M2M BANK EUROPE

ANNUAL REPORT
for the year ended
31 December 2015

2015

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Bank M2M Europe AS
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2015

MANAGEMENT REPORT ON THE GROUP AND THE BANK'S OPERATIONS DURING 2015

In 2015 Bank M2M Europe has continued its development according to the strategic plan approved in 2013. We increased business volumes and achieved adequate return on capital for our shareholders.

Global environment in 2015 was challenging. Decrease in oil prices has affected financial markets, putting under pressure valuations of high-yield bonds and assets in most of the Emerging Markets. It also facilitated deeper recession in Russia, which resulted in decreasing income for many of our clients. Chinese equity market turmoil also increased volatility in most global equity indices. Uncertainty with US interest rates hike has contributed to volatility in valuations of all risk assets. On top of that, continued political tensions and sanctions environment have also increased compliance risks.

From one side all these factors have adversely affected our net financial result – through negative revaluation of proprietary investment portfolio, increased compliance costs and slower growth of assets under management. We also made general loan provisions for part of our loan portfolio which bears Russian risk, despite the fact that all our loans are performing.

From the other side, some of these factors provide an opportunity to expand our client base and also offer clients products with better risk/return profile. It's also worth noting that against this background, Latvia has demonstrated improving macro fundamentals and more strict approach to compliance risks, which makes it more attractive jurisdiction for international clients' private banking needs.

Latvia continues to enjoy healthy economic growth, as evidenced by the figures below.

Indicator	2011	2012	2013	2014	2015F
GDP growth (%)	5.3	5.2	3.0	2.4	2.8
Budget balance (% GDP)	(3.6)	(0.8)	(0.9)	(1.5)	(1.6)
Current account balance (% GDP)	(2.1)	(3.5)	(2.1)	(2.0)	(1.7)
Government debt / (% GDP)	43.7	40.7	39.0	40.0	38.0
YTM of government 10-year bonds (%, at end of the year)	6.4	3.4	3.6	1.0	1.0
Inflation (%)	4.2	2.3	0.0	0.7	0.3

As Latvia moves closer to joining OECD, there is a clear trend of stepping up regulatory pressure to make sure Latvian banks are meeting highest AML standards. This should result in Latvia gradually becoming substantially more respected private banking and wealth management financial center for international clients.

In the current environment we pay a lot of attention to maintaining conservative risk profile. First of all, we maintain high level of liquidity of the balance sheet. Our loan portfolio to customers constitutes just 20.5 % of assets while liquidity ratio as of the year end stood at 93.88 %.

Second, we maintain high capital adequacy ratio – as of the year end it stood at 23.62 %.

Third, we pay a lot of attention to the quality of the loan portfolio. All of our loans are performing and well-collateralised. Key element of our lending policy is that we lend only to the clients whom we know well and who have positive history of doing business with the Bank. All of our loans are made to our private clients or against their personal guarantee, and are collateralised with real estate or other personal assets (aircrafts and yachts). As clients from Russia form largest part of our client base, inevitably part of our loan portfolio bears Russia-related risk, whereby borrower and/or collateral are located in Russia. Reflecting increased risks in Russia we made general loan provisions for this part of the loan portfolio, despite the fact that all loans are performing. We do not intend to increase our loan portfolio in Russia, until we see signs of improving of its macro fundamentals.

In 2015 we achieved decent growth in our revenues and business volumes. Clients assets (deposits and assets under management and administration) increased by 14.6 % (from 472m EUR to 541m EUR). In 2015 net interest income was 2.6 times higher than in 2014 (increase from 1 821 TEUR to 4 705 TEUR), while net fee income increased by 21.0 % (from 2 206 TEUR to 2 669 TEUR). Proportion of net fee income in total operating income of the bank has decreased from 46 % to 33 % due to faster than expected increase of net interest income. Administrative expenses increased by 24.7 % and we plan to pay close attention to costs control as the business volumes grow further. Our goal in the coming three years is to be able to cover all administrative expenses from the fee income. The Group Return on Equity (ROE) and Return on Assets (ROA) were 15.9 % and 1.12 % respectively (1.25 % and 0.16 % in 2014).

We are happy to report that in line with our strategy and business model only insignificant part of fee income (5.7 %) is formed by payments servicing while bulk of our fee revenues (55.0 %) comes from servicing clients capital. This is an important characteristic of our business model which benefits us in the current environment, when payments servicing business bears increasingly high compliance risks.

We are keeping our clients informed and well-advised on the optimal ways to structure ownership of their assets and personal holding vehicles. As the world evolves there is a clear trend to replace traditional offshore jurisdictions, which were used by many of international high net worth individuals, by structures domiciled in fully compliant jurisdictions. We envisage that in the coming years our client base will complete the migration of personal assets ownership structures to fully eliminate off-shore vehicles, thus decreasing compliance risks.

In 2015 we have achieved not only growth in the business volumes, but also in the quality of the clients experience with the Bank.

We have invested a lot of time and effort into developing M2M Private Banking Academy. Lead by Swiss-based practitioners with long-term experience in top managerial positions in leading Swiss banks, it enhances fundamental knowledge of our private bankers in the profession as well as provides valuable insight into latest developments in the industry.

During 2015 we introduced number of new investment themes, including opportunities for our clients to participate in the loans originated by the Bank. We also launched Investment Catalogue – a monthly publication covering investment ideas offered by our financial analyst research team.

Office renovation, which was completed in June 2015, enables us to host our clients in style and atmosphere they truly deserve.

Last, but not least, 2015 marked the start of M2M Contemporary Art collection. Visitors to our office may appreciate some elements of this collection on display in our premises. We plan to add new works to the collection during 2016.

2015 was also marked with CEO of the Bank becoming a minority shareholder. We are convinced that new level of management's responsibility will provide our clients with additional confidence in the sustainable development of the Bank by thus strengthening the feeling of stability and comfort.

Our clients will benefit from motivation of the management to increase the value of the Bank in the long term while avoiding excessive risk-taking.

Our plans for 2016 involve further growth of business volumes while maintaining a conservative risk profile. We do not plan any changes to the chosen strategy and continuous organic growth will remain the key goal of the Bank's management. Our clients are wealthy individuals with investable assets in excess of EUR 1 million, and we strive to provide the best personal service to each of our clients. We will remain the boutique bank that is able to concentrate on each client's needs and address them to the highest standards of the industry.

The Management of Bank M2M Europe is satisfied with what has been achieved in year 2015 and will continue to implement long-term strategy aimed to become the leading private banking service provider in the Baltic region.

On behalf of the management we would like to thank all employees of Bank M2M Europe for their dedicated work which regularly exceeds expectations. We would also like to thank our majority shareholder for continuous support and strategic guidance. And of course a special thank you to our clients – you inspire us, management and employees of Bank M2M Europe, to move forward every single day.

On behalf of the management:
29 February 2016

....
Andrey Vdovin
Chairman of the Council

....
Roberts Idelsons
Chairman of the Board

2015

THE COUNCIL AND MANAGEMENT OF THE BANK

SUPERVISORY COUNCIL OF THE BANK

Andrey Vdovin
Chairman of the Supervisory Council
31.05.2013

Peter Charles Percival Hambro
Deputy Chairman
of the Supervisory Council
31.05.2013

Thomas Roland Evert Neckmar
Member of the Supervisory Council
31.05.2013

MANAGEMENT BOARD OF THE BANK

Roberts Idelsons
Chairman of the Management Board
15.06.2013

Tatjana Drobina
Member of the Management Board
20.06.2013

Sergejs Zaicevs
Member of the Management Board
20.06.2013

There were no changes in the Management of the Bank during the reporting period.

STATEMENT OF MANAGEMENT RESPONSIBILITY

The management of Bank M2M Europe AS (the Bank) is responsible for the preparation of the financial statements of the Bank and its subsidiaries (the Group) that reflect the Bank and the Group's financial position at the end of the reporting period in a clear and actual manner, as well as for the financial results and the movement of monetary assets and liabilities during the reporting period.

The Bank's management confirms that throughout the preparation of pages 10 to 71 of the financial statements of the Bank and the Group for 2015 the corresponding bookkeeping methods have been used consistently, and that the decisions and evaluations of the Bank's management during the preparation of the financial statements have been in all respects sufficient, well-considered and balanced.

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

The Bank's management are responsible for the maintenance of proper accounting records, the safeguarding of the Group's assets, and the prevention and detection of fraud or any other irregularities in the Group.

The Bank's management is also responsible for operating the Group and the Bank in compliance with the Law on Credit Institutions of the Republic of Latvia, Regulations of the Bank of Latvia and the Financial and Capital Market Commission of the Republic of Latvia, and other laws of the Republic of Latvia as well as European Union Regulations applicable to credit institutions.

On behalf of the management:
29 February 2016

Andrey Vdovin
Chairman of the Council

Roberts Idelsons
Chairman of the Board

INDEPENDENT AUDITORS' REPORT

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Vesetas iela 7
Riga, LV-1013, Latvia

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Telefax +371 67038002
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To the shareholders of Bank M2M Europe AS

Report on the Separate and Consolidated Financial Statements

We have audited the accompanying separate financial statements of Bank M2M Europe AS ("the Bank"), which comprise the separate statement of financial position as at 31 December 2015, the separate statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 10 to 71. We have also audited the accompanying consolidated financial statements of Bank M2M Europe AS and its subsidiary ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2015, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 10 to 71.

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.

KPMG

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 Bank M2M Europe AS as at 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Bank M2M Europe AS and its subsidiary as at 31 December 2015, and of the consolidated financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

In addition, our responsibility is to assess whether the accounting information included in the Management Report, as set out on pages 3 to 5, the preparation of which is the responsibility of management, is consistent with the consolidated and separate financial statements. Our work with respect to the Management Report was limited to the aforementioned scope and did not include a review of any information other than drawn from the consolidated and separate financial statements. In our opinion, the Management Report is consistent with the consolidated and separate financial statements.

KPMG Baltics SIA
Licence No 55

Ondrej Fikrle	**Rainers Vilāns**
Partner, pp KPMG Baltics SIA	Sworn Auditor
Riga, Latvia	Certificate No 200
29 February 2016	

GROUP'S CONSOLIDATED AND BANK'S SEPARATE STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015

'000 EUR	Note	Group		Bank	
		2015	2014	2015	2014
Interest income	7	6,416	2,508	6,415	2,505
Interest expense	7	(1,711)	(687)	(1,727)	(701)
Net interest income		**4,705**	**1,821**	**4,688**	**1,804**
Fee and commission income	8	3,673	2,396	3,345	2,029
Fee and commission expense	9	(1,004)	(190)	(987)	(165)
Net fee and commission income		**2,669**	**2,206**	**2,358**	**1,864**
Net loss on financial assets at fair value through profit or loss		(389)	(95)	(389)	(95)
Net foreign exchange income	10	901	411	888	402
Net realised gain on Available-for-sale financial assets		34	305	34	305
Other income	11	187	106	149	109
Total operating income		**8,107**	**4,754**	**7,728**	**4,389**
General administrative expenses	12	(5,879)	(4,714)	(5,638)	(4,492)
Impairment loss	13	(1,189)	–	(1,189)	–
Profit/(loss) before income tax		**1,039**	**40**	**901**	**(103)**
Income tax benefit	14	1,106	113	1,127	–
Profit/(loss) for the period		**2,145**	**153**	**2,028**	**(103)**
Other comprehensive income					
Items that are or may be reclassified to profit or loss					
Available-for-sale financial assets – net change in fair value		718	(1,299)	718	(1,299)
Available for sale financial assets – reclassified to profit or loss		(573)	305	(573)	305
Other comprehensive income for the period		**145**	**(994)**	**145**	**(994)**
Total comprehensive income/(expense) for the period		**2,290**	**(841)**	**2,173**	**(1,097)**

The accompanying notes on pages 17 to 71 are an integral part of the Group consolidated and Bank separate financial statements.

The Group consolidated and Bank separate financial statements as set out on pages 10 to 71 were approved by management of the Bank on 29 February 2016.

On behalf of the management:

Andrey Vdovin
Chairman of the Council

Roberts Idelsons
Chairman of the Board

2015

GROUP'S CONSOLIDATED AND BANK'S SEPARATE STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015

'000 EUR	Note	Group		Bank	
		2015	2014	2015	2014
ASSETS					
Cash and due from central banks	15	23,322	306	23,322	306
Financial assets at fair value through profit or loss	16	5,573	803	5,573	803
Balances due from financial institutions	17	94,134	72,081	93,797	71,644
Loans and advances due from customers	18	50,231	36,702	50,231	36,702
Available-for-sale financial assets	19	32,794	22,299	32,794	22,299
Held-to-maturity investments	20	26,455	16,887	26,455	16,887
Investment in subsidiary	21	–	–	1,874	1,874
Property and equipment	22	2,350	1,665	2,344	1,656
Goodwill and other intangible assets	23	1,179	1,232	391	444
Deferred tax asset	27	1,219	113	1,127	–
Other assets	24	698	1,083	635	1,051
Total Assets		**237,955**	**153,171**	**238,543**	**153,666**

The accompanying notes on pages 17 to 71 are an integral part of the Group consolidated and Bank separate financial statements.

