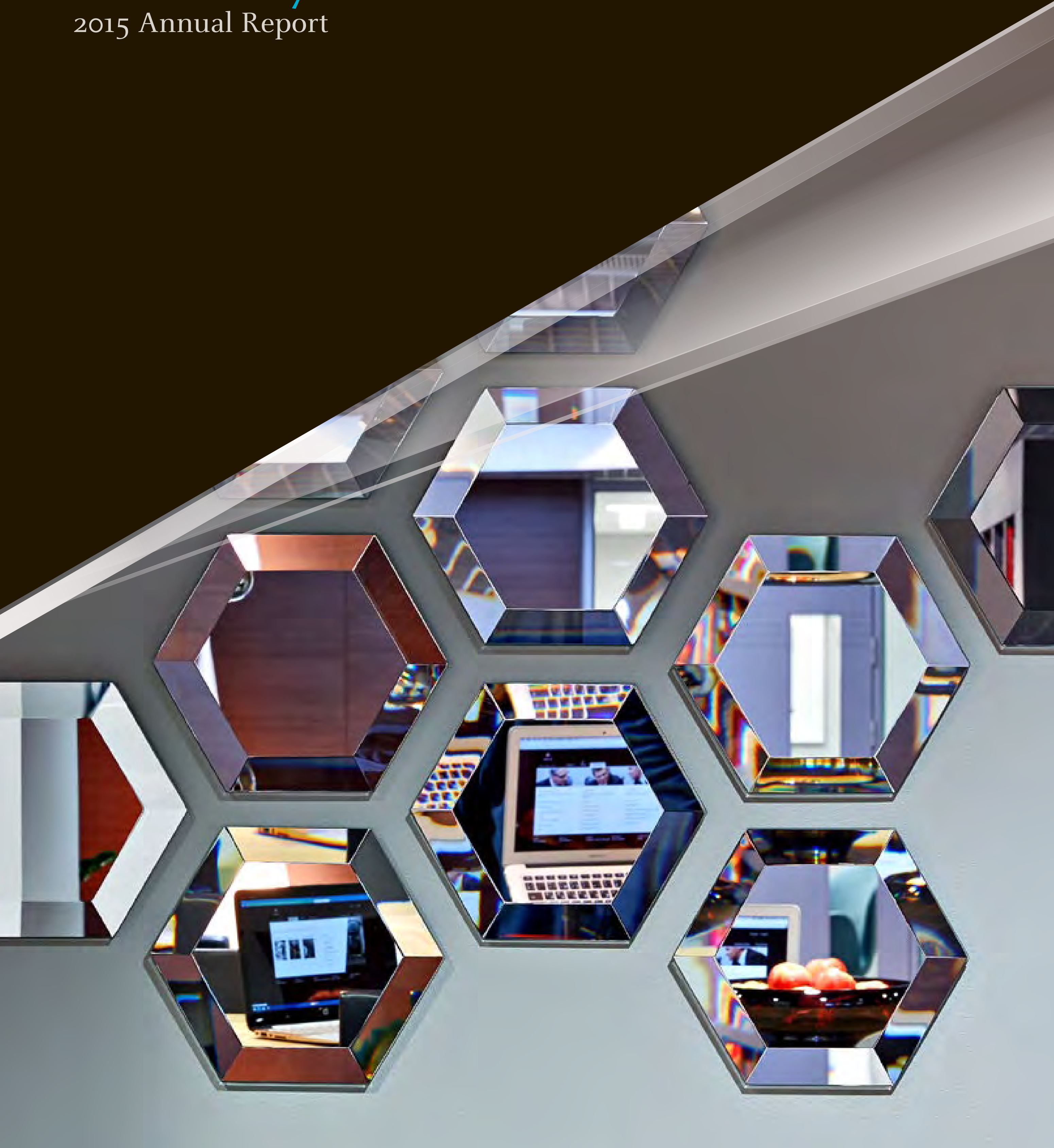
BANKING / INVESTMENTS \ ABLV ADVISORY

ABLV

Efficiency

2015 Annual Report



ABLV

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Accepting the Challenges of Time

Romans Surnačovs
ABLV Bank Chief Operating Officer (COO)
Editor of 2015 Annual Report

The keynote of this issue is the diverse and rather complicated topic of efficiency, a phenomenon which cannot be measured and to which no universal estimation ratio can be applied. Efficiency is the sum of many factors and skills successfully combined into a single mechanism, smoothly running and ensuring positive performance.

Although 2015 was a "bumpy ride" in the global economy including several target regions, the financial results of the bank reached historic highs. One does not have to look far to find the evidence, the bank's profits in 2015 amount to EUR 69 million. We are still number one in Latvia when it comes to local capital and second best if we refer to the amount of assets. Can the efficiency of the group be estimated in numbers only? Neither yes, nor no.

Many other indicators prove our efficiency: the bank was named among the best exporting brands from Latvia in 2015. We remain one of the biggest taxpayers in the country: in 2015 only we transferred more than EUR 20 million to the state budget in the form of different taxes. We keep creating new jobs and remain one of the most highly-rated employers in the industry.

We managed to transform an open area — the territory of the planned finance and leisure centre New Hanza City — into a tremendous outdoor hall for a concert by Brainstorm, which attracted more than 45,000 spectators. Our corporate events for employees keep receiving awards as the best ones. As always, we strive for perfection in details, which is why we designed the representative office in Moscow in a corporate style. Above all, our key advantage is the endless aspiration to follow our chosen strategy and stay loyal to our eternal values.

We work for the sake of our clients' success. While regulating requirements and compliance inspections are becoming even tougher, we put all our efforts into remaining convenient and clear for our clients. However, new regulations place additional responsibility not only on banks, but also on their clients. Complying with the relevant provisions makes the process of running a business more difficult and requires more time when processing transactions. However, our optimized inner processes and the improved competence of the compliance team, lawyers, and private bankers allow us to efficiently deal with the increasing information flow and turnover of documents.

We have always been proud of our client approach, knowledge of clients' business activities and legislative issues of the target countries; and we keep following these principles, which means we stay open for each client, know the value of time and work with even greater efficiency as the result of new realia.

We define the efficiency of ABLV as the ability to quickly transform in the ever-changing world, adjust to new conditions, seek solutions for complicated and seemingly unsolvable problems, and at the same time follow our requirements in relation to the quality of service, business administration and corporate culture. We are constantly changing, venturing out of our comfort zone, accepting challenges, developing, drawing conclusions and moving forward — we train the staff, acquire new specialists, upgrade processes and systems, improve our services, implement new ones, and tap into new markets. Behind all of this are the continual efforts of over 800 employees of the group, and each one of them is open to changes, works hard and is proud to be a part of the ABLV team.

We Live at the Rate of Changes

We headed to the deserted and peaceful seacoast of Jūrmala for an interview with Ernests Bernis, ABLV Bank Chief Executive Officer, during which he told us how an effective bank differs from a simply good one, as well as explained the meaning of a team and how bank employees can be motivated in the 21st century. However, the most important thing that Ernests Bernis shared with us was that his dream bank already exists.

It seems you're a legendary person: we're told you're the most efficient, the most forward-thinking, the most democratic executive around… Your subordinates tell us with delight that shareholders' meetings, board meetings and regular reunions, including the ones attended by you, take place in conference rooms observable by visitors to the bank. Was this your special idea to impress the team?
Of course, I'm a serious top manager and although sometimes I may look as if I have a furrowed brow, in general I'm a breezy and joyful person. I don't understand the need to create problems when you can omit them. If it's possible to work in a way enabling other people see you, it might inspire others.

Are you being sometimes expressive?
Yes, and quite often. That's my management style.

What about the Latvian temperament which keeps people within bounds?
We're a multinational team. And all of us are different: whether it comes to our functions or our temper. You can't decide once and for all, which line to take, including emotional behaviour: we work together and have the same goals. It's the main thing that unites us. My employees forgive me my excessive emotions like strong language.

However, those working directly with clients have the most difficult tasks. They have to save face in any situation. Communication with such bank employees influences the clients' opinion about the bank, not to mention our multi-functional private bankers who have to know dozens of things! On the one hand, they have to explain all the paperwork to clients, which is becoming even more difficult; namely, new requirements regarding documents and new procedures for establishing business relations. On the other hand, they have to keep trust-based relationships with clients and not to discourage them from further collaboration. The most important thing here is that our front team have to do it all by themselves online: one-on-one with our clients.

Can you help them in any way?
We do help them: they undergo training and we explain new conditions and requirements to them. Together, we think about how best to clarify the situation to clients. It's important for me to know that our employees feel supported. However, I can't go to meetings with clients in their place. Those are the tasks they have to complete themselves. The way in which private bankers build relationships with clients and direct them toward complying with the current requirements is the key to perfect service and successful banking.

On the one hand, efficiency can definitely be expressed in numerical values; on the other hand, it's the result of the integral and interactive performance of our team.

In that case, what is banking efficiency?
On the one hand, efficiency can definitely be expressed in numerical values; on the other hand, it's the result of the integral and interactive performance of our team. In my opinion, the concept of efficiency also includes the ability to change; the rate at which the bank adopts these changes and the skill of maintaining quality while making all these complicated manoeuvres.

How do you evaluate ABLV Bank in terms of efficiency?
I don't need to evaluate it. We have repeatedly changed in response to different challenges of time. And not once have we lowered our quality or slowed down.

Do you have any strategic plan to face new challenges? Right now, it's not a good time for the banking sector in Latvia, Europe or Russia…
… or America! For the last ten years, there has been no place on Earth where banking has been easy. Recently, governments in many countries have taken very serious steps toward tightening controls over banks in executing their role as a regulator. It's difficult to name a single reason for that. There are many significant factors here: the financial crisis of 2007–08, anti-terrorism efforts, as well as countries' desire to look closer at their residents. Behind all these numerous reasons, there is a requirement for banks to know their clients even more profoundly than ever and to identify possible suspicious transactions in a timely manner. Of course, the regulator doesn't want to track these transactions itself. It would be like looking for a needle in a haystack. However, it doesn't want to experience the "surprises" of 2007–08 crisis again, when the state bore all responsibility for collapsed banks. Now the regulator and the state are delegating more and more control and compliance functions to banks. Just imagine what a difficult task we have been set! As a result, the potential of the business activity of credit institutions is being seriously eroded.

Does this mean that banks have less scope for efficient manoeuvres?
No. I'd rather say that top managers run short of time. These days, bank managers focus their activity on complying with legislative provisions on time and simultaneously maintaining a sufficient level of bank efficiency.

Is this a common problem?
Lately, more and more colleagues from other banks in Latvia and abroad are complaining that their managers are participating in business matters less and less.

What do they do instead?
They're busy dealing with amendments and projects related to changes in regulation. What did the crisis of eight years ago demonstrate to the regulator? It highlighted deficiencies in the process of regulation and control! And that discovery scared everybody, in part because some credit institutions that were hardly expected to get into difficulties got into them. These were the banks with very high credit ratings, a few of them with indisputable ones! And so, these banks, which had been treated as safe and trouble-free, suddenly collapsed: including some names we can't even remember now... It was a discovery and "thunderclap" for society and the governments of many countries. As a result of these events, lots of banks were forcedly nationalized, many received state support, also at the expense of taxpayers. Now that the situation is better, people are starting to forget about the crisis. However, as far as regulators are concerned, this experience has left its mark: they concluded that in order to prevent similar collapses in future, regulation must be tightened!

So the idea of better and tougher regulation wasn't born yesterday, it has been nurtured for many years. Morally, we were ready for this. However, readjusting to new requirements and building a new compliance system while keeping the existing banking system take a lot of time and effort: each bank has its own corporate culture, management style, understanding of clients, customer approach, and reputation. And my task now is to make our bank comply with the increasingly stringent requirements of the regulator, while retaining all our advantages at the same time.

That's not what you dreamed about when you wanted to become a banker...
Frankly speaking, the only thing I dreamed about before starting working at the bank was becoming the head of a collective farm. I see, you don't believe me. Honestly, in 9th grade for no reason I had an "idée fixe" of leading a collective farm. It almost came true, by the way. And now my relatives play jokes on me saying that dreams do come true. No matter how you slice it, I've been working at ABLV for 21 years now. So, there is something from the dream, I guess.

Being the head of the collective farm seems more joyful to me. The bank, especially heavy regulated, as it apparently will be in the nearest future, is a rather boring place to work.
Not exactly. Everything is changing and it's always interesting. I'm a bit upset that recent years I have to perform tasks that I would rather not... You have certain plans on your way to work, but eventually find yourself preoccupied with something else. But this is also a part of our job; overcoming obstacles, you know.

Readjusting to new requirements and building a new compliance system while keeping the existing bank system take a lot of time and effort.

There's a saying: you go to war with the army you have, not the army you might want. So, I consider myself lucky, as I have my dream team, which means we can do anything!

Being a client of ABLV Bank was always considered to be a privilege: the assigned trio of private bankers, the possibilities of remote service, the fulfilment of all wishes, business support and much more. In other words, ABLV Bank has never been a bank for broader society. Aren't you going to expand your client base in order to earn more? How far are you ready to go to improve your financial indicators?
We don't aim at that directly. I'd say that, due to the ever-increasing scope of requirements regulating relationships with clients, the situation is more likely to develop in another way: becoming our client now takes more time than it did ten years ago. This is the reality of our time. In order to open an account, we need to check many parameters. Unfortunately, sometimes this process can last for months… But I will consider our task to be completed if we can keep a step ahead of the increasing number of requirements. It's the main thing for us so far. Once the regulation of the sector becomes less active, we'll continue to work on improving our efficiency.

