and Bank:

- internal fraud;
- external fraud;
- non-compliance with regulatory requirements for employment and work safety;
- inadequate client service, products or business practices;
- disturbances in the continuity of operations;
- damage of material assets;
- inadequacies in the management of processes, execution and delivery;
- other operational risk events.

In order to identify operational risk events promptly and to take appropriate and timely measures to minimize operational risk the Group and Bank have developed and implemented a statistical data base for registering operational risk events on a regular basis. The Group and Bank have implemented a procedure that all employees regardless of their position immediately make entries of operational risk events in the Event Database upon identifying any circumstances that have caused or may cause losses (irrespective of the type) to the Group and Bank or may inflict damage to the Group's and Bank's reputation. The Risk control department is responsible for processing any operational risk events and management of operational risk within the Group and Bank.

Operational risk management process

The Operational Risk Management Policy details the tasks to be performed by the Group's and Bank's management and structural units and their responsibilities in the operational risk management, the basic principles of the operational risk management system and operational risk management processes, reporting and disclosures. Besides the above policy, operational risk management connected with the Group's and Bank's information systems is regulated by Information System Management Policy and Information System Security Management Policy and internal documents that govern the application thereof.

Operational risk management is performed in the Group and Bank as a complex of systemic measures and it includes:

- identification and assessment of operational risks;
- control of operational risks;
- measures to mitigate operational risks;
- set duties, authorities and responsibilities;
- procedure for reporting and disclosures.

The operational risk management system is integrated in the Group's and Bank's internal control system and is aimed at effective management of operational risk. The Group and Bank review and improve the operational risk management system on a regular basis to reflect changes in the Group's and Bank's operations and external circumstances that impact operations.

Operational risk mitigation policies

The control of operational risks in the Group and Bank is performed using the following control procedures:

- collection and classification of information on all past operational risk events in the Group and Bank;
- quantitative and qualitative measurement of operational risk;
- continuous monitoring of operational risk and developing ways to decrease the level of risk;
- setting internal limits for operational risk and monitoring compliance;
- evaluating the potential operational risk related to offering new products and services;
- evaluating the probability of operational risk events materializing, including quarterly stress testing;
- development and continuous review of the contingency plan for ensuring the continuous operations of the Group and Bank.

The Group and Bank manage operational risk in accordance with the Operational risk management policy, which is reviewed at least once per year based on any changes in the Bank’s operations or relevant external factors.

2.7. AML risk

AML risk is the risk that the Bank might get involved in money laundering and terrorism financing through the services provided by the Group and the Bank, the client base, the geographic profile of the clients’ activities or the delivery channels of the Bank’s products and services.

AML risk management process

The Money Laundering and Terrorism Financing Risk Management Policy determines the Bank's strategy, tasks and responsibilities of the Bank's management and structural units, core principles of AML risk management, risk identification, assessment, and control process, risk mitigation actions, staff training, submitting reports and information, as well as core principles and actions of the internal control system for AML prevention.

AML risk is assessed using risk assessment-based customer research method, where one of the main components are the client AML risk determination that the Bank carries out when it establishes business relationships with the clients and during the business relationship.

Through client's due diligence based on AML risk assessment, the Bank assesses the client's residence (registration) country risk, the client's legal form risk, the risk of the client's business, risk of customer services and risk of the client's transactions.

The Bank has established criteria for persons with whom not to initiate cooperation and criteria for customers, with whom the Bank will unilaterally suspend the business relationship if the customer is considered to be adverse to the Bank.

To reduce AML risk, the Bank uses a variety of automated systems to control customers and their transactions, including banned individuals in Bank and the list of countries control, customer cash flow control, automated customer monthly or other specified period turnover control, or other determined by the Bank parameter reporting and analysis.

The Group and the Bank regularly evaluates the effectiveness of the AML risk assessment system and continuously strives to improve it by regularly reviewing and improving AML risk management procedures and policies.

The Group and Bank ensures continuous employee training with the aim of improving employees’ skills of identifying unusual and suspicious transactions and completing the appropriate actions within the internal control system. In working with clients (counterparties) the Bank applies a “Know your client” principle to avoid cooperation with parties involved in money laundering and terrorism financing. The Bank initiates cooperation with a client only upon the identification of the client and the ultimate beneficiary.

Despite the Group’s and the Bank’s efforts to follow the policies outlined above, as a result of a number of reviews performed at the Bank by the Financial and Capital Market Commission (FCMC), in December 2015 the Council of the FCMC made the decision to impose a fine and request the removal of the Board of AS PrivatBank due to violations of the law On the Prevention on Money Laundering and Terrorism Financing, the Credit Institution Law, the Regulation on Establishment of the Internal Control Framework and the Regulations for Enhanced Customer Due Diligence. Accordingly, in 2016, the activities of the Bank and the Group will be devoted to implementation of new technologies and improvement of the internal control system in this area.[1]

2.8. Reputational risk

Reputational risk is the possibility that the Group's and Bank's clients, partners, shareholders, regulatory authorities or other stakeholders may form a negative view of the Group and the Bank, which may be detrimental to the Bank's ability to maintain its existing business relationships and form new business relationships with clients and other business partners, and negatively affect the availability of funds to the Group and the Bank. As a result of reputational risk events the level of other risks related to the operations of the Group and Bank (credit risk, liquidity risk, market risk, etc.) may increase, which may negatively affect the Group's and the Bank's profit, liquidity and amount of capital.

Reputational risk management process

In order to maintain reputational risk at a level acceptable to the Group and Bank, the following actions are performed:

- quantitative and qualitative measurement of reputational risk;
- continuous control of compliance with the regulatory framework and any changes. Special care is given to the development of an effective internal system of control;
- adherence to professional ethical principles and corporate culture standards;
- ensuring effective management of any significant risks;
- ensuring the timely execution of payments to clients and partners, e.g. repayment of deposits, interest and payments for other transactions;
- implementation of a management information system, which enables adequate and timely evaluation of the Group's and the Bank's financial situation, effective decision making and evaluation of the consequences of past decisions, and identification of non-compliance with internal control procedures;
- keeping track of any information published by the media regarding the Group and Bank and its related parties;
- developing contingency plans for management of crisis situations, including the identification of events that may raise reputational risk, investigating the causes and possible consequences of such events, outlining the necessary actions to be performed in crisis scenarios to protect the Bank's reputation, and organizing the public communication in crisis situations;
- adequate response to clients' complaints and analyzing the responsible factors.

The Group and Bank manage reputational risk in accordance with the Reputational risk management policy, which is reviewed at least once per year based on any changes in the Bank's operations or relevant external factors.

2.9. Strategic and business risk

Strategic and business risk is the possibility that changes in the business environment

1 Annual report and consolidated annual report for year 2015.

and the Group’s and Bank’s inability to promptly react to such changes, inadequate or incorrectly chosen strategy for the Bank’s development or the Bank’s inability to provide the necessary resources to implement the strategy may negatively impact the Group’s and Bank’s profit, liquidity and amount of capital.

Strategic and business risk management process

In order to manage the strategic and business risk the Group and Bank apply the following measures:

- establishing an adequate strategic planning system;
- ensuring that employees are well aware of the Group’s and Bank’s strategic objectives;
- assessing capital adequacy with regards to achieving the strategic objectives;
- regular analysis of external circumstances and identification of potential events and market changes, which may negatively impact the Bank’s operations and hinder the achievement of its strategic goals;
- taking actions to continuously increase the qualifications of employees to identify and prevent events of strategic and business risk from occurring;
- ensuring the security and confidentiality of information to prevent leaks due to unfair competition or negligence;
- developing a risk management system in accordance with the Group’s and Bank’s operations.

The Group and Bank manage strategic and business risk in accordance with the Strategic and business risk management policy, which is reviewed at least once per year based on any changes in the Bank’s operations or relevant external factors.

2.10. Risk of excessive leverage

The risk of excessive leverage is a risk that the Group and Bank may be exposed to in case of an increase of the proportion of actual and potential loans in the financing structure, which may require corrections in the business plan, including mandatory sale of assets, which may cause losses or corrections in the value of remaining assets.

In accordance with the requirements of EU Regulation 575/2013 since 2014 the Group and Bank have included the management of the risk of excessive leverage in the overall risk management system.

In order to manage the risk of excessive leverage the Group and Bank calculate the leverage ratio, which limits the increase of non-risk-weighted assets relative to tier 1 capital (back-stop regime).

The Group and Bank manage the risk of excessive leverage in accordance with the Excessive leverage risk management policy, which is reviewed at least once per year based on any changes in the Bank’s operations or relevant external factors.

In accordance with the requirements of EU Regulation 575/2013 since 01.01.2015 the Group and Bank disclose information regarding the leverage ratios and the data used in calculating them.

Information on the Bank’s capital position on 31.12.2015 calculated in accordance with the requirements of EU Regulation 575/2013 is presented in the table below:

Leverage ratio calculated as the simple arithmetic mean of the monthly leverage ratio over a quarter	2015	2014
Leverage Ratio -using a fully phased-in definition of Tier 1	7%	6%
Leverage Ratio -using a transitional definition of Tier 1	7%	6%

2.11. Capital management

The strategic objective of the Group's and Bank's capital management is to maintain the adequate capital base in terms of amount, components and their proportions, that would promote attaining the strategic business goals set by the Group and Bank and addressing existing and potential risk exposures. The capital adequacy assessment process consists of determining the amount of capital required in accordance with the Group’s and Bank’s current and planned operations and the related risks, capital planning and continuously maintaining an adequate amount of capital for addressing risk exposures.

The main principles of capital management for the Group and the Bank are:

- Developing a strategy to ensure a sufficient amount of capital; this includes an analysis of the potential development scenarios of the Group and Bank depending on various development scenarios of the external operating environment. Within this analysis the Group and Bank conduct stress testing of the relevant factors.
- In determining the capital requirement for addressing all significant risks of the Group and Bank, the capital requirement for each of the risks significant to the operations of the Group and Bank is added to the capital reserve, which is calculated according to the Capital adequacy assessment procedure.
- The Group and Bank take a cautious position in assessing the amount of capital required to address risks related to the current and planned operations. The Group and Bank ensure that all assumptions and conclusions used in the assessment process are well-grounded and valid.
- In determining the capital requirement for addressing all significant risks of the Group and Bank, methods used in the management of each respective risk are preferred.
- The Group and Bank ensure that observations and conclusions made in each step of the capital management and capital adequacy assessment process are properly documented.
- At least once per year the executive board of the Bank provides information to the supervisory board about the capital requirement, the internal capital adequacy assessment results and compliance with regulatory requirements on capital, and creates proposals for increasing the amount of capital to be reviewed by the supervisory board, if such an increase is required.
- At least once per year the supervisory board of the Bank reviews and approves the executive board’s report on the results of the internal capital adequacy assessment process, which is submitted to the FCMC within one month.
- The Bank publishes information on its capital management goals and capital adequacy on its website.
- The Bank ensures that the capital amount of the Group and Bank is always above the required amount to address all risks and capital reserve, according to the results of the internal

capital adequacy assessment process.

The capital adequacy assessment process is executed in accordance with the Capital assessment policy, which is reviewed at least once per year based on any changes in the Bank’s operations or relevant external factors.

The Bank calculates the capital requirement in accordance with EU Regulation 575/2013.

The FCMC oversees the capital requirements for the Bank, which is the main operating unit of the Group, and for the Group overall.

The Bank defines capital as the positions defined as capital under EU Regulation 575/2013. In accordance with EU Regulation 575/2013 banks must maintain their capital ratio relative to risk-weighted assets above the minimum regulatory level. On December 31, 2015 the minimum requirement for all banks was 8% (2014: 8%). According to FCMC requirements from November 1, 2015, the individual capital requirement for the Group and Bank is 13.1% (2014: 13.8%). On December 31, 2015 and December 31, 2014 the Bank was in compliance with the respective capital requirements.

Information on the Bank’s capital position on December 31, 2015, calculated in accordance with EU Regulation 575/2013 and FCMC requirements, is presented in the table below:

	Group	Bank
	2015	2015
	’000 EUR	’000 EUR
Tier 1 capital		
Share capital	80 350	80 350
Other reserves	5 400	5 397
Retained earnings	(33 765)	(27 564)
Accumulated other comprehensive income	3 308	3 308
Intangible assets	(589)	(564)
Total tier 1 capital	54 704	60 927
Tier 2 capital		
Subordinated capital	16 169	16 169
Total tier 2 capital	16 169	16 169
Specific legislation for the first level of capital and the second level of capital reduction	(4 432)	(8 228)
Total capital	66 441	68 868
Total assets and off-balance-sheet items		
Total weighted value of assets and off-balance-sheet liabilities	320 718	323 503
Asset credit risk capital requirement	276 924	283 511
Foreign currency capital requirement (Total capital requirements for open foreign exchange positions, currency risk and commodity risk)	-	-
Operational risk capital requirement	43 794	39 692
Total capital expressed as a percentage of risk-weighted assets (“total capital ratio”) as at 31 December 2015	20.72%	21.29%
Total tier 1 capital expressed as a percentage of risk-weighted assets (“tier 1 capital ratio”) as at 31 December 2015	17.06%	18.83%
Total capital ratio as at 31 December 2014	18.55%	19.07%

3 Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. 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 on-going basis. Revisions to accounting estimates are recognized in the period, in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty and judgements:

Fair values of financial and non-financial instruments

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

Impairment of loans and receivables

Total allowances for impairment applies to financial assets 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 judgments about counterparty’s financial situation and the net realizable 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 Credit Risk function.

Impairment of financial instruments (other than loans and receivables)

The determination of impairment indication is based on comparison of the financial instrument’s carrying value and fair value. Due to downturns in the financial and capital markets, the market price of a specific asset is not always a reliable source for impairment indication. The Group and Bank use valuation models based on quoted market prices of similar products.

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

Impairment of non-financial assets

The carrying amounts of the Group’s non-financial 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 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 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 is recognized if the carrying amount of an asset exceeds its estimated recoverable amount.