The Group consolidated and Bank separate financial statements as set out on pages 10 to 71 were approved by management of the Bank on 29 February 2016.

On behalf of the management:

Andrey Vdovin
Chairman of the Council

Roberts Idelsons
Chairman of the Board

GROUP'S CONSOLIDATED AND BANK'S SEPARATE STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015

'000 EUR	Note	Group		Bank	
		2015	2014	2015	2014
LIABILITIES AND SHAREHOLDERS' EQUITY					
Financial liabilities at fair value through profit or loss	16	653	377	653	377
Deposits due to central bank	34	10,001	–	10,001	–
Current accounts and deposits due to customers	25	192,880	129,990	193,877	130,772
Subordinated liabilities	26	18,304	9,563	18,304	9,563
Other liabilities	29	913	1,228	880	1,200
Total Liabilities		**222,751**	**141,158**	**223,715**	**141,912**
Share capital	30	28,821	27,920	28,821	27,920
Share premium		28	28	28	28
Other reserves		312	312	312	312
Revaluation reserve of available-for-sale financial assets		(831)	(976)	(831)	(976)
Accumulated losses		(13,126)	(15,271)	(13,502)	(15,530)
Total Shareholders' Equity		**15,204**	**12,013**	**14,828**	**11,754**
Total Liabilities and Shareholders' Equity		**237,955**	**153,171**	**238,543**	**153,666**
Assets under management	**32**	**181,149**	**187,957**	**126,129**	**119,286**

The accompanying notes on pages 17 to 71 are an integral part of the Group consolidated and Bank separate financial statements.

The Group consolidated and Bank separate financial statements as set out on pages 10 to 71 were approved by management of the Bank on 29 February 2016.

On behalf of the management:

Andrey Vdovin
Chairman of the Council

Roberts Idelsons
Chairman of the Board

2015

GROUP'S CONSOLIDATED AND BANK'S SEPARATE STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2015

'000 EUR	Note	Group		Bank	
		2015	2014	2015	2014
Cash flows from operating activities					
Profit/(loss) before income tax		1,039	40	901	(103)
Increase/(release) provisions		88	(127)	82	(127)
Amortisation and depreciation	12	361	384	356	377
Impairment loss		1,189	–	1,189	–
Net interest income		(4 705)	(1 821)	(4 688)	(1 818)
Dividends on available-for-sale financial assets		(37)	(1)	(37)	(1)
Decrease in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations		**(2,065)**	**(1,525)**	**(2,197)**	**(1 672)**
Increase in financial assets at fair value through profit or loss		(4,494)	(297)	(4,494)	(297)
(Increase)/decrease in balances due from financial institutions		(7,163)	(32,563)	(7,463)	(32,988)
Increase in loans and advances due from customers		(16,731)	(20,544)	(16,731)	(20,544)
Increase in available-for-sale financial assets		(10,957)	(13,322)	(10,957)	(13,322)
(Increase)/decrease in other assets		392	(252)	423	(251)
Increase in deposits and balances due to financial institutions		72,584	109,236	72,799	109,769
Increase/(decrease) in other liabilities		(403)	962	(402)	958
		31,163	**41,695**	**30,978**	**41,653**
Interest received		6,289	2,265	6,288	2,262
Dividends received		37	1	37	1
Interest paid		(1,419)	(579)	(1,435)	(579)
Net cash flow from operating activities		**36,070**	**43,382**	**35,868**	**43,337**
CASH FLOW FROM INVESTING ACTIVITIES					
Purchase of property and equipment		(993)	(78)	(991)	(81)
Income from disposal of property and equipment		–	(23)	–	(21)
Settlement of held-to-maturity investments		1,316	770	1,316	770
Purchase of held-to-maturity investments		(11,057)	(15,957)	(11,057)	(15,957)
(Purchase)/Disposal of Loans to customers		2,902	(11,297)	2,902	(11,297)
Decrease in cash and cash equivalents from investing activities		**(7,832)**	**(26,585)**	**(7,830)**	**(26,586)**

2015

GROUP'S CONSOLIDATED AND BANK'S SEPARATE STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2015

'000 EUR	Note	Group		Bank	
		2015	2014	2015	2014
CASH FLOW FROM FINANCING ACTIVITIES					
Increase in share capital		901	–	901	–
Increase in Subordinated liabilities		8,756	7,524	8,756	7,524
Net cash flow from financing activities		**9,657**	**7,524**	**9,657**	**7,524**
Net increase in cash and cash equivalents		**37,895**	**24,321**	**37,695**	**24,275**
Cash and cash equivalents at the beginning of the year		37,858	13,537	37,721	13,446
Cash and cash equivalents at the end of the year	**15**	**75,753**	**37,858**	**75,416**	**37,721**

The accompanying notes on pages 17 to 71 are an integral part of the Group consolidated and Bank separate financial statements.

The Group consolidated and Bank separate financial statements as set out on pages 10 to 71 were approved by management of the Bank on 29 February 2016.

On behalf of the management:

Andrey Vdovin
Chairman of the Council

Roberts Idelsons
Chairman of the Board

2015

GROUP'S CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2015

'000 EUR	Note	Share capital	Share premium	Revaluation reserve of available-for-sale financial assets	Other reserves	Accumulated losses	Total
Balance at 1 January 2014							
Total comprehensive income		**27,920**	**28**	**18**	**312**	**(15,424)**	**12,854**
Profit for the year		–	–	–	–	153	153
Other comprehensive income		–	–	(994)	–	–	(994)
Balance at 31 December 2014		**27,920**	**28**	**(976)**	**312**	**(15,271)**	**12,013**
Total comprehensive income							
Profit for the year		–	–	–	–	2,145	2,145
Other comprehensive income		–	–	145	–	–	145
Transactions with shareholder recorded directly in equity							
Increase of share capital	30	901	–	–	–	–	901
Balance at 31 December 2015		**28,821**	**28**	**(831)**	**312**	**(13,126)**	**15,204**

The accompanying notes on pages 17 to 71 are an integral part of the Group consolidated and Bank separate financial statements.

The Group consolidated and Bank separate financial statements as set out on pages 10 to 71 were approved by management of the Bank on 29 February 2016.

On behalf of the management:

Andrey Vdovin
Chairman of the Council

Roberts Idelsons
Chairman of the Board

2015

BANK'S SEPARATE STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2015

'000 EUR	Note	Share capital	Share premium	Revaluation reserve of available-for-sale financial assets	Other reserves	Accumulated losses	Total
Balance at 1 January 2014							
Total comprehensive income		**27,920**	**28**	**18**	**312**	**(15,427)**	**12,851**
Loss for the year		–	–	–	–	(103)	(103)
Other comprehensive income		–	–	(994)	–	–	(994)
Balance at 31 December 2014		**27,920**	**28**	**(976)**	**312**	**(15,530)**	**11,754**
Total comprehensive income							
Profit for the year		–	–	–	–	2,028	2,028
Other comprehensive income		–	–	145	–	–	145
Transactions with shareholder recorded directly in equity							
Increase of share capital	30	901	–	–	–	–	901
Balance at 31 December 2015		**28,821**	**28**	**(831)**	**312**	**(13,502)**	**14,828**

The accompanying notes on pages 17 to 71 are an integral part of the Group consolidated and Bank separate financial statements.

The Group consolidated and Bank separate financial statements as set out on pages 10 to 71 were approved by management of the Bank on 29 February 2016.

On behalf of the management:

Andrey Vdovin
Chairman of the Council

Roberts Idelsons
Chairman of the Board

GROUP'S CONSOLIDATED AND BANK'S SEPARATE NOTE TO THE FINANCIAL STATEMENTS

1 BACKGROUND

Principal activities

These consolidated financial statements include the financial statements of Bank M2M Europe AS (the "Bank") and its subsidiary M2M Asset Management IPAS (together referred to as the "Group"). Bank M2M Europe AS was founded in 1992 under the name Latvian Business Bank. On 21 May 2013 the Bank was acquired by Andrey Vdovin, a banker and co-owner of VMHY group. Mr. Vdovin is the majority shareholder of Bank M2M Europe AS, he is also the Chairman of the Council of the Bank.

Bank M2M Europe AS is a private banking boutique committed to providing top quality financial solutions to the high net worth clients and companies owned by such clients. Main products offered to the clients are: servicing day to day banking transactions of private and business clients, wealth management solutions including portfolio management and investment advisory, premium level payment cards, deposits, servicing fiduciary transactions and escrow accounts, lombard loans. Bank M2M Europe clients are predominantly residents of the Russia Federation and other Commonwealth Independent States ('CIS') countries. The Bank strives to become the most reliable private banking institution in the Baltics.

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

The activities of the Group are supervised by the Financial and Capital Market Commission of the Republic of Latvia ("FCMC"). The registered address of the Bank's head office is 3 Antonijas street, Riga LV-1010, Latvia. The majority of the Group's assets and liabilities are located in Latvia, Europe and the CIS countries.

As of 31 December 2015, the Group had 77 (2014:66) employees and the Bank had 71 (2014:60) employees.

The subsidiary of the Group is as follows:

Name	Country of incorporation	Principal Activities	Address	Ownership %	
				2015	2014
"M2M Asset Management" IPAS	Latvia	Financial services	3 Antonijas street, Riga LV-1010, Latvia	100	100

2 BASIS OF PREPARATION

Statement of compliance

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

The financial statements were authorized for issue by the management of the Bank on 29 February 2016. The shareholders have the right to have the financial statements amended.

Basis of measurement

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

- financial assets at fair value through profit or loss are stated at fair value;
- available-for-sale assets are stated at fair value.

Functional and Presentation Currency

The Group's consolidated and the Bank's separate financial statements are presented in thousand of euro ('000 EUR), unless stated otherwise. Functional currency of the Bank and its subsidiary is the euro (EUR).

3 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 except for the changes in accounting policies described in this Note.

Basis of consolidation

Subsidiaries

Subsidiaries are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

Assets under management

The Group provides assets management services to individuals and institutions. The assets under management are not included neither in the consolidated and nor in the separate statement of financial position.

Transactions eliminated on consolidation

M2M Asset Management investment management entity (the 'Subsidiary') was acquired by the Bank on 11 November 2013, with Subsidiary's shareholder changes registered on the same date. Bank M2M Europe AS became the sole shareholder of the entity which is now a fully integrated subsidiary of the Bank. Detailed information of the entity is available in Note 21.

The Bank and its Subsidiary's financial statements are consolidated in the Group financial statements, merging the respective assets, liabilities, income and expense captions. Intra-group balances and transactions, and any unrealized gains arising from intra-group transactions, have been eliminated in the preparation of the consolidated financial statements.

Goodwill

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

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

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

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

Foreign currency

Transactions in foreign currencies are translated into the respective functional currency 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 translated into the functional currency at the European Central Bank spot exchange rate at that date. 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 European Central Bank spot exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments 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 recognised in other comprehensive income.

Cash and cash equivalents

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

Financial instruments

(i) Classification

Financial assets 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 Group has the positive intention and ability to hold to maturity, and which are not designated at fair value through profit or loss, or available for sale.

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

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. For the purposes of these financial statements, loans and advances include regular loans, credit card balances, and are accounted for at amortised cost using the effective interest method. Certain expenses, such as legal fees or sales commissions for employees acting as agents or other expenses that are incurred in securing a loan are treated as part of the cost of the transaction.

(ii) Recognition

Financial assets and liabilities are recognised in the statement of financial position when the Group or the Bank becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

(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, including derivatives that are 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 amortised 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.

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 amortised cost. Amortised cost is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

(iv) 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 has access at that date. The fair value of a liability reflects its non-performance risk.

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

To measure the fair value of FX swap and forward deals the Group uses market rates for the similar maturity and currencies. Quotes of certain brokers have been used to determine fair value of bonds which do not have active market.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that used only data from observable inputs, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk, are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The Group 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 fair value see Note 36.

(v) Gains and losses on subsequent measurement

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

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

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in the profit or loss when the financial asset or liability is derecognised or impaired, and through the amortisation process.

(vi) Derecognition

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

The Group also derecognises certain assets when it writes off balances pertaining to the assets deemed to be uncollectible.

(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 liability towards counterparty included in amounts payable under repo transactions. The difference between the sale and repurchase price represents interest expense and is recognised in the profit or 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) Derivative financial instruments

Derivative financial instruments include currency swaps and forward contracts.

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

Changes in the fair value of derivatives are recognised immediately in the profit or loss.

Derivatives may be embedded in another contractual arrangement (a "host contract"). An embedded derivative is separated from the host contract and it is accounted for as a derivative if, and only if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, and a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the combined instrument is not measured at fair value with changes in fair value recognised in the profit or loss. Derivatives embedded in financial assets or financial liabilities at fair value through profit or loss are not separated.

Although the Group/Bank trade in derivative instruments for risk hedging purposes, the Group/Bank do not adopt hedge accounting.