Some people say the crisis is receding…
There is no definite answer to that: for the last five years we've been talking about moving forward in the context of Latvia. However, it's difficult to say whether this is happening as a result of the economic policy of the government or our aligning with Europe. Or maybe we're simply trying to make up for lost time. Opinions differ.

For which period do you plan the business?
For three years. Trying to plan something for a longer period is useless now, taking into consideration the current situation in Europe and the whole world. It's very likely that the time will come and we will decide to expand our activities or geography. However, in the year to come we'll focus on Latvia. We have to reorganize our work with clients, determine new requirements for our relationships, information disclosure, declaring one's activity and complying with these declarations on the part of the clients.

Will it end your trust-based relationships with the clients?
All clients I have had contact with are receptive to the increasing requirements. However, sometimes disputes could occur in an attempt to comply with them. Therefore, our private bankers have been set a difficult task, which is, not only to save relationships with clients, but also to modify them in such a way so that they correspond to the current reality. And I'm sure the private bankers will do their best.

For a top manager, you're surprisingly confident about your employees. You not only trust them but also spend more on them, judging by the numbers…

If you know this, you should also know that the output of every one of our employees is better than the output of any employee of any other bank in Latvia. That's how our system of motivation works, thanks to which we have the appropriate number of specialists and impressive productivity. This is great indeed: our corporate culture confers fair and generous remuneration to our employees for their input. Our employees, in turn, perfectly do their job. Therefore, firstly we earn more and then spend more.

Is the competition high when it comes to vacancies?

We mostly announce competitions for entry-level positions. When it comes to other positions, we generally don't have vacancies. The reason is that bankers joining via entry-level positions develop their career and climb higher, which means that others are also moving forward. There has never been high employee turnover at ABLV. We have had cases in our history when an employee has moved up the career ladder from a simple officer to a top manager in six to seven years. There is also another factor: sometimes an employee works in one position for five years, for example, and then suddenly, and unexpectedly as far as others are concerned, reveals his or her full potential in another position! And his or her performance becomes even better and more efficient than previously! I love such discoveries!

What would your dream bank be like?

I have a very simple answer to this question. My dream bank is ABLV Bank. I absolutely love the people I work with, although we may argue and shout at one another. I have to say I'm satisfied with my colleagues, subordinates, managers. Our group consists of roughly nine hundred people in Latvia and abroad. I know more than half of them by sight and personally know all top managers.

We have already had and will definitely have more difficult situations. And I'm proud to work with these people, I'm absolutely confident about. There's a saying: you go to war with the army you have, not the army you might want. So, I consider myself lucky, as I have my dream team, which means we can do anything!

The Global Potential of Financial Service Export

To continue the economic development of Latvia, a new driving force is needed. The financial service sector can become such a force, especially its international segment. Being a part of the economy with high productivity and added value, financial services also promote related sectors and less productive segments of the national economy. Oļegs Fiļs, the Chairman of ABLV Bank Council, shares his thoughts on the subject.

When we talk about the export of Latvian goods and services, the first things that usually come to mind are the traditional sprats, timber, and tourism — not banking operations.
There is a myth that anything produced manually gives the economy tangible returns, whereas everything related to services is intangible. Unfortunately, this myth still endures. Although overseas, there are lots of examples of how the brain, not hands help in producing a lot more substantial results, efficiency, economic profitability, and so-called added value, which leads to the development of the national economy and an increase in GDP.

This attitude is typical for an economy, which is in the middle income trap. Agriculture, woodworking, tourism, catering business, hairdressing salons and other similar services fall into the low-yielding part of economy, where it is difficult to achieve growth and increase the added value. This ineffective part directly depends on the productive sectors of the economy.

A great example is Swiss chocolates made by chocolatiers in small workshops and sold for EUR 10 per piece. How can you ask that much? And why are people willing to pay? The answer is that Switzerland is one of the richest countries in the world and, in particular, because of the productive part of its economy. The banks and the largest raw material sellers are operating there. The employees of such companies are receiving great salaries and can easily afford to pay EUR 10 for a piece of chocolate.

So, by developing the banking sector and international financial services, it is also possible to boost that part of economy related to manufacturing: primarily for local consumption, but only afterwards – for export?
Exactly. This example demonstrates that the productive part of the economy can share with the less productive part and stimulate it. Furthermore, the productive part — in other words, intellectual labour — has unlimited development potential.

What are Latvia's prospects and possibilities in this respect?
The range of services in our country could be very wide; I am not only talking about banks, but also about IT, pharmacy, various marketing services, as well as local and international research. In my opinion, Latvia has all the possibilities for using intellectual potential more productively, because our educational system, despite the criticisms, has one substantial advantage: our school graduates have a command of three languages. That is 90% of success; you can learn the rest.


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As for the educational system, I would like if it prevented young people from working in low-yielding parts of the economy. Of course, when you have economic or other problems, it is tempting to take a job as a bartender or a cashier, but in that case, we are losing a potential specialist, who could work in the productive part of the economy. I think we need to make our young people pursue higher education and learn foreign languages, because this guarantees high income and contribution to the economy in the future.

What is the role of banks in the Latvian economy?
Compared to our closest neighbours, Riga is the largest financial centre. Latvia accumulates 70% of all international clients of the Baltic countries. That is not only due to the knowledge of the Russian language, which is spoken by a majority of CIS countries, but also the numerous banks, wide range of services, advanced operations on deposits and brokerage services, and other financial instruments. According to the figures from 2014, the banking sector directly and indirectly accounts for about 4.5% of GDP, and its direct impact on the economy is 2.44%, of which 1.27% comes from the locals and 1.17% from foreign clients. These are specific figures; however, it is important to account not only for the banking operations, but also for their impact on the related sectors. In regards to goods and services, banking contributions amount to 2%, while the value added for export is 7.28%.

Most likely, these figures should be looked at in the context of the number of specialists, working in the banking sector.
Even with all the contribution to the economy, the number of bank employees is shrinking. During the last five years, their number has fallen by approximately 2,000, due to the optimization, introduction of e-services and expansion of online bank services. In 2014, Latvia's banking sector employed 9,362 workers, each of whom contributed almost EUR 63,000 to GDP, which is almost 2.6 times more than the other sectors. Moreover, in 2014, the international client segment's value added or, in other words, its contribution to the economy per employee was twice the amount, i.e. EUR 113,000. In the same period, the banking sector paid EUR 141 million in taxes. This means that we are the driving force, and that we precede other sectors, which is good for economic development as a whole. After all, the banking sector operates in collaboration with other sectors like insurance, stock exchange,

Oļegs Fiļs receives the State Revenue Service's "Largest Banking Sector Taxpayer" award

Banks are the driving force, and we precede other sectors, which is good for economic development as a whole.

infrastructure, real estate, IT, auditing and consulting companies. We are the major customers of many related sectors. In addition, all the other economic sectors are bank clients.

ABLV Bank received the Red Jackets Award as one of the largest service exporters. What is the importance of this on an international scale?
In the table of largest taxpayers ABLV Bank ranks 17th — right after all the large sellers of fuel and other excise goods. Conclusion: you can make a quite major contribution to the economy without manufacturing or selling anything tangible.

I believe we need to take advantage opportunities to create value added through the exclusive use of brainpower as much as possible. Compared to other countries, we are beginners in this regard.

The outsourcing services are a very big sector. I will explain by using an example of one large company. For example, the research and development centre of Apple is located in Silicon Valley, USA, where the company's largest added value is created; whereas its manufacturing, as we know, is based in China; its IT service and customer support is in Ireland; its logistics, trade, warehouses, cargo handling, and order processing are mostly based in the Netherlands; and last, but not least, its financial accounting centre is located in Luxembourg. This demonstrates that by specialising within a specific realm and focusing on improving economic indicators, any country can find its own niche and its own development potential.

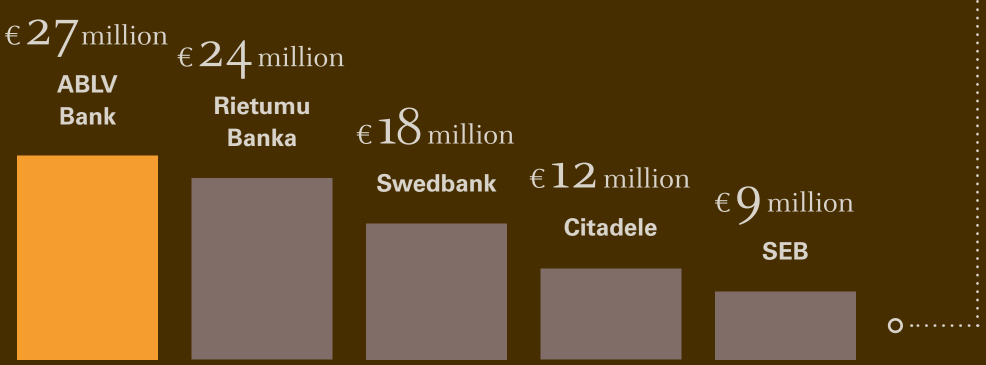
The research field is underdeveloped here, and the invention of new products is problematic. The production potential of Latvia is quite limited — entrepreneurs, who are planning to develop businesses in Latvia, encounter the following problem daily: you can do it cheaper and more effectively somewhere in Asia. There is development potential in IT, despite the limited availability of workers. Customer services also have decent potential. The logistics, marketing, transport and transportation of goods and freight also have potential.

But what about the financial sector?
I am not sure that we can offer Apple and similar companies the services of Riga as a financial centre, but we can aspire to it, and maybe, in some ten years we will succeed. Look at Estonia, which has overtaken the external services of Sweden and Switzerland, and maintained those with Russia (e.g. goods transportation, railroad communications, and ports). We can also look at Poland, which took the manufacturing path of development, which was only logical, because it is located near rich European markets and large companies could rapidly increase their competitiveness by relocating the factories there. However, in the last 10 years Poland has begun transforming into a provider of external services.

Tax Payments of Largest Latvian Banks

Tax payments
of the largest Latvian banks

over € 90 million



For the money ABLV Bank paid in to the state budget, it is possible to:

€ 9 million
raise teachers' salaries

€ 3 million
provide assistance to kindergartens

€ 15 million
finance the indexation of pensions

Source: data from 2014 Annual Reports and the State Revenue Service

Our financial sector is stable, progressive and ready to service new clients.

By creating so-called clusters in every large city and offering various advantages, the country has already lured away multiple corporations, which are working in research, client support, IT, marketing and other fields. Unfortunately, we cannot boast about attracting such big-name corporations yet.

Is it enough to adopt the successful practices of other countries?
In other words, you want to ask if we can achieve great results by copying the functions of customer support or IT from Ireland? Most likely, the answer is no. This is because Ireland has a big advantage — its population speaks perfect English. Can we get similar results of those of Holland if we copy its logistics, transportation of goods, marketing or warehouses? Once again, in all probability, the answer is no. We are not in the centre of the Europe, where the distance to delivery locations is minimal. We are on the outskirts and will not succeed so by copying the experiences of others.

So you need to think about something of your own?
It is important to consider these three significant factors. First, we need to offer a bit lower prices than our competitors. Second, we need to be faster than they are.

Third, and most important, we need to aspire to service some small international companies, although, of course, they will be considered large in Latvia. It is easier to work with such companies, and there are a lot more of them, compared with companies like Google, Apple, IBM, Microsoft, which are already established in various countries. After several years, when we are internationally recognised as a provider of financial services, we can also talk about the aforementioned giants.

Most likely, the country's reputation is the key part in the banking business. Especially when providing banking services to foreigners. Is there a reliable system for building trust with customers, which would make it possible to avoid unpleasant situations?
I think that the bank supervision in Latvia is sufficient. Of course, it is always possible to find problems, but the most important thing is that all the necessary laws are enacted, and the regulatory institutions are operating. The three largest banks, including ours, are also controlled by the European Central Bank.

Banks are continuously working to improve internal control. A great deal of work is being done, the knowledge is being accumulated, and the staff are being trained. Since Latvia is a bigger financial centre than its neighbouring countries, we need to know how to control the safety of banking operations self-sufficiently.

Our country's success story depends on the contribution of each citizen, and on the competitiveness of every entrepreneur.

Our financial sector is stable, progressive and ready to service new clients. By using the geographical location of our country and other advantages, we can keep developing the international segment by offering clients something more than just payment services, which, on the one hand, are simpler, but on the other, involve large risks related to the auditing and control of the money flow. In contrast, providing investment and brokerage services is a lot safer, but the potential for development is higher.