Classification of land and buildings as repossessed assets and other assets

Real estate, i.e. land and buildings are classified as repossessed and other assets (current assets), due to the fact that the Group’s and Bank’s intention is to sell these properties in short-term. The holding period (short-term) is considered in the context of the business model rather than as a formal threshold. The Management believes that respective properties are to be classified as repossessed assets and other assets rather than investment property as these properties are not being held for capital appreciation.

Measurement of repossessed and other assets

Repossessed and other assets are stated at lower of cost and net realizable value. Accordingly, the management estimates the net realizable value of repossessed and other assets whenever there are indications that the carrying amount of repossessed and other may have decreased below its cost. If this has occurred, the assets are written down to their net realizable value.

Deferred tax asset recognition

A deferred tax asset is recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be recognized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Geopolitical and economic situation in Ukraine

One of the key sources for uncertainty for year ended as at 31 December 2015 is the unstable geopolitical and economic situation in Ukraine. For more detailed description refer to Note 40 to these financial statements.

4 Neto procentu ienākumi un izdevumi

	Group 2015 ’000 EUR	Bank 2015 ’000 EUR	Group 2014 ’000 EUR	Bank 2014 ’000 EUR
Interest income	16 192	16 415	10 720	11 035
Loans and receivables from customers	12 847	13 070	6 410	6 725
Loans and receivables from banks	856	856	2 200	2 200
Held-to-maturity assets	2 293	2 293	1 991	1 991
Penalties from delayed interest payments	94	94	81	81
Other interest income	102	102	38	38
Interest expense	6 246	6 247	8 283	8 265
Current accounts and deposits from customers	5 216	5 217	7 258	7 241
Deposits and balances from banks	153	153	78	77
Payments in Deposit guarantee fund	877	877	947	947
Net interest income	9 946	10 168	2 437	2 770

Interest recognized on impaired loans during the year period ended 31 December 2015 amounts to EUR 162 thousand (31 December 2014: 150 thousand), including EUR 85 thousand (31 December 2014: EUR 54 thousand) which has not been received as at 31 December 2015.

5 Net commission income

new	Group 2015 ’000 EUR	Bank 2015 ’000 EUR	Group 2014 ’000 EUR	Bank 2014 ’000 EUR
Commission income	**13 432**	**13 391**	**15 808**	**15 778**
Current account servicing	5 731	5 731	7 383	7 383
Payment cards servicing	672	672	543	543
Asset management fees	6 729	6 729	7 484	7 484
Other commission income	300	259	398	368
Commission expense	**2 637**	**2 626**	**2 524**	**2 524**
Commission fee for transfers	690	690	622	622

new	Group 2015 '000 EUR	Bank 2015 '000 EUR	Group 2014 '000 EUR	Bank 2014 '000 EUR
Commission fee for credit card servicing	874	874	946	946
Encashment fees	69	69	63	63
Other	1 004	993	893	893
Net commission income	**10 795**	**10 765**	**13 284**	**13 254**

6 Net foreign exchange income

	Group 2015 '000 EUR	Bank 2015 '000 EUR	Group 2014 '000 EUR	Bank 2014 '000 EUR
Profit from foreign currency transactions	2 777	2 787	3 331	3 303
Profit/(loss) from revaluation of foreign currency position	(325)	(379)	(35)	(44)
	2 452	2 408	3 296	3 259

7 Zaudējumi no vērtības samazināšanās

	Group 2015 '000 EUR	Bank 2015 '000 EUR	Group 2014 '000 EUR	Bank 2014 '000 EUR
Impairment charge	11 882	11 429	5 253	5 041
Loans and receivables from customers	7 504	8 648	5 098	4 967
Other assets	1 894	297	155	74
Securities	2 484	2 484	-	-
Recovery	(1 582)	(1 257)	(2 847)	(2 841)
Loans and receivables from customers	(1 217)	(1 173)	(2 847)	(2 841)
Other assets	(365)	(84)	-	-
Net impairment losses	10 300	10 172	2 406	2 200

Analysis of changes in impairment allowances:

Group

31 December 2015

	Loans and receivables from customers '000 EUR	Goodwill '000 EUR	Other assets '000 EUR	Securities '000 EUR
Allowances as at the beginning of the reporting period	9 886	1 138	1 141	-
Impairment charge	7 504	-	1 894	2 484
Recovery	(1 217)	-	(365)	-
Reclassification	863	-	-	-
Amounts written-off	(4 610)	-	(46)	-
Allowances as at the end of the reporting period	12 426	1 138	2 624	2 484

31 December 2014

	Loans and receivables from customers '000 EUR	Goodwill '000 EUR	Other assets '000 EUR
Allowances as at the beginning of the reporting period	13 967	1 138	986
Impairment charge	5 098	-	155
Recovery	(2 847)	-	-
Reclassification	-	-	-
Amounts written-off	(6 332)	-	-
Allowances as at the end of the reporting period	9 886	1 138	1 141

Bank

31 December 2015

	Loans and receivables from customers ’000 EUR	Other assets ’000 EUR	Investment in subsidiaries ’000 EUR	Securities ’000 EUR
Allowances as at the beginning of the reporting period	6 992	327	4 312	-
Impairment charge	8 648	297	-	2 484
Recovery	(1 173)	(84)	-	-
Reclassification	785	129	-	-
Amounts written-off	(4 316)	-	-	-
Allowances as at the end of the reporting period	10 936	669	4 312	2 484

31 December 2014

	Loans and receivables from Customers ’000 EUR	Other assets ’000 EUR	LInvestment in subsidiaries ’000 EUR
Allowances as at the beginning of the reporting period	10 758	253	4 312
Impairment charge	4 967	74	-
Recovery	(2 841)	-	-
Reclassification	-	-	-
Amounts written-off	(5 892)	-	-
Allowances as at the end of the reporting period	6 992	327	4 312

All loans and receivables from customers written off were previously fully provided for.

8 General administrative expenses

	Group 2015 ’000 EUR	Bank 2015 ’000 EUR	Group 2014 ’000 EUR	Bank 2014 ’000 EUR
Remuneration to staff	5 598	5 319	5 532	5 264
Social taxes	1 360	1 282	1 365	1 287
Office maintenance	859	821	976	964
Depreciation and amortization	1 392	1 322	1 196	1 062
Communications and post	651	647	729	725
Advertisement and marketing	90	85	45	39

	Group 2015 '000 EUR	Bank 2015 '000 EUR	Group 2014 '000 EUR	Bank 2014 '000 EUR
Salary of members of the Council and the Board	454	397	437	372
Transportation and business trips	100	88	80	69
Professional services	414	403	187	176
Legal services	358	353	127	126
Staff training	18	18	18	18
Other	2 693	2 866	1 208	893
	13 987	13 601	11 900	10 995

9 Income tax expense

Recognized in the statement of comprehensive income	Group 2015 '000 EUR	Bank 2015 '000 EUR	Group 2014 '000 EUR	Bank 2014 '000 EUR
Current tax expense				
Current year	284	284	571	571
Total income tax expense	284	284	571	571

The Bank's applicable tax rate for current and deferred tax is 15 % (2014: 15 %).

Efektīvās nodokļa likmes salīdzinājums:

	Group 2015 '000 EUR	Bank 2015 '000 EUR	Group 2014 '000 EUR	Bank 2014 '000 EUR
Profit before tax	598	777	6 561	6 279
Expected tax charge applying current tax rate of 15 %	90	117	984	942
Net of non-deductible expenses and exempt income	252	725	805	773
Change in unrecognized deferred tax asset	(58)	(558)	(1 218)	(1 144)
	284	284	571	571

10 Cash and balances with the Bank of Latvia

	Group 2015 '000 EUR	Bank 2015 '000 EUR	Group 2014 '000 EUR	Bank 2014 '000 EUR
Cash	1 594	1 594	1 435	1 435
Due from Bank of Latvia	182 784	182 784	72 921	72 921
	184 378	184 378	74 356	74 356

In accordance with regulations set by the Financial and Capital Market Commission, the Bank’s cash and current account balance with the Central Bank of Latvia should be not less than the required reserves calculated on basis of the average monthly customer deposits. The compulsory reserve is compared to the Bank’s average monthly correspondent account balance in. The Bank’s average correspondent balance should exceed the compulsory reserve requirement. The Bank was in compliance with the aforementioned compulsory reserve requirement at 31 December 2015 and 31 December 2014.

Required reserve as at 31 December 2015 amounts to 4 437 thousand EUR (2014: 4 421 thousand EUR).

Due from the Bank of Latvia balance includes 130 000 thousand EUR of current account balance as at 31 December 2015. The balance is not formally restricted; however, when Bank intends to use the funds, the amount and purpose has to be agreed with FCMC.

11 Loans and receivables from banks

	Group 2015 '000 EUR	Bank 2015 '000 EUR	Group 2014 '000 EUR	Bank 2014 '000 EUR
Nostro accounts				
Latvian commercial banks	7 984	7 984	16 080	16 080
Banks domiciled in OECD countries	48 436	48 436	146 843	146 843
Other non-OECD banks	10 712	10 712	24 177	24 177
Total nostro accounts	67 132	67 132	187 100	187 100
Loans and deposits				
Latvian commercial banks	919	919	53 538	53 538
OECD banks	165	165	52 552	52 552
Other non-OECD banks	1 282	1 282	25 655	25 655
Total loans and deposits	2 366	2 366	131 745	131 745
	69 498	69 498	318 845	318 845

As at 31 December 2015 and 31 December 2014 the Group and the Bank had deposits and Nostro account balances with three and three banks and financial institutions respectively, which each exceeded 10% of total placements with banks and other financial institutions. The gross value of these balances as of 31 December 2015 and 31 December 2014 were EUR 53 958 thousand and EUR 202 176 thousand respectively.

Nostro accounts include guarantees’ payment of USD 10 thousand or EUR 9 thousand (2014: USD 1 790 thousand or EUR 1 474 thousand) and EUR 165 thousand (2014: EUR 65 thousand).

Qualitative disclosure of loan and receivables from banks:

The Group's qualitative disclosure of loan and receivables from banks has not been presented as there is no difference to the Bank's disclosure.

Credit rating assigned by rating agency Moody's	Bank 2015 '000 EUR	Bank 2014 '000 EUR
Aa2 rated	169	17
Aa3 rated	-	232
A1 rated	15 044	34 521
A2 rated	394	56 229
A3 rated	32 782	83 899
Baa1 rated	165	50 246
Baa2 rated	201	47 393
Baa3 rated	-	579
Ba1 rated	-	233
Ba2 rated	59	-
Ba3 rated	5 807	436
B1 rated	5 117	306
B2 rated	35	22 942
B3 rated	-	-
Ca rated	2 088	4 557
Caa1 rated	-	10 017
Caa2 rated	-	-
Unrated	7 637	7 238
Total	69 498	318 845

Loans and receivables from banks that have been assigned a Moody's Credit rating of Ca in the amount of EUR 2 088 thousand consist of receivables from Ukrainian banks and their branches. (2014: Ca Moody's Credit rating 4 557 thousand EUR).

As at 31 December 2014 loans and receivables from banks with Moody's Credit rating of Caa1 in the amount of 10 017 thousand EUR consisted of receivables from a Belarusian bank.

12 Financial instruments at fair value through profit or loss

Group

Derivative financial instruments

	Notional amount		Fair value			
			Assets		Liabilities	
EUR'000	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Forward currency exchange agreements	46 728	30 056	180	189	25	665
Held-for-trading debt securities of credit institutions (bonds)	9 095	-	9 095	-	-	-
Total	55 823	30 056	9 275	189	25	665

Bank

Derivative financial instruments

	Notional amount		Fair value			
			Assets		Liabilities	
EUR'000	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Forward currency exchange agreements		46 728	30 056	180	189	25
Held-for-trading debt securities of credit institutions (bonds)	9 095	-	9 095	-	-	-
Total	55 823	30 056	9 275	189	25	665

Derivative financial instruments held as at 31 December 2015 comprise contracts in EUR, RUB and USD. Maturities of derivatives vary from 11 January 2016 to 13 January 2016.

13 Loans and receivables from customers

	Group 2015 ’000 EUR	Bank 2015 ’000 EUR	Group 2014 ’000 EUR	Bank 2014 ’000 EUR
Commercial loans				
Loans to corporates	197 913	241 366	122 658	172 160
Loans to small and medium size companies	18 957	18 292	20 104	17 212
Total commercial loans	216 870	259 658	142 762	189 372
Loans to individuals				
Consumer loans	26	26	88	88
Credit cards	1 234	1 234	1 401	1 401
Car loans	9 205	9 103	6 172	5 769
Mortgage loans	24 331	21 614	29 382	26 939
Other	506	506	6	6
Total loans to individuals	35 302	32 483	37 049	34 203
Gross loans and advances to customers	252 172	292 141	179 811	223 575
Impairment allowance	(12 426)	(10 936)	(9 886)	(6 992)
Net loans and advances to customers	239 746	281 205	169 925	216 583

In the year ended 31 December 2015 the Bank has renegotiated 24 loans to individuals and 4 loans to corporates that would otherwise be past due or impaired in the gross amount of EUR 1 343 thousand and EUR 347 thousand (in the year ended 31 December 2014: 33 loans to individuals in the gross amount of EUR 1 999). Such restructuring activity is aimed at managing customer relationships and maximizing collection opportunities.