(ix) Offsetting

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

Property and equipment

Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

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.

Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Leasehold improvements are capitalized, and their depreciation is calculated on a straight-line basis over the remaining lease term. Leasehold renovation costs in relation to improving quality of the building are capitalized. Leasehold maintenance and current repair costs are recognized in the profit or loss statement when incurred.

Depreciation

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

Leasehold improvements	Over the lease term
Equipment	3 years
Fixtures and fittings	5 years

Intangible assets

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

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.

Costs associated with maintaining computer software programs are recognised as an expense as incurred.

Amortisation is charged to the profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are as follows:

Intangible assets	5 years

Impairment

Financial assets

At each reporting date the Group assesses 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 on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in a group, or economic conditions that correlate with defaults in a 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.

All held-to-maturity and available for sale investment securities are assessed for specific impairment.

The Group considers evidence of impairment for loans at both specific asset level and collective level. For the purpose of collective impairment assessment, financial assets are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income to profit or loss. The cumulative loss that is removed from equity and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in statement of comprehensive income. 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 recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

Non-financial assets

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

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

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

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

Provisions

A provision is recognised in the statement of financial position when the Group has 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.

Unrecognised loan commitments

In the normal course of business, the Group enters into unrecognised loan commitments, comprising undrawn loan commitments and provides guarantees and letters of credit.

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

A financial guarantee is recognised initially at fair value, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other unrecognised loan commitments are recognised when losses are considered probable and can be measured reliably.

Financial guarantee liabilities and provisions for other credit related commitment are included within provisions.

Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the profit or loss except to the extent that it relates to items recognised 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 recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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

Income and expense recognition

With the exception of financial instruments held for trading and other financial assets at fair value through profit or loss, interest income and expense are recognised in the consolidated statement of income using the effective interest rate method. Interest income on financial instruments held for trading and on other financial assets at fair value through profit or loss comprises coupon interest only.

Accrued discounts and premiums on financial assets at fair value through profit or loss are recognised in gains less losses from financial assets at fair value through profit or loss, respectively.

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

Other fees, commissions and other income and expense items are recognised when the corresponding service has been provided.

New standards and interpretations

Changes in accounting policies

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

The Group and Bank have 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 and Bank separate financial statements:

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

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 or the Bank.

(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 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.

(v) 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 Group does not expect that the amendments, when initially applied, will have a material impact on the financial statements as the Group intends to continue to carry its investments in subsidiaries, associates or joint ventures at cost.

(vi) 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.

Many of these changes are not expected to have a significant impact on the consolidated and the separate financial statements of the Group; therefore, we include below a discussion of only those improvements that may be expected to have a material effect on the financial statements.

4 RISK MANAGEMENT

The Group has exposure to the following risks:

- market risks
- interest rate risk
- currency risk
- price risk
- credit risk
- liquidity risk
- operational risk
- other risks: ML/TF risk (money laundering and terrorism financing risk) risk, compliance and reputation risk, strategic risk.

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

Risk management policies and procedures

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

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

The Management Board is responsible for monitoring and implementation of risk mitigation measures and making sure that the Group operates within the established risk parameters. The Head of Compliance and risk management division is responsible for the overall financial risk management functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting financial risks. The Head of Risk and Compliance Department has the same responsibilities in the field of non-financial risks and compliance issues.

Credit, market and liquidity risks both at portfolio and transactional levels are managed and controlled through a system of Credit Committee and ALCO for limits over predefined level additional approval from the Council is needed. In order to facilitate efficient decision-making, the Group has established a hierarchy of authorities depending on the type and amount of the exposure.

Market risks

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

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

Overall authority for market risk is vested in the ALCO, chaired by the CEO. Market risk limits are approved by ALCO based on recommendations of the Compliance and risk management division.

The Group manages its market risk by setting open position limits in relation to financial instrument, interest rate maturity and currency positions and stop-loss limits which are monitored on a regular basis and reviewed and approved by the ALCO. Additional restrictions are set for financial instrument portfolios, such as duration limits, concentration limits etc.

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

The management of interest rates risk by monitoring interest rate gap is supplemented by monitoring the sensitivity of the Group's net interest margin to various standard and non-standard interest rate scenarios. Sensitivity of net present value of Bank's assets and liabilities is also evaluated.

Interest rate risk

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

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements arise.

A change of 200 basis points would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign exchange rates, remain constant. Only tradable fixed-income financial instruments were evaluated (not including investments in fixed-income funds). Results are the same for the Bank and for the Group because the subsidiary did not have investments in tradable fixed-income financial instruments.

The impact of income taxes is not reflected in this analysis:

'000 EUR	31 December 2015		31 December 2014	
	Profit or loss	Equity	Profit or loss	Equity
200 bp parallel increase	(552)	(789)	(646)	(1,003)
200 bp parallel decrease	564	833	666	1,044

Currency risk

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

A change in exchange rates as indicated below, as at 31 December would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The impact of income taxes is not reflected in this analysis:

'000 EUR	31 December 2015		31 December 2014	
	Profit or loss, Group	Profit or loss, Bank	Profit or loss, Group	Profit or loss, Bank
5 % appreciation of USD against EUR	(40)	(40)	(8)	(8)
5 % depreciation of USD against EUR	40	40	8	8
20 % appreciation of RUB against EUR	(28)	(28)	2	2
20 % depreciation of RUB against EUR	28	28	(2)	(2)

Price risk

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

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

'000 EUR	31 December 2015		31 December 2014	
	Profit or loss	OCI	Profit or loss	OCI
5 % increase in securities prices	242	1,859	40	1,115
5 % decrease in securities prices	(242)	(1,859)	(40)	(1,115)

Results are the same for the Bank and for the Group because the subsidiary did not have investments in securities.

Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group. The Group has developed policies and procedures for the management of credit exposures (both for on balance sheet and off balance sheet exposures), including guidelines to limit portfolio concentration and the establishment of ALCO and Credit Committee, which actively monitor the Group's credit risk. The Group's credit policy is reviewed and approved by the Management Board and Council.

The Group's credit policy establishes:

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

Corporate loan/credit applications are originated by the relevant client managers or by Loan Department managers and are then passed on to the Loan Department. Loan Department's credit analysts prepare overall description report about credit deal, Compliance and risk management division analysts prepare risk report based on a structured analysis focusing on the customer's business and financial performance, as also a check that credit policy requirements have been met is made. Additional report is prepared by Security Department. The Credit Committee reviews the loan/credit application on the basis of submissions by the Loan Department, Compliance and risk management division and Security Department. Individual transactions are also reviewed by the Group's Legal and Accounting departments depending on the specific risks and pending final approval of the Credit Committee.

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

Apart from individual customer analysis, the whole credit portfolio is assessed by the Financial Risk Management Department with regard to credit concentration and market risks.

The Group's maximum exposure to statement of financial position credit risk is generally reflected in the carrying amounts of financial assets on the statement of financial position.

The Group monitors concentrations of credit risk by industry/sector and by geographic location. For the analysis of concentration of credit risk in respect of loans and advances to customers refer to Note 18 "Loans and advances due from customers".

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions, including the Group. The Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due. The Group's liquidity policy is reviewed and approved by the Management Board and the Council.

The Group seeks to actively support a diversified and stable funding base from corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy of the Group requires:

- projecting cash flows and considering the level of liquid assets necessary in relation thereto;
- maintaining a diversified deposits base;
- managing the concentration and profile of debts;
- maintaining debt financing plans;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow;
- maintaining liquidity and funding contingency plans;
- monitoring balance sheet liquidity ratios against regulatory requirements, as also internal liquidity risk ratios and early warning indicators.

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

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Compliance and risk management division. Under the normal market conditions, liquidity reports covering the liquidity position of the Group are presented to ALCO on a weekly basis. Decisions on the Group's liquidity management are made by the ALCO and implemented by the Financial Market Department.

The Group also calculates mandatory liquidity ratios on a daily basis in accordance with the requirement of the Financial and Capital Markets Commission. The Bank was in compliance with these ratios during the twelve-month period ended 31 December 2015 and 31 December 2014.

The table below analyses the Group's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows.

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

'000 EUR	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities							
Deposits due to central bank	10,001	–	–	–	–	10,001	10,001
Current accounts and deposits due to customers	148,136	5,123	6,518	16,221	19,306	195,304	192,880
Subordinated liabilities	26	172	221	65	22,115	22,599	18,304
Unrecognised loan commitments	6,994	–	–	–	–	6,994	–
Derivative liabilities							
– Inflow	(17,197)	(22,129)	(15,591)	(3,896)	–	(58,813)	(58,086)
– Outflow	17,165	22,992	15,470	3,113	–	58,740	58,088
Total	**165,125**	**6,158**	**6,618**	**15,503**	**41,421**	**234,825**	**221,187**

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

'000 EUR	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities							
Current accounts and deposits due to customers	108,505	6,552	444	6,986	8,212	130,699	129,990
Subordinated liabilities	–	135	–	39	1,871	12,045	9,563
Unrecognised loan commitments	8,756	–	–	–	–	8,756	–
Derivative liabilities							
– Inflow	(681)	(5,529)	(266)	–	–	(6,476)	(6,291)
– Outflow	781	5,695	279	–	–	6,755	6,480
Total	**117,361**	**6,853**	**457**	**7,025**	**20,083**	**151,779**	**139,742**

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

'000 EUR	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities							
Deposits due to central bank	10,001	–	–	–	–	10,001	10,001
Current accounts and deposits due to customers	148,881	5,379	6,518	16,221	19,306	196,305	193,877
Subordinated liabilities	26	172	221	65	22,115	22,599	18,304
Unrecognised loan commitments	6,994	–	–	–	–	6,994	–
Derivative liabilities							
– Inflow	(17,197)	(22,129)	(15,591)	(3,896)	–	(58,813)	(58,086)
– Outflow	17,165	22,992	15,470	3,113	–	58,740	58,088
Total	**165,870**	**6,414**	**6,618**	**15,503**	**41,421**	**235,826**	**222,184**

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

'000 EUR	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities							
Current accounts and deposits due to customers	108,785	6,552	444	6,986	8,713	131,480	130,772
Subordinated liabilities	–	135	–	39	11,871	12,045	9,563
Unrecognised loan commitments	8,756	–	–	–	–	8,756	–
Derivative liabilities							
– Inflow	(681)	(5,529)	(266)	–	–	(6,476)	(6,291)
– Outflow	781	5,695	279	–	–	6,755	6,480
Total	**117,641**	**6,853**	**457**	**7,025**	**20,584**	**152,560**	**140,524**

The Bank and the Group are keeping different financial assets to provide liquidity. Analysis of expected maturities of financial assets and liabilities and equity as at 31 December 2015 is presented below:

GROUP '000 EUR	1 month	1-3 months	3-6 months	6-12 months	More than 1 year	No maturity	Total
Financial assets							
Cash and due from central banks	23,322	–	–	–	–	–	**23,322**
Financial assets at fair value through profit or loss	4,218	298	197	860	–	–	**5,573**
Balances due from financial institutions	92,979	–	919	–	–	236	**94,134**
Loans and advances due from customers	7,681	4,451	5,966	3,281	28,315	537	**50,231**
Available-for-sale financial assets	24,299	–	2,181	1,644	4,670	–	**32,794**
Held-to-maturity investments	25,353	–	–	–	1,102	–	**26,455**
Other financial assets	208	–	–	–	–	–	**208**
Total financial assets	**178,060**	**4,749**	**9,263**	**5,785**	**34,087**	**773**	**232,717**
Financial liabilities							
Financial liabilities at fair value through profit or loss	171	221	152	98	11	–	**653**
Deposits due to central bank	10,001	–	–	–	–	–	**10,001**
Current accounts and deposits due to customers	148,464	4,777	6,269	15,611	17,759	–	**192,880**
Subordinated liabilities	–	–	–	–	18,304	–	**18,304**
Unrecognised loan commitments	6,994	–	–	–	–	–	**6,994**
Total financial liabilities	**165,630**	**4,998**	**6,421**	**15,709**	**36,074**	**–**	**228,832**
Total Equity	–	–	–	–	–	15,204	**15,204**
Total Liabilities and Equity	**165,630**	**4,998**	**6,421**	**15,709**	**36,074**	**15,204**	**244,036**
Net liquidity position as at 31 December 2015	**12,430**	**(249)**	**2,842**	**(9,924)**	**(1,987)**	**(14,431)**	**–**
Net liquidity position as at 31 December 2014	1,442	(1,270)	1,949	(3,237)	10,458	(11,862)	–

BANK '000 EUR	1 month	1-3 months	3-6 months	6-12 months	More than 1 year	No maturity	Total
Financial assets							
Cash and due from central banks	23,322	–	–	–	–	–	**23,322**
Financial assets at fair value through profit or loss	4,218	298	197	860	–	–	**5,573**
Balances due from financial institutions	92,642	–	919	–	–	236	**93,797**
Loans and advances due from customers	7,681	4,451	5,966	3,281	28,315	537	**50,231**
Available-for-sale financial assets	24,299	–	2,181	1,644	4,670	–	**32,794**
Held-to-maturity investments	25,353	–	–	–	1,102	–	**26,455**
Investment in subsidiary	–	–	–	–	–	1,874	**1,874**
Other financial assets	208	–	–	–	–	–	**208**
Total financial assets	**177,723**	**4,749**	**9,263**	**5,785**	**34,087**	**2,647**	**234,254**
Financial liabilities							
Financial liabilities at fair value through profit or loss	171	221	152	98	11	–	**653**
Deposits due to central bank	10,001	–	–	–	–	–	**10,001**
Current accounts and deposits due to customers	149,206	5,032	6,269	15,611	17,759	–	**193,877**
Subordinated liabilities	–	–	–	–	18,304	–	**18,304**
Unrecognised loan commitments	6,994	–	–	–	–	–	**6,994**
Total financial liabilities	**166,372**	**5,253**	**6,421**	**15,709**	**36,074**	**–**	**229,829**
Total Equity	–	–	–	–	–	14,828	**14,828**
Total Liabilities and Equity	**166,372**	**5,253**	**6,421**	**15,709**	**36,074**	**14,828**	**244,657**
Net liquidity position as at 31 December 2015	**11,351**	**(504)**	**2,842**	**(9,924)**	**(1,987)**	**(12,181)**	**–**
Net liquidity position as at 31 December 2014	1,026	(1,270)	1,648	(3,237)	9,956	(9,729)	–

Interest rate re-pricing analysis

The following table shows the Group's interest rate gap position as at 31 December 2015.