Lately the quick loan companies have become increasingly active. Are they competitors to banks?
Sure, it is interesting to listen to the discussions, in which banks are called stagnant organizations, and to hear the projections about how the limited liability companies, which call themselves payment companies, are about to take over a large part of the banking business. However, has anyone thought about the control of these companies? What kind of money are they operating with? Are the finances of their clients guaranteed? And what about the strange talk about the so-called interim stages that form the financing platform, in which they attempt to bring together investors and borrowers, use unproven risk models, and issue loans with a 30% annual rate? In Latvia, 24 banks offer loans, which are estimated in billions, at a 3% rate, and even then there are not a lot of takers, let alone with 30% per year. What kinds of people take these loans, why are they ready to do it on such conditions, and why they do not go to a bank? What are the advantages of choosing such a loan provider over a bank?

Maybe the biggest advantage is the lack of control?
Yes, maybe it is all about high-risk business, which should be perceived quite sceptically.

If we take a broader look at the business environment and the need to attract investments — what kind of support do you expect from the government?
I can talk about the things that our politicians do not understand when stating that Latvia needs to improve its competitiveness in the global market. They are forgetting about the most important issue, i.e. productivity. Our country's success story depends on the contribution of each citizen, and on the competitiveness of every entrepreneur who is trying to do something here. In other words, if the entrepreneurs are not competitive, the competitiveness of Latvia will also be out of the question, because it begins and, in my opinion, ends with the competitiveness of every company and every able-bodied citizen.

Latvia needs to send a clear signal that it is oriented not towards taxing new companies, but on the development of their business within the country. That will provide more rapid, larger returns from the salaries paid. Therefore, if an entrepreneur is ready to develop his business in Latvia, we need to give him the opportunity to "take off".

If the investor plans to get his company on the ground in three years, it is natural that the first two years will be unprofitable. During the next two years, he will either break even or maybe make just a small profit, compensating for the losses of previous years. After that, the company might become profitable. With that in mind, many countries are offering tax incentives and are informing the investors (including through marketing) that they will not have to pay tax on profits for the first four years.

The legislation does not need serious changes — only a couple of corrections. For example, it should be permissible to compile documents in English for submission to the State Revenue Service and the Register of Enterprises. This is very important to all investors. It is also important to allow the entrepreneurs to act as the members of the board. A foreign investor cannot always run the company himself. When establishing a company in Latvia, he has to appoint someone else to the position of a member of the board, and be confident, that the appointee is a responsible professional.

It is great if the investor already has some connections and contacts here, but that is rarely the case. In Latvia, the company can only be represented by a natural person, while in many developed countries company management can be done by special law firms. In other words, they sign a contract with the investor and fulfil the responsibilities of the member of the board and report not only to the investor, but also to the government and governmental entities.

Let us return to ABLV Bank. What are your advantages on the global competitive landscape? What are your points of difference, where your power lies, since you are amongst the leaders?

ABLV Bank is interested in building long-term relations with our clients. For example, the client can either use the brokerage service, and decide what to invest on his own, or invest in professionally managed mutual funds, which we have been offering for ten years. We offer 12 funds, with asset value worth of EUR 129.7 million in 2015. All the funds are structured by different return levels and regions. There are investors who focus on the funds of developed nations and there are those who prefer the markets of the developing countries, where the levels of return on investment might be higher, but so are the risks. We operate with three currencies: euros, US dollars and Russian roubles.

Our bank is the second largest in Latvia, but on a global scale, we are not a large company. That is why we strive to service clients faster and more efficiently. We focus on fields in which we see the prospects for further development, and try to avoid those in which we cannot compete.

New Tax Administration Standard

Globalization provided more freedom to move wherever your heart goes and reside anywhere in the world while not identifying yourself with any country when it comes to paying taxes. In order to combat the trend, the Organisation for Economic Co-operation and Development (OECD) approved the Standard for Automatic Exchange of Financial Account Information in 2014. Aleksandrs Pāže, ABLV Bank Chief Compliance Officer, tells what the new standard is and how it will influence client servicing.

Lately, tax authorities of numerous countries have been fighting against tax evasion even harder. The taxmen turned their attention to financial accounts of taxpayers held with foreign banks. For credit institutions of the European Union, 2015 was marked by basic preparations for the implementation of a new standard for automatic exchange of information on tax matters, initiated by G20 member states. Let me explain what it means and how it will influence our client service.

Global information exchange

Financial institutions have already experienced automatic exchange of information while complying with the requirements of the Foreign Account Tax Compliance Act of the United States of America (FATCA), the key purpose of which is to prevent US residents from keeping accounts with foreign financial institutions in order to hide their financial assets and avoid paying taxes in the USA. Upon approving the FATCA in the USA, G20 finance ministers and a group of top managers of the central banks issued the OECD a mandate to elaborate a standard for automatic exchange of information based on FATCA principles, which would make the automatic exchange of information further European and international standard for ensuring tax transparency and data exchange.

Based on the mandate, the Common Reporting Standard (OECD CRS) was elaborated and approved on 15 July 2014 by the OECD Council.

The primary aim of the standard is to prevent tax evasion via accounts with foreign banks. In order to achieve it, the annual automatic exchange of information will take place between tax authorities of OECD CRS member states regarding accounts which belong to or are controlled by the residents of other CRS countries.

In response to the appeal of the OECD, the Council of the European Union actively engaged in the process and approved the amendments to the EU Directive on Administrative Cooperation providing for the automatic exchange of information between EU member states.


Residency Declaration for a Legal Entity
company name
client's tax residency according to FATCA and OECD CRS

Upon the approval of the OECD CRS, the process of making commitments by countries all around the world has started. As a result, by the end of 2015, the wish to participate in the automatic exchange of information as per the OECD CRS confirmed 97 countries. From the above-mentioned, 80 countries joined the CRS Multilateral Competent Authority Agreement on the automatic exchange of information about financial accounts. On the list of parties, there are both highly developed countries and those that are considered "tax havens".

Latvia as direct participant

Latvia together with other EU member states joined the OECD CRS Multilateral Competent Authority Agreement on the automatic exchange of information about financial accounts in autumn 2014.

In order to integrate OECD CRS requirements into the legal enactments of Latvia, the amendments to the Law on Taxes and Fees and Law on Credit Institutions were approved and entered into force in January 2016 binding Latvian financial institutions to carry out verification of financial accounts and submit information about financial accounts owned or controlled by residents of the participating countries to the State Revenue Service of Latvia. In such a manner, our country is absolutely ready for meeting the international commitment. Both the local tax administration and Latvian credit institutions, including ABLV Bank, are legally prepared for submitting the first report already in 2017. At the moment, preparation and organizational issues are taking place before launching the project.

OECD CRS and client service

According to the requirements set in the above-mentioned legal enactments, the bank is obliged to gather and document data on client's / client's beneficiaries' tax residency, as well as submit to the State Revenue Service of Latvia information about financial accounts of the residents of the countries which joined the process of exchanging tax information.

In order to meet the commitments mentioned, the bank will need to acquire clients' and their beneficiaries' evidences of tax residency; shall the client be a legal entity, the bank will also require specific documents proving the type of the client's organization: financial or non-financial, passive or active one.

What is notable, the OECD CRS does not offer a standard definition of tax residency, therefore, when defining tax residency, the client / client's beneficiary shall be guided by the local taxation laws. Currently, the OECD CRS actively works on receiving from the participating countries explanations and figuring out a unique definition for tax residency. Our bank will also be guided by the explanations submitted to the OECD CRS, though one needs to admit there remain numerous questions in the whole process.

In general, a person is considered the resident of a particular country, if according to the local legal enactments they are the subject of income taxation based on their domicile / belonging to this particular country (criteria for individuals) or residency / country of top management / country of establishment / country of registration (criteria for legal entities). At the same time, various criteria might be the reason to consider an individual or a legal entity a tax resident of several countries (double residency), even if the individual or legal entity tries their best to evade belonging to a particular jurisdiction in terms of taxation.

Ready for new standard

ABLV Bank is now scrupulously elaborating its inner operation algorithm to adjust it to the new operation mode. We already are in the process of obtaining and processing information, as well as ask clients to fill out respective declarations on tax residency. As of 2016, all new clients are required to mark information on their residency and the residency of each beneficiary when submitting documents for establishing business relationships with the bank.

The primary aim of the standard is to prevent tax evasion via accounts with foreign banks.

From our current clients who opened accounts with us prior to 2016 we will be receiving the above-mentioned data gradually and only if the information at our disposal is not enough.

As a result, based on the data received from our clients and the information at our disposal, we will execute annual reports for the State Revenue Service of Latvia on residents of those countries which joined the OECD CRS. The State Revenue Service, in its turn, will pass the information further to the competent tax authorities of OECD CRS member states without estimating or verifying the data submitted by the bank.

In September 2017, Latvia will carry out the first automatic exchange of information with 55 countries. So, the bank will submit the information about financial accounts to the State Revenue Service of Latvia for the first time approximately in the middle of 2017, and the information will contain data about 2016. The following will be submitted: balances of financial accounts, information on incomes transferred to the account; should the account holder be a passive non-financial organisation, also data on the beneficiary. The information on the beneficiary shall not be disclosed if the company is an active organisation (when more than half of the income is non-passive, i.e. the organisation gains profit from sources different from dividends, securities, etc., for example, from trading operations).

Those clients of Latvian financial institutions who are the local tax payers will be excluded from the automatic exchange of information. However, the tax administrations of other countries will submit similar information to the State Revenue Service of Latvia about Latvian residents who hold or control financial accounts at credit institutions in the participating foreign countries.

We always remember that each innovation in the banking area concerns not only a credit institution as such but also its clients. Therefore, we carry out awareness-raising activities and inform our clients on the requirements of legal enactments in advance. What is the most important, prior to submitting particular information about an individual or a legal entity to tax authorities, we will inform our clients about the fact of disclosure and the volume of the information to be submitted.

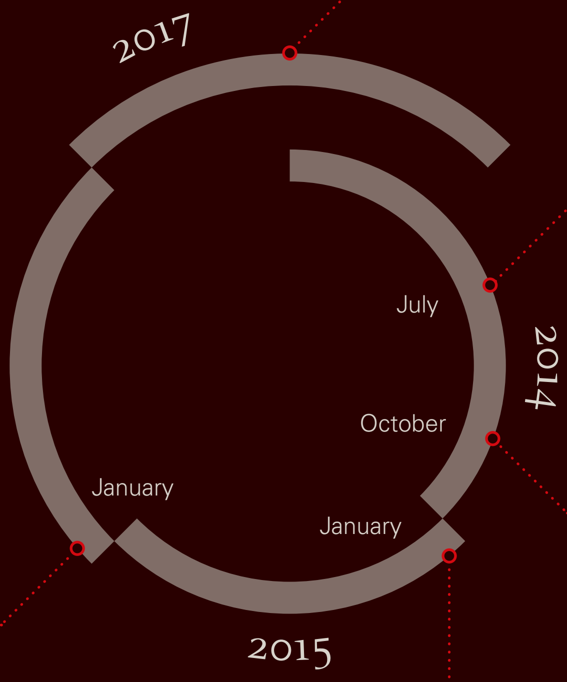
Upon comprehensive implementation of the OECD CRS, the new standard will become an important tool in tackling cross-border fraud and tax evasion.

*The information about the OECD CRS provided in the article is for information purposes only, it does not contain a comprehensive list of requirements and is not a guideline or consultation on determining the tax residency or classification of clients. The tax residency and classification, if applicable, depend on individual facts and conditions. The article is prepared by using publicly available information which was not specifically verified.

OECD CRS
Implementation Timeline

Submission of the first report on financial accounts according to the OECD CRS (assets / incomes from assets sold, etc.).

New due diligence procedures to be implemented prior to establishing business relations elaborated. The above-mentioned imply determining tax residence of the client / client's beneficiary and the classification of the client according to the OECD CRS if the client is a legal organization (with or without the status of a legal entity).



OECD Council approved the CRS.

51 jurisdictions joined the OECD CRS Multilateral Competent Authority Agreement on the automatic exchange of information about financial accounts.

The amendments to Directive on Administrative Cooperation 2011/16/EU providing for the automatic exchange of information between EU member states became effective.

Progressive Approach towards Declaring Income

Vladislavs Hveckovičs, Chairman of the Board and Acting Head of the Asset Structuring Department of ABLV Corporate Services, briefly on the prehistory of the new standard and possible reasons for implementing the OECD CRS.

The Standard for Automatic Exchange of Financial Account Information, OECD CRS, was approved within a very short time: the first negotiations took place in September 2013. So, from the moment when the international standard for exchange went under discussion to its actual coming into force passed a bit more than two years. Taking into account that during that time the standard wasn't only elaborated in details but it also entered into force in almost all major countries, the pace of implementation is impressive indeed.

Although tax authorities have been always keen to know more about foreign accounts of respective residents, it was the standard for exchange of information about American taxpayers' accounts adopted in the USA, the Foreign Account Tax Compliance Act (FATCA), that was a real breakthrough in the area of automatic exchange of information. When developing the "American system of automatic exchange", numerous revolutionary ideas were implemented which were mainly based on the absence of piety towards the European idea of "banking secret".

Taking into account that the global economy still can't get over the most protracted economic crisis of our age, the majority of the governments of modern economies faced a serious budget deficit which led to numerous problems of social nature and, inevitably, to the increased burden of taxation for an average taxpayer.

Although, opening a bank account abroad is an absolutely legal activity in the majority of countries, lately a trend of extremely negative attitude of EU residents towards foreign accounts and offshore companies is clearly emerging. An average European taxpayer believes big international companies and individuals of considerable means don't pay their "fair part" of the tax by using various expensive solutions for diminishing the effective tax rate.