Finance lease receivables

Loans and receivables from customers include the following finance lease receivables for leases of certain property and equipment where the Group is lessor. Finance lease receivables are included in positions “Car loans” and “Loans to corporates” in the previous table:

EUR’000	Group 2015 ’000 EUR	Bank 2015 ’000 EUR	Group 2014 ’000 EUR	Bank 2014 ’000 EUR
Gross investment in finance leases, receivable:				
Less than one year	7 161	6 525	6 431	4 073
Between one and five years	11 942	11 838	9 240	8 073
More than five years	-	-	-	-
	19 103	18 363	15 671	12 146

EUR’000	Group 2015 ’000 EUR	Bank 2015 ’000 EUR	Group 2014 ’000 EUR	Bank 2014 ’000 EUR
Unearned finance income	(1 907)	(1 887)	(1 496)	(1 340)
Net investment in finance leases	17 196	16 476	14 175	10 806
The net investment in finance leases comprises:				
Less than one year	6 261	5 638	5 727	3 460
Between one and five years	10 935	10 838	8 448	7 346
More than five years	-	-	-	-
	17 196	16 476	14 175	10 806

(a) Industry analysis of the loan portfolio

	Group 2015 ’000 EUR	Bank 2015 ’000 EUR	Group 2014 ’000 EUR	Bank 2014 ’000 EUR
Trade	167 181	167 181	89 280	88 982
Manufacturing	7 479	7 215	3 988	3 684
Mining/metallurgy	740	740	440	407
Finance	10 973	11 102	30 926	36 515
Real estate	2 645	46 098	3 458	47 475
Agriculture, forestry and timber	762	731	3 768	3 238
Other commercial loans	27 090	26 591	10 902	9 071
Loans to individuals	35 302	32 483	37 049	34 203
	252 172	292 141	179 811	223 575
Impairment allowance	(12 426)	(10 936)	(9 886)	(6 992)
	239 746	281 205	169 925	216 583

(b) Geographical analysis of the loan portfolio

	Group 2015 ’000 EUR	Bank 2015 ’000 EUR	Group 2014 ’000 EUR	Bank 2014 ’000 EUR
Latvia	51 432	91 404	55 131	99 007
OECD countries	173 618	173 615	105 611	105 601
Including Switzerland	155 843	155 843	83 075	83 075
Including USA	6	6	13 319	13 319
Non-OECD countries	27 122	27 122	19 069	18 967
	252 172	292 141	179 811	223 575
Impairment allowance	(12 426)	(10 936)	(9 886)	(6 992)
	239 746	281 205	169 925	216 583

(c) Credit quality

(i) Analysis of collateral

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

Koncerns

	31 December 2015 '000 EUR	% of loan portfolio	31 December 2014 '000 EUR	% of loan portfolio
Real estate	6 890	3	6 752	5
Motor vehicles	24	-	2 295	2
Commercial pledge	21 014	10	13 267	10
Deposits	5 305	3	2 386	1
Financial guarantee	142 010	68	83 783	60
Other collateral	19 251	9	16 986	12
No collateral	15 681	7	13 606	10
Total	210 175	100	139 075	100

Banka

	31 December 2015 '000 EUR	% of loan portfolio	31 December 2014 '000 EUR	% of loan portfolio
Real estate	6 890	3	6 752	4
Commercial pledge	63 060	25	62 769	34
Deposits	5 305	2	2 386	1
Financial guarantee	142 010	56	83 783	45
Other collateral	18 901	8	17 021	9
No collateral	15 783	6	13 599	7
Total	251 949	100	186 310	100

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

The following table provides the analysis of loans to individual’s portfolio, net of impairment, by types of collateral as at 31 December 2015:

Group

	31 December 2015 ‘000 EUR	% of loan portfolio	31 December 2014 ‘000 EUR	% of loan portfolio
Real estate	18 654	63	23 067	75
Motor vehicles	9 094	31	6 099	19
Deposits	23	-	27	-
Other collateral	280	1	189	1
No collateral	1 520	5	1 468	5
Total	29 571	100	30 850	100

Bank

	31 December 2015 ‘000 EUR	% of loan portfolio	31 December 2014 ‘000 EUR	% of loan portfolio
Real estate	18 435	63	22 823	75
Motor vehicles	9 094	31	5 767	19
Deposits	23	-	27	-
Other collateral	246	1	189	1
No collateral	1 458	5	1 467	5
Total	29 256	100	30 273	100

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

(ii) Commercial loan allocation, depending on delay of payments

Group

EUR’000			Of which past due by the following terms					
Loans	Total	Loans with no delayed payments	Less than 30 days	30-60 days	61-90 days	91-180 days	181-360 days	More than 360 days
31 December 2015								
Gross loans	216 870	204 878	5 941	1 021	159	841	1 107	2 923
Impairment allowance	(6 695)	(260)	(3 860)	(8)	(1)	(136)	(488)	(1 942)
Net carrying value	210 175	204 618	2 081	1 013	158	705	619	981
31 December 2014								
Bruto Gross loans	142 762	132 029	3 029	534	420	706	821	5 223
Impairment allowance	(3 687)	(226)	(1)	(1)	(52)	(264)	(135)	(3 008)

EUR'000			Of which past due by the following terms					
Loans	Total	Loans with no delayed payments	Less than 30 days	30-60 days	61-90 days	91-180 days	181-360 days	More than 360 days
Net carrying value	139 075	131 803	3 028	533	368	442	686	2 215

Bank

EUR'000			Of which past due by the following terms					
Loans	Total	Loans with no delayed payments	Less than 30 days	30-60 days	61-90 days	91-180 days	181-360 days	More than 360 days
31 December 2015								
Gross loans	259 658	248 246	5 880	977	60	785	999	2 711
Impairment allowance	(7 709)	(1 678)	(3 851)	(3)	(1)	(115)	(468)	(1 593)
Net carrying value	251 949	246 568	2 029	974	59	670	531	1 118
31 December 2014								
Bruto Gross loans	189 372	180 797	2 621	413	231	22	655	4 633
Impairment allowance	(3 062)	(156)	(1)	(1)	(1)	(1)	(106)	(2 796)
Net carrying value	186 310	180 641	2 620	412	230	21	549	1 837

(iii) Individual loan allocation, depending on delay of payments

Group

EUR'000			Of which past due by the following terms					
Loans	Total	Loans with no delayed payments	Less than 30 days	30-60 days	61-90 days	91-180 days	181-360 days	More than 360 days
31 December 2015								
Gross loans	35 302	21 369	1 988	1 208	647	397	526	9 167
Impairment allowance	(5 731)	(68)	(4)	(289)	(49)	(60)	(95)	(5 166)
Net carrying value	29 571	21 301	1 984	919	598	337	431	4 001
31 December 2014								
Bruto Gross	37 049	19 515	3 207	360	239	640	466	12 622

EUR’000			Of which past due by the following terms					
Loans	Total	Loans with no delayed payments	Less than 30 days	30-60 days	61-90 days	91-180 days	181-360 days	More than 360 days
loans								
Impairment allowance	(6 199)	(17)	(1)	(11)	(9)	(24)	(128)	(6 009)
Net carrying value	30 850	19 498	3 206	349	230	616	338	6 613

Bank

EUR’000			Of which past due by the following terms					
Loans	Total	Loans with no delayed payments	Less than 30 days	30-60 days	61-90 days	91-180 days	181-360 days	More than 360 days
31 December 2015								
Gross loans	**32 483**	21 291	1 973	1 205	645	393	526	6 450
Impairment allowance	**(3 227)**	(8)	(2)	(286)	(49)	(57)	(96)	(2 729)
Net carrying value	**29 256**	21 283	1 971	919	596	336	430	3 721
31 December 2014								
Bruto Gross loans	**34 203**	19 257	3 168	344	231	639	426	10 138
Impairment allowance	**(3 930)**	-	(1)	(6)	(6)	(23)	(90)	(3 804)
Net carrying value	**30 273**	19 257	3 167	338	225	616	336	6 334

(v) Loans division based on credit risk assessment:

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

Group

31 December 2015 ’000 EUR	Gross	Impairment allowance
Standard	20 794	-
Watch	2 570	73
Substandard	1 847	338
Doubtful	397	60
Lost	9 694	5 260
Total	**35 302**	**5 731**

31 December 2014 ’000 EUR	Gross	Impairment allowance
Standard	19 480	-
Watch	3 245	18
Substandard	596	20
Doubtful	640	24
Lost	13 088	6 137
Total	**37 049**	**6 199**

Banka

31 December 2015 ’000 EUR	Gross	Impairment allowance
Standard	20 726	-
Watch	2 545	11
Substandard	1 843	335
Doubtful	393	57
Lost	6 976	2 824
Total	**32 483**	**3 227**

31 December 2014 ’000 EUR	Gross	Impairment allowance
Standard	19 248	-
Watch	3 180	2
Substandard	572	12
Doubtful	639	23
Lost	10 564	3 893
Total	**34 203**	**3 930**

(vi) Loans division based on credit risk assessment:

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

Koncerns

31 December 2015 ’000 EUR	Gross	Impairment allowance
Standard	203 480	-
Watch	7 339	4 120
Substandard	1 180	9
Doubtful	841	136
Lost	4 030	2 430
Total	**216 870**	**6 695**

31 December 2014 ’000 EUR	Gross	Impairment allowance
Standard	131 028	-
Watch	4 252	228
Substandard	953	53
Doubtful	706	263
Lost	5 823	3 143
Total	**142 762**	**3 687**

Banka

31 December 2015 ’000 EUR	Gross	Impairment allowance
Standard	203 322	-
Watch	50 804	5 527
Substandard	1 037	5
Doubtful	785	115
Lost	3 710	2 062
Total	**259 658**	**7 709**

31 December 2014 ’000 EUR	Gross	Impairment allowance
Standard	179 695	-
Watch	3 724	157
Substandard	644	2
Doubtful	22	1
Lost	5 287	2 902
Total	**189 372**	**3 062**

(a) Kredīti, kuru vērtība ir samazinājusies

Group	**2015 ’000 EUR**	**2014 ’000 EUR**
Impaired loans gross	22 503	20 612
Impairment allowance	(12 426)	(9 886)

Group	2015 '000 EUR	2014 '000 EUR
Net Loans and receivables from customers	**10 077**	**10 726**

Bank

	2015 '000 EUR	2014 '000 EUR
Impaired loans gross	62 862	17 205
Impairment allowance	(10 936)	(6 992)
Net Loans and receivables from customers	**51 926**	**10 213**

(b) Sensitivity analysis

A 10 % increase and decrease in actual loss experience compared to the loss estimates used would result in the following change to the statement of comprehensive income:

	Increase/ (decrease) in statement of comprehensive income			
	Group 2015 '000 EUR	Bank 2015 '000 EUR	Group 2014 '000 EUR	Bank 2014 '000 EUR
10% increase in actual losses compared to loss estimates used	(903)	(1 013)	(460)	(432)
10% decrease in actual losses in actual losses compared to loss estimates used	1 243	1 089	1 026	699

The result of the sensitivity analysis is not symmetrical as for a part of the loan portfolio the Group and Bank and has already recognised impairment that exceeds 90% of the gross loan balance.

(c) Significant credit exposures

As at 31 December 2015 and 31 December 2014 the Bank had loan balances with four and seven borrowers or group of related borrowers respectively which exceeded 10 % of the Bank's equity. The gross value of these loans as of 31 December 2015 and 31 December 2014 was EUR 181 898 and EUR 111 204 thousand respectively.

According to regulatory requirements, the Bank is not allowed to have a credit exposure to one client or group of related clients of more than 25 % of its equity. Bank's subsidiaries are not subject to the above requirement as the Bank has received special permission from FCMC. This requirement is not applicable to credit institutions – credit exposure with credit institutions must not exceed 100% of the Bank's equity. As at

31 December 2015 and 31 December 2014 the Bank was in compliance with these requirements.

14. Available-for-sale assets

	Group 2015 ’000 EUR	Bank 2015 ’000 EUR	Group 2014 ’000 EUR	Bank 2014 ’000 EUR
Equity investments				
Debt securities of government (bonds)	6 738	6 738	14 405	14 405
Corporate shares	5 713	5 713	133	133
	12 451	**12 451**	**14 538**	**14 538**

15. Held-to-maturity assets

Group / Bank

	31 December 2015 ’000 EUR	31 December 2014 ‘000 EUR
Debt securities of credit institutions (bonds)	11 017	9 693
Debt securities of corporate (bonds)	1 649	1 687
Debt securities of government (bonds)	27 993	30 906
Provisions	(2 484)	-
	38 175	**42 286**

During 2015 after decision made by the Bank’s management to hold securities until their maturity, securities amounting to EUR 6 308 thousand as at 31 December 2015 have been reclassified from available-for-sale assets to held-to-maturity assets.

During 2015 bonds held by the Group/Bank issued by PJS Commercial Bank “PrivatBank” (Ukraine) have been restructured and their maturity has been extended from 2016 to 2021. As at 31 December 2015 the carrying value of the securities amount to EUR 3 865 thousand.

16. Investments in subsidiaries

Bank

Name	Country of incorporation	Main Activity	% Controlled		Net assets (not audited) '000 EUR		Cost '000 EUR	
			2015	2014	2015	2014	2015	2014
SIA Privat Consulting	Latvia	Consulting and travel services	100	100	19	10	3	3
SIA Amber Real*	Latvia	Real estate company	100	100	(6 263)	(5 983)	3	3
SIA PrivatInvestment	Latvia	Real estate maintenance	100	100	46	43	14	14
SIA PrivatLīzings in liquidation*	Latvia	Finance and operating lease activities	100	100	405	330	4 710	4 710
							4 730	**4 730**
Allowance for impairment of investment in SIA PrivatLīzings				(4 312)	(4 312)			
							418	**418**

* Year 2015 financial statements of SIA Amber Real Estate and SIA PrivatLīzings in liquidation are unaudited as at the date of these financial statements. Appointed auditors for both entities are SIA KPMG Baltics.

Investments in subsidiaries (Group)

Name	Country of incorporation	Main Activity	% Controlled		Net assets (not audited) ’000 EUR		Cost ’000 EUR	
			2015	2014	2015	2014	2015	2014
SIA PrivatBrokers	Latvia	Activities of insurance agents and brokers	-	100	-	(4)	-	-
							-	-

The limited liability company SIA "PrivatBrokers" was a daughter company of SIA "PrivatLīzings" in liquidation. SIA "PrivatBrokers" was registered with the Commercial Register of Register of Enterprises of Republic of Latvia on 10 February 2014; registration certificate No. K 156583. Its equity capital was EUR 20 000. The company business was related to insurance agent and insurance broker activities. The company’s liquidation process was concluded on 17 December 2015. SIA "PrivatBrokers" was excluded from the Commercial Register of Register of Enterprises of Republic of Latvia on 04 January 2016.