'000 EUR	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Non-interest bearing financial instruments	Total
Financial assets								
Cash and due from central banks	22,947	–	–	–	–	–	375	**23,322**
Financial assets at fair value through profit or loss	2,330	298	491	29	459	–	1,966	**5,573**
Balances due from financial institutions	41,650	–	919	–	–	–	51,565	**94,134**
Loans and advances due from customers	30,603	3,557	2,829	4,670	6,813	–	1,759	**50,231**
Available-for-sale financial assets	–	12,889	1,081	3,732	13,831	617	644	**32,794**
Held-to-maturity investments	–	1,758	7,752	1,458	15,487	–	–	**26,455**
Other financial assets	–	–	–	–	–	–	208	**208**
Long positions of interest rates risk sensitive off-balance items	16,984	23,300	15,410	3,861	–	–	–	**59,555**
Total assets and long off-balance-sheet positions sensitive to changes in interest rates	**114,514**	**41,802**	**28,482**	**13,750**	**36,590**	**617**	**56,517**	**292,272**
Financial liabilities								
Financial liabilities at fair value through profit or loss	171	221	152	98	11	–	–	**653**
Deposits due to central bank	10,001	–	–	–	–	–	–	**10,001**
Current accounts and deposits due to customers	1,276	5,668	6,269	15,610	17,717	42	146,298	**192,880**
Subordinated liabilities	–	–	–	–	15,791	2,513	–	**18,304**
Short positions of interest rates risk sensitive off-balance items	24,238	21,771	15,399	3,924	–	–	3,426	**68,758**
Total liabilities and short off-balance-sheet positions sensitive to changes in interest rates	**35,686**	**27,660**	**21,820**	**19,632**	**33,519**	**2,555**	**149,724**	**290,596**
Net position as at 31 December 2015	**78,828**	**14,142**	**6,662**	**(5,882)**	**3,071**	**(1,938)**	**(93,207)**	**1,676**
Net position as at 31 December 2014	45,408	(3,791)	2,164	(1,884)	22,595	(1,232)	(65,118)	**(1,858)**

The amounts in the tables above represent carrying amounts of the financial assets and liabilities as at the reporting date and do not include future interest payments.

The following table shows the Bank's interest rate gap position as at 31 December 2015.

'000 EUR	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Non-interest bearing financial instruments	Total
Financial assets								
Cash and due from central banks	22,947	–	–	–	–	–	375	**23,322**
Financial assets at fair value through profit or loss	2,330	298	491	29	459	–	1,966	**5,573**
Balances due from financial institutions	41,313	–	919	–	–	–	51,565	**93,797**
Loans and advances due from customers	30,603	3,557	2,829	4,670	6,813	–	1,759	**50,231**
Available-for-sale financial assets	–	12,889	1,081	3,732	13,831	617	644	**32,794**
Held-to-maturity investments	–	1,758	7,752	1,458	15,487	–	–	**26,455**
Investment in subsidiary	–	–	–	–	–	–	1,874	**1,874**
Other financial assets	–	–	–	–	–	–	208	**208**
Long positions of interest rates risk sensitive off-balance items	16,984	23,300	15,410	3,861	–	–	–	**59,555**
Total assets and long off-balance-sheet positions sensitive to changes in interest rates	**114,177**	**41,802**	**28,482**	**13,750**	**36,590**	**617**	**58,391**	**293,809**
Financial liabilities								
Financial liabilities at fair value through profit or loss	171	221	152	98	11	–	–	**653**
Deposits due to central bank	10,001	–	–	–	–	–	–	**10,001**
Current accounts and deposits due to customers	1,750	5,923	6,269	15,610	17,717	42	146,566	**193,877**
Subordinated liabilities	–	–	–	–	15,791	2,513	–	**18,304**
Short positions of interest rates risk sensitive off-balance items	24,238	21,771	15,399	3,924	–	–	3,426	**68,758**
Total liabilities and short off-balance-sheet positions sensitive to changes in interest rates	**36,160**	**27,915**	**21,820**	**19,632**	**33,519**	**2,555**	**149,992**	**291,593**
Net position as at 31 December 2015	**78,017**	**13,887**	**6,662**	**(5,882)**	**3,071**	**(1,938)**	**(91,601)**	**2,216**
Net position as at 31 December 2014	45,270	(3,790)	1,863	(1,884)	22,095	(1,232)	(63,525)	(1,203)

The amounts in the tables above represent carrying amounts of the financial assets and liabilities as at the reporting date and do not include future interest payments.

Currency analysis

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

'000 EUR	EUR	USD	GBP	RUB	Other	Total
Financial assets						
Cash and due from central banks	23,104	141	29	–	48	**23,322**
Financial assets at fair value through profit or loss	1,541	3,256	688	–	88	**5,573**
Balances due from financial institutions	15,714	56,776	15,476	5,736	432	**94,134**
Loans and advances due from customers	23,309	26,498	2	349	73	**50,231**
Available-for-sale financial assets	8,467	24,327	–	–	–	**32,794**
Held-to-maturity investments	9,027	17,428	–	–	–	**26,455**
Other assets	180	28	–	–	–	**208**
Total financial assets	**81,342**	**128,454**	**16,195**	**6,085**	**641**	**232,717**
Off-balance (SWAP)	**19,470**	**18,170**	**13,701**	**6,745**	**–**	**58,086**
Financial liabilities						
Financial liabilities at fair value through profit or loss	652	1	–	–	–	**653**
Deposits due to central bank	10,001	–	–	–	–	**10,001**
Current accounts and deposits due to customers	62,086	108,546	8,999	12,938	311	**192,880**
Subordinated liabilities	8,470	9,834	–	–	–	**18,304**
Total financial liabilities	**81,209**	**118,381**	**8,999**	**12,938**	**311**	**221,838**
Total Equity and reserves	15,204	–	–	–	–	**15,204**
Total Liabilities and Equity	**96,413**	**118,381**	**8,999**	**12,938**	**311**	**237,042**
Off-balance (SWAP)	**8,088**	**29,016**	**20,951**	**33**	**–**	**58,088**
Net currency balance position as at 31 December 2015	**(15,071)**	**10,073**	**7,196**	**(6,853)**	**330**	**(4,325)**
Net currency position as at 31 December 2015 (balance & off-balance)	**(3,689)**	**(773)**	**(54)**	**(141)**	**330**	**(4,327)**
Net currency balance position as at 31 December 2014	(4,436)	(3)	1,435	9	475	(2,520)
Net currency position as at 31 December 2014 (balance & off-balance)	(2,848)	(198)	(44)	9	475	(2,606)

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

'000 EUR	EUR	USD	GBP	RUB	Other	Total
Financial assets						
Cash and due from central banks	23,104	141	29	–	48	**23,322**
Financial assets at fair value through profit or loss	1,541	3,256	688	–	88	**5,573**
Balances due from financial institutions	15,429	56,744	15,476	5,736	412	**93,797**
Loans and advances due from customers	23,309	26,498	2	349	73	**50,231**
Available-for-sale financial assets	8,467	24,327	–	–	–	**32,794**
Held-to-maturity investments	9,027	17,428	–	–	–	**26,455**
Other financial assets	180	28	–	–	–	**208**
Investments in subsidiaries	1,874	–	–	–	–	**1,874**
Total financial assets	**82,931**	**128,422**	**16,195**	**6,085**	**621**	**234,254**
Off-balance (SWAP)	**19,470**	**18,170**	**13,701**	**6,745**	**–**	**58,086**
Financial liabilities						
Financial liabilities at fair value through profit or loss	652	1	–	–	–	**653**
Deposits due to central bank	10,001	–	–	–	–	**10,001**
Current accounts and deposits due to customers	63,082	108,547	8,999	12,938	311	**193,877**
Subordinated liabilities	8,470	9,834	–	–	–	**18,304**
Total financial liabilities	**82,205**	**118,382**	**8,999**	**12,938**	**311**	**222,835**
Total Equity and reserves	14,828	–	–	–	–	**14,828**
Total Liabilities and Equity	**97,033**	**118,382**	**8,999**	**12,938**	**311**	**237,663**
Off-balance (SWAP)	**8,088**	**29,016**	**20,951**	**33**	**–**	**58,088**
Net currency balance position as at 31 December 2015	**(14,102)**	**10,040**	**7,196**	**(6,853)**	**310**	**(3,409)**
Net currency position as at 31 December 2015	**(2,720)**	**(806)**	**(54)**	**(141)**	**310**	**(3,411)**
Net currency balance position as at 31 December 2014	(5,273)	(114)	1,435	9	463	**(3,480)**
Net currency position as at 31 December 2014 (balance & off-balance)	(3,685)	(309)	(44)	9	463	**(3,566)**

Operational Risk

Operational risk is the risk of incurring losses resulting from inadequate or failed internal processes, which do not comply with the requirements of the external and internal legal regulations, the Bank's employees' and system activities, defects of internal processes, third parties' activities or from other external events as well, including legal risk, but excluding strategic and reputation risk. The aim of the management of the operational risk is to keep the operational risk on the economic reasonable minimum level, to stimulate stability of the Bank's activities and commercial profit in the long term.

The management of the operational risk goes through all the Bank's organizational structure and is realized in each unit of the Bank, that is why the management of the risk is based on overall comprehension of each employee of the Bank on processes he conducts and the risks inherent in these processes (high risk awareness), and on sound risk culture as well. The Bank does not accept operational risks, which exceed the Bank's risk appetite or if the impact of such risks cannot be evaluated in money terms and these risks at the same time are uncontrollable – it is impossible to prevent them or to insure against their consequences irrespective of economic benefit, which could arise from acceptance of such operational risks. In order to mitigate operational risk, the Bank uses the expert assessment method and self-assessment; risk assessment prior launch of new products/ process; implementation of quantitative indicators of operational risk; usage of database of risk events; stress – testing and scenario analysis.

Money Laundering and Terrorism Financing Risk

Money laundering and terrorism financing risk is the risk that the Bank can be involved into money laundering or terrorism financing. The Bank creates internal control system in the field of the ML/TF, observing requirements of the binding regulatory enactments and taking into account the best international practice, in order to prevent the use of financial services of the Bank for the ML/TF, dedicating the respective resources for that purpose and training employees. The Bank identifies each Client and applies due diligence procedures in accordance with a degree of the ML/TF risk of the Client. Depending on the degree of the ML/TF risk, the Bank investigates the nature of personal or economic activity of the Client, origin of funds in accounts held with the Bank and nature of transactions. The special client supervision structural units are established in the Bank that ensure due diligence of the Clients of the Bank prior to establishing business relations, supervision of transactions during business relations as well as exactly and timely performs duties of the Bank stipulated in the law in relations with competent state bodies. The Bank has the modest quantity of clients and it has deep knowledge of each of them which allows minimizing ML/TF risk.

Compliance and Reputation Risk

Compliance and reputation risk is the risk that the Bank is not subject to or in violation of the compliance legislation, losses may occur or may be imposed on the legal obligations or penalties may be applied or may degrade the reputation. The Bank has developed and implemented the "compliance policy" with the aim, of subject to compliance with the requirements in the legislation, to improve the Bank's capabilities and competitive position in the market; to strengthen confidence in the Bank; to protect the Bank's reputation, to lower the cost of capital; to reduce litigation and sanctions enforcement risks. To manage the compliance risk the Bank:

- Has established Compliance committee that has a central role in compliance risk management. Compliance committee evaluates and assesses identified compliance risks, decides on appropriate risks mitigation actions to be taken, monitors efficiency of compliance risks management.
- Keeps track of changes of compliance legislation and implements appropriate changes to internal normative documents of the Bank;
- Actively participates in the Committee of the Association of Latvian commercial banks and FCMC held discussions/workshops on issues that affect the function of the competence of conformity;
- Evaluates the Bank internal normative documents and the lack of practical application;
- Analyzes and compares the performance data to ensure their compliance with certain requirements proactively;
- Analyzes the Bank customers' complaints.