In Great Britain, France and Germany such opinion of the average taxpayer was quickly supported by political quarters. The tax authorities of these countries believe the majority of their well-to-do residents have significant undeclared savings and income to apply taxes to. The possibility to reach these undeclared savings and thus guarantee the fund flow to the budgets became the European "white wale".

The countries which have less hopes that their residents possess large amounts of undeclared "treasuries" generally didn't have much choice. Should the system of automatic exchange of information not take effect even in a small country, all the flow of undeclared income would stream there. So, one of legislators' aims was to coordinate the participation of all countries with advanced banking system.

For now, the number of countries which refused to join the system of automatic exchange of information is small indeed: it's the majority of CIS member states (except for Russia), Vanuatu, Bahrain, Panama, Nauru and the USA.

It is Time to Relocate to the Gulf of Riga

It has been said that the future of Latvia's financial export depends on the ability of government and banks to provide an alternative to offshore jurisdictions. Vadims Reinfelds, ABLV Bank Deputy Chief Executive Officer, explains the ongoing changes and what they are leading to.

What will change in business organization for clients working in international trade?
There will be serious changes in international business; the process has already begun. For a long time, the base operating principles of this field had not changed; especially in regard to trading business. However, in the next 2–3 years, we will witness a significant change in the way how international companies conduct their operations. We, bank employees, closely monitor all the changes in regulations, and we cannot agree with the opinion that they are primarily evident in the CIS states. The main initiators of the changes are the largest economies of the world, which have united under the Organisation for Economic Co-operation and Development (OECD). Truly revolutionary changes are taking place in the western countries, which will primarily impact large international companies.

Could you briefly explain what these revolutionary changes are?
First of all, it is a fight for the tax revenue. It all began with the American FATCA law, within which an exchange of information is conducted with the USA. Since 2016, an automatic exchange of information has been introduced in the EU, which may affect the operations of international banks, especially those whose business models rely on servicing foreign clients.

The OECD has prepared a programme for combating base erosion and profit shifting (BEPS). The programme's action plan thoroughly describes the recommendations for OECD countries to globally combat "harmful" tax optimisation. At the same time, numerous countries are implementing or increasing the control of foreign companies to tax the passive incomes of foreign businesses.

Why did the principles of conducting foreign business start to change after a relatively long period of tranquillity?
There are two fundamental reasons. First, countries are still recovering from the world crisis of 2007. The prolonged recession is continuing — almost all countries are suffering from budget deficits. Because of the adverse economic background, the governments have begun paying more attention to large companies with intent of making them pay more taxes.

Second, business globalisation is playing a big role. Nowadays even a small business can decide in which country to launch manufacturing, conduct research, set up warehouses and control logistics. Modern technology makes these tasks trivial. For example, Amazon can locate its warehouse in the UK, management, website and patents in Luxembourg, and its program development centre in the USA.

This raises the question of which country should get the revenue tax of this international company? When the tax administrations began looking into the structure of such companies, they concluded that the companies could legally optimize the taxation by moving parts of their business to jurisdictions, where such business receives tax incentives.

In the UK, business ethics are being discussed at a political level. Is it ethical that an international company makes profits in the country, but does not pay income tax, especially when the host country is going through some rough times? Governments think that this is not fair.

But if most of the changes affect large countries, small countries can profit by creating privileged tax regimes, thus attracting taxes from large businesses to sustain their economic activity. Is it possible that this affects CIS states to a lesser degree?
No. The essence of the globalisation of the economy is the fact that any legal initiatives can only be effective if they are implemented globally. If the western countries implement the changes, but they are not applied to developing countries, there is a chance that the companies will simply move. To avoid this, the major countries are pressuring the small ones. The second negative result of globalization is that the crisis in the West is also affecting CIS countries. For example, the decline in global demand instantly lowers the price of raw materials.

How can an entrepreneur figure out these changes on his own?
Although tax incentives notably affect international business; they are not the only factor for our clients. It is also important that the companies of our clients have grown and become more stable, so they can prioritize other tasks. If you abandon the opaque entity, the risks will diminish and it will be easier to provide legal defence, which will increase the value of the enterprise. Besides, fundraising will become easier and spending will decrease.

So, is an enterprise forced to change under the pressure of external factors?
Despite the tax initiatives that significantly influence the international business, this is not the only factor that matters for our clients. The key aspect is that our clients' companies have gained ground and business has stabilised, therefore new priorities set different tasks. If you have a transparent structure, your risks will be reduced, legal defence will be easy to ensure, and thus the enterprise value will significantly grow. Fund raising will become easier and expenses will diminish.

As far as I understand, the bank has some offers to make to entrepreneurs, who want to "cast their anchor" in a safe spot?
Yes. There are several ways to do this. One of them is to use the holding company model. This method should be applied to gain a competitive edge.

The business cannot be located on a "virtual cloud"; it has to have an actual location.

The expenses of running a business in Latvia are a lot lower than in Switzerland — among other things, premises, workforce, and flights are cheaper here.

The second one is to use trading companies registered in Latvia. They are very convenient to use for exporting from the CIS countries or importing into them. In my opinion, this should be the basic solution for the clients of Latvian banks. Above all, banks can render a broader range of services to locally registered companies to develop financing more actively.

Why is it more beneficial to register a company in Latvia than in any other European country, for example, in Switzerland?
There are several reasons and not just a geographically favourable location and a qualified Russian-speaking workforce. Entrepreneurs who have opened trading houses in Switzerland will notice the differences instantly. The expenses of running a business are a lot lower — premises, workforce, B2B services and flights are cheaper. At the same time, all the necessary resources are available, the infrastructure is well-developed; telecommunications and internet services are great even by western standards. The political risks are also low here. In other words, Latvia's low expenses and the well-developed infrastructure are the reasons why the business centres of many international companies are moving here including hotlines, telemarketers, call centres and help desks.

Moreover, the income tax rate is one of the lowest in the EU…
Exactly. The transfer of business management structures to Latvia is already a choice worth considering for several reasons. At the same time, it is necessary to actively attract and transfer the businesses to Latvia on a governmental level, promoting all-around economic development. Obviously, these business structures will use the services of various professionals including accountants, legal experts; the office premises sector and IT will progress, too. In addition, when trading houses or the telemarketing structures start successfully operating in Latvia, eventually some businessmen will relocate their logistics departments here, and maybe the processing, too.

And then they will move to Latvia?
That would only be logical. We can already observe this trend: entrepreneurs and some not so well-off artists are transferring their personal tax residencies to Latvia. There are plenty of reasons to move to Riga including the simple, cultured and safe environment, the availability of services, low political and tax risks. Riga is slowly becoming an intellectual centre. History is repeating itself; not so long ago many intellectuals and merchants from the Kingdom of Sweden and the Russian Empire made Riga and Jurmala — cities that were safe for living and doing productive work — their havens of refuge, if not permanently, then at least temporarily.

Not the Easiest Year

Leonīds Aļšanskis, Senior Financial Markets Analyst at ABLV Asset Management (IPAS), talks about events in the world economy and the fulfilment of specialists' expectations in 2015.

The past year appeared to be quite complicated for both the global economic system and the world's financial markets. Given the increase in the pace of the growth of the global economy from 3% in 2013 to 3.4% in 2014, the world's economic process was expected to continue accelerating. At the end of 2014, the IMF forecast that global economic growth would reach about 3.8% during 2015. According to the expectations of IMF analysts, this higher figure would reflect more significant growth of developing economies against a backdrop of the stable growth of developed ones.

However, the economic situation turned out not to be as advantageous as forecast, and in 2015 developing economies demonstrated weaker growth than in 2014. In China, the annual GDP increase amounted to just 6.9% in 2015, in contrast to the corresponding figure of 7.3% in 2014. As a result, recorded GDP growth dipped below 7% for the first time since 1990. In Russia, GDP dropped by 3.7%, whereas in 2014 it grew by 0.6%. Meanwhile, the BRICS economy grew by approximately 4.5%, whereas its increase in 2014 amounted to 5.2%. The contribution of developing economies to the world's GDP (calculated in US dollars) was also reduced by substantial devaluation of a number of leading developing currencies.

Meanwhile, the world's two largest developed economies managed to demonstrate good GDP growth in 2015. In the USA, just as in 2014, it amounted to 2.4%, while in the euro area, the pace of economy growth rose to 1.5% from 0.9% in 2014.

In general, according to the latest estimates from the IMF, in 2015 the global economy grew by just about 3.1%, whereas the World Bank estimated that this growth would equal 2.8%.

In 2015, price movements on the global financial market were substantially affected by the year's "hot" topics, as well as the economic situation. The attention of market participants was mostly focused on the activities of two leading central banks — the ECB and FRS. In March (following the corresponding announcement in January), the ECB finally launched a large-scale QE programme to stimulate lending and inflation in the euro area. In contrast, the US FRS made preparations for tightening the monetary policy throughout the year. However, the refinancing rate, which had been maintained at record-low level of 0–0.25% for seven years, was only increased in December 2015.

During the first half of the year, the Greek crisis remained a very "hot" topic, because it threatened to severely destabilize the situation in the whole euro area. Fortunately, an acceptable agreement was reached to end the crisis. The decision made by the IMF at the end of 2015 to include the yuan in the list of the world's reserve currencies was an important event for the global financial and economic system. It confirmed recognition of the Chinese economy's achievements in developing the global economic process.

In 2015, price movements on the global financial market were substantially affected by "hot" topics of the year, as well as by the economic situation.

However, markets in 2015 were negatively impacted by a series of events related to terrorist attacks and the influx of refugees into Europe, the increase in the activity of ISIL in Syria and Iraq, and the confrontation between Russia and Turkey resulting from the shooting down of a plane.

Responding to all these processes and accumulated internal imbalances, the global financial market was very nervous and volatile in 2015, experiencing intermittent price surges and drops, while a decline in prices definitely prevailed for commodities, as well as for the currencies of emerging countries. The financial markets of oil-producing countries were also struck by the continuing substantial decrease in oil prices during 2015, as prices fell below the minimum values of the crisis in 2008.

However, at the beginning of the year, there were no signs of those problems, and the global stock market started the year demonstrating confident growth. Moreover, in Q1 many leading indices, including the world one, reached new historical maximums several times. Nevertheless, in April–May the market experienced a correction in the form of a fall in prices, which became particularly pronounced in August–September, and the leading indices were therefore pushed below their maximums by 10–30%. A rapid drop in the prices of Chinese stocks, as a result of which the indices lost almost 50% of their value during June–August, caused much noise and trouble on the global market. Consequently, global stock index MSCI WD ended the year with a decline of 2.7%. This was the second instance after 2011 of the stock market closing the year with a decrease, having demonstrated powerful growth since 2009. The emerging market index MSCI EM declined much more in 2015, losing 17% — mostly because of a substantial decrease in the rates of emerging currencies against the US dollar.

For the global bond market, the year turned out to be very complicated and volatile. Strong growth in the prices of government bonds of euro area countries at the beginning of the year (following the QE programme announcement by the ECB) resulted in the negative yield of all German bonds, including 9-year ones, in the middle of April. However, an even stronger decline in prices and increase in yield of these bonds followed (the growth of 10-year ones ranged from 0% to 1%!). Such deformation and volatility of the market, which is considered to be a "safe haven" for investments in euros, greatly complicated the management of even the most conservative investment portfolios.

2015 was also a very difficult year for commodities markets, especially those in precious metals and oil, where prices fell from 11% for gold to 29% for palladium and 35% for oil.

Many leading developed and developing currencies around the world demonstrated a similar decline against the US dollar, ranging from 10% for the euro and yen to 20% for the rouble and 33% for the Brazilian real.

All this significantly complicated investment operations on the financial markets last year. However, experienced investors were able to overcome those difficulties and demonstrate good results in 2015. This is absolutely true for the specialists managing our bank's investment portfolio.

In the first half of 2015, the export of services increased due to the Latvian Presidency of the Council of the EU.

The Latvian Economy: Focusing on Growth

Māris Kannenieks, ABLV Bank Chief Financial Officer, talks about what the year 2015 was like for the Latvian economy, what happened to exports, and why the value of money has decreased.

Despite the tense geopolitical situation in the region, the Latvian economy continued to grow in 2015. Latvia's Gross Domestic Product (GDP) grew by 2.7% compared with the previous year, and this increase was above expectations.

The shrinking amount of exports to Russia was compensated by growing exports to many EU countries, Asia, and the USA. Moreover, the export of services was facilitated by the Latvian Presidency of the Council of the EU during the first half of 2015.

Given the aforementioned economic growth, the situation in the labour market also improved. A considerable increase in jobs was observed in the service sector including commercial and social ones, healthcare, food service industry, and domestic services. In contrast, the most rapid decrease in jobs was in the processing industry, in particular, in food production, especially fish processing, clothing manufacturing, construction, and the public administration sector. Ultimately, the unemployment rate has decreased: as at the end of the year, it amounted to 9.9%, which is 0.9% less than in the previous year.

Inflation remained low and continued to decrease — its average level was 0.2% over 12 months. Internal factors, such as reduced taxes and electricity prices, largely compensated for external factors such as decreasing oil and agricultural goods prices.
According to Bloomberg data, the prices of raw materials on average dropped by 25% on the global exchange in 2015, while the Bloomberg Commodities Index reached the lowest level since 1999.