17. Property and equipment

Group

’000 EUR	Land and buildings	Equipment	Leasehold improvements	Vehicles	Aircraft	Construction in progress and advance payments	Total
Historical cost							
31 December 2013	**8 201**	**6 178**	**454**	**397**	**-**	**1 221**	**16 451**
Additions	11	245	-	98	-	106	460
Reclassification	-	918	-	-	-	(918)	-
Reclassification to intangible assets	-	-	-	-	-	(242)	(242)
Disposals	-	(791)	(2)	(177)	-	(38)	(1 008)
31 December 2014	**8 212**	**6 550**	**452**	**318**	**-**	**129**	**15 661**

'000 EUR	Land and buildings	Equipment	Leasehold improvements	Vehicles	Aircraft	Construction in progress and advance payments	Total
Additions	-	3	-	-	24 506	957	25 466
Reclassification	28	76	24	-	-	(128)	-
Reclassification to intangible assets	-	-	-	-	-	(295)	(295)
Reclassification to investment property	-	-	-	-	-	(23)	(23)
Disposals	-	(229)	(69)	(65)	-	(19)	(382)
31 December 2015	**8 240**	**6 400**	**407**	**253**	**24 506**	**621**	**40 427**
Accumulated depreciation							
31 December 2013	**174**	**3 597**	**278**	**225**	**-**	**-**	**4 274**
Depreciation charge	122	772	33	72	-	-	999
Disposals	-	(718)	(2)	(139)	-	-	(859)
31 December 2014	**296**	**3 651**	**309**	**158**	**-**	**-**	**4 414**
Depreciation charge	123	726	31	59	173	-	1 112
Depreciation charge	-	(223)	(67)	(65)	-	-	(355)
31 December 2015	**419**	**4 154**	**273**	**152**	**173**	**-**	**5 171**
Carrying amount at							
31 December 2013	**8 027**	**2 581**	**176**	**172**	**-**	**1 221**	**12 177**
31 December 2014	**7 916**	**2 899**	**143**	**160**	**-**	**129**	**11 247**
31 December 2015	**7 821**	**2 246**	**134**	**101**	**24 333**	**621**	**35 256**

The cadastral value of land and the building as defined by the State Land service of the

Republic of Latvia as at 31 December 2015 was EUR 5 785 thousand (31 December 2014: EUR 5 785 thousand).

Office building in Muitas 1, including part accounted as fixed assets, was pledged in accordance with loan agreement with Nordea Bank Finland Plc Latvia branch, until 13.01.2014 when the loan was repaid.

The increase in Aircraft position is connected with aircraft purchased from a related party, which according to an operating lease agreement was leased out to a Cyprus company for a period of 7 years. Considering the terms of the operating lease agreement, the Bank has recognized the aircraft in the property and equipment. Income for Group and Bank from renting out the aircraft amounted to EUR 578 thousand (2014: EUR 0 thousand). The operating lease agreement states that the lessor does not have to cover aircraft maintenance costs.

Bank

'000 EUR	Land and buildings	Equipment	Leasehold improvements	Vehicles	Aircraft	Construction in progress and advance payments	Total
Historical cost							
31 December 2013	**8 201**	**6 019**	**451**	**116**	**-**	**1 199**	**15 986**
Additions	11	242	-	-	-	106	359
Reclassification	-	918	-	-	-	(918)	-
Reclassification to intangible assets	-	-	-	-	-	(242)	(242)
Disposals	-	(788)	(2)	(85)	-	(38)	(913)
31 December 2014	**8 212**	**6 391**	**449**	**31**	**-**	**107**	**15 190**
Additions	-	-	-	-	24 506	956	25 462
Reclassification	28	76	24	-	-	(128)	-
Reclassification to intangible assets	-	-	-	-	-	(295)	(295)
Reclassification to investment property	-	-	-	-	-	(23)	(23)
Disposals	-	(227)	(69)	-	-	(19)	(315)
31 December 2015	**8 240**	**6 240**	**404**	**31**	**24 506**	**598**	**40 019**

'000 EUR	Land and buildings	Equipment	Leasehold improvements	Vehicles	Aircraft	Construction in progress and advance payments	Total
Accumulated depreciation							
31 December 2013	**174**	**3 457**	**277**	**85**	**-**	**-**	**3 993**
Depreciation charge	122	705	33	6	-	-	866
Disposals	-	(659)	(2)	(85)	-	-	(746)
31 December 2014	**296**	**3 503**	**308**	**6**	**-**	**-**	**4 113**
Depreciation charge	123	721	31	5	173	-	1 053
Depreciation charge	-	(222)	(67)	-	-	-	(289)
31 December 2015	**419**	**4 002**	**272**	**11**	**173**	**-**	**4 877**
Carrying amount at							
31 December 2013	**8 027**	**2 562**	**174**	**31**	**-**	**1 199**	**11 993**
31 December 2014	**7 916**	**2 888**	**141**	**25**	**-**	**107**	**11 077**
31 December 2015	**7 821**	**2 238**	**132**	**20**	**24 333**	**598**	**35 142**

Review information provided about Group for more details.

18. Intangible assets

Group

'000 EUR	Licenses and software	Goodwill	Total
Historical cost			
31 December 2013	**1 005**	**1 138**	**2 143**
Additions	218	-	218
Reclassification from advance payments for fixed assets	242	-	242

'000 EUR	Licenses and software	Goodwill	Total
Disposals	(97)	-	(97)
31 December 2014	**1 368**	**1 138**	**2 506**
Reclassification from advance payments for fixed assets	295	-	295
Disposals	(21)	-	(21)
31 December 2015	**1 642**	**1 138**	**2 780**
Accumulated amortization			
31 December 2013	**813**	**1 138**	**1 951**
Amortization charge	137	-	137
Disposals	(97)	-	(97)
31 December 2014	**853**	**1 138**	**1 991**
Amortization charge	219	-	219
Disposals	(19)	-	(19)
31 December 2015	**1 053**	**1 138**	**2 191**
Carrying amount at			
31 December 2013	**192**	**-**	**192**
31 December 2014	**515**	**-**	**515**
31 December 2015	**589**	**-**	**589**

Bank

'000 EUR	Licenses and software
Historical cost	
31 December 2013	**924**
Additions	188
Reclassification from advance payments for fixed assets	242
Disposals	(97)
31 December 2014	**1 257**
Reclassification from advance payments for fixed assets	295
Disposals	(21)
31 December 2015	**1 531**
Accumulated amortization	
31 December 2013	**741**
Amortization charge	136
Disposals	(97)

’000 EUR	Licenses and software
31 December 2014	**780**
Amortization charge	208
Disposals	(21)
31 December 2015	**967**

Carrying amount at	
31 December 2013	**183**
31 December 2014	**477**
31 December 2015	**564**

19. Investment property

Group / Bank

’000 EUR	Investment property
Historical cost	
31 December 2013	**3 008**
Additions	26
31 December 2014	**3 034**
Reclassification from advance payments for fixed assets	23
31 December 2015	**3 057**
Accumulated depreciation	
31 December 2013	**90**
Additions	60
31 December 2014	**150**
Reclassification from advance payments for fixed assets	61
31 December 2015	**211**
Carrying amount at	
31 December 2013	**2 918**
31 December 2014	**2 884**
31 December 2015	**2 846**

Investment property consists of land and commercial properties. Each rent agreement forecasts that first non-cancellable rent period is 10 years, but rent cost is determined, based on consumption price index. Agreements’ renewals are discussed with lessees on individual basis and average renewal period is 4 years.

Income from renting out investment properties of the Group and the Bank in 2015 amounted EUR 294 thousand (2014: EUR 218 thousand); maintenance expenses (tenant refunded) EUR 42 thousand (2014: EUR 49 thousand).

The fair value measurement for property of EUR 2 884 thousand has been categorised as level 3 in the fair value hierarchy.

Investment property value monitoring is performed using available market information on real estate prices. The lower value of the current book value and the fair value of the property after revaluation is applied. Rented investment property proportion is 100%.

20. Other assets

	Group 2015 '000 EUR	Bank 2015 '000 EUR	Group 2014 '000 EUR	Bank 2014 '000 EUR
Other financial assets	**3 627**	**3 630**	**4 572**	**4 572**
Security deposits	2 481	2 481	2 705	2 705
Due from clients for compensated debt collection expenses	614	614	618	618
Accrued income	163	163	631	631
Other	1 038	1 041	945	945
Allowances for impairment of due from clients for compensated debt	(578)	(578)	(327)	(327)
Allowances for impairment of items	(91)	(91)	-	-
Other non-financial assets	**36 559**	**879**	**39 209**	**1 123**
Repossessed and other assets	37 598	11	38 750	9
Gold	7	7	7	7
Deferred expenses	584	557	537	462
VAT receivable	11	7	133	131
Other	314	297	596	514
Allowances for write-downs till net realisable value	(1 955)	-	(814)	-
	40 186	**4 509**	**43 781**	**5 695**

In 2015, security deposits of EUR 2 287 thousand (2014: EUR 2 104 thousand) were reserved for potential transactions connected with MasterCard Europe and VISA Europe systems. Collateral agreements for derivatives transactions of the Group and the Bank in 2015 amounted EUR 184 thousand (2014: EUR 601 thousand). Other security deposits amount to EUR 10 thousand (2014: EUR 0 thousand).

Group's repossessed and other assets include real estate property and advances for real estate property repossessed from the Banks' clients which were pledged as collateral with net value EUR 35 477 thousand (31 December 2014: EUR 37 936 thousand).

Other assets mainly consist of receivables from margin accounts and clearing balances for payment cards.

Fair value of repossessed assets is EUR 35 477 thousand. Repossessed assets' value monitoring is performed using available market information on real estate prices. As well geographical segment price deviation coefficients are applied. New value after recalculation is applied, if last valuation date made by the certified valuator is longer than one year. The higher value of the current book value and the fair value of the repossessed assets after revaluation is used.

21. Deposits and balances from banks

(a) Geographical profile:

	Group 2015 '000 EUR	Bank 2015 '000 EUR	Group 2014 '000 EUR	Bank 2014 '000 EUR
Credit institutions registered in Latvia	830	830	3 418	3 418
Credit institutions registered in OECD countries	2	2	49	49
Credit institutions registered in other non-OECD countries	6 548	6 548	218	218
	7 380	**7 380**	**3 685**	**3 685**

(b) Deposits and balances from banks by type:

	Group 2015 '000 EUR	Bank 2015 '000 EUR	Group 2014 '000 EUR	Bank 2014 '000 EUR
Vostro accounts	7 265	7 265	3 599	3 599
Term deposits	115	115	86	86
	7 380	**7 380**	**3 685**	**3 685**

(c) Concentration of Deposits and balances from banks

As at 31 December 2015 the Bank had balances with one bank, which exceeded 10 % of total Deposits and balances from banks (31 December 2014: 3 banks). The gross value of these balances as of 31 December 2015 were EUR 6 477 thousand (31 December 2014: EUR 3 282 thousand).

22. Current accounts and deposits from customers

	Group 2015 '000 EUR	Bank 2015 '000 EUR	Group 2014 '000 EUR	Bank 2014 '000 EUR
Demand deposits				
Residents:				
State companies	22	22	37	37
Private enterprises	13 341	13 417	8 480	11 408
Individuals	28 904	28 904	35 061	35 061
Other	356	356	352	352

Non-residents:				
Residents of OECD countries	155 733	155 733	150 404	150 404
Residents of non-OECD countries	180 500	180 500	207 033	207 033
Total demand deposits	**378 856**	**378 932**	**401 367**	**404 295**
Term deposits				
Residents:				
State companies	115	115	115	115
Private enterprises	4 641	4 641	4 824	4 824
Individuals	60 444	60 444	74 303	74 303
Other	486	486	480	480
Non-residents:				
Residents of OECD countries	70 393	70 393	101 547	101 547
Residents of non-OECD countries	11 152	11 152	8 635	8 635
Total term deposits	**147 231**	**147 231**	**189 904**	**189 904**
Total current accounts and deposits from customers	**526 087**	**526 163**	**591 271**	**594 199**

The maturity structure of customer deposits as per contractual agreement terms at 31 December was as follows:	**Group 2015 '000 EUR**	**Bank 2015 '000 EUR**	**Group 2014 '000 EUR**	**Bank 2014 '000 EUR**
Demand deposits	378 856	378 932	401 367	404 295
Term deposits:				
up to 3 months	53 507	53 507	43 692	43 692
3 to 6 months	16 557	16 557	17 039	17 039
6 months to one year	42 274	42 274	57 855	57 855
more than one year	34 893	34 893	71 318	71 318
Total demand and term deposits	**526 087**	**526 163**	**591 271**	**594 199**

(a) Blocked accounts

As of 31 December 2015, the Bank maintained customer deposit balances of EUR 5 368 thousand (2014: EUR 6 540 thousand) which were blocked by the Bank as collateral for loans and commitments and contingencies.

(b) Concentrations of current accounts and customer deposits

As of 31 December 2015 and 31 December 2014 the Group and Bank had deposit balances with 9 and 8 customers respectively which exceeded 1 % of total customer accounts. These balances as of 31 December 2015 and 31 December 2014 were EUR 112 551 thousand and EUR 118 365 thousand respectively.

23. Provisions

	Group 2015 '000 EUR	Bank 2015 '000 EUR	Group 2014 '000 EUR	Bank 2014 '000 EUR
Provision for unused vacation	439	422	400	388
Provisions for litigation	295	252	16	16
Provisions for off-balance liabilities	586	586	491	491
Other provisions	288	269	363	363
	1 608	**1 529**	**1 270**	**1 258**

	Group '000 EUR	Bank '000 EUR
31 December 2013	**1 079**	**1 060**
Increase of provisions	191	198
31 December 2014	**1 270**	**1 258**
Increase of provisions	338	271
31 December 2015	**1 608**	**1 529**

24. Subordinated loans

	Group 2015 '000 EUR	Bank 2015 '000 EUR	Group 2014 '000 EUR	Bank 2014 '000 EUR
Subordinated borrowings	20 195	20 195	17 675	17 675
Total	**20 195**	**20 195**	**17 675**	**17 675**

As at 31 December 2015 subordinated borrowings comprise:

- loans received from Unimain Holdings Limited in the amount of USD 13 000 thousand (EUR 11 941 thousand) (2014: EUR 10 708 thousand) maturing on 18 March 2021 which carry an annual interest rate of 6 %;
- loans from 25 individuals in the amount of EUR 4 850 thousand (2014: EUR 4 250 thousand) and USD 3 600 thousand (EUR 3 307 thousand) (2014: EUR 2 636 thousand) maturing from 22 March 2016 to 27 August 2020 which carry an annual interest rate from 5% to 6%. Accrued interest on the loans as at period end amounts to EUR 97 thousand (2014: EUR 81 thousand).