Strategy Risk

Strategy risk is the risk that the changes in the business environment and the Bank's failure to respond to these changes timely, or false/unsubstantiated activities of the Bank's long-term strategy, or the Bank's inability to provide the necessary resources for the implementation of the strategy could adversely affect the Bank's income/expense (and the amount of equity capital). The Bank has developed operational development strategies, the implementation of which is regularly monitored and updated as necessary. The Bank plans its work with a variety of scenarios, including the negative scenarios that reflect the possible impact of adverse external conditions on the Bank's results.

Planning activities within the framework of development, the Bank carries out analysis of the external environment, competitiveness of the Bank, its position in the financial market, Bank's internal business environment, including macroeconomic circumstances, with the purpose to determine the likelihood that an event in a business environment, in which the Bank carries out its activities and/or intends to take action in the future, will have a negative impact on the Bank's ability to achieve its strategic objectives (to implement the strategy) and/or threaten the Bank's future operations. Evaluating and planning the Bank's asset and liability structure is based on results of analysis of selected indicators of development activities and the business environment.

5 CAPITAL MANAGEMENT

The Financial and Capital Market Commission sets and monitors capital requirements for the Bank and the Group.

The Bank and the Group defines as capital those items defined by statutory regulation as capital.

The Bank's and the Group's capital position are calculated in accordance with the requirements of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012. As at 31 December 2015, the individual minimum level for the Bank is set at 20 % (2014:20 %). The Bank was in compliance with the FCMC determined individual capital ratio during the year ended 31 December 2015 and 2014.

The Group's risk based capital adequacy ratio as at 31 December 2015 was 23.62 % (2014: 23.69 %).

The Bank's risk based capital adequacy ratio as at 31 December 2015 was 23.75 % (31 December 2014: 23.92 %).

The Group monitors its capital adequacy levels calculated in accordance with the requirements of the regulations, commonly known as Basel III agreement and its implementing act in Europe, commonly known as CRD IV package.

The following table shows the composition of the Group and the Bank's capital position as at 31 December 2015:

'000 EUR	Group		Bank	
	2015	2014	2015	2014
Tier 1 capital				
Share capital	28,821	27,920	28,821	27,920
Additional paid-in capital	28	28	28	28
Reserves	(519)	(664)	(519)	(664)
Accumulated losses	(13,126)	(15,271)	(13,502)	(15,530)
Reductions of tier 1 capital	(1,179)	(1,232)	(391)	(444)
Total tier 1 capital	**14,025**	**10,781**	**14,437**	**11,310**
Tier 2 capital				
Subordinated liabilities (unamortised portion)	15,594	9,272	15,594	9,272
Total tier 2 capital	**15,594**	**9,272**	**15,594**	**9,272**
Deductions from Tier 1 and Tier 2 capital prescribed by legislation	**–**	**–**	**–**	**–**
Total capital	**29,619**	**20,053**	**30,031**	**20,582**
Capital requirements				
Credit risk requirements	8,565	6,595	8,688	6,724
Market risk requirements	802	132	804	131
Operational risk requirements	666	46	622	30
Capital requirement, which is equal to 25 % of the previous year's fixed costs	–	–	–	–
Total capital requirements	**10,033**	**6,773**	**10,114**	**6,885**
Capital adequacy ratio	**23,62 %**	**23,69 %**	**23,75 %**	**23,92 %**
Tier 1 Capital adequacy ratio	**11,18 %**	**12,73 %**	**11,42 %**	**13,14 %**

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of assets and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The Group is subject to minimum capital adequacy requirements calculated in accordance with the Basel Accord established by covenants under liabilities incurred by the Group. The Group has complied with all externally imposed capital requirements during the years ended 31 December 2015 and 31 December 2014.

6 USE OF ESTIMATES AND JUDGEMENTS

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

Judgements:

(i) Deferred tax asset

The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term financial forecast prepared by management and extrapolated results thereafter. The aforementioned forecasts indicate that the Bank will have sufficient taxable profits in the future periods to realise the recognised deferred tax asset. See Note 27.

Key sources of estimation uncertainty:

(i) Allowances for credit losses

Financial assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy, Note 3.

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon the Bank's management best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function.

The Bank assesses collective impairment allowance for loans and advances due from customers. For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms.

(ii) Impairment of financial instruments

Impairment allowance of financial assets other than loans is described in this section.

The determination of impairment indication is based on comparison of the financial instrument's initial acquisition cost and fair value. The Group uses valuation models based on quoted market prices and prices of similar products or other available information.

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 and changes in the fair value of the financial instrument.

(iii) Impairment of Goodwill

Goodwill is assessed for impairment on an annual basis by discounting estimated future cash flows for the underlying cash generating unit using a discount rate equal to return on equity expected by shareholders. The estimated future cash flows are projected based on historical experience adjusted for expected changes in the business. See Note 23.

(iv) Measurement of fair values

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

The Group has an established control framework with respect to the measurement of fair values.

Where third-party information, such as broker quotes or pricing services, are used to measure fair value, the Bank assesses and documents 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 the that broker or pricing service is approved by the Group 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 uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

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

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

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions and judgments made in measuring fair values is included in Note 36 Fair value of financial instruments.

7 NET INTEREST INCOME

'000 EUR	Group		Bank	
	2015	2014	2015	2014
Interest income				
Interest income arising from financial assets not at fair value through profit or loss				
Balances due from financial institutions	362	204	361	202
Loans and advances due from customers	4,294	1,445	4,294	1,444
Available-for-sale financial assets	1,375	767	1,375	767
Held-to-maturity investments	374	92	374	92
Other interest income	11	–	11	–
Total	**6,416**	**2,508**	**6,415**	**2,505**
Interest expense				
Interest expense recognised on liabilities measured at amortised cost				
Deposits and balances due to central banks	(11)	(8)	(11)	(8)
Current accounts and deposits due to customers	(882)	(412)	(898)	(426)
Subordinated liabilities	(663)	(118)	(663)	(118)
Payments to the deposit guarantee fund and other expenses	(155)	(149)	(155)	(149)
Total	**(1,711)**	**(687)**	**(1,727)**	**(701)**

In the current economic environment the overall effective interest rate on some high quality liquid assets has turned negative. The Group and the Bank are mainly affected by negative interest rates applied on certain balances due from central banks. As the interest resulting from a negative effective interest rate on financial assets reflects an outflow of economic benefits, this is presented as interest expense.

Interest recognized on impaired loans and advances due from customers during the year ended 31 December 2015 amounts to EUR 17 thousand (2014: EUR 0 thousand).

8 FEE AND COMMISSION INCOME

'000 EUR	Group		Bank	
	2015	2014	2015	2014
Asset management and fiduciary services	1,564	1,628	1,236	1,261
Servicing current accounts	1,038	364	1,038	364
Brokerage operations	456	221	456	221
Funding attraction	404	90	404	90
Credit card maintenance	153	35	153	35
Other	58	58	58	58
Total	**3,673**	**2,396**	**3,345**	**2,029**

9 FEE AND COMMISSION EXPENSE

'000 EUR	Group		Bank	
	2015	2014	2015	2014
Asset management and brokerage services	171	93	154	68
Customer attraction	618	69	618	69
Settlements	48	26	48	26
Credit service	167	–	167	–
Other	–	2	–	2
Total	**1,004**	**190**	**987**	**165**

10 NET FOREIGN EXCHANGE INCOME

'000 EUR	Group		Bank	
	2015	2014	2015	2014
Gain from revaluation of financial assets and liabilities	343	61	330	52
Gain on spot transactions and derivatives	558	350	558	350
Total	**901**	**411**	**888**	**402**

11 OTHER INCOME

'000 EUR	Group		Bank	
	2015	2014	2015	2014
Consulting income	77	42	77	42
Rental income	21	59	24	62
Dividends	37	1	37	1
Other income	52	4	11	4
Total	**187**	**106**	**149**	**109**

12 GENERAL ADMINISTRATIVE EXPENSES

'000 EUR	Group		Bank	
	2015	2014	2015	2014
Employee compensation and payroll taxes	3,538	3,020	3,336	2,825
Depreciation and amortisation	361	384	356	377
Communications and information services	188	164	187	162
Payment cards expenses	228	174	228	174
Repairs and maintenance	117	141	117	141
Rent	139	139	139	139
IT service costs	157	96	157	93
Professional services	152	95	148	91
Advertising and marketing	135	28	135	28
Other employee expenses	98	48	98	47
Disposals	–	16	–	13
Other	766	409	737	402
Total	**5,879**	**4,714**	**5,638**	**4,492**

13 IMPAIRMENT LOSS

'000 EUR	Group		Bank	
	2015	2014	2015	2014
Impairment loss				
Loans – individually assessed impairment	157	–	157	–
Loans – collectively assessed impairment	251	–	251	–
Available for sale securities	607	–	607	–
Held-to-maturity securities – individually assessed impairment	173	–	173	
Other non-financial assets	1	–	1	–
Impairment loss	**1,189**	**–**	**1,189**	**–**

14 INCOME TAX BENEFIT

Income tax recognised in the profit or loss

'000 EUR	Group		Bank	
	2015	2014	2015	2014
Deferred tax benefit				
Recognition of unrecognized tax losses carried forward	1,106	113	1,127	–
Total income tax benefit recognised in profit or loss	**1,106**	**113**	**1,127**	**–**

Reconciliation of effective tax rate:

'000 EUR	Group		Bank	
	2015	2014	2015	2014
Profit/(loss) before income tax	**1,039**	**40**	**901**	**(103)**
Theoretically calculated tax at tax rate of 15 %	156	6	135	(15)
Tax effect of:				
Non-deductible costs	184	15	184	15
Non-taxable income	(315)	(101)	(294)	(101)
Change in unrecognised deferred tax assets	(1,131)	(33)	1,152	101
Income tax benefit	**(1,106)**	**(113)**	**(1,127)**	**–**

15 CASH AND CASH EQUIVALENTS

Cash and cash equivalents at the end of the financial year as shown in the statement of cash flows are composed of the following items:

'000 EUR	Group		Bank	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Cash	375	233	375	233
Balances due from central banks	22,947	73	22,947	73
Subtotal	**23,322**	**306**	**23,322**	**306**
Demand deposit due from financial institutions	52,431	37,552	52,094	37,415
Total	**75,753**	**37,858**	**75,416**	**37,721**

Deposits with the Bank of Latvia represent the balance outstanding on correspondent account in EUR.

16 FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

'000 EUR	Group		Bank	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Debt fixed-income investments				
Government bonds*	688	–	688	–
Corporate bonds*	3,017	–	3,017	–
Equity investments				
Corporate shares*	1,141	618	1,141	618
Derivative financial instruments				
Foreign currency contracts	727	185	727	185
	5,573	**803**	**5,573**	**803**
Liabilities				
Derivative financial instruments				
Foreign currency contracts and forward agreements	653	377	653	377
	653	**377**	**653**	**377**

* held for trading

Included in financial assets and financial liabilities at fair value through profit or loss at 31 December 2015 are EUR 5 573 thousand (2014: EUR 803 thousand) and EUR 653 thousand (2014: EUR 377 thousand) respectively which are classified as held for trading.

17 BALANCES DUE FROM FINANCIAL INSTITUTIONS

'000 EUR	Group		Bank	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Not impaired or past due				
Nostro accounts				
Latvian commercial banks	19,888	12,275	19,551	12,138
OECD banks[1]	29,087	23,161	29,087	23,161
Non-OECD banks	3,456	2,116	3,456	2,116
Credit ratings[2]				
Rated A- and above	13,456	23,298	13,456	23,161
Rated from BBB- to BBB+	15,631	–	15,631	–
Rated from BB- to BB+	3,355	1,871	3,355	1,871
Rated not below B+	2,645	2,957	2,645	2,957
Not rated	17,344	9,426	17,007	9,426
Credit ratings of parent entities[3]				
Rated A- and above	29,479	32,481	29,142	32,344
Rated from BBB- to BBB+	15,631	–	15,631	–
Rated from BB- to BB+	3,355	1,871	3,355	1,871
Rated B+ and below	2,645	2,957	2,645	2,957
Not rated	1,321	243	1,321	243
Total nostro accounts	**52,431**	**37,552**	**52,094**	**37,415**
Loans and deposits				
Latvian commercial banks	8,960	11,159	8,960	10,859
OECD banks[4]	31,574	22,104	31,574	22,104
Non-OECD banks	1,169	1,266	1,169	1,266
Credit ratings[1]				
Rated A- and above	15,618	11,010	15,618	10,710
Rated from BBB- to BBB+	14,241	11,119	14,241	11,119
Rated from BB- to BB+	–	429	–	429
Rated B+ and below	933	837	933	837
Not rated	10,911	11,134	10,911	11,134
Credit ratings of parent entities[2]				
Rated A- and above	24,578	21,869	24,578	21,569
Rated from BBB- to BBB+	14,241	11,119	14,241	11,119
Rated from BB- to BB+	–	429	–	429
Rated B+ and below	933	837	933	837
Not rated	1,951	275	1,951	275
Total loans and deposits not impaired	**41,703**	**34,529**	**41,703**	**34,229**
Total	**94,134**	**72,081**	**93,797**	**71,644**

As at 31 December 2015 and 2014 the Group and Bank no impairment was made for balances due from financial institutions.