The increasing pace of economic growth and climbing retail turnover during the final months of the year allow one to forecast that overall economic growth will be more rapid in 2016, possibly reaching 3.2%.

ECB monetary policy, liquidity, and money markets

Latvia has now been a full member of the euro area for two years. At the beginning of 2015, the ECB Council made the decision to extend stimulation policy measures, under which a new programme of purchasing public sector securities was launched, and this, in turn, has substantially decreased the interest rates of the whole euro area, including those of Latvian securities and the money market.

Interest rates of money markets in the euro area continued to decline in 2015, reaching new historical minimums. Since April, the 3M Euribor indicator has been negative.

In 2015, the ECB continued the Targeted Longer Term Refinancing Operation (TLTRO) auction programme started in 2014. The principles of the TLTRO programme are based on granting new loans to credit institutions, which in turn are able to borrow more from cheap long-term resources of European central banks for further financing. From September 2014, the Eurosystem held quarterly auctions for euro area credit institutions, and these will be continued until June 2016 (reaching a total of eight), ensuring the opportunity to borrow European resources providing corresponding assets as security and paying just the refinancing interest rate, which currently equals 0.05% (from March 2015, the Eurosystem has ceased to apply a margin of 10 base points to the main refinancing interest rate). Under first five auctions, the Eurosystem has lent EUR 399.4 billion to credit institutions of the euro area, including EUR 220.5 million lent to Latvian credit institutions.

Record-low rates of Latvian government securities

The stimulation policy of the ECB allowed Latvia to issue securities with historically low rates on both the internal and external market. Moreover, on 15 April 2015 Latvia joined the small group of "prestigious" countries that have issued government notes with negative rates. Latvia has also issued bonds with historically low rates on international financial markets.
On 8 December 2015, the Treasury of Latvia, taking advantage of the unique situation on financial markets, under the public debt management, partly refinanced the debt obligation undertaken in US dollars for eurobonds with the respective maturity. A favourable situation for purchasing the bonds in US dollars was formed by substantial differences between Latvian bonds in the US dollars and the credit risk premiums of eurobonds existing on financial markets. Therefore, this transaction resulted in decreased medium term public debt servicing costs.

First Latvian Presidency of the Council of the EU

Every six months, the EU member states alternately become the presiding countries which regulate the work of the Council of the European Union. The Presidency allows each of the EU member states to set the agenda and guide the work of the Council, regardless of the size of the country and the time of its accession to the European Union. For our country, the presidency in the first half of 2015 was special not just because of the high responsibility involved, but also since it was the first time Latvia had to take decisions on an all-European level. The overall success of our presidency can be discussed in detail, but one thing is sure: this was a great international experience for the country in the political, social, and economic area.

Growth Is Always There if You Look for It

Despite the fact that 2015 was not the easiest year for the economies of both Russia and Latvia, ABLV Bank has managed to find growth opportunities, and in 2016 plans to increase the amount of granted loans by EUR 200 million. Oļegs Sirotins, Head of ABLV Bank Financing Division, tells about new products and the reasons why clients are interested in cooperating with a Latvian bank.

How was 2015 for your Russian clients?
Very difficult. We are working with them in the commercial property segment. Due to the depreciation of the rouble and the decline of commercial property values, generated revenue fell by half.

Normally, this should have led to a massive crisis of non-payments of loans…
But it didn't. Although our "safety cushions" laid down in the loan projects, i.e. a moderate proportion of financing, extended payment schedule and others, sometimes it might fail, given the extent of the economic changes. However, we initially choose the clients very carefully. Commercial property is not the only and often not even the main activity for them. That is why they can subsidize these projects not only from savings, but also from other businesses like trade and production. We hope that the situation will change by the end of 2016.

Where does this optimism come from? The signs of the Russian economic slowdown could already be seen in 2013 — even before the sanctions.
It is about the extent of that slowdown. In 2013, our clients hoped to develop and expand their business. The sanctions played a crucial role: we need to look no further than Moscow, where French and Italian restaurants are being closed one after another and replaced by home-grown pizzerias.

Is the urge to leave the Russian market for Europe noticeable?
The clients I have spoken to are not going anywhere. They believe it is just a temporary fall in the market. Diversifying the risks by buying or establishing some business in Latvia or any other EU country is a different story. However, these clients are not going to leave the Russian market completely. They are determined to overcome the hardships, which should end, sooner or later.

So, sooner or a bit later?
Many do not expect anything good from 2016, except when trying to impress someone by talking about potential growth. However, some die in war, and some profit from it. Crisis is an opportunity to participate in the redivision of the market and to increase your share in it.

Crisis is an opportunity to participate in the redivision of the market and to increase your share.

And did other investors move to Latvia instead of Russians?
We work with German and Italian investors. However, I would not say that they have replaced Russians in quantitative terms.

What are they interested in?
High quality commercial properties. Especially in areas with a high concentration of international representative offices. By the way, we are also seriously working with investors from Lithuania and Estonia; they are developing quite high-profile projects here.

In your opinion, why is the success of Lithuanians in our market not matched by our success in theirs?
It seems that Lithuanians not only work more actively, but are also more united. They support each other, which greatly increases the chance of a company to succeed abroad. For example, when opening a retail network, Lithuanians always sell Lithuanian goods there.

For Russians, confidentiality has always been considered as one of the advantages of working with Latvian banks. Will this advantage disappear after the Financial and Capital Market Commission's announcement about the auditing of Latvian banks by Americans?
In today's world, it is impossible to not participate in the general globalization process, including the globalization of fiscal control. It is important that this process does not take away any of our advantages over the competition from other countries, but places us on a level playing field. In fact, Switzerland's banking secrecy, which it was renowned for a decade and a half ago, is long gone. Nowadays, Latvia can offer clients same services as Switzerland.

Ukraine, Belarus, and Kazakhstan — do you plan on increasing your presence in these markets in 2016?
In 2015, after some time-out, we decided to resume loan services to Belarussian businesses. However, just like Russians, clients from Belarus are currently reluctant to take hard-currency loans. Ideally, such a loan is useful for an entrepreneur, who has foreign exchange earnings. This is not that widespread in Belarus. And with the changing rates of Belarussian rouble, the scenario of Russian crisis is bound to be repeated.

Ukraine is out of the question for now, although, if the situation does not deteriorate any further, at some stage we could offer trade finance to our clients.

Your bank's new offers in 2015 involved trade and cargo ship financing. How popular were they?
Even more than expected. We did not make unrealistic plans to fill half of our loan portfolio with them, but today we have serious and interesting projects in both trade financing and shipping. Moreover, they involve the bank's existing clients.

All we had to do was to offer these instruments, and they were happy to use them, despite the fact that we significantly increased the requirements concerning shipping, in regard to both the age of the vessels and company size.

Are the traditional views of Latvian business, that you have to go to Scandinavian banks for "long money", shifting?
Compared to the situation five years ago, they have changed substantially; although not enough to say that the problem is a thing of the past. It is hard to pinpoint the reasons. Maybe the client of the Scandinavian bank is a client who is ready to communicate and be liable to a faceless organization. Maybe, he likes the fact that he will not have to look away when meeting the bank's owners on the street. However, there are clients who prefer a different approach, and they come to us.

Are the owners of Scandinavian banks changing often?
It is not so relevant now, but before the collapse of 2008–2009, Scandinavians attracted clients with cheapness. However, when the problems started, and everybody suffered them during the crisis, the client was left one on one with the same faceless organization, which, in turn, negotiated loan restructuring with him like one of their many faceless clients. Perhaps, he assumed that he has a name, reputation, credit history, and the ability to appeal somewhere. However, with Scandinavians it almost never goes further than that. An order came down from "above" and everyone ran in the new direction. Sometimes the same people, with whom the client had a pleasant chat some time ago, cause a lot of inconvenience afterwards.

A client can always come to us and share his ideas and get some advice. We meticulously scrutinize the client when starting a common project. Some are very confused by this. However, after that, we can react immediately to any changes in the project.

Considering the size of our bank, now we can offer large businesses much better conditions than Scandinavians.

You announced a EUR 200 million loan budget for 2014, and EUR 120 million for 2015. What figure are you planning for 2016?
If we account for all directions — not less than EUR 200 million. In our opinion, these plans are realistic, considering the growth possibilities that we have today. If we talk about trade finance, EUR 50 million covers only about 5–10 clients. The standard price of shipping projects is about EUR 5 million each.

Nowadays, Latvia can offer clients same services as Switzerland.


VIESNICA
Wellton

Wellton Hotel Riga in Old Riga is the chain's fourth hotel rebuilt with funding from ABLV Bank

Our current size and resources allow us to finance a project of almost any scale in Latvia.

We are still ready to work with commercial property, but in Russia the demand for hard-currency loans has significantly decreased, because few people have stable sources of currency earnings now.

As for Latvia, the market is very limited. For now, there are no ambitious plans to develop or purchase some large facilities in which we could participate.

What are the current interests of investors in the field of commercial property in Latvia?
There are plans to build hotels, a new warehouse complex construction project has been launched, and several deals on purchasing Class A office buildings priced at EUR 15–20 million are in the pipeline. I have not heard about any plans to expand commercial areas.

What about the industrial sites?
There are enough of them. Given the latest technology, they take up a lot less space — former factories, where communications, electricity and gas are already available, are sufficient. I do not know if Latvia will ever again have huge factories, but current production worth EUR 1–5 million can fit into half of the first floor area of our head office. 5–10 people, everything automatized — there is no need for more.

Of course, everything depends on the capabilities and wishes of the client. Our current size and resources allow us to finance a project of almost any scale in Latvia. Thus, I would encourage Latvian and foreign clients to consider the options for financing their business at ABLV Bank. That is possibly the best choice.

Relationships that Stand the Test of Time

Staņislavs Zabrockis, Head of ABLV Bank Customer Relations Development Department, talks to Sergejs Mazurs, Head of ABLV Bank Product Development Division, about bank's long-standing cooperation with its partners, the basics of effective teamwork, and the importance of human factor in the business relations.

Speaking about the bank's partners, let's clarify, who are they?
First and foremost, they are law firms, consulting companies, and law offices — agencies, which provide legal counselling, accounting and auditing services, as well as other legal services (lawyers etc.). In short, everyone who helps entrepreneurs to conduct their business. Certainly, among our partners, there are large legal and consulting companies, as well as private consultants, who are also actively operating in the market.

Many years ago, we began cooperating with several companies. Initially they were the clients of the bank and then they started recommending us to their clients and partners. That is how we gradually acquired loyal long-term partners. Relationships are not built in a day, it takes many years.

How do you manage to maintain business relations with a great number of companies from different fields and different locations? Besides you, there are only three employees in your department.

From left to right:
Sergejs Mazurs and
Staņislavs Zabrockis

Our relationships with our partners are based on trust that has been tried and tested over the years and, sometimes, under not the easiest circumstances.

Yes, we work effectively! *(Laughs)* Considering the vast range of geographical locations and the number of partners in the surrounding and CIS countries, we have truly learned to handle our duties in a calm manner. On average, each of us services about 100 partners. Believe me, that is a lot. We have to meet regularly with each one of them and inform them about the latest news. That is why we hold an annual large-scale conference for our partners, during which our senior executives speak about important issues, plans, development strategies, and of course, listen to the opinions of the delegates.

To keep their finger on the pulse?
Yes, but not only because of that! We share the important issues with our audience and are open to dialogue. You know, to understand the market, you have to hear it and feel it. We get what is called a "field report".

Such meetings have already become a good tradition; they are helpful not only in regard to sharing experience and knowledge, but also in bringing people together. Our partners gladly communicate not only with the bank's representatives, but also with each other. They have become good acquaintances, if not friends. A good atmosphere helps in work and in life as a whole. We spend so much time at work — it is important to feel good while communicating. In 2016, the 10th anniversary meeting with ABLV Bank partners will take place. This is a highly-anticipated event not only for us but also for our partners. Just imagine — people from various countries have been coming to our meetings for ten years, sharing their experience and discussing the most pressing issues. If we analysed the topics discussed in this period, we could see the evolution of the financial sector. Ten years ago, the most relevant issues were investments, funding, and short-term loans, but nowadays the topics are completely different: compatibility, regulations, as well as automatic exchange of information. The world has changed, and we have changed with it!

I want to add that we also actively participate in international conferences dedicated to business management, asset security and international law. In doing so, we not only uphold our professional image, but also promote Latvia as a country where you can run a business effectively, openly and lawfully. We are working on all fronts…

So, without spending a fortune on advertising, we are leading a "guerrilla" campaign? Why do our partners want to do business with us? Why is ABLV Bank so attractive to them?
I would like to emphasise this right away: advertising alone can only yield short-term results, but we are working for the long run. We have never focused on rapidly increasing our client base — the exact identity of the client has always been important. It is unlikely that advertising alone would get us high quality clients.

The recommendations of lawyers, consultants and auditors are a lot more important than even the most colourful banners. The recommendations of experienced and professional people, who value their reputation, are as valuable as gold!