In case of the Bank's liquidation subordinated loans will be satisfied after the claims of all other creditors of the Bank but before claims of shareholders of the Bank.

25. Other liabilities

	Group 2015 '000 EUR	Bank 2015 '000 EUR	Group 2014 '000 EUR	Bank 2014 '000 EUR
Other financial liabilities				
Accrued income	6 915	6 915	7 726	7 679
Security deposits	-	-	205	191
Amounts in clearing	8 341	8 341	2 444	2 444
Accounts payable for ceded assets	8	8	340	340
Payables for stocks (acquisition of real estate)	88	-	81	-
Other	4 349	4 301	1 559	1 518
	19 701	**19 565**	**12 355**	**12 172**

26. Deferred tax

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 assets and liabilities as of 31 December 2015 and 2014.

	Group 2015 '000 EUR	Bank 2015 '000 EUR	Group 2014 '000 EUR	Bank 2014 '000 EUR
Deferred tax asset/(liability):				
temporary difference due to accelerated tax depreciation Bank	1 771	1 771	638	638
temporary difference due to accelerated tax depreciation other Group companies	26	-	8	-
temporary difference arising from provisions Bank	(76)	(76)	(58)	(58)
temporary difference arising from provisions other Group companies	(749)	-	(390)	-
revaluation of securities Bank	67	67	-	-
temporary difference arising from accumulated tax losses	(5 217)	(4 511)	(4 434)	(3 887)
Deferred tax asset not recognized	4 178	2 749	4 236	3 307
Net deferred tax asset/(liability)	**-**	**-**	-	-

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

Group's and Bank's tax losses carried forward as of 31 December 2015 amount to EUR 34 784 thousand and EUR 30 071 thousand (2014: EUR 29 563 thousand and EUR 25 916 thousand) respectively.

Tax losses carried forward is for the period starting from year 2009 and, therefore, can be used during unlimited time. A deferred asset is formed mainly due to losses carried forward. Deferred tax asset is not recognised, as the Group and the Bank cannot foresee if the Group and the Bank will generate sufficient income in order to exercise losses carried forward.

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

Group:

	Aktīvi		Saistības		Neto	
EUR '000	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Tax losses carried forward	5 217	4 434	-	-	5 217	4 434
Fixed assets	-	-	(1 797)	(646)	(1 797)	(646)
Other liabilities	825	448	(67)	-	758	448
Total deferred tax assets/ (liabilities)	**6 042**	**4 882**	**(1 864)**	**(646)**	**4 178**	**4 236**
Unrecognised deferred tax assets	**-**	**-**	**-**	**-**	**(4 178)**	**(4 236)**

Bank:

	Aktīvi		Saistības		Neto	
EUR '000	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Tax losses carried forward	4 511	3 887	-	-	4 511	3 887
Fixed assets	-	-	(1 771)	(638)	(1 771)	(638)
Other liabilities	76	58	(67)	-	9	58
Total deferred tax assets/ (liabilities)	**4 587**	**3 945**	**(1 838)**	**(638)**	**2 749**	**3 307**
Unrecognised deferred tax assets	**-**	**-**	**-**	**-**	**(2 749)**	**(3 307)**

27. Share capital and Shareholders' Equity

The authorized and issued share capital comprises 80 349 556 ordinary shares (2014: 80 349 556). All shares have a par value of EUR 1 (2014: EUR 1)

The holders of ordinary shares are entitled to dividends and liquidation quota and voting rights at the shareholders meeting.

Shareholders as at 31 December 2015 are as follows:

		31 December 2015		31 December 2014	
Shareholder	**Country**	**Shares EUR**	**Holding %**	**Shares EUR**	**Holding %**
PJS Commercial Bank “PrivatBank” (Ukraine)	Ukraine	40 190 855	50,02001	40 190 855	50,02001
G. Bogolybov	Cyprus	7 231 469	9,00001	7 231 469	9,00001
I. Kolomoyskiy	Cyprus	7 231 469	9,00001	7 231 469	9,00001
Concorde (Bermuda) Limited	Bermuda	6 829 657	8,49993	6 829 657	8,49993
Unimain Holdings Limited	Cyprus	4 566 475	5,6833	4 566 475	5,6833
Wadless Holdings Limited	Cyprus	3 902 659	4,85710	3 902 659	4,85710
Korf Mordechai Yehudah	USA	3 512 393	4,37139	3 512 393	4,37139
Uriel Tzvi Laber	USA	2 146 466	2,67141	2 146 466	2,67141
Chastely Investments Limited	Beliza	2 036 058	2,53400	2 036 058	2,53400
Andreas Sofocleous	Cyprus	1 951 329	2,42855	1 951 329	2,42855
M. Esterovs	USA	746 616	0,92921	746 616	0,92921
O. Trubakov	Ukraine	1 823	0,00227	1 823	0,00227
O. Mekekechko	Ukraine	1 116	0,00139	1 116	0,00139
V. Bīriņš	Latvia	530	0,00066	530	0,00066
J. Skvorcova	Latvia	425	0,00053	425	0,00053
A. Laško	Latvia	216	0,00027	216	0,00027
		80 349 556	**100**	**80 349 556***	**100**

Following the law requirement, the Bank re-registered its share capital in Euro on 9 May 2014. Based on Shareholder decision from 27 March 2014, the Bank’s share capital is equal to EUR 80 349 556 (eighty million three hundred forty-nine thousand five hundred fifty-six euros), which consists of 80 349 556 (eighty million three hundred forty-nine thousand five hundred fifty-six) shares; the nominal value of one share is EUR 1 (one euro).

The surplus rounding amount of EUR 15.15 (fifteen euros, 15 cents) resulted from denomination of AS “PrivatBank” share capital from Lats to Euros were transferred to the Bank’s reserve account.

The immediate parent of the Bank is PJS Commercial Bank “PrivatBank” (Ukraine). The ultimate shareholders of the PJS Commercial Bank “PrivatBank” (Ukraine) are Kolomoysky Igor Valeriyevich, holding 49,9918% shares of the immediate parent of the PJS Commercial Bank “PrivatBank” (Ukraine) and Bogolyubov Gennady Borisovich, holding 41,51871% shares of the immediate parent of the PJS Commercial Bank “PrivatBank” (Ukraine), both of them also are Bank’s shareholders.

Other reserves of 5 185 thousand EUR represent the contribution made by PJS Commercial Bank “PrivatBank” (Ukraine) in 2001. These reserves cannot be distributed as dividends.

Other reserves of 212 thousand EUR represent the share of prior year profit transferred to reserves. These reserves can be distributed as dividends.

During 2014 the Bank’s subsidiary PrivatInvestment has created 3 thousand EUR reserves which cannot be distributed as dividends.

28. Cash and cash equivalents

Cash and cash equivalents consist of the following:

	Group 2015 ’000 EUR	Bank 2015 ’000 EUR	Group 2014 ’000 EUR	Bank 2014 ’000 EUR
Cash	1 594	1 594	1 435	1 435
Due from Bank of Latvia	182 784	182 784	72 921	72 921
Deposits in other credit institutions with maturity less than three moths	68 227	68 227	293 111	293 111
Due to other credit institutions with maturity less than three moths	(7 380)	(7 380)	(3 611)	(3 611)
Total	**245 225**	**245 225**	**363 856**	**363 856**

29. Funds under trust management

	Group 2015 ’000 EUR	Bank 2015 ’000 EUR	Group 2014 ’000 EUR	Bank 2014 ’000 EUR
Assets under management				
Debt securities and loans to residents of OECD countries	604 830	604 830	452 410	452 410
Debt securities and loans to residents of other countries	46 192	46 192	53 984	53 984
Including balances with the Parent company and subsidiaries of the Parent company	*6 306*	*6 306*	*24 278*	*24 278*
	651 022	**651 022**	**506 394**	**506 394**
Liabilities under management				
Deposits of residents of OECD countries	79 843	79 843	5 619	5 619
Deposits of residents of other countries	571 179	571 179	500 775	500 775
Including balances with the Parent company and subsidiaries of the Parent company	*479 573*	*479 573*	*444 172*	*444 172*
Including balances with other related parties	*40 208*	*40 208*	-	-
	651 022	**651 022**	**506 394**	**506 394**

Funds under trust management represent assets managed and held by the Bank on behalf of customers. The Bank earns commission income for holding such assets. The Bank is not subject to interest, price, credit, liquidity and currency risk with respect of these assets in accordance with the agreements concluded with the customers.

Loans are granted on behalf of customers who have remitted a deposit as collateral for the loans.

30. Commitments and contingencies

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

The Group and Bank provide 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 Bank also provides guarantees by acting as settlement agent in securities borrowing and lending transactions

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognized at the reporting period end date if counterparties failed completely to perform as contracted.

	Group 2014 '000 EUR	Bank 2014 '000 EUR	Group 2013 '000 EUR	Bank 2013 '000 EUR
Contracted amount				
Loan and credit line commitments	15	17	74	74
Credit card commitments	3 361	3 363	2 975	2 978
Guarantees and letters of credit	1 364	1 364	1 478	1 478
	4 740	**4 744**	**4 527**	**4 530**

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. Litigation

The Bank management assures that the Bank will not incur significant losses due to legal proceedings. The management does not have any information about possible significant lawsuits. The reserves for legal proceedings are provided in Note 23.

32. Related party transactions

(a) Control relationships

The Bank's immediate parent is PJS Commercial Bank "PrivatBank" (Ukraine). The parties with ultimate control over the Bank are Bogolyubov Gennady Borisovich and Kolomoysky Igor Valeriyevich.

(b) Transactions with members of the Board of Directors and the Management Board

Total remuneration included in employee compensation (refer Note 8):

	Group 2015 '000 EUR	Bank 2015 '000 EUR	Group 2014 '000 EUR	Bank 2014 '000 EUR
Members of the Management Board	378	321	361	296
Council	76	76	76	76
	454	**397**	**437**	**372**

The above amounts include non-cash benefits in respect of members of the Council and the Management Board.

The outstanding balances and average interest rates as of 31 December 2015 with members of the Board of Directors and the Management Board are as follows:

	2015 '000 EUR	Weighted Average Interest Rate	2014 '000 EUR	Weighted Average Interest Rate
Statement of financial position				
Assets				
Deposits and current accounts	365	0.00%	370	0.01 %
Loans to customers	246	1.66%	-	-

Credit balances as at 31 December 2014 are not specified since the Board member who has obtained them was appointed as member of the Board during 2015.

Amounts included in the statement of comprehensive income in relation to transactions with members of the Board of Directors and the Management Board are as follows:

	2015 '000 EUR	2014 '000 EUR
Statement of comprehensive income		
Interest expense	-	-
Interest income	1	-

(c) Transactions with parent company and subsidiaries of parent company

The outstanding balances and the related average interest rates as of 31 December 2015 and related statement of comprehensive income amounts of transactions for the year ended 31 December 2015 with parent company and subsidiaries of parent company are as follows.

Group

	Parent company				Other subsidiaries of the Parent company				Total	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
	’000 EUR		Weighted Average contractual interest rate		’000 EUR		Weighted Average contractual interest rate		’000 EUR	
Statement of financial position										
Assets										
Balance on correspondent account	463	2 930	-	-	-	13	-	-	463	2 943
Guarantee deposit	12	10	-	-	-	-	-	-	12	10
Other receivables from banks	1 613	1 618	-	-	-	-	-	-	1 613	1 618
Held-to-maturity bonds	8 958	8 608	10.93	8.83	-	-	-	-	8 958	8 608
Liabilities										
Balance on loro account	6 464	171	-	-	-	18	-	-	6 464	189
Other liabilities	-	11	-	-	-	-	-	-	-	11
Statement of comprehensive income										
Interest income	1 587	1 837			-	-			1 587	1 837
Fee and commission income	24	77			-	56			24	133
Fee and commission expense	1	6			-	-			1	6
Other income	-	305			-	-			-	305
Impairment losses	986	-			-	-			986	-
Income/(Loss) from foreign exchange operations	2 858	3 110			-	-			2 858	3 110

Bank

	Parent company				Other subsidiaries of the Parent company				Subsidiaries				Total	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
	'000 EUR		Weighted Average contractual interest Rate		'000 EUR		Weighted Average contractual interest Rate		'000 EUR		Weighted Average contractual interest Rate		'000 EUR	
Statement of financial position														
Assets														
Balance on correspondent account	463	2 930	-	-	-	13	-	-	-	-	-	-	463	2 943
Term deposits	12	10	-	-	-	-	-	-	-	-	-	-	12	10
Other receivables from banks	1 613	1 618	-	-	-	-	-	-	-	-	-	-	1 613	1 618
Held-to-maturity bonds	8 958	8 608	10.93	8.83	-	-	-	-	-	-	-	-	8 958	8 608
Loan to SIA "PrivatLīzings"	-	-	-	-	-	-	-	-	95	5 295	2.55	2.78	95	5 295
Loan to SIA "Amber Real"	-	-	-	-	-	-	-	-	41 953	44 208	0.55	0.80	41 953	44 208
Liabilities														
Balance on loro account	6 464	171	-	-	-	18	-	-	-	-	-	-	6 464	189
Other liabilities	-	11	-	-	-	-	-	-	-	12	-	-	-	23
"PrivatLīzings" current accounts	-	-	-	-	-	-	-	-	26	2 894	-	-	26	2 894
"AmberReal" current accounts	-	-	-	-	-	-	-	-	-	1	-	-	-	1
"PrivatInvestment" current accounts	-	-	-	-	-	-	-	-	28	11	-	-	28	11
"PrivatConsulting" current accounts	-	-	-	-	-	-	-	-	21	10	-	-	21	10
"PrivatBroker" current accounts	-	-	-	-	-	-	-	-	-	10	-	-	-	10
Statement of comprehensive income														
Interest income	1587	1 837			-	-			313	511			1 900	2 348
Fee and commission income	24	77			-	56			-	-			24	133
Fee and commission	1	6			-	-			-	-			1	6

	Parent company				Other subsidiaries of the Parent company				Subsidiaries				Total	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
	’000 EUR		Weighted Average contractual interest Rate		’000 EUR		Weighted Average contractual interest Rate		’000 EUR		Weighted Average contractual interest Rate		’000 EUR	
expense														
Other income	-	-			-	-			-	35			-	35
General and administrative expenses	-	-			-	-			445	364			445	364
Impairment losses	986	-			-	-			1 500	-			2 486	-
Net foreign exchange income/ (expenses)	2 858	3 110			-	-			-	-			2 858	3 110

Transactions with other related parties

The outstanding balances and the related average interest rates as of 31 December 2015 and related statement of comprehensive income amounts of transactions for the year ended 31 December 2015 with other related parties are as follows:

	2015 ’000 EUR	Weighted Average Interest Rate	2014 ’000 EUR	Weighted Average Interest Rate
Statement of financial position				
Loans to customers	9 126	7.52%	316	9.00%
Deposits and current accounts	11 684	0.00%	31 840	0.00%
Subordinated loans	11 941	6.00%	10 708	6.00%

Amounts included in the statement of comprehensive income in relation to transactions with other related parties are as follows:

	2015 ’000 EUR	2014 ’000 EUR
Statement of comprehensive income		
Interest income	251	16
Interest expense	713	596
Commission income	35	14

33. 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 categorized.