1 Nostro accounts held with OECD banks include balances with 5 counterparties (31 December 2014: 9) none of which exceed 20 % (31 December 2014: 25 %) of the total nostro account balance. The respective counterparties do not have credit ratings lower than BBB (31 December 2014: A-) as at 31 December 2015.

2 Balances due from financial institutions are classified by average credit rating from three international rating agencies: Moody's Investors Service, Standard & Poor's, Fitch Ratings.

3 Classification is based on credit ratings of parental banks for Latvian commercial bank: "Swedbank" AS.

4 Loans and deposits held with OECD banks include balances with 4 financial institutions (31 December 2014: 3) none of which individually exceeds 35 % (31 December 2014: 50 %) of the total loans and deposits balance. As at 31 December 2015 the respective financial institutions do not have credit ratings lower than BBB (31 December 2014: BBB+) The financial institution, whose credit rating is not available, is registered and operates in the EU.

Concentration of placements with banks and other financial institutions

As at 31 December 2015 and 2014 the Group and the Bank had a number of due from balances with banks and financial institutions that individually exceeded 10 % of the total balances due from financial institutions. As of 31 December 2015 and 2014 none of these balances individually exceeded 17 % and 16 % respectively. The gross value of these due from balances as of 31 December 2015 was EUR 52 305 thousand (31 December 2014: EUR 51 691 thousand) and it included four banks (31 December 2014: 5) with the credit rating not lower than BBB (31 December 2014: BBB).

18 LOANS AND ADVANCES DUE FROM CUSTOMERS

Breakdown of loans issued by the Group and the Bank by customer type:

'000 EUR	Group		Bank	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Private individuals	23,611	23,965	23,611	23,965
Corporate companies	25,139	11,408	25,139	11,408
Financial auxiliaries and other financial intermediaries	1,748	1,329	1,748	1,329
Loans and advances due from customers	**50,498**	**36,702**	**50,498**	**36,702**
Impairment allowance	(267)	–	(267)	–
Loans and advances due from customers, net	**50,231**	**36,702**	**50,231**	**36,702**

In 2015 the Bank acquired a part of its loan portfolio from a related party on basis of assignment agreements in the total amount of EUR 1,4 million (2014: EUR 11,3 million). As at the reporting date no delays in payments and no other indications of impairment of quality of the acquired loans were observed.

In 2015 the Bank disposed a part of its loan portfolio to a related party on basis of assignment agreements in the total amount of EUR 4,3 million (2014: EUR 0). The transaction did not have material impact on the Bank's comprehensive income for the year 2015.

Analysis of changes in impairment allowance of the Group and the Bank:

'000 EUR	Allowance
Impairment allowance as of 31 Dec 2014	–
Individually assessed impairment charge	157
Collectively assessed impairment charge	251
Write-off	(141)
Impairment allowance as of 31 Dec 2015	**267**

As at 31 December 2015 and 2014 loans and advances due from customers balance included one restructured loan in total amount of EUR 2 249 thousand and EUR 3 460 thousand respectively. The loan was restructured in 2014. In 2015 the respective Borrower made all payments according to the loan agreement.

As at 31 December 2014 no impairment indications had been identified and none of the loans was past due. In 2014 the Bank had not made impairment allowances for loans to customers.

Breakdown of loans issued by the Group and the Bank by loan category:

'000 EUR	Group		Bank	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Mortgage loans	24,270	27,620	24,270	27,620
Reverse repo	8,465	3,949	8,465	3,949
Business loans	5,614	–	5,614	–
Utilised credit lines	6,879	3,779	6,879	3,779
Other	1,775	1,329	1,775	1,329
Consumer loans	3,495	25	3,495	25
Loans and advances due from customers	**50,498**	**36,702**	**50,498**	**36,702**
Impairment allowance	(267)	–	(267)	–
Loans and advances due from customers, net	**50,231**	**36,702**	**50,231**	**36,702**

Geographical analysis of the loan portfolio

'000 EUR	Group		Bank	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Latvia	1,910	1,007	1,910	1,007
Russia	37,620	31,344	37,620	31,344
OECD countries	4,968	2,596	4,968	2,596
Other countries	6,000	1,755	6,000	1,755
Loans and advances due from customers	**50,498**	**36,702**	**50,498**	**36,702**
Impairment allowance	(267)	–	(267)	–
Loans and advances due from customers, net	**50,231**	**36,702**	**50,231**	**36,702**

Geographic split of Borrowers' credit risk is based on the country of origin of their projected cash flows used for loan repayment.

Significant credit exposures

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

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

19 AVAILABLE-FOR-SALE FINANCIAL ASSETS

'000 EUR	Group		Bank	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Debt and other fixed-income instruments				
– Government and municipal bonds				
Latvia	4,190	3,626	4,190	3,626
European Union	8,411	7,612	8,411	7,612
Other countries	761	–	761	–
Total government and municipal bonds	**13,362**	**11,238**	**13,362**	**11,238**
– Corporate bonds				
Latvia	–	1,010	–	1,010
European Union and EEA	15,769	3,935	15,769	3,935
Russia	–	2,372	–	2,372
Other countries	3,019	2,643	3,019	2,643
Total corporate bonds	**18,788**	**9,960**	**18,788**	**9,960**
Total debt and other fixed-income instruments	**32,150**	**21,198**	**32,150**	**21,198**
Government and municipal bonds[5]				
Rated from AAA- to AAA+	916	822	916	822
Rated from AA- to AA+	4,627	–	4,627	–
Rated A- and above	5,182	6,461	5,182	6,461
Rated from BBB- to BBB+	1,876	2,219	1,876	2,219
Rated from BB- to BB+	761	1,736	761	1,736
Total government and municipal bonds	**13,362**	**11,238**	**13,362**	**11,238**
Corporate bonds				
Rated from AAA- to AAA+	1,840	–	1,840	–
Rated from BBB- to BBB+	6,423	459	6,423	459
Rated from BB- to BB+	2,112	4,122	2,112	4,122
Rated B+ and below	2,550	2,533	2,550	2,533
Not rated	5,863	2,846	5,863	2,846
Total corporate bonds	**18,788**	**9,960**	**18,788**	**9,960**
Total debt and other fixed-income instruments	**32,150**	**21,198**	**32,150**	**21,198**
Non-fixed income investments				
Investment funds	644	1,101	644	1,101
Total non-fixed income investments	**644**	**1,101**	**644**	**1,101**
Total Available-for-sale financial assets	**32,794**	**22,299**	**32,794**	**22,299**

5 Available-for-sale financial assets are classified by average credit rating from three international rating agencies: Moody's Investors Service, Standard & Poor's, Fitch Ratings.

20 HELD-TO-MATURITY INVESTMENTS

'000 EUR	Group		Bank	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Debt and other fixed-income instruments				
– Government and municipal bonds				
Latvia	972	900	972	900
European Union	17,068	13,343	17,068	13,343
Total government and municipal bonds	**18,040**	**14,243**	**18,040**	**14,243**
– Corporate bonds				
European Union and EEA	7,243	1,814	7,243	1,814
Other countries	1,343	830	1,343	830
Total corporate bonds	**8,586**	**2,644**	**8,586**	**2,644**
Total debt and other fixed-income instruments	**26,626**	**16,887**	**26,626**	**16,887**
Debt and other fixed-income instruments				
– Government and municipal bonds[6]				
Rated from AAA- to AAA+	6,446	4,126	6,446	4,126
Rated A- and above	6,048	4,915	6,048	4,915
Rated from BBB- to BBB+	5,139	4,262	5,139	4,262
Rated from BB- to BB+	407	940	407	940
Total government and municipal bonds	**18,040**	**14,243**	**18,040**	**14,243**
– Corporate bonds				
Rated from AAA- to AAA+	4,608	–	4,608	–
Rated A- and above	633	653	633	653
Rated from BBB- to BBB+	520	538	520	538
Rated from BB- to BB+	1,488	1,035	1,488	1,035
Rated B+ and below	413	–	413	–
Not rated	924	418	924	418
Total corporate bonds	**8,586**	**2,644**	**8,586**	**2,644**
Total debt and other fixed-income instruments	**26,626**	**16,887**	**26,626**	**16,887**
Impairment allowance	(171)	–	(171)	–
Total debt and other fixed-income instruments, net	**26,455**	**16,887**	**26,455**	**16,887**

Geographical allocation is based on countries of principal entities.

Analysis of changes in impairment allowances of the Group and the Bank:

'000 EUR	Allowances
Allowance as of 31 Dec 2014[7]	–
Individually assessed impairment charge	171
Allowances as of 31 Dec 2015	171

6 Held-to-maturity investments are classified by average credit rating from three international rating agencies: Moody's Investors Service, Standard & Poor's, Fitch Ratings.

7 In 2014 the Bank and the Group did not create any impairment allowance for held to maturity financial instruments.

Reclassifications out of available-for-sale investment securities

On January 2015, the Group and the Bank reclassified certain available-for-sale investment securities to held-to-maturity investments.

The reclassifications were made with effect from January 2015 at fair value at that date. The table below sets out the Group's and Bank's the financial assets reclassified and their carrying values.

'000 EUR	Amounts reclassified	31 Dec 2015 Fair value
Available-for-sale investment securities to held-to-maturity investments	1,591	1,689

In 2015 the total amount amortised and transferred from the revaluation reserve of available-for-sale financial assets to profit or loss in relation to the reclassified securities was EUR 67 thousand (2014: EUR 0 thousand).

21 INVESTMENT IN SUBSIDIARY

'000 EUR	31 Dec 2015	31 Dec 2014
Investments in "M2M Asset Management" IPAS	1,874	1,874

	"M2M Asset Management" IPAS
Main activity	Financial services
Country of incorporation	Latvia
Address	3 Antonijas street, Riga LV-1010, Latvia
Ownership interest	
31 December 2014	100 %
31 December 2015	100 %

'000 EUR	31 Dec 2015	31 Dec 2014
Non-current assets	6	9
Current assets	1,483	1,364
Current liabilities	(28)	(28)
Net assets	**1,461**	**1,345**
Group share in net assets	**100 %**	**100 %**
	For year 2015	**For year 2014**
Income	381	368
Expenses	(244)	(224)
Income tax benefit	(21)	113
Profit or loss	116	257
Group share in profit or loss	**100 %**	**100 %**
Carrying amount	**1,874**	**1,874**

During the year ended 31 December 2015 and 2014 the Group did not receive dividends from investment in subsidiary. Impairment assessment estimate of the investment in the Subsidiary is disclosed in Note 23.

22 PROPERTY AND EQUIPMENT

Group '000 EUR	Leasehold improvements	Other	Total
Cost			
At 1 January 2015	1,892	680	2,572
Additions	438	501	939
At 31 December 2015	**2,330**	**1,181**	**3,511**
Depreciation			
At 1 January 2015	451	456	907
Depreciation charge	120	134	254
At 31 December 2015	**571**	**590**	**1,161**
Carrying value			
At 31 December 2015	**1,759**	**591**	**2,350**
Cost			
At 1 January 2014	1,892	671	2,563
Additions	–	46	46
Disposals	–	(37)	(37)
At 31 December 2014	**1,892**	**680**	**2,572**
Depreciation			
At 1 January 2014	344	344	688
Depreciation charge	107	135	242
Disposals	–	(23)	(23)
At 31 December 2014	**451**	**456**	**907**
Carrying value			
At 31 December 2014	**1,441**	**224**	**1,665**
At 31 December 2013	1,548	327	1,875

22 PROPERTY AND EQUIPMENT (CONTINUED)

Bank '000 EUR	Leasehold improvements	Other	Total
Cost			
At 1 January 2015	1,892	649	2,541
Additions	438	499	937
At 31 December 2015	**2,330**	**1,148**	**3,478**
Depreciation			
At 1 January 2015	451	434	885
Depreciation charge	120	129	249
At 31 December 2015	**571**	**563**	**1,134**
Carrying value			
At 31 December 2015	**1,759**	**585**	**2,344**
Cost			
At 1 January 2014	1,892	637	2,529
Additions	–	46	46
Disposals	–	(34)	(34)
At 31 December 2014	**1,892**	**649**	**2,541**
Depreciation			
At 1 January 2014	344	327	671
Depreciation charge	107	128	235
Disposals	–	(21)	(21)
At 31 December 2014	**451**	**434**	**885**
Carrying value			
At 31 December 2014	**1,441**	**215**	**1,656**
At 31 December 2013	1,548	310	1,858