Our bank appreciates long-term cooperation with reliable professional partners and is ready to invest our time and resources in these relationships. Besides the conference's comprehensive informational programme, in which our senior managers speak every year, we also prepare an interesting entertainment programme. We want to not only share our experience, talk about important issues and hear the opinions of the clients and partners, but also to communicate in informal settings. Sometimes, the informal conversations lead to better understanding of the partner's aspirations. The human element is also important — when you know people personally, it is easier to trust them and start cooperating.

And, above all, — our reputation, our knowledge, our relationships with the clients, with whom we have gone through so much together, speak louder than words — they are our best advertisement. Our relationships with our partners are based on trust that has been tried and tested over the years and, sometimes, under not the easiest circumstances. They recommend us to their clients, because many have known us for 20 years. Together we have overcome multiple crises, done so with dignity, and without offending anyone.

Let us remember the bankruptcy of one of the largest security holders — MF Global UK, when the bank took on all the risks from the clients, when it could just as easily have transferred them to the clients, as many others did.

In your opinion, what are the main components of a long-term cooperation with partners?
Knowledge and trust! First, they trust us… The best demonstration of our partners' trust and confidence in our professionalism is that a lot of them are also the clients of our bank, and therefore know our operation mode "from within". It is easier for them to understand the internal mechanisms of the bank; how we operate here. Similar to other clients, they communicate with their private bankers, use our online banking services and know many nuances of our document management, which an outsider would know nothing about.

This knowledge allows them to recommend us for cooperation with confidence, because they have first-hand experience of our internal processes. They can show the potential client how the online banking works, explain, how fast the money transfer and how the conversion process works — they know about the operating conditions and all the latest developments.

Do you plan to expand the partner list? What criteria are we using when looking for them? Moreover, who finds whom: the bank finds the partners or vice versa?
Thanks to many years of experience and reputation, the clients recommend us to others and people reach us with offers to cooperate. However, we take the screening process very seriously, and before making the final choice, we collect the necessary information and run a check-up. Our potential partners need to be professionals in their field, have an impeccable reputation and operational background. Previously we worked for our reputation, now it works for us! *(Laughs)*

So, it is not that easy to become a partner?
Becoming a partner of ABLV is a privilege in its own way. However, when all the initial steps on formalizing the relationship and screening are taken, and we see that the required level of responsibility is there, we are ready to cooperate.

The annual international conference for ABLV partners

From left to right: Igors Šlivko, Aleksejs Savko and Mihails Ponomarenko — senior executives of ABLV Bank Corporate and Private Clients Service Division

I Have a Creative Job

How should a real banker look like? The answer is highly dependent on what kind of relationships the person asking this question has with the bank. In films, bankers are shown as rulers of the world, dull beggars, or villains and crooks. When thinking about bankers with whom we want to have business, other connotations spring to mind: they are reliable, honest, friendly, able to protect clients and their capital. If you look at banking from this point of view, it appears that Igors Šlivko, Deputy Head of ABLV Bank Corporate and Private Clients Service Division, is a classic representative of that kind of bankers. Tall and fit, with a firm handshake and a flawless smile. Usually people trust their money management to exactly that kind of personality.

What profession would you choose if decided not to become a banker?
A football coach.

Why not a player?
I believed that playing football is not a serious profession: players only follow the rules, but the coach is the one who really plays the game. Moreover, to become a coach one needs special education. Besides, I wanted to receive education. Generally speaking, I had a plan.

And what spoiled your game?
When I first thought of who I want to become, it was still the Soviet Union.

I had been professionally playing football for ten years and even achieved some success, I had my superplan and joined the army being confident that after my return I would implement everything. However, when I came back... It was a completely different life: everyone was commuting with bags and suitcases, earning money.

In short, the 1990s came...
Yes. I returned from the army in 1991. I joined the armed forces and left the country with social guarantees and a transparent career ladder with obvious promotion: one step, another, then the third one. Education was free, and after the university, whatever it was, the system guaranteed you a workplace... I returned to a completely different country. Where no one cared about me.

So, you were forced to reject your thoughts about a football career...
All in all, yes.

But at those times normal banks did not even exist!
I did not think about banking! And I did not have any certain plans. I was obsessed with the only idea: it was necessary to do something to live, to continue existence. After all, everything I was used to, crashed right in front of my eyes: the Soviet Union collapsed, new borders appeared, and even money was new! It was totally different reality.

Did it scare you?
It might be difficult to believe, but the army experience helped me to pull together and spy out the land. Unlike many others, I do not think that the army was useless. I do not remember anything terrible from the military life, besides feeling homesick in the very beginning. The army has its own specifics: if you accept the rules, if you have a backbone, the service will improve your skills and make you better. People who served in the army know the value of words, acts and promises. And they know what discipline is.

These are the basic principles of work in a bank.
These are universal human rules. Clearly, they are valued in the bank as well.

What did you think of working at a bank at that time? As of something boring, like any common person?
I think that in 1980s, both in the Soviet Union and abroad, people did not dream about working at a bank. Many even now think that bankers are cold fish, and work at a bank is a pure routine. I can tell you as an insider: in today's world, there are not a lot of places with such dynamics of development.

It is hard to believe that one can be so enthusiastic about working in the banking sector.
I was lucky in choosing the bank. Besides, I did it at the right moment. When I came here, our clients service department was being formed. You cannot even imagine how great it was to feel a pioneer. After all, what was in the very beginning? Our department mainly received calls from people who did not have a modem or the internet, not speaking about the internet bank, and computers were not so common. However, these clients had already accounts. Therefore, they called us to find out what happened to these accounts; they asked about inflow and outflow, balance, transactions and so on. We had a dial-up connection to the internet with an incredibly complicated access system and passwords. And a big computer.

The age of dinosaurs. Just a little more than twenty years passed!
Believe it or not! Twenty years ago, all our duties were giant paperwork. We wrote the codes confirming that a client made such-and-such order. To confirm we put a stamp. After that we took this paper to the dealing department, where they checked whether we could carry out such an order (one more stamp), then — to the control department (a stamp), and finally, to the billing department (another stamp). Can you imagine?!

Our history and reputation speak for us, as well as an ability to deal with difficulties during global financial crises without losses and nervous moments for our clients.

Sometimes clients came to the bank. Their visit was also an adventure. At those times, the bank owned only the first and the second floors of the building at Elizabetes Street. I remember a huge elevator and a wide staircase, where our employees used to have smoking breaks. Other staff was running around and shouting something into the radio-telephones (then it was ultra-modern, because mobile radio telephone replaced the landline phones, but modern cellular phones were not yet available). And through this smoking and shouting crowd of employees our clients were coming to us. Now it is hard to imagine! It was fun.

So to say, a technological revolution took place right before your eyes.
The banking revolution as well! For example, I remember the times when entrepreneurial activities started to boom and a demand for borrowings appeared. New commercial banks had to develop loan programs from scratch. That was the time when I first learnt about overdrafts.

And what was the most impressing change?
Everything was impressive. However, if you need evidence, simply come to the bank. I just told how it was in the late 1990s. And what about now? Look, large open bright space without false conventions: on this side there is the bank, and on the other — the client. There is no Great Wall of China between the bank and the client. Moreover, transparent glass is everywhere. And here, on the ground floor, is a conference room, where the board often holds its meetings. It is located right in front of the Cash Department, so people, who come to the bank, see the management and shareholders, who are working with their money as well. Nothing happens in the secret room under lock and key. We are transparent in our work. This, in my opinion, is the most important difference between the second decade of the 21st century and the end of the 20th century.

Do you need to explain to your clients that your bank is the best?
Our history and reputation speak for us, as well as an ability to deal with difficulties during global financial crises without losses and nervous moments for our clients. Therefore, there is no need to tell anything else about ourselves. All our cards are laid on the table.

Your work is highly dependent on your clients. It certainly implies an emotional element. How do you deal with it?
A lot depends on the first interview that is held when a person comes to us willing to open an account. Perhaps, this is the most difficult moment. Because we, as the bank, want to learn more about the person who is about to become our client, and he / she, like any normal person, wants to tell as little about himself / herself as possible. It is a challenging situation. And our staff has to be really skilful, on the one hand, to do their job, and, on the other hand, not to get the client miffed.

The presentation of the
winter product release for
the team of private bankers

Questions need to be asked. Of course, you can just chat about weather, but it will not open you an account!

Our questionnaire is detailed; the questions are determined by increasingly repressive global banking rules. Sometimes people perceive these questions as an intrusion into their private life. However, we ask all these questions just to find out whether the person possesses all the necessary: income, business, and reputation. By opening an account, the bank acts as a guarantor to the global banking system for its client, proving: this is a reliable partner.

How would you comment on the saying, "your friend's friend is my friend"?

In 1990s, opening an account based on the information provided in the documents sent by fax was possible. Not anymore. We might be glad to take people's words, but the global financial security, especially after the terrorist attacks in America and other bleak events, has changed dramatically. No one takes the words for granted. Now banks implement "know your customer" policy, and it only increases the number of questions. In theory, one can ignore these rules, shake hands and open an account only because a nice smiling person came. And further make on it much more money, right?

Yes.

Actually, no. These earnings can lead the bank, the client, and all the other clients — what is very important — into big troubles. Therefore, we, on the one hand, are trying to create maximum comfort for the client, on the other hand, support the necessary sufficient level of bank security, which guarantees our embeddedness in the global banking system. There, our bank is under the supervision of the European Central Bank. We, as all major European colleagues, are put in the unified global banking system.

It is difficult to disagree, but any client wants to be the one and only for the bank: to be known by name, to stand out from the crowd, and to be of high priority when it comes to his or her problems... It seems that modern multinational banks cannot afford it. Do you think the requirement to individualise is an old-fashioned fad?
Do not say that! We aim at the long-term relationships, so we love every client. A special working group consisting of three private bankers services each of our clients. The group includes a senior private banker and two assistants. In fact, these are the only people a client should know.

Unbelievable! These people definitely know some stories worth the Golden Globe Award for the best scenario…
Surely! However, there is neither time nor moral or professional rights to put these stories down — and there are enough for a dozen of films. (*Laughs*) Nevertheless, I must say that I cannot share any! But, regarding the practical part of your question, it is very convenient when the same private bankers service the whole family.

Apparently, the degree of understanding client's problems sometimes is so high that, in theory, you should become the closest friends.
Our communication is fairly tight. When a client calls the bank, he / she knows exactly whom he / she will speak to. Among the professional responsibilities of a private banker is the necessity to know about his / her client as much as possible. We often organise closed events for our clients. It allows establishing friendly relations. Besides, our private bankers often visit their clients, sometimes up to five or six times a year. For example, when an issue cannot be resolved by phone, as people are afraid of the data leakage, our private bankers pay visits to clients.

The moment when you come to meet your client is very important in building the relationships. Firstly, the client appreciates that the bank's representative made a special visit. Secondly, the private banker can see the situation on spot, is able to evaluate the production and business. Thirdly, during the time spent together it is easier to focus on issues and find the best business solutions.

We, as all major European colleagues, are put in the unified global banking system.

Among the professional responsibilities of a private banker is the necessity to know about his / her client as much as possible.

Such trips are quite expensive, aren't they?
You know, there are things on which it would be strange to save expenditures. Our policy is "know your customer". And if a client cannot come to Riga, it means that we must go to him / her. One of the bank's tasks is to understand what the client does for a living.

In other words, compared to the football coach career, banking sphere is not so boring.
Definitely. Although if someone had told me about it twenty years ago, I would not have believed it. Of course, there are moments when you have to focus only on dry figures and work with papers. The global trend gives less freedom, makes any activity more regulated, and puts everything into new frameworks... However, if you can follow the rules and deal with them, you can relax and enjoy creativity. Yes, exactly creativity! It appeared that I have a creative job.

What were your thoughts at the turn of the year?
I saw that the next year would not be an easy one. Business would not develop fast. Nevertheless, we have already experienced it before, we just need to ride out. And we can do that. This is exactly what I say to our clients if they ask about this year.

Do they ask?
Of course. Each day springs surprises. In Russia, for example, every day banks are being closed, and it indirectly affects Latvia. There are new regulations and statutes, but it is not clear yet how to apply them. We need to understand how to do what we are accustomed to alongside with all these new laws. However, we gradually sort it out. In this sense, I am confident both in myself and in the bank in which I work. Moreover, when people come and ask me about the future, I calmly reply: "We will live under the new rules. And that is it."

Our Investments Allow Us to Sleep Peacefully

In terms of the size of its assets — worth about EUR 5 billion — ABLV Bank became the second largest bank in Latvia in 2015. Māris Kannenieks, ABLV Bank Chief Financial Officer, reminds us that asset management is a great responsibility.

What is your asset management strategy and is it effective enough?
First of all, it is important to be responsible for those investors, who have entrusted us with their money. I shall note that every year trust in us is increasing, as evidenced by the increase in deposits. The strategy used while managing these funds has been conservative from the start. We understand that our investors are mostly nonresidents; they are not tied to any bank or a country. They can have accounts in Latvia, Switzerland, Hong Kong, and Singapore. That means we are competing not only with other Latvian and Baltic companies, but also on a global scale.