Group / Bank (EUR ‘000)

2015	Level 1	Level 2	Level 3	Total
Financial assets				
Financial instruments at fair value through profit or loss	180	9 095	-	9 275
Available-for-sale assets	6 811	-	5 640	12 451
	6 991	**9 095**	**5 640**	**21 726**
Financial liabilities				
Financial instruments at fair value through profit or loss	25	-	-	25
	25	**-**	**-**	**25**

As at 31 December 2015 the position available-for-sale assets includes Visa Europe Limited shares which have been revalued by EUR 5 531 thousand in accordance with a share repurchase offer received as part of a transaction in which Visa Inc. is acquiring Visa Europe Limited.

Visa Europe Limited share fair value has been determined based on the expected cash consideration.

2014	Level 1	Level 2	Level 3	Total
Financial assets				
Financial instruments at fair value through profit or loss	189	-	-	189
Available-for-sale assets	14 538	-	-	14 538
	14 727	**-**	**-**	**14 727**
Financial liabilities				
Financial instruments at fair value through profit or loss	665	-	-	665
	665	**-**	**-**	**665**

(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:

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 due from central banks	-	-	184 378	184 378	184 378
Loans and receivables due from financial institutions	-	-	69 498	69 498	69 498
Loans and receivables due from customers	-	-	246 879	246 879	239 746
Held to maturity instruments	31 146	-	5 668	36 814	38 175
Other financial assets	-	-	3 627	3 627	3 627
Financial liabilities					
Deposits and balances due to financial institutions	-	-	7 380	7 380	7 380
Deposits and balances due to customers	-	-	527 396	527 396	526 087
Subordinated loans	-	-	20 195	20 195	20 195
Other financial liabilities	-	-	19 701	19 701	19 701

31 December 2014

Financial assets	Level 1 '000 EUR	Level 2 '000 EUR	Level 3 '000 EUR	Total fair values '000 EUR	Total carrying amount '000 EUR
Cash and due from central banks	-	-	74 356	74 356	74 356
Loans and receivables due from financial institutions	-	-	318 845	318 845	318 845
Loans and receivables due from customers	-	-	174 947	174 947	169 925
Held to maturity instruments	34 229	-	5 184	39 413	42 286
Other financial assets	-	-	4 572	4 572	4 572
Financial liabilities					
Deposits and balances due to financial institutions	-	-	3 685	3 685	3 685
Deposits and balances due to customers	-	-	594 201	594 201	591 271
Subordinated loans	-	-	17 675	17 675	17 675

Other financial liabilities	-	-	12 355	12 355	12 355

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 due from central banks	-	-	184 378	184 378	184 378
Loans and receivables due from financial institutions	-	-	69 498	69 498	69 498
Loans and receivables due from customers	-	-	288 338	288 338	281 205
Held to maturity instruments	31 146	-	5 668	36 814	38 175
Other financial assets	-	-	3 630	3 630	3 630
Financial liabilities					
Deposits and balances due to financial institutions	-	-	7 380	7 380	7 380
Deposits and balances due to customers	-	-	527 472	527 472	526 163
Subordinated loans	-	-	20 195	20 195	20 195
Other financial liabilities	-	-	19 565	19 565	19 565

31 December 2014	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 due from central banks	-	-	74 356	74 356	74 356
Loans and receivables due from financial institutions	-	-	318 845	318 845	318 845
Loans and receivables due from customers	-	-	221 605	221 605	216 583
Held to maturity instruments	34 229	-	5 184	39 413	42 286
Other financial assets	-	-	4 572	4 572	4 572
Financial liabilities					
Deposits and balances due to financial institutions	-	-	3 685	3 685	3 685
Deposits and balances due to customers	-	-	597 129	597 129	594 199
Subordinated loans	-	-	17 675	17 675	17 675
Other financial liabilities	-	-	12 172	12 172	12 172

The following table shows the valuation techniques use in measuring Level 2 and Level 3 fair values, as well as the significant unobservable inputs used:

Type	Valuation technique	Significant unobservable inputs
Held to maturity instruments (Level 3)	Market comparison	Market prices of less active markets and broker quotes
Loans and advances due from customers	Discounted cash flows	Discount rates
Deposits and balances due to customers	Discounted cash flows	Discount rates

34. Maturity analysis

The following tables show financial assets and liabilities by remaining contractual maturity dates as at 31 December 2015.

Group (EUR ‘000)

	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No maturity	Overdue	Total
Assets	**’000 EUR**	**’000 EUR**	**’000 EUR**	**’000 EUR**	**’000 EUR**	**’000 EUR**	**’000 EUR**	**’000 EUR**
Cash and balances with the Bank of Latvia	184 378	-	-	-	-	-	-	**184 378**
Financial instruments at fair value through profit or loss	180	9 095	-	-	-	-	-	**9 275**
Loans and receivables from banks	68 227	-	442	829	-	-	-	**69 498**
Loans and receivables from customers	52 521	56 631	96 770	16 182	2 581	-	15 061	**239 746**
Held-to-maturity assets	25 065	252	2 619	5 820	4 419	-	-	**38 175**
Available-for-sale assets	636	-	-	6 102	-	5 713	-	**12 451**
Other financial assets	1 073	-	2	1 938	-	-	614	**3 627**
Total assets	**332 080**	**65 978**	**99 833**	**30 871**	**7 000**	**5 713**	**15 675**	**557 150**
Liabilities								
Financial instruments at fair value through profit or loss	25	-	-	-	-	-	-	**25**
Deposits and balances from banks	7 288	92	-	-	-	-	-	**7 380**
Current accounts and deposits from customers	401 481	29 233	59 315	35 963	95			**526 087**
Subordinated loans	-	692	645	6 549	12	-	-	**20**

					309			**195**
Other financial liabilities	19 575	-	-	126	-	-	-	**19 701**
Total liabilities	**428 369**	**30 017**	**59 960**	**42 638**	**12 404**	**-**	**-**	**573 388**
Net position as at 31 December 2015	**(96 289)**	**35 961**	**39 873**	**(11 767)**	**(5 404)**	**5 713**	**15 675**	
Commitments and contingencies	3 595	114	701	330	-	-	-	**4 740**

For the purpose of reporting to regulators, the Bank and the Group has different classification of held-to-maturity portfolio.

Banka

	Less than 1 month	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**More than 5 years**	**No maturity**	**Overdue**	**Total**
Assets	**'000 EUR**	**'000 EUR**	**'000 EUR**	**'000 EUR**	**'000 EUR**	**'000 EUR**	**'000 EUR**	**'000 EUR**
Cash and balances with the Bank of Latvia	184 378	-	-	-	-	-	-	**184 378**
Financial instruments at fair value through profit or loss	180	9 095	-	-	-	-	-	**9 275**
Loans and receivables from banks	68 227	-	442	829	-	-	-	**69 498**
Loans and receivables from customers	50 783	56 622	96 644	59 523	2 581	-	15 052	**281 205**
Held-to-maturity assets	25 065	252	2 619	5 820	4 419	-	-	**38 175**
Available-for-sale assets	636	-	-	6 102	-	5 713	-	**12 451**
Other financial assets	1 076	-	2	1 938	-	-	614	**3 630**
Total assets	**330 345**	**65 969**	**99 707**	**74 212**	**7 000**	**5 713**	**15 666**	**598 612**

	Less than 1 month	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**More than 5 years**	**No maturity**	**Overdue**	**Total**
	'000 EUR	**'000 EUR**	**'000 EUR**	**'000 EUR**	**'000 EUR**	**'000 EUR**	**'000 EUR**	**'000 EUR**
Liabilities								
Financial instruments at fair value through profit or loss	25	-	-	-	-	-	-	**25**
Deposits and balances from banks	7 288	92	-	-	-	-	-	**7 380**
Current accounts and deposits from customers	401 557	29 233	59 315	35 963	95	-	-	**526 163**
Subordinated loans	-	692	645	6 549	12 309	-	-	**20 195**
Other financial liabilities	19 439	-	-	126	-	-	-	**19 565**
Total liabilities	**428 309**	**30 017**	**59 960**	**42 638**	**12 404**	**-**	**-**	**573 328**

Net position as at 31 December 2015	**(97 964)**	**35 952**	**39 747**	**31 574**	**(5 404)**	**5 713**	**15 666**	
Commitments and contingencies	3 599	114	701	330	-	-	-	**4 744**

For the purpose of reporting to regulators, the Bank and the Group has different classification of held-to-maturity portfolio.

The following tables show financial assets and liabilities by remaining contractual maturity dates as at 31 December 2014.

Group (EUR ‘000)

	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No maturity	Overdue	Total
Assets	’000 EUR	’000 EUR	’000 EUR	’000 EUR	’000 EUR	’000 EUR	’000 EUR	’000 EUR
Cash and balances with the Bank of Latvia	1 435	-	-	-	-	-	-	**1 435**
Financial instruments at fair value through profit or loss	72 921	-	-	-	-	-	-	**72 921**
Loans and receivables from banks	189	-	-	-	-	-	-	**189**
Loans and receivables from customers	293 111	-	25 714	20	-	-	-	**318 845**
Held-to-maturity assets	1	16 680	102 930	23 176	18 212	-	8 926	**169 925**
Available-for-sale assets	-	-	-	-	-	14 538	-	**14 538**
Other financial assets	198	448	11 114	30 526	-	-	-	**42 286**
Total assets	2 618	-	-	1 954	-	-	-	**4 572**
Assets	**370 473**	**17 128**	**139 758**	**55 676**	**18 212**	**14 538**	**8 926**	**624 711**

	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No maturity	Overdue	Total
	’000 EUR	’000 EUR	’000 EUR	’000 EUR	’000 EUR	’000 EUR	’000 EUR	’000 EUR
Liabilities								
Financial instruments at fair value through profit or loss	665	-	-	-	-	-	-	**665**
Deposits and balances from banks	3 611	-	-	74	-	-	-	**3 685**
Current accounts and deposits from customers	429 812	15 088	75 025	71 344	2	-	-	**591 271**
Subordinated loans	-	45	37	6 886	10 707	-	-	**17 675**
Other financial liabilities	12 238	-	-	117	-	-	-	**12 355**
Total liabilities	**446 326**	**15 133**	**75 062**	**78 421**	**10 709**	**-**	**-**	**625 651**
Net position as at 31 December 2015	**(75 853)**	**1 995**	**64 696**	**(22 745)**	**7 503**	**14 538**	**8 926**	
Commitments and contingencies	3 320	136	745	326	-	-	-	**4 527**

Savos ziņojumos regulatoriem Banka un Koncerns uzrāda citu klasifikāciju portfelim "līdz termiņa beigām turētie finanšu aktīvi".

Bank

	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No maturity	Overdue	Total
Assets	**'000 EUR**	**'000 EUR**	**'000 EUR**	**'000 EUR**	**'000 EUR**	**'000 EUR**	**'000 EUR**	**'000 EUR**
Cash and balances with the Bank of Latvia	1 435	-	-	-	-	-	-	**1 435**
Financial instruments at fair value through profit or loss	72 921	-	-	-	-	-	-	**72 921**
Loans and receivables from banks	189	-	-	-	-	-	-	**189**
Loans and receivables from customers	293 111	-	25 714	20	-	-	-	**318 845**
Held-to-maturity assets	2 758	28 070	102 618	55 999	18 212	-	8 926	**216 583**
Available-for-sale assets	-	-	-	-	-	14 538	-	**14 538**
Other financial assets								
Total assets	198	448	11 114	30 526	-	-	-	**42 286**
Assets	2 618	-	-	1 954	-	-	-	**4 572**
Assets	**373 230**	**28 518**	**139 446**	**88 499**	**18 212**	**14 538**	**8 926**	**671 369**
Liabilities								
Financial instruments at fair value through profit or loss	**665**	**-**	**-**	**-**	**-**	**-**	**-**	**665**
Deposits and balances from banks	**3 611**	**-**	**-**	**74**	**-**	**-**	**-**	**3 685**
Current accounts and deposits from customers	**432 739**	**15 088**	**75 026**	**71 344**	**2**	**-**	**-**	**594 199**
Subordinated loans	**-**	**45**	**37**	**6 885**	**10 708**	**-**	**-**	**17 675**
Other financial liabilities	**12 055**	**-**	**-**	**117**	**-**	**-**	**-**	**12 172**
Total liabilities	**449 070**	**15 133**	**75 063**	**78 420**	**10 710**	**-**	**-**	**628 396**
Net position as at 31 December 2015	**(75 840)**	**13 385**	**64 383**	**10 079**	**7 502**	**14 538**	**8 926**	
Commitments and contingencies	3 323	136	745	326	-	-	-	**4 530**

Analysis of financial liabilities' contractual undiscounted cash flows

The table below presents the cash flows payable by the Group and Bank under contractual financial liabilities, including derivative financial liabilities, by remaining contractual maturities as at the reporting date.