23 GOODWILL AND OTHER INTANGIBLE ASSETS

Group '000 EUR	Goodwill	Software	Other	Total
Cost				
At 1 January 2015	788	450	154	1,392
Additions	–	38	16	54
At 31 December 2015	**788**	**488**	**170**	**1,446**
Amortisation				
At 1 January 2015	–	108	52	160
Amortisation charge	–	91	16	107
At 31 December 2015	**–**	**199**	**68**	**267**
Carrying value				
At 31 December 2015	**788**	**289**	**102**	**1,179**
At 31 December 2014	788	342	102	1,232
Cost				
At 1 January 2014	788	450	85	1,323
Additions	–	–	69	69
At 31 December 2014	**788**	**450**	**154**	**1,392**
Amortisation				
At 1 January 2014	–	16	2	18
Amortisation charge	–	92	50	142
At 31 December 2014	**–**	**108**	**52**	**160**
Carrying value				
At 31 December 2014	**788**	**342**	**102**	**1,232**
At 31 December 2013	788	434	83	1,305

23 GOODWILL AND OTHER INTANGIBLE ASSETS (CONTINUED)

Bank '000 EUR	Software	Other	Total
Cost			
At 1 January 2015	450	154	604
Additions	38	16	54
At 31 December 2015	**488**	**170**	**658**
Amortisation			
At 1 January 2015	108	52	160
Amortisation charge	91	16	107
At 31 December 2015	**199**	**68**	**267**
Carrying value			
At 31 December 2015	**289**	**102**	**391**
At 31 December 2014	342	102	444
Cost			
At 1 January 2014	450	85	535
Additions	–	69	69
At 31 December 2014	**450**	**154**	**604**
Amortisation			
At 1 January 2014	16	2	18
Amortisation charge	92	50	142
At 31 December 2014	**108**	**52**	**160**
Carrying value			
At 31 December 2014	**342**	**102**	**444**
At 31 December 2013	434	83	517

In 2015 the Bank did not adjust the provisional goodwill amount that was recognized at the acquisition date.

Goodwill was recognized as a result of the acquisition of a subsidiary in 2013. At the end of each reporting year, the Bank's management assesses goodwill for impairment by comparing the carrying amounts of the underlying cash generating units, including the allocated goodwill, with their recoverable amounts. The subsidiary is considered to be CGU (Cash generating unit). As at 31 December 2015 no impairment of the CGU was identified.

The valuation was based on a Discounted Dividend Model. The profit after tax is assumed to be a proxy for free cash flows available for distribution to owners that is assumed to be paid out as dividends.

The discount rate, Cost of Equity, is calculated to be 12.04 % (2014: 14.41 %) based on the following: CoE[1] = Rf[2] + Rp[3] x Beta[4] + α[5], where

- [2] Rf: Risk free rate – Latvian government bonds with the maturity approximately 10 years – 1.08 % (2014: Latvian government bonds with the maturity approximately 10 years – 2.625 %)
- [3] Rp = 5.75 % (2014: 6.85 %).
- [4] Beta of 0.86 assumed (2014: 0.84).
- [5] α – percentage represents approximate actual return increase relatively to return rate forecasted using capital asset pricing model – 6.01 % (2014: 6.03 %)

The NPV (Net Present Value) consists of two components:

- The NPV of the dividends in the explicit period 2015E-2020E.
- The terminal value from 2020E and onwards (based on 2 % terminal growth assumption (2014: 2 %)).

23 GOODWILL AND OTHER INTANGIBLE ASSETS (CONTINUED)

Sensitivity analysis has been performed to test impact on each of the tree scenarios from change in cumulative aggregate growth rate (CAGR) and discount rate:

- Base case scenario is based on income growth rate assumption in 2016 and 2020 amounting to 13 %-57 % annually (CAGR: 30 %) because of a low starting base. The highest growth (57 %) planned during 2018-2019 when the Group plans to launch all investment products which are foreseen in the subsidiary's strategy and when sale channels will be established. Then income growth rate is going to stabilize (36 % per year) in 2020. Based on this assumption the forecast of future free cash inflow is 1.7 mln.EUR over the next 5 years.
- Negative scenario is based on zero income growth rate (CAGR: 0 %) and assumption that income remains at the level of 2015. Based on this assumption the forecast of future free cash inflow is 0.3 mln.EUR over the next 5 years.
- Positive scenario is based on an assumption that income grows at an annual rate of 67 % during 2016-2017 and 40 % during 2018-2020 (CAGR: 48 %). Based on this assumption free cash inflow would be 3.0 mln.EUR over the next 5 years.

Sensitivity analysis shows that the cost of capital assumptions and CAGR (cumulative average growth ratio) assumptions are the most critical factors in determining the need for impairment of goodwill. The table below presents sensitivity of free cash inflows to cost of capital changes using relevant CAGR in each of the tree scenarios. This sensitivity analysis demonstrates that no impairment is required at reporting date.

Sensitivity	Scenario	CAGR	The discount rate		
			10 %	12.04 %	20 %
Net present value, 000 EUR	Base case	30 %	8,670	6,904	3,933
Net present value, 000 EUR	Negative	0 %	1,961	1,835	1,616
Net present value, 000 EUR	Positive	48 %	16,932	13,122	7,852

Impairment loss would be incurred in negative scenario for 12.04 % and 20 % discount rates (EUR 39 thousand and EUR 258 thousand respectively).

24 OTHER ASSETS

'000 EUR	Group		Bank	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Other financial assets				
Receivables from brokers	–	181	–	181
Settlement of payment cards	208	164	208	164
Other financial assets	**208**	**345**	**208**	**345**
Other non-financial assets				
Prepayments	170	553	170	553
Accrued income	257	61	220	30
Settlement of tax	18	38	16	38
Other	46	86	22	85
Impairment allowance	(1)	–	(1)	–
Other non-financial assets	**490**	**738**	**427**	**706**
Total other assets	**698**	**1,083**	**635**	**1,051**

25 CURRENT ACCOUNTS AND DEPOSITS DUE TO CUSTOMERS

'000 EUR	Group		Bank	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Current accounts and demand deposits	**146,295**	**106,161**	**146,564**	**106,271**
- Private individuals	62,774	29,155	62,774	29,155
- Corporates	83,521	77,006	83,790	77,116
Term deposits	**46,585**	**23,829**	**47,313**	**24,501**
- Private individuals	15,638	11,924	15,638	11,925
- Corporates	30,947	11,905	31,675	12,576
Total current accounts and demand deposits	**192,880**	**129,990**	**193,877**	**130,772**

Concentrations of current accounts and customer deposits

As of 31 December 2015, the Group and Bank had one customer, whose balance exceeded 10 % of total customer accounts. The value of this balance was EUR 29 050 thousand.

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

26 SUBORDINATED LIABILITIES

'000 EUR	Group		Bank	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Subordinated borrowings				
– Private individuals	13,304	9,563	13,304	9,563
– Corporates	5,000	–	5,000	–
Total Subordinated borrowings	**18,304**	**9,563**	**18,304**	**9,563**

Subordinated borrowings have a fixed term of at least five years at their origination, and are repayable before maturity only on winding up of the Bank. In the event of the winding-up of the Bank these borrowings will be subordinated to the claims of depositors and all other creditors of the Bank.

Concentrations of subordinated borrowings

As of 31 December 2015, the Group and Bank had two subordinated borrowing agreements, whose balance exceeded 10 % of the total subordinated borrowings.

Customer	Currency	Issue size '000	Interest rate	Original agreement date	Maturity date	Carrying amount '000 EUR	
						31.12.2015	31.12.2014
Private individual – non-resident	USD	6,000	5 %	09.12.2014	09.12.2019	5,511	4,942
Private individual – non-resident	EUR	5,000	5.2635 %	24.08.2015	24.08.2020	5,000	–

As of 31 December 2014, the Group and Bank had one subordinated borrowing agreement, whose balance exceeded 10 % of the total subordinated borrowings.

Customer	Currency	Issue size '000	Interest rate	Original agreement date	Maturity date	Carrying amount '000 EUR	
						31.12.2014	31.12.2013
Private individual – non-resident	USD	6,000	5 %	09.12.2014	09.12.2019	4,942	–

27 DEFERRED TAX ASSET AND LIABILITY

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. These deferred tax assets have been recognised in these consolidated financial statements.

Movement in temporary differences during the year ended 31 December 2015 of the Group:

'000 EUR	Net balance 1 January 2015	Recognised in profit or loss	Net balance 31 December 2015	31 December 2015	
				Deferred tax asset	Deferred tax liability
Deferred Holiday Pay and bonuses	23	23	46	46	–
Property and equipment and intangible assets	(143)	64	(79)	–	(79)
Impairment of non-financial assets	10	(10)	–	–	–
Tax loss carry-forwards	223	1,029	1,252	1,252	–
Deferred tax assets/(liabilities) before set-off	**113**	**1,106**	**1,219**	**1,298**	**(79)**
Set off of tax				(79)	79
Net deferred tax assets				**1,219**	**–**

Movement in temporary differences during the year ended 31 December 2014 of the Group:

'000 EUR	Net balance 1 January 2014	Recognised in profit or loss	Net balance 31 December 2014	31 December 2014	
				Deferred tax asset	Deferred tax liability
Deferred Holiday Pay and bonuses	12	11	23	23	–
Property and equipment and intangible assets	(32)	(111)	(143)	–	(143)
Impairment of non-financial assets	10	–	10	10	–
Tax loss carry-forwards	10	213	223	223	–
Deferred tax assets/(liabilities) before set-off	**–**	**113**	**113**	**256**	**(143)**
Set off of tax				(143)	143
Net deferred tax assets				**113**	**–**

Movement in temporary differences during the year ended 31 December 2015 of the Bank:

'000 EUR	Net balance 1 January 2015	Recognised in profit or loss	Net balance 31 December 2015	31 December 2015	
				Deferred tax asset	Deferred tax liability
Deferred Holiday Pay and bonuses	20	23	43	43	–
Property and equipment and intangible assets	(140)	63	(77)	–	(77)
Impairment of non-financial assets	10	(10)	–	–	–
Tax loss carry-forwards	110	1,051	1,161	1,161	–
Deferred tax assets/(liabilities) before set-off	**–**	**1,127**	**1,127**	**1,204**	**(77)**
Set off of tax				(77)	77
Net deferred tax assets				**1,127**	**–**

Movement in temporary differences during the year ended 31 December 2014 of the Bank:

'000 EUR	Net balance 1 January 2014	Recognised in profit or loss	Net balance 31 December 2014	31 December 2014	
				Deferred tax asset	Deferred tax liability
Deferred Holiday Pay and bonuses	10	10	20	20	–
Property and equipment and intangible assets	(30)	(110)	(140)	–	(140)
Impairment of non-financial assets	10	–	10	10	–
Tax loss carry-forwards	10	100	110	110	–
Deferred tax assets/(liabilities) before set-off	**–**	**–**	**–**	**140**	**(140)**
Set off of tax				(140)	140
Net deferred tax assets				**–**	**–**

Unrecognised deferred tax asset

Deferred tax asset of the Bank on tax losses carried forward of EUR 1 127 thousand (2014: EUR 110) has been recognised, because it is considered to be probable that future taxable profits generated by the Bank will be available.

Deferred tax asset that originates from unused tax losses was not recognised in full, given the uncertainty of its use in the future. Unused tax losses were EUR 20,166 thousand as at 31 December 2015, of which EUR 7,945 thousand was used to determine the amount of deferred tax asset to be recognised based on the Bank's projected earnings over the next three years in accordance with its strategic plan.

Deferred tax asset of the subsidiary on tax profit carried forward of EUR 92 thousand (2014: EUR 113 thousand) have been recognised, because it is probable that future taxable profit will be available against which the Group can use the benefits there from.

28 PROVISIONS AND CONTINGENT LIABILITIES

In the ordinary course of business, the Group and the Bank are subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints, will not have a material adverse effect on the financial statements.

29 OTHER LIABILITIES

'000 EUR	Group		Bank	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Accrued expenses	415	218	412	216
Suspense liabilities	30	484	30	484
Deferred income	183	352	183	352
Provision for employee vacations	220	132	197	115
Other	65	42	58	33
Total other liabilities	**913**	**1,228**	**880**	**1,200**

30 SHARE CAPITAL

Issued capital and share premium

'000 EUR	31.12.2015		31.12.2014	
	Number of shares	EUR	Number of shares	EUR
Authorised share capital as of 1 January	470,288	32,920,160	398,859	27,920,130
Issued an fully paid share capital as of 1 January	398,859	27,920,130	398,859	27,920,130
Cancelled share placement	(71,429)	(5,000,030)	–	–
Private placement of shares	12,865	900,550	–	–
Authorised share capital as of 31 December	411,724	28,820,680	398,859	27,920,130
Issued an fully paid share capital as of 31 December	**411,724**	**28,820,680**	**398,859**	**27,920,130**

In 2014 the sole shareholder of Bank M2M Europe AS decided to increase the share capital of the Bank through a closed issue of new shares. During 2014 due to the Bank's dynamic development the Bank's capital was strengthened through increasing the tier 2 capital of the Bank and attracting subordinated deposits. The amount of attracted subordinated deposits significantly exceeded the planned amount therefore the closed issue of new shares was no longer of essence and as such was acknowledged as null and void.