It is important to remember that deposits can fluctuate, which is also one of the basics of asset management. If we analyse the past, we can conclude that we once made a faulty decision, because we got carried away by mortgage lending. In 2005–2007, we invested most of the bank's assets in an asset that turned out to be nonliquid and had a long maturity period. However, for the last few years we have kept our assets structured in a way that the securities portfolio is the largest. Now it comprises 53–54% of the bank's assets. The remainder is split into equal parts: the loan portfolio forms about 20% of the total assets, and the rest is the bank's money in the interbank partner accounts (in other banks), which are completely liquid funds. We can definitely increase the share of the loan portfolio and decrease the share of the aforementioned available funds. When it comes to lending, we have been holding a conservative position since the crisis, although, compared to other Latvian banks, where loan portfolios keep falling or else remain at the same level, we have achieved an increase in our loan portfolio during the last three years.

You mentioned that the securities portfolio has become ABLV Bank's biggest asset. How did you achieve that? What is your future vision in this regard?
Above all, 20 years of experience helped a lot. Given that the outside world is open for our clients, we always need to consider the risks, which is why our securities portfolio is notable for its high liquidity. One might even say that the main principle of ABLV Bank was to always keep the major share of the securities portfolio as liquid as money in the account.

The second principle is to increase asset quality. For example, there are not a lot of banks in the world that can boast high credit ratings. Their positions have weakened for various reasons. That is why it is safer to keep money in the form of some country's securities than investing it in another bank.

The rating of state-guaranteed securities is a lot higher than the rating of a bank where you can your keep funds, which has a BBB rating at best. Thus, we can achieve higher quality assets by investing in these securities.

Thirdly, it is also important that you can make some profits from securities. It is not the same as keeping money in an account or in other bank deposits, where negative rates in euros have become a regular occurrence. Our bank stands out with the fact that 60% of client deposits are in US dollars, which have higher interest rates. This is an advantage for us, because we can get higher profitability compared to keeping our resources in euros.

As I have mentioned, our securities portfolio's control strategy is conservative. We organise it in a way whereby the portfolio remains stable under stressful conditions, because the profits and bank's capital may depend on it. Nevertheless, by having such a large securities portfolio, we cannot afford to have its value fluctuate even by 10%, since we're talking about hundreds of millions of euros. Therefore, 99% of our securities portfolio is invested in bonds, and less than 1% is invested in stocks. This is not because we do not like stocks as an asset, but because they are an investment whose value is a lot more volatile than that of securities or fixed income bonds.

How long are the maturity periods?
It is clear that in the context of fluctuations, maturity periods are important. Even minor rate fluctuations can cause a sharp change in the value of a fixed income bond with a long maturity. That is why we are committed to another principle, i.e. that the securities portfolio cannot have long maturity periods. The average maturity period of our portfolio at the end of the previous year was 2.48 years. This does mean though that we are exposed to a small risk of interest rate hikes. Although we do not think that rates are going to rise in the US; if they do, the damage to us will be limited and will have no substantial impact on the bank's financial results.

Nevertheless, our securities portfolio is diversified in terms of issuers and maturity periods, as well as in terms of cash flow. If rates increase, we can invest liquidated funds under new conditions. Thus, we can negate potential damage, invest at higher rates and receive higher interest returns from new investments.

To summarise, I will say that this strategy has produced excellent results both in recent years and overall. We have always been in the black. In 2015, the average profitability of the securities portfolio was 1.82%; including the unscheduled VISA International implementation deal — 2.27%. This does not seem like much, but it is nevertheless a substantial result for such a conservative portfolio, especially considering the situation with low rates on the financial markets.

What do you invest in? How is the structure of the portfolio divided according to security types and countries?
As for the portfolio's quality, 91% is invested in investment grade securities. In addition, as much as 75% of the portfolio is invested in securities with a very high rating (AA- and higher). In recent years, we have successfully invested in US Treasury securities, at a time when rates were high, and prices were low. If we look at them in terms of their distribution on a country by country basis, the largest share — 36% — is invested in US Treasury securities, which is understandable, because the US dollar is the main currency of our clients. Moreover, returning to liquidity, there are only two "super liquid" securities at the moment — US and Germany government securities. That is why our second largest investment is German government bonds, which comprise about 14% of the portfolio.

The loss of liquidity in the last three years is related to increasingly strict regulatory measures, which prohibit banks from holding large trade portfolios. The aim of these measures is to limit speculation in order to avoid a repeat of 2008, when banks took large risks through the use of financial instruments. However, now the regulation of this sector has led to the other extreme, namely, banks cannot use financial instruments for trading, because as soon as someone decides to buy or sell something, the prices change sharply.

Therefore, the majority of banks have chosen the "Buy and Hold" strategy. We have also been using this strategy for a while now. We buy securities, which we are ready to hold until maturity. In this regard, our strategy is aligned with that of other banks. Everybody understands that it is pointless to actively trade during this period of low rates, because the spread — the difference between the purchase and selling price — is affected by the loss of liquidity and increased regulatory measures, and has become so big that it eats away a sizable chunk of the potential returns.

Do you also invest in Latvia?
Of course. We have invested an additional 10% in Latvian government securities. We are the primary dealers of the Latvian government, that is, we have an unwritten obligation to participate in any emission of Latvia's government securities. Latvian bonds have ensured a large share of our portfolio's profits, because when we began purchasing them on the market, the rates were not that low. Now the Latvian government can also issue loans for six months with negative interest rates.

We also invest in Canadian and Swedish securities, and the top six regions that we invest in are rounded off by Russia. We believe that we are experts of this country's market. Thanks to our investments in Russian securities, we were able to overcome the crises of 1998 and 2008.

The control strategy for our securities portfolio is conservative.

Thus, we have an approximate understanding of which issuers are safer to invest in. Now, the economic situation in Russia is difficult, which is why we are not investing in mid-size companies, as the crisis is affecting them the most. As a result, we are choosing issuers of higher quality. These investments are very profitable now, which helped us at the end of 2014, when oil prices plummeted and the rouble lost its stability. Then we decided to make additional investments in this country, hoping that the prices would reach the former level within a year, given that it took about 12 months for the most high quality securities to return to their former level in 2008. It turned out that we made the right choice. Of course, we have set a limit for investments in Russia, which we do not exceed. You need to consider that investments in this country are risky. They are additional sources of revenue to us — the primary investments are made in Germany and the US. Thanks to these, not only can we sleep peacefully at night, but so can our clients.

What about stocks?
We do not have any alternative investments in our securities portfolio. However, we take part in AmberStone Group — a company established to separate investment operations from private capital. We have invested EUR 8.8 million in it, and its total capital amounts to EUR 35 million.

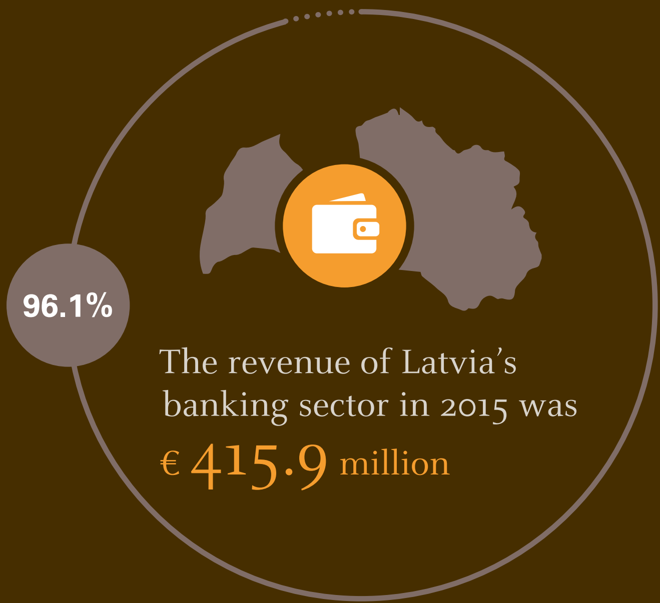
I could also mention the investments in the companies of Pillar Group, which was established in order to separate the bank from real estate operations, which emerged in the wake of the inability of debtors to pay their mortgages. Now we are close to the point where all the previously exempted properties have been sold. As a result, our expertise in this field has grown, and Pillar became a springboard for business that we do not think is compulsory anymore. We have also established Pillar Investment Group, which is a company that will invest in real estate (mostly commercial).

Once again, I would like to point out that in both cases this is not about our securities portfolio, which consists only of investments in publicly sold financial instruments. Our requirement is that the portfolio has to be liquid, so we can sell the securities, or find out their price at any moment. By doing so, we have no problems with audits, because everything is on the surface, and the price of particular securities can be easily compared to, for example, figures available on the Bloomberg platform.

There is an opinion that money from ABLV Bank could quickly flow to other banks under certain circumstances. What can you say about this? What is being done in this respect?
I think that many years of working with our clients have proven to them and us too that we can provide the highest level of service, akin to that of the world's leading financial centres. That is why clients hold their money here, and total deposits are increasing after the crisis. Twice a year, we conduct so-called stress tests. That is how we check our liquidity under various circumstances.

The Revenue of Latvia's Banking Sector in 2015

The share of total banking sector assets



The revenue of Latvia's banking sector in 2015 was

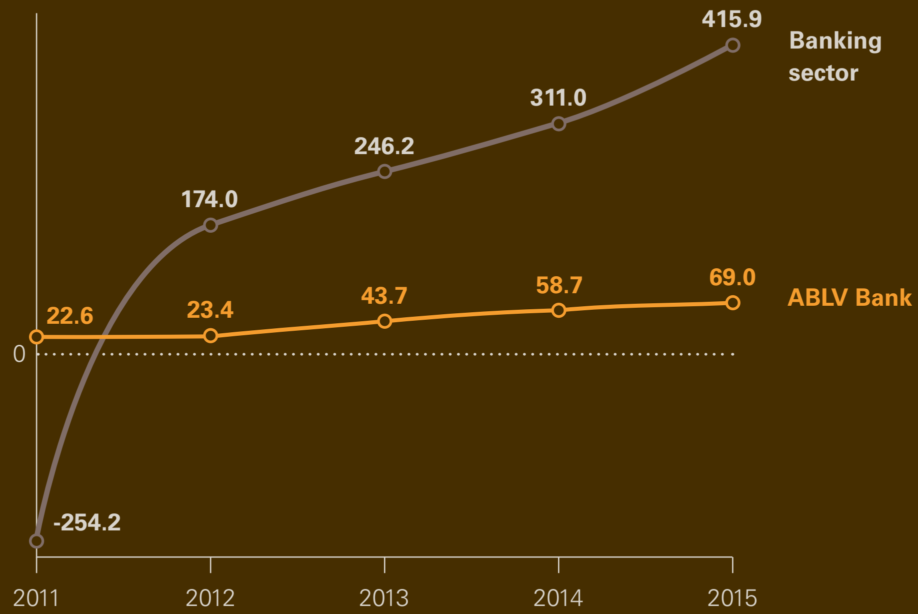
€ 415.9 million

Operated at a profit

15 Latvian banks

5 branches of foreign banks

Profits for the last five years, EUR million



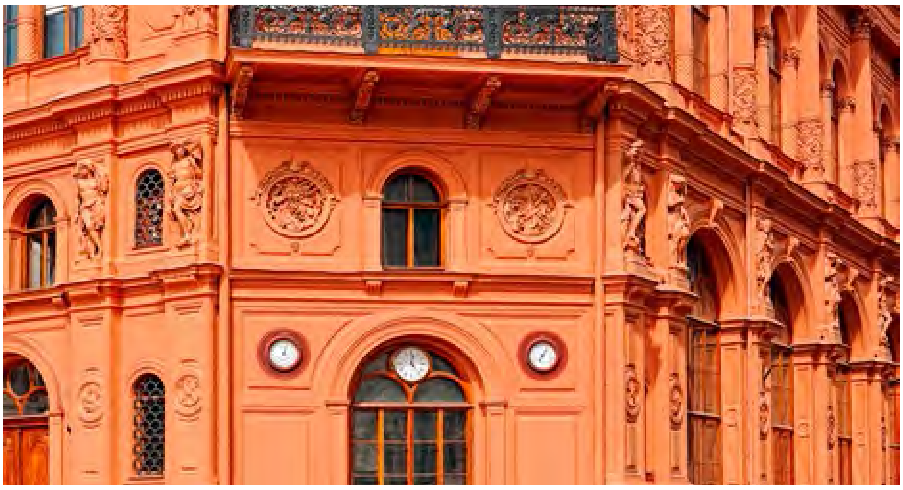
Source: data from the annual reports and the Financial and Capital Market Commission (FCMC)

We have found out that about half of the investments are stable and have a maturity period of over a year. The previous crisis also proved that. For example, in 2008, about 25% of deposits flowed away from the bank. Obviously, this was a major blow, but we overcame it, because our assets were very liquid. Now we are stronger in this regard.

In your opinion, what should be done to make the investment environment even more attractive?
Now the situation is as follows: clients, who previously used offshore companies, have started to realise that the use of such companies is not the best way of conducting operations in international business. They look worse in the eyes of their partners, and it makes large holdings lack transparency; for example, in regard to financial statements etc. We have noticed that clients are increasingly choosing onshore structures. One of the arguments for offshores is that they allow tax optimisation. However, that is not the most important task now, and many people are starting to wonder which country should they set up their business in and where should they register their company. And we are asking — why not to do so in Latvia?