The amounts disclosed in the table are the contractual undiscounted cash flows in comparison with the carrying amounts of financial liabilities, comprising discounted cash flows as at the reporting date.

The analysis as at 31 December 2015 was as follows:

Group

Financial instruments	**Carrying amount**	**Contractual cash flows**	**Up to 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**Over 1 year**
Financial instruments at fair value through profit or loss	25	(25)	(25)	-	-	-
Deposits and balances from banks	7 380	(7 382)	(7 288)	(93)	(1)	-
Current accounts and deposits from customers	526 087	(529 900)	(401 786)	(29 841)	(60 937)	(37 336)
Other liabilities	19 701	(19 701)	(19 701)	-	-	-
Subordinated loans	20 195	(25 459)	(98)	(887)	(1 505)	(22 969)
Guarantees and letters of credit	1 364	(1 364)	(1 364)	-	-	-
Total	**574 752**	**(583 831)**	**(430 262)**	**(30 821)**	**(62 443)**	**(60 305)**

Bank

Financial instruments	**Carrying amount**	**Contractual cash flows**	**Up to 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**Over 1 year**
Financial instruments at fair value through profit or loss	25	(25)	(25)	-	-	-
Deposits and balances from banks	7 380	(7 382)	(7 288)	(93)	(1)	-
Current accounts and deposits from customers	526 163	(529 975)	(401 861)	(29 841)	(60 937)	(37 336)
Other liabilities	19 565	(19 565)	(19 565)	-	-	-
Subordinated loans	20 195	(25 459)	(98)	(887)	(1 505)	(22 969)
Guarantees and letters of credit	1 364	(1 364)	(1 364)	-	-	-
Total	**574 692**	**(583 770)**	**(430 201)**	**(30 821)**	**(62 443)**	**(60 305)**

The analysis as at 31 December 2014 was as follows:

Group

Financial instruments	**Carrying amount**	**Contractual cash flows**	**Up to 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**Over 1 year**
Financial instruments at fair value through profit or loss	665	(665)	(665)	-	-	-
Deposits and balances from banks	3 685	(4 993)	(3 675)	(81)	(208)	(1 029)
Current accounts and deposits from customers	591 271	(596 788)	(430 198)	(15 836)	(77 722)	(73 032)
Other liabilities	12 355	(12 355)	(12 355)	-	-	-
Subordinated loans	17 675	(23 000)	(86)	(217)	(809)	(21 888)
Guarantees and letters of credit	1 478	(1 478)	(1 478)	-	-	-

Total	**627 129**	**(639 279)**	**(448 457)**	**(16 134)**	**(78 739)**	**(95 949)**

Bank

Financial instruments	**Carrying amount**	**Contractual cash flows**	**Up to 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**Over 1 year**
Financial instruments at fair value through profit or loss	665	(665)	(665)	-	-	-
Deposits and balances from banks	3 685	3 687	3 611	-	2	74
Current accounts and deposits from customers	594 199	(599 717)	(433 127)	(15 836)	(77 722)	(73 032)
Other liabilities	12 172	(12 172)	(12 172)	-	-	-
Subordinated loans	17 675	(23 000)	(86)	(217)	(809)	(21 888)
Guarantees and letters of credit	1 478	(1 478)	(1 478)	-	-	-
Total	**629 874**	**(633 345)**	**(443 917)**	**(16 053)**	**(78 529)**	**(94 846)**

35. Currency analysis

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

Group

	EUR	**USD**	**Other currencies**	**Total**
	'000 EUR	**'000 EUR**	**'000 EUR**	**'000 EUR**
Assets				
Cash	1 242	327	25	**1 594**
Balances with the Bank of Latvia	182 784	-	-	**182 784**
Financial instruments at fair value through profit or loss	-	9 275	-	**9 275**
Loans and receivables from banks	38 551	21 078	9 869	**69 498**
Loans and receivables from customers	110 792	128 954	-	**239 746**
Available-for-sale assets	6 811	5 640	-	**12 451**
Held-to-maturity assets	29 217	8 958	-	**38 175**
Other financial assets	2 146	1 481	-	**3 627**
Total assets	**371 543**	**175 713**	**9 894**	**557 150**
Liabilities				
Financial instruments at fair value through profit or loss	-	25	-	**25**
Deposits and balances from banks	14	918	6 448	**7 380**
Current accounts and deposits from customers	248 763	270 955	6 369	**526 087**
Subordinated loans	4 920	15 275	-	**20 195**
Other financial liabilities	3 931	15 629	141	**19 701**

Group

	EUR	USD	Other currenci es	Total
Total liabilities	**257 628**	**302 802**	**12 958**	**573 388**
Net open position in the statement of financial position	**113 915**	**(127 089)**	**(3 064)**	
Net position from foreign exchange – contractual amounts	**(129 329)**	**126 143**	**3 100**	
Net open position	**(15 414)**	**(946)**	**36**	

Bank

	EUR	USD	Other currencies	Total
	'000 EUR	'000 EUR	'000 EUR	'000 EUR
Assets				
Cash	1 242	327	25	**1 594**
Balances with the Bank of Latvia	182 784	-	-	**182 784**
Financial instruments at fair value through profit or loss	-	9 275	-	**9 275**
Loans and receivables from banks	38 551	21 078	9 869	**69 498**
Loans and receivables from customers	152 251	128 954	-	**281 205**
Available-for-sale assets	6 811	5 640	-	**12 451**
Held-to-maturity assets	29 217	8 958	-	**38 175**
Other financial assets	2 149	1 481	-	**3 630**
Total assets	**413 005**	**175 713**	**9 894**	**598 612**
Liabilities				
Financial instruments at fair value through profit or loss	-	25	-	**25**
Deposits and balances from banks	14	918	6 448	**7 380**
Current accounts and deposits from customers	248 838	270 955	6 370	**526 163**
Subordinated loans	4 920	15 275	-	**20 195**
Other financial liabilities	3 794	15 630	141	**19 565**
Total liabilities	**257 566**	**302 803**	**12 959**	**573 328**
Net open position in the statement of financial position	**155 439**	**(127 090)**	**(3 065)**	
Net position from foreign exchange – contractual amounts	**(129 329)**	**126 143**	**3 100**	
Net open position	**26 110**	**(947)**	**35**	

Tabulā ir uzrādītā Bankas aktīvu un saistību valūtas struktūra 2014. gada 31. decembrī:

Group

	EUR	USD	Other currencies	Total
	'000 EUR	'000 EUR	'000 EUR	'000 EUR

Group

	EUR	USD	Other currencies	Total
Assets				
Cash	1 148	264	23	**1 435**
Balances with the Bank of Latvia	72 921	-	-	**72 921**
Financial instruments at fair value through profit or loss	109	-	80	**189**
Loans and receivables from banks	127 771	175 793	15 281	**318 845**
Loans and receivables from customers	59 819	110 106	-	**169 925**
Available-for-sale assets	14 457	81	-	**14 538**
Held-to-maturity assets	33 678	8 608	-	**42 286**
Other financial assets	1 383	3 189	-	**4 572**
Total assets	**311 286**	**298 041**	**15 384**	**624 711**
Liabilities				
Financial instruments at fair value through profit or loss	1	538	126	**665**
Deposits and balances from banks	327	3 324	34	**3 685**
Current accounts and deposits from customers	304 182	270 844	16 245	**591 271**
Subordinated loans	4 313	13 362	-	**17 675**
Other financial liabilities	3 072	9 131	152	**12 355**
Total liabilities	**311 895**	**297 199**	**16 557**	**625 651**
Net open position in the statement of financial position	**(609)**	**842**	**(1 173)**	
Net position from foreign exchange – contractual amounts	**3**	**573**	**-**	
Net open position	**(606)**	**1 415**	**(1 173)**	

Bank

	EUR '000 EUR	USD '000 EUR	Other currencies '000 EUR	Total '000 EUR
Assets				
Cash	1 148	264	23	**1 435**
Balances with the Bank of Latvia	72 921	-	-	**72 921**
Financial instruments at fair value through profit or loss	109	-	80	**189**
Loans and receivables from banks	127 771	175 793	15 281	**318 845**
Loans and receivables from customers	106 477	110 106	-	**216 583**
Available-for-sale assets	14 457	81	-	**14 538**
Held-to-maturity assets	33 678	8 608	-	**42 286**
Other financial assets	1 383	3 189	-	**4 572**
Total assets	**357 944**	**298 041**	**15 384**	**671 369**
Liabilities				
Financial instruments at fair value through profit or loss	1	538	126	**665**
Deposits and balances from banks	327	3 324	34	**3 685**
Current accounts and deposits from customers	304 235	273 719	16 245	**594 199**
Subordinated loans	4 313	13 362	-	**17 675**
Other financial liabilities	2 889	9 131	152	**12 172**
Total liabilities	**311 765**	**300 074**	**16 557**	**628 396**
Net open position in the statement of financial position	**46 179**	**(2 033)**	**(1 173)**	
Net position from foreign exchange – contractual amounts	**3**	**573**	**-**	
Net open position	**46 182**	**(1 460)**	**(1 173)**	

36. Kredītrisks

The table below shows the Group’s maximum exposure to credit risk for the components of the statement of financial position, including derivatives. Exposures are based on net carrying amounts as reported in the statement of financial position.

The Group’s maximum credit exposures are shown in gross amount, i.e. without taking into account of any collateral and other credit enhancement. The details on type of collateral held are disclosed in the note 11. There are no other assets with maturity longer than five years. Refer to Note 34 for the maturity structure of other assets.

	Group 2015 ’000 EUR	Bank 2015 ’000 EUR	Group 2014 ’000 EUR	Bank 2014 ’000 EUR
Balances with the Bank of Latvia	182 784	182 784	72 921	72 921
Financial instruments at fair value through profit or loss	9 275	9 275	189	189
Loans and receivables from banks	69 498	69 498	318 845	318 845
Loans and receivables from customers	239 746	281 205	169 925	216 583
Held-to-maturity assets	38 175	38 175	42 286	42 286
Available-for-sale debt securities	6 738	6 738	14 405	14 405
Other financial assets	3 627	3 630	4 572	4 572
Total statement of financial position items	**549 843**	**591 305**	**623 143**	**669 801**
Guarantees, letters of credit and other commitments	1 364	1 364	1 478	1 478
Total commitments and contingencies	**1 364**	**1 364**	**1 478**	**1 478**
Total credit exposure	**551 207**	**592 669**	**624 621**	**671 279**

37. Interest rate repricing analysis

Interest rate risk relates to changes in the value of the financial instrument as a result of changes in the market rates. The period when interest rate of the financial instruments is constant determines how it is exposed to the interest rate risk. In accordance with the practice among Latvian banks, the period in which the interest rate is adjusted to market rates, corresponds to the expiry date of the respective financial instrument, which is disclosed in the below table.

As at 31 December 2015, interest rate repricing categories were:

Group

Assets	**Within 1 month**	**From 1 to 6 months**	**From 6 months to one year**	**From 1 to 5 years**	**Over 5 years**	**Overdue loans**	**Non-interest bearing assets and liabilities**	**Total**
	EUR’000	EUR’000	EUR’000	EUR’000	EUR’000	EUR’000	EUR’000	EUR’000
Cash and balances with the Bank of Latvia	178 347	-	-	-	-	-	6 031	**184 378**
Financial instruments at fair value	-	-	-	9 095	-	-	180	**9 275**

through profit or loss								
Loans and receivables from banks	29 876	-	-	-	-	-	39 622	**69 498**
Loans and receivables from customers	50 138	116 373	37 216	14 722	-	15 052	6 245	**239 746**
Held-to-maturity assets	1 625	6 000	1 500	24 365	3 918	-	767	**38 175**
Available-for-sale assets	190	-	-	6 446	-	-	5 815	**12 451**
Other financial assets	-	-	-	-	-	36	3 591	**3 627**
Total assets	**260 176**	**122 373**	**38 716**	**54 628**	**3 918**	**15 088**	**62 251**	**557 150**
Liabilities								
Financial instruments at fair value through profit or loss	-	-	-	-	-	-	25	**25**
Deposits and balances from banks	7 004	284	-	-	-	-	92	**7 380**
Current accounts and deposits from customers	28 415	42 977	41 760	34 611	-	-	378 324	**526 087**
Subordinated loans	-	640	600	6 917	11 941	-	97	**20 195**
Other financial liabilities	7 625	-	-	-	-	-	12 076	**19 701**
Total liabilities	**43 044**	**43 901**	**42 360**	**41 528**	**11 941**	**-**	**390 614**	**573 388**
Interest rate risk	**217 132**	**78 472**	**(3 644)**	**13 100**	**(8 023)**	**15 088**		

Bank

Assets	Within 1 month	From 1 to 6 months	From 6 months to one year	From 1 to 5 years	Over 5 years	Overdue loans	Non-interest bearing assets and liabilities	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Cash and balances with the Bank of Latvia	178 347	-	-	-	-	-	6 031	**184 378**
Financial instruments at fair value through profit or loss	-	-	-	9 095	-	-	180	**9 275**
Loans and receivables from banks	29 876	-	-	-	-	-	39 622	**69 498**
Loans and receivables from customers	91 866	116 225	37 088	14 722	-	15 052	6 252	**281 205**
Held-to-maturity assets	1 625	6 000	1 500	24 365	3 918	-	767	**38 175**
Available-for-sale assets	190	-	-	6 446	-	-	5 815	**12 451**
Other financial assets	-	-	-	-	-	36	3 594	**3 630**
Total assets	**301 904**	**122 225**	**38 588**	**54 628**	**3 918**	**15 088**	**62 261**	**598 612**
Liabilities								
Financial instruments at fair value through profit or loss	-	-	-	-	-	-	25	**25**
Deposits and balances from banks	7 004	284	-	-	-	-	92	**7 380**
Current accounts and deposits from customers	28 443	42 977	41 760	34 611	-	-	378 372	**526 163**
Subordinated loans	-	640	600	6 917	11 941	-	97	**20 195**
Other financial liabilities	7 489	-	-	-	-	-	12 076	**19 565**
Total liabilities	**42 936**	**43 901**	**42 360**	**41 528**	**11 941**	**-**	**390 662**	**573 328**
Interest rate risk	**258 968**	**78 324**	**(3 772)**	**13 100**	**(8 023)**	**15 088**		