The Bank's share capital consists of ordinary shares with voting rights and a par value of 70 EUR.

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

Name	31.12.2015			31.12.2014		
	Number of shares	Paid share capital (EUR)	Share capital ownership %	Number of shares	Paid share capital (EUR)	Share capital ownership %
Andrey Vdovin	387,003	27,090,210	94,00 %	398,859	27,920,130	100 %
Roberts Idelsons	22,571	1,579,970	5,48 %	–	–	–
Arseniy Vdovin	2,150	150,500	0,52 %	–	–	–
Total	**411,724**	**28,820,680**	**100 %**	**398,859**	**27,920,130**	**100 %**

There have been changes in ownership in the reporting period.

An increase in share capital was registered in October 2015. The new issue of 2 150 shares with nominal value of EUR 150 500 was paid by the new shareholder Arseniy Vdovin.

In December 2015 Roberts Idelsons purchased 22 571 shares with nominal value of EUR 1 579 970 from Andrey Vdovin.

Reserves

Other reserves represent residual interest of shareholders and can be distributed to them.

31 OPERATING LEASES

'000 EUR	Group		Bank	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Less than one year	139	139	139	139
Between one and five years	555	555	555	555
More than five years	1,017	1,156	1,017	1,156
Total operating leases	**1,711**	**1,850**	**1,711**	**1,850**

The Bank leases its headquarters under operating lease. The lease runs for an initial period of fifteen years, with an option to renew the lease after that date. Lease payments are fixed. None of the leases includes contingent rentals.

The Bank has invested additional EUR 438 thousand in leasehold improvement in the reporting period.

During the current year EUR 139 thousand was recognised as an expense in the profit or loss statement in respect of operating leases (2014: EUR 139 thousand).

32 ASSETS UNDER MANAGEMENT

Asset management services

The Group through its Subsidiary provides asset management services to individuals and institutions. The Group receives management fee for providing these services. The assets under management of the Subsidiary are not included in neither the consolidated and nor separate statement of financial position.

As of 31 December 2015 the Group had EUR 181 149 thousand (2014: EUR 187 957 thousand) assets under management of which the Bank held EUR 126 129 (2014: EUR 119 286 thousand) thousand and the Subsidiary held EUR 55 020 thousand (2014: EUR 68 671 thousand).

Custody activities

The Group and the Bank provides custody services to its customers, whereby it holds securities on behalf of customers and receives fee income for providing these services. These securities are neither assets of the Group, nor the Bank and are not recognized in the consolidated and separate statements of financial position. As of 31 December 2015 the total amount in custody on behalf of customers was EUR 148 345 thousand (2014: EUR 144 114 thousand).

33 RELATED PARTY TRANSACTIONS

Transactions with members of the Board of Directors and the Management Board

Total remuneration included in employee compensation (refer Note 12):

'000 EUR	Group		Bank	
	2015	2014	2015	2014
Remuneration to the management	611	666	517	573

The outstanding balances as of 31 December 2015 and 31 December 2014 with members of the Management Board are as follows:

'000 EUR	2015	2014
Statement of financial position		
Assets		
Other assets	11	6
Liabilities		
Current accounts	46	51

Transactions with related parties of the Bank

The outstanding balances as of 31 December 2015 and as of 31 December 2014 and related profit or loss amounts of transactions for the year ended 31 December 2015 and 31 December 2014 with other related parties are as follows.

'000 EUR	2015			2014		
	Subsidiary company	Other	Total	Subsidiary company	Other	Total
Statement of financial position						
Assets						
Balances due from financial institutions	–	337	337	–	245	245
Financial assets at fair value through profit or loss	–	25	25	–	–	–
Total assets	**–**	**362**	**362**	**–**	**245**	**245**
Liabilities						
Current accounts and deposits due to customers	996	1,156	2,152	782	1,088	1,870
Payables for services	–	51	51	–	–	–
Total liabilities	**996**	**1,207**	**2,203**	**782**	**1,088**	**1,870**
Income/(expenses)						
Fee and commission income/(expenses)	–	(504)	(504)	–	61	61
Interest income/(expenses)	(16)	7	(9)	(15)	49	34
Trade and financial instruments revaluation	–	470	470	–	162	162

The subsidiary has no other related party transactions than those with the Bank. Therefore, transactions with related parties of the Group are not disclosed separately.

34 FINANCIAL ASSETS PLEDGED

'000 EUR	Group		Bank	
	2015	2014	2015	2014
Short term deposits with credit institutions	236	150	236	150
Other deposits with financial institutions	537	293	537	293
Held-to-maturity investments *	13,045	–	13,045	–
Total financial assets pledged	**13,818**	**443**	**13,818**	**443**
Total liabilities secured by pledged financial assets *	**10,001**	**–**	**10,001**	**–**

* Pledged due to central bank (TLTRO deal)

All pledged amounts consist of several placements to secure various Bank's and Group's transactions in the ordinary course of business.

35 COMMITMENTS AND GUARANTEES

As part of lending operations the Bank has outstanding commitments to extend credit. These commitments take the form of approved loans, credit card limits and overdraft facilities. The Bank provides financial guarantees of the performance of customers to third parties. The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for guarantees represent the maximum credit exposure that would be recognised at the reporting date if counterparties failed completely to perform as contracted. The total outstanding contractual commitments to extend credit indicated above does not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

'000 EUR	Group		Bank	
	2015	2014	2015	2014
Contracted amount				
Loan commitments	3,766	2,863	3,766	2,863
Outstanding guarantees	3,521	4,297	3,521	4,297
Unutilised credit line	2,731	5,459	2,731	5,459
Undrawn overdraft facilities	653	480	653	480
Total commitments and guarantees	**10,671**	**13,099**	**10,671**	**13,099**

36 FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments measured at fair value

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

	'000 EUR			
	Level 1	Level 2	Level 3	Total
31.12.2015				
Financial assets				
Financial assets at fair value through profit or loss	4,761	727	85	5,573
Available for sale instruments	25,427	1,113	6,254	32,794
	30,188	**1,840**	**6,339**	**38,367**
Financial liabilities				
Financial liabilities at fair value through profit or loss	–	653	–	653
	–	**653**	**–**	**653**
31.12.2014				
Financial assets				
Financial assets at fair value through profit or loss	–	803	–	803
Available for sale instruments	19,214	1,464	1,621	22,299
	19,214	**2,267**	**1,621**	**23,102**
Financial liabilities				
Financial liabilities at fair value through profit or loss	–	275	102	377
	–	**275**	**102**	**377**

36 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table shows reconciliation from the opening balances to the closing balances for fair value measurements in Level 3 of the fair value hierarchy:

'000 EUR	Financial assets at fair value through profit or loss	Available for sale instruments	Financial liabilities at fair value through profit or loss	Total
Balance at 1 Jan 2015	**–**	**1,621**	**102**	**1,723**
Total gains and losses:				
in profit or loss	–	(695)	32	(313)
in OCI	–	146	–	146
Purchases	–	8,711	–	8,711
Reclassified form Held to maturity financial instruments	–	(1,591)	–	(1,591)
Settlements	–	(1,938)	(134)	(2,422)
Balance at 31 Dec 2015	**–**	**6,254**	**–**	**6,254**

Total gains or losses for the year in the above table are presented in the statement of comprehensive income as follows:

'000 EUR	Financial assets at fair value through profit or loss	Available for sale instruments	Financial liabilities at fair value through profit or loss	Total
Total gains and losses included in profit or loss:	**–**	**34**	**–**	**34**
Net gain/(loss) on financial instruments at fair value through profit or loss	–	–	–	–
Net realised gain on available-for-sale instruments	–	34	–	34
Total losses recognised in other comprehensive income	**–**	**484**	**–**	**484**
Available-for-sale financial assets – net change in fair value	–	484	–	484

The Group and Bank's available for sale instruments level III portfolio is represented by 5 bond issuers operating in Real estate, Financial, Energy & Offshore Supply Vessel sectors of 4 countries.

Precise discount rate (6.56 %) is an unobservable variable due to low liquidity of these instruments.

Thus Bank is assuming that alternative valuations may use a discount rate (9.56 % or 3.56 %) different by 300 bps.

As of 31 December 2015 change of discount rate by 300 bps will have the following effect on The Group's and Bank's value of Level III portfolio fair value:

'000 EUR	Effect on profit or loss	
Level III portfolio as of 31.12.2015	**Change of discount rate by – 300 bps**	**Change of discount rate by +300 bps**
6,254	(188)	188

36 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

As of 31 December 2014 change of discount rate by 300 bps will have the following effect on The Group's and Bank's value of Level III portfolio fair value:

'000 EUR	Effect on profit or loss	
Level III portfolio as of 31.12.2014	**Change of discount rate by – 300 bps**	**Change of discount rate by +300 bps**
1,620	(49)	49

Financial instruments not measured at fair value

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

	'000 EUR				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
31 December 2015					
Financial assets					
Cash and due from central banks[1)]	–	–	–	23,322	23,322
Balances due from financial institutions[2)]	–	–	–	94,134	94,134
Loans and advances due from customers	–	–	50,399	50,399	50,231
Held to maturity instruments	25,352	823	280	26,455	26,455
Other financial assets[3)]	–	–	–	208	208
Financial liabilities					
Deposits due to central bank	–	–	10,001	10,001	10,001
Deposits and balances due to customers	–	–	192,542	192,542	192,880
Subordinated liabilities	–	–	18,428	18,428	18,304
31 December 2014					
Financial assets					
Cash and due from central banks[1)]	–	–	–	306	306
Balances due from financial institutions[2)]	–	–	–	72,081	72,081
Loans and advances due from customers	–	–	36,915	36,915	36,702
Held to maturity instruments	16,063	830	–	16,893	16,887
Other financial assets[3)]	–	–	–	181	181
Financial liabilities					
Deposits and balances due to customers	–	–	130,726	130,726	129,990
Subordinated liabilities	–	–	9,515	9,515	9,563

1) Cash and due from central banks are various currency cash and deposits with the Bank of Latvia whose carrying amount represents the fair value.
2) Most of the balances due from financial institutions are either deposits on demand or short term deposits; therefore, their carrying amount approximates the fair value.
3) Other financial assets consist of receivables from settlement of financial instruments; thus the carrying amount is equal to their fair value

36 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

	'000 EUR				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
31 December 2015					
Financial assets					
Cash and due from central banks[1]	–	–	–	23,322	23,322
Balances due from financial institutions[2]	–	–	–	93,797	93,797
Loans and advances due from customers	–	–	50,399	50,399	50,231
Held to maturity instruments	25,352	823	280	26,455	26,455
Other financial assets	–	–	–	208	208
Financial liabilities					
Deposits due to central bank	–	–	10,001	10,001	10,001
Deposits and balances due to customers	–	–	193,535	193,535	193,877
Subordinated liabilities	–	–	18,428	18,428	18,304
31 December 2014					
Financial assets					
Cash and due from central banks[1]	–	–	–	306	306
Balances due from financial institutions[2]	–	–	–	71,644	71,644
Loans and advances due from customers	–	–	36,915	36,915	36,702
Held to maturity instruments	16,063	830	–	16,893	16,887
Other financial assets[3]	–	–	–	181	181
Financial liabilities					
Deposits and balances due to customers	–	–	130,836	130,836	130,772
Subordinated liabilities	–	–	9,515	9,515	9,563

1) Cash and due from central banks consist of various currency cash and deposits with the Bank of Latvia whose carrying amount represents the fair value.
2) Most of the balances due from financial institutions are either deposits on demand or short term deposits; therefore, their carrying amount approximates the fair value.
3) Other financial assets consist of receivables from settlement of financial instruments; thus the carrying amount is equal to their fair value

At the end of the 2015 the Bank reclassified one financial instrument in the amount of EUR 280 thousand from level 1 to level 3 because of changes in market conditions. There was a substantial decrease of market activity for the instrument. There is sufficient information available to measure fair value of this financial instrument. There are a lot of investors for the issue, and the Bank believes the level of market activity may improve.

36 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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:

Financial instruments measured at fair value

Type	Valuation technique	Significant unobservable inputs
Financial assets at fair value through profit or loss	Discounted cash flows, quoted prices for similar instruments	Discount rates, quoted prices for similar instruments in active markets
Financial assets at fair value through profit or loss (3 Level)	Discounted cash flows	Discount rates
Available for sale instruments	Discounted cash flows	Discount rates

Financial instruments not measured at fair value

Type	Valuation technique	Significant unobservable inputs
Balances due from financial institutions	Discounted cash flows	Discount rates
Loans and advances due from customers	Discounted cash flows	Discount rates
Deposits and balances due to customers	Discounted cash flows	Discount rates
Subordinated liabilities	Discounted cash flows	Discount rates

37 EVENTS SUBSEQUENT TO THE REPORTING DATE

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