As at 31 December 2014, interest rate repricing categories were:

Group

Assets	Within 1 month	From 1 to 6 months	From 6 months to one year	From 1 to 5 years	Over 5 years	Overdue loans	Non-interest bearing assets and liabilities	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Cash and balances with the Bank of Latvia	-	-	-	-	-	-	74 356	**74 356**
Financial instruments at fair value through profit or loss	-	-	-	-	-	-	189	**189**
Loans and receivables from banks	40 083	58 182	49 942	10 065	-	8 952	2 701	**169 925**
Loans and receivables from customers	30 584	-	-	10 993	-	-	709	**42 286**
Held-to-maturity assets	291 945	14 000	10 100	-	-	-	2 800	**318 845**
Available-for-sale assets	14 267	-	-	-	-	-	271	**14 538**
Other financial assets	12	-	-	-	-	-	4 560	**4 572**
Total assets	**376 891**	**72 182**	**60 042**	**21 058**	**-**	**8 952**	**85 586**	**624 711**

Liabilities								
Financial instruments at fair value through profit or loss	-	-	-	-	-	-	665	**665**
Deposits and balances from banks	3 425	163	-	74	-	-	23	**3 685**
Current accounts and deposits from customers	19 578	31 391	56 753	75 724	-	-	407 825	**591 271**
Subordinated	-	-	-	6 886	10 707	-	82	**17 675**

loans								
Other financial liabilities	7 168	-	-	-	-	-	5 187	**12 355**
Total liabilities	**30 171**	**31 554**	**56 753**	**82 684**	**10 707**	**-**	**413 782**	**625 651**
Interest rate risk	**346 720**	**40 628**	**3 289**	**(61 626)**	**(10 707)**	**8 952**		

Bank

Assets	Within 1 month	From 1 to 6 months	From 6 months to one year	From 1 to 5 years	Over 5 years	Overdue loans	Non-interest bearing assets and liabilities	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Cash and balances with the Bank of Latvia	-	-	-	-	-	-	74 356	**74 356**
Financial instruments at fair value through profit or loss	-	-	-	-	-	-	189	**189**
Loans and receivables from banks	86 731	58 182	49 942	10 065	-	8 952	2 711	**216 583**
Loans and receivables from customers	30 584	-	-	10 993	-	-	709	**42 286**
Held-to-maturity assets	291 945	14 000	10 100	-	-	-	2 800	**318 845**
Available-for-sale assets	14 267	-	-	-	-	-	271	**14 538**
Other financial assets	12	-	-	-	-	-	4 560	**4 572**
Total assets	**423 539**	**72 182**	**60 042**	**21 058**	**-**	**8 952**	**85 596**	**671 369**
Liabilities								
Financial instruments at fair value through profit or loss	-	-	-	-	-	-	665	**665**
Deposits and balances from banks	3 425	163	-	74	-	-	23	**3 685**
Current accounts and deposits from customers	19 580	31 391	56 752	75 724	-	-	410 752	**594 199**
Subordinated loans	-	-	-	6 886	10 707	-	82	**17 675**
Other financial	6 985	-	-	-	-	-	5 187	**12 172**

liabilities								
Total liabilities	**29 990**	**31 554**	**56 752**	**82 684**	**10 707**	**-**	**416 709**	**628 396**
Interest rate risk	**393 549**	**40 628**	**3 290**	**(61 626)**	**(10 707)**	**8 952**		

Sensitivity analysis

The following demonstrates the sensitivity to reasonably possible changes in interest rates of the Bank’s statement of comprehensive income. The analysis assumes that all other variables, in particular foreign currency rates, remain constant.

The sensitivity of statement of comprehensive income is the effect of the assumed changes in the interest rates on the net interest income for one year, following the reporting period end date, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2015 and 31 December 2014.

There were no financial instruments held by the Bank at 31 December 2015 and 31 December 2014, for whom there would be any effect on other comprehensive income resulting from changes in interest rates.

The Group’s interest rate sensitivity analysis has not been presented as the difference to the Bank’s analysis is insignificant.

An increase and decrease of interest rates by 100 basis points would result in the following change to the statement of comprehensive income:

	Sensitivity of net interest income by increase in basis points EUR’000	Sensitivity of net interest income by decrease in basis points EUR’000
31 December 2015		
Total effect	1 330	(1 330)
31 December 2014	3 668	(3 668)
Total effect		

38. Financial assets and liabilities by geographic region

The financial assets and liabilities as at 31 December 2015 by geographic region are as follows:

	Group				Bank			
EUR’000	**Latvia**	**OECD countries**	**Other countries**	**Total**	**Latvia**	**OECD countries**	**Other countries**	**Total**
Assets								
Cash and balances with the Bank of Latvia	184 359	19	-	**184 378**	184 359	19	-	**184 378**
Financial instruments at fair value through profit	-	10	9 265	**9 275**	-	10	9 265	**9 275**

or loss								
Loans and receivables from banks	8 903	48 601	11 994	**69 498**	8 903	48 601	11 994	**69 498**
Loans and receivables from customers	39 355	156 079	44 312	**239 746**	80 814	156 079	44 312	**281 205**
Held-to-maturity	16 442	8 030	13 703	**38 175**	16 442	8 030	13 703	**38 175**
Available-for-sale assets	2 100	7 452	2 899	**12 451**	2 100	7 452	2 899	**12 451**
Other financial assets	1 129	2 496	2	**3 627**	1 130	2 498	2	**3 630**
	252 288	**222 687**	**82 175**	**557 150**	**293 748**	**222 689**	**82 175**	**598 612**
Liabilities								
Financial instruments at fair value through profit or loss	1	13	11	**25**	1	13	11	**25**
Deposits and balances from banks	830	2	6 548	**7 380**	830	2	6 548	**7 380**
Current accounts and deposits from customers	108 308	226 126	191 653	**526 087**	108 384	226 126	191 653	**526 163**
Subordinated loans	305	677	19 213	**20 195**	305	677	19 213	**20 195**
Other financial liabilities	19 170	530	1	**19 701**	19 034	530	1	**19 565**
	128 614	**227 348**	**217 426**	**573 388**	**128 554**	**227 348**	**217 426**	**573 328**
Off-balance sheet liabilities	4 097	133	510	**4 740**	4 101	133	510	**4 744**

The financial assets and liabilities as at 31 December 2014 by geographic region are as follows:

	Group				Bank			
EUR'000	**Latvia**	**OECD countries**	**Other countries**	**Total**	**Latvia**	**OECD countries**	**Other countries**	**Total**
Assets								
Cash and balances with the Bank of Latvia	74 235	121	-	**74 356**	74 235	121	-	**74 356**
Financial instruments at fair value through profit or loss	109	-	80	**189**	109	-	80	**189**
Loans and receivables from banks	69 617	199 395	49 833	**318 845**	69 617	199 395	49 833	**318 845**
Loans and receivables from customers	45 994	104 889	19 042	**169 925**	92 652	104 889	19 042	**216 583**
Held-to-maturity	18 899	14 779	8 608	**42 286**	18 899	14 779	8 608	**42 286**
Available-for-sale assets	6 137	2 825	5 576	**14 538**	6 136	2 825	5 577	**14 538**
Other financial assets	939	2 713	920	**4 572**	939	2 713	920	**4 572**
	215 930	**324 722**	**84 059**	**624 711**	**262 587**	**324 722**	**84 060**	**671 369**
Liabilities								
Financial instruments at fair value through profit or loss	1	663	1	**665**	1	663	1	**665**
Deposits and balances from banks	3 418	49	218	**3 685**	3 418	49	218	**3 685**
Current accounts and deposits from customers	123 652	251 951	215 668	**591 271**	126 580	251 951	215 668	**594 199**
Subordinated loans	914	332	16 429	**17 675**	914	332	16 429	**17 675**
Other financial liabilities	-	-	-	**-**	-	-	-	**-**
	11 696	645	14	**12 355**	11 513	645	14	**12 172**
	139 681	**253 640**	**232 330**	**625 651**	**142 426**	**253 640**	**232 330**	**628 396**
Off-balance sheet liabilities								

39. Subsequent events

No significant subsequent events have occurred in the period from the year-end to the date of these financial statements that would not be disclosed in these financial statements or would require adjustments to be made to these financial statements and disclosures added to the notes thereto.

In February 2016, the 4th Board member joined the Board. As of the date of signing these financial statements, the Board has the right to adopt decisions.

On 1 March 2016 the Board of AS "PrivatBank" adopted a decision to close the issue of 6 000 000 new shares of the Bank, which was announced at the extraordinary general meeting of shareholders on 21 December 2015. All newly issued shares were purchased by the current shareholders of the Bank. As the result of the share issue, the share capital of AS "PrivatBank" increased to 86 349 556 EUR. Changes in the Bank’s share capital were registered with the Commercial Register of the Register of Enterprises of the Republic of Latvia.

Given that the Bank’s parent company PJSC CB „PRIVATBANK” (Ukraine) has not taken part in the issue of new shares, its share in the Bank’s capital decreased to 46,54436787%. Despite the changes, PJSC CB „PRIVATBANK” (Ukraine) still is the largest shareholder of AS "PrivatBank", who takes active participation in the everyday operation of the Bank.

40. Ukrainian Business Environment

During 2015, the economic situation in Ukraine continued to be negative. This economic downturn is primarily attributed to the rapid fall of the Ukrainian national currency, the Hryvnia, against the US dollar, which had an adverse impact on the financial sector and consumption. The Ukrainian economy is also impacted by trade disagreements with Russia, and the decline in the export prices for wheat and steel in the world.

According to the World Bank forecasts for 2015, compared to the previous year, the Ukrainian GDP shrank by 12%. As concerns growth, GDP is forecast to grow by 1% in 2016 and by 2% in 2017.

In February 2015, the second Minsk Protocol was signed and since then vast military operations have not been observed; however, there are frequent reports of provocations, which makes it difficult to forecast the outcome of the political and economic crisis and its impact on Ukraine.

The parent company of the Group and the Bank, open joint stock company COMMERCIAL BANK "PRIVATBANK" (the Parent Bank) is the largest bank in Ukraine. In February 2015, the National Bank of Ukraine announced it had issued an emergency loan of UAH 2.98 billion to the Parent Bank which was followed by other loans. Total amount of National Bank of Ukraine refinancing issued to the parent bank in 2015 comprises UAH 9.70 billion and amount repaid by the parent bank amounts to UAH 1.49 billion. A large share of Ukrainian households keep their savings in the Parent Bank. The Parent Bank is specialised in savings and household deposits constitute approximately 50% of the bank's liabilities. The Parent Bank is taking all steps necessary to ensure sustained operation.

The Bank and the Group are independent legal persons registered in a member state of the EU acting in accordance with the laws and regulations of the Republic of Latvia.

The management of the Group and the Bank do not believe the current business environment could impact the ability of the Group and the Bank to continue as a going concern.

As at 31 December 2015 the Bank had the following exposures in Ukraine:

	Without risk's transfer		With risk's transfer	
	Group/Bank		Group/Bank	
	2015	**2014**	**2015**	**2014**
	'000 EUR	**'000 EUR**	**'000 EUR**	**'000 EUR**
ASSETS				
Loans and receivables from banks	2 088	4 558	2 088	4 558
Loans and receivables from customers	13 386	11 201	31 023	12 171
Held-to-maturity	8 958	8 608	8 958	8 608
Other financial assets	-	329	2	334
LIABILITIES				
Deposits and balances from banks	6 477	183	6 477	183
Current accounts and deposits from customers	19 544	27 437	19 544	27 437
Subordinated loans	5 294	4 351	5 294	4 351
Other financial liabilities	-	14	-	14

41. Sanctions imposed by the FCMC

During the reporting year, a number of reviews were made at the Bank by the Financial and Capital Market Commission (FCMC). As a result of these reviews, in December 2015 the Council of the FCMC made the decision to impose a fine of EUR 2,016,830 and request the removal of the Board of AS PrivatBank due to violations of the law On the Prevention on Money Laundering and Terrorism Financing, the Credit Institution Law, the Regulation on Establishment of the Internal Control Framework and the Regulations for Enhanced Customer Due Diligence. At the same time, the FCMC dismissed the chairman of the Board of the Bank and the Board member in charge of anti-money laundering and terrorism financing matters.

The Bank does not agree to the conclusions reached by the FCMC that were used as the basis for requesting the removal of the Board and imposing the fine, and appealed this decision with the Council of the FCMC. However, as a sign of respect for the regulator's request in December the Bank paid the full amount of the fine and recognised it as expenses in the income statement, dismissed the Board and appointed three new members of the Board. In February 2016, the fourth member joined the Board and as at the date of these financial statements the Board had full power of decisions. Currently, the Bank takes all measures necessary to select a highly qualified and experienced chairman of the Board who meets the requirements both of the Bank and the FCMC. The Bank is also working on the new corporate governance strategy and business plan aimed to improve the Bank’s and the Group’s business sustainability.

In response to the decisions made by the FCMC and to improve the internal control system the Bank developed an action plan for control over efficiency in the implementation of the AML policy and internal control, which was agreed by the FCMC, and the Bank provides regular updates to the FCMC concerning progress in the implementation of the plan.

The plan envisages a number of activities to be carried out by the end of 2016, including the review of the Bank’s internal processes and procedures, strengthening of employee training program, revision of the customer base, and conducting of external audits in the AML area.

In the reporting year and by the date of approval of these financial statements, not all the required improvements to the internal control indicated in the decisions of the FCMC and other Bank’s activities outlined above were completed as the Bank’s plans are scheduled to be implemented by 31 December 2016.

These events and conditions increase the Bank’s and the Group’s exposure to reputational and compliance risks. Accordingly, there is material uncertainty whether the implementation of the abovementioned plans will be sufficient for the Bank and the Group to continue as a going concern. As at the date of these financial statements the Bank is collaborating with the FCMC to take all measures necessary and ensure future compliance with the regulator’s requirements and the industry best practice.