In Latvia's case, the activity is not as large as we would like it to be. Besides, this could be the right moment to make the legislative amendments needed to make Latvia a place where international companies could base themselves. That includes matters of taxation and administration. For example, why not allow companies to submit annual reports in English, like in Estonia, thus resolving the translation problem. At present, companies also need to look for a natural person, who is prepared to represent their interests and be a member of the board. If you do not have close acquaintances in Latvia, you are forced to trust a stranger. We need to establish a practise that would allow using corporate directors for such purposes, as is the practice in all the world's financial centres. In other words, one company signs an agreement about representing another company as a legal entity. We are slowly promoting this initiative, but have not received a positive response yet. Let us hope that eventually our politicians will understand that the financial centre will bring extra profits.

Let us talk about the global situation. In recent years, the world's financial system is tackling the issue of large financial resources that are deposited with central banks and do not enter the economy. Why has this situation emerged and what solutions do you see?
After the financial crisis, the heads of the financial system understood that we could not repeat the scenario of the last century's Great Depression, when all of the banks failed and the economy only returned to the level of the 1920s and 1930s some 20–25 years later.



The facade of the former Riga Bourse, currently — a museum

Therefore, they decided to combat the crisis by injecting funds into the financial system. The banks were saved and provided with liquidity afterwards. Now we see that this gave the US some results — their economy is recovering a lot faster than Europe's. As a result, last year was the first time in several years that the base interest rate increased in the US. This indicates that the US Federal Reserve believes that the economy has stabilised. The hike in interest rates means that the availability of these resources is decreasing. On the other hand, it is also no picnic for the US, because last year stock indices were stagnant for the first time since the previous price hikes. Now, the American companies are generating lower income levels than last year. It seems that the Federal Reserve System needs to reconsider the need for such a steep increase in the base rate.

As for Europe, the situation is even worse. The economic area of Europe consists of many different economies, and all the decisions that are adopted within a couple of days in the US, take a lot more time here. Perhaps, during the onset of the crisis, Europe was too slow to make the necessary decisions.

Even negative rates on bank deposits have been introduced…
Yes; resulting in the stagnation of the European economy and the European Central Bank ending up having to increase negative rates on deposits. This, in turn, means that regional commercial banks are forced to pay for money held with the Central Bank. The other thing is that new resources are pouring into the financial system. Within the framework of the ECB TLTRO (Targeted longer-term refinancing operations) programme, banks operating in the Eurozone can receive four times more financial resources than the growth of their loan portfolio for the corresponding period. Thus, the availability of resources is stimulated, so that banks can credit the real economy with this money. In addition, from June 2016, the rate at which the banks will be able to borrow money through this ECB programme could well equal the negative rate on deposits in euros, which at the moment is -0.4%.

It is hard to say what the outcome will be, but the negative rate may be used on regional bank deposits in euros. Perhaps this will give the clients of financial institutions food for thought — maybe it would be better to invest the money in the real economy, instead of holding it in accounts. Most likely, this is one of the reasons why the ECB is implementing this policy. I hope that they will succeed — the situation is under control. Europe's problem is its market which is greatly segmented. The noble goal to create a single economy has been partially achieved, but the developmental levels of the EU states vary so greatly that this is hampering the efficient operation of the whole system.

There has been lots of discussion about how this age of negative rates will have an adverse effect on bank revenues.
And I totally agree! The controllers of European banks have already said that their main concern now is not the capitalization of financial institutions, but the profitability of banks under these low rate conditions. Basically, banks need to revise their business models. During the next few years, European controllers will monitor the ability of banks to make profits under low rate conditions. If they cannot, they will have to consider spending cuts or merging to improve the situation.

What should securities portfolio managers consider in the next five years?
I think that the low rate period will go on for the next five years; it will be difficult to maintain the former profitability of the security portfolios. In addition, under low rate conditions, any market fluctuations will cause major changes in the prices of financial instruments. That is why you have to consider the possibility of

In the next five years, our portfolio will continue growing.

significant price changes. Whereas previously crisis recurred every 10–15 years, then now the interim period between crises may be only 7–8 years long.

I do not want to predict anything bad, but, in any case, you need to be ready for something unexpected to happen that could cause new problems for the global economy.

I reiterate that our portfolio is ready for such adverse scenarios. Generally speaking, we believe that in the next five years, our portfolio will continue growing, because we see no basis for scenarios under which the amount of deposits would decrease.

What will happen with loan services?
Even if the deposits remain at the present levels, we have reserves for issuing new loans. The competition in the Latvian loan market is very big, although, unlike for us, it is the only way for many competitors to allocate assets. For example, the Scandinavian banks cannot simply buy US government bonds, because they have been open for loan services. In other words, we see that the revenue from loans has become so insignificant that it is more profitable to buy, for example, bonds of Apple, which we are already doing. However, our colleagues have to compete in the loan market in terms of prices by any means. As a result, we have this situation in which all the active Latvian banks are fighting until the last breath for any decent project.

Nevertheless, we are able to withstand the competition, and our loan portfolio is even growing. Clients are coming to us, despite the fact that our interest rates are higher than, for example, those of Scandinavian banks.

I will add that the planned increase in the loan portfolio will mostly happen by increasing the amount of commercial loans. We do not plan to increase mortgage lending during the next few years.

Which sectors are the most interesting for lending?
If we need to single out specific economic sectors, then in Latvia's case, these would be fundamental industries like transit, wood processing, pharmacy, and agriculture. Just like in any other bank, a large part of our loan portfolio consists of mortgage loans secured by real estate. We want to try to diversify this loan portfolio by involving other sectors. We are also considering sectors, which are able to generate revenue and service loans in Latvia.

Of course, some other promising interim stage may emerge. Being a conservative bank, we demand proprietary investments, although, the company can contact the aforementioned AmberStone Group at any time and draw up a mutually beneficial agreement to reach the level of capital where you can qualify to receive a loan from the bank.

Bank assets
€ 4.93 billion
▲ 18.2%

Bank credit portfolio
€ 873.5 million
▲ 10.5%

Securities portfolio
€ 2.77 billion
▲ 28.5%

Bank income from key activities
€ 126.3 million

Registered shares and employee shares issued for
€ 33.3 million

69

Bank profit
€ 69.0 million

Real estate portfolio
€ 52.3 million
▼ 42.5%

pillar
www.pillar.lv

373 deals
for the total amount of
€ 18.1 million

420
real estate objects

Group tax payments
€ 20.8 million

Total nominal value of executed issues
$ 225 million
€ 80 million

▲ 11.4%

Deposits

€ 3.79 billion

ABLV Capital Markets, IBAS

Clients' assets invested in financial instruments

€ 1.15 billion

Profit

€ 5.4 million

▲ 24.5%

Bank capital and reserves

€ 281.5 million

▲ 21.7%

ABLV Asset Management, IPAS

Value of assets of 12 funds

€ 129.7 million

Debt securities

€ 558.4 million

ABLV Bank Luxembourg, S.A.

Bank assets and assets under management

€ 174.7 million

Time for Conservative Strategies

Neither sharp fluctuations of oil and gold prices, nor the volatility of the leading global stock markets have changed the attitude of ABLV clients; safeguarding savings is more important than making or not making profits on speculations. Leonīds Kiļs, Chairman of the Board of ABLV Asset Management and ABLV Capital Markets, tells us about expected growth and the level of yield above which unpredictability begins.

Let's summarize the results of 2015. It was a complicated year for investors, especially on the stock and oil markets.

As the song says, "hard times are over", but those coming are also going to be tough. In my opinion, nothing has changed in this life: every past year is hardly easier than the following one. However, the year 2015 definitely cannot be described as an easy one for investors. The pace of life has become so fast that many fundamental things are not working out anymore.

Like what?

I've been kidding about markets behaving like women, namely, they are characterised by the irrational thinking of investors. In the past, the logic was textbook clear: if there is inflation, the market expands and GDP increases, which, in turn, drive the growth of stocks, precipitate a decrease in bond yields and a rise in consumption. Today, this logical chain no longer works or else works in its own idiosyncratic way.

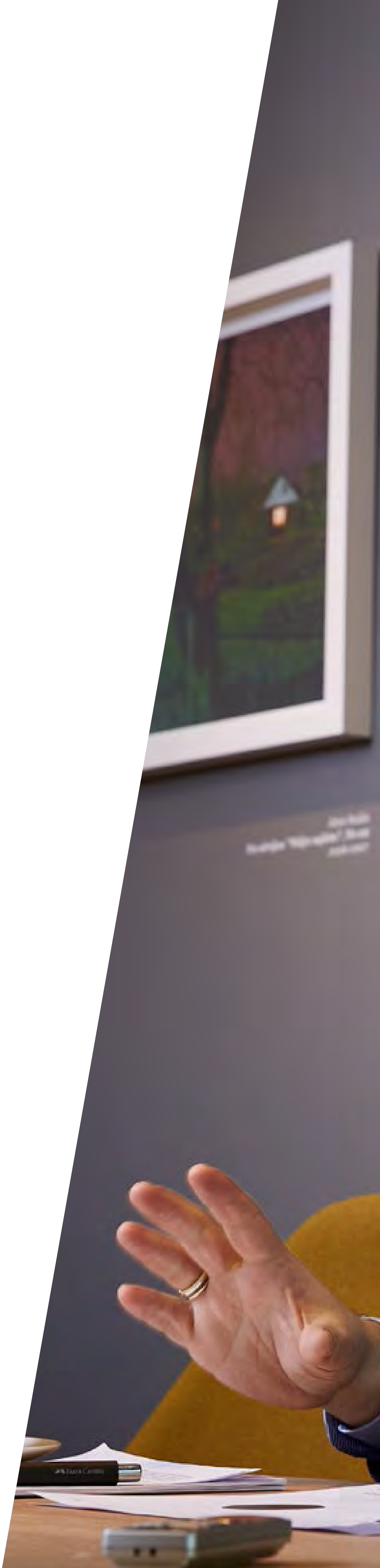
In 2016, the sentiment on the world's markets changed. Whereas previously it was said that when America sneezes, the world catches a cold, now everyone is watching China sneezing. And some people profit from this. We have clients who use third-order derivatives aggressively: there is a volatility index, futures on it, and an option on the futures. And these people say: whereas previously they switched on their computers in Moscow at 2 p.m. and calmly monitored the fluctuations; now they are at their computers as early as at 6 a.m. in the morning.

Watching Asia?

Yes, the Chinese stock exchange is already open at this time. And if the Chinese stock exchanges decline by 7% early in the morning, the American indices will most likely become negative in the evening. Moreover, whereas in the 90s the fluctuations in the S&P 500 of 1% and more during a day were considered dramatic, now fluctuations of 1% mean it's been a very quiet day.

Have the investment horizons of clients become shorter too?

I discussed this with a client recently. We agreed that the current investment horizon is not more than 12 months. This is the limit for trying to take a look into the future. Making plans for five years is pointless. Who was able to anticipate the events of 2015 in 2010, at least in terms of global finance? It is difficult to look into the future even as far as one year ahead.



Risky investments are like spices: it is possible to get by without them, but the food will not be very tasty.

There is a saying, "uncertainty is worse than bad news". And currently we are in a situation where too many events have uncertain outcomes. Will the sanctions against Russia be revoked? We don't know. However, sanctions against Belarus were repealed in February and nobody had expected this. No one knows what the oil price will be by the end of the year. Experts say the price of a barrel will rise to USD 50 again. But these are just words; they will not fill a bushel. Who could predict oil dropping all the way from USD 140 to USD 30 so quickly a couple of years ago? The sum of these unpredictable factors makes it difficult, if not impossible, to build strategies for the long term.

What were the results of ABLV funds?

The year was not among the best. Our conservative funds worked well as a defensive strategy. So, safeguarding what we have comes first, and only then growth. In contrast, the performance of more lucrative programmes was poor. All markets in which the investors expected to gain not even a two-digit return, but plus 5–8% were eventually either negative or showed a minimum increase.

This is good for those who did not stay in stocks at the end of 2015 and the beginning of 2016.

We are very conservative in this regard. We consider that the portfolio should include 80–90% of bonds and just 10–20% of more risky assets, i.e. stocks, gold, and oil. And those willing to risk should understand that oil price fluctuations of ±6% per day are common nowadays. In general, risky investments are like spices: it is possible to get by without them, but the food will be not very tasty.

Investing a small part of the portfolio in oil, would you buy futures or the stocks of oil-producing companies?

The simplest instrument for an investor is an ETF (exchange-traded fund) investing in oil futures. The fund's charges are minor, just hundredths of one percent. To buy stocks of oil companies, additional analysis is needed to establish what their production costs are, who their trade partners are, how much debt they are carrying, and the corporate risks they're exposed to...

As for ETFs linked to the price of oil, which are better: simple or triple-leveraged ones, in order to have more accurate sense of volatility?

Triple ETF with volatility of 15–20% per day? I would never recommend this one. To deal with such strategies, one should clearly understand the path taken. We have a couple of risk-taking clients who make profit on this actively, but they represent an exception to the rule.

In February 2016, American stock markets dropped by almost 20%. At that time, did clients start to transfer part of their money to the stocks, which became cheaper?
There are two major groups of clients. Those in the first group are rather conservative and more prone to safeguarding their money. They do not respond to additional opportunities during a market decline and do not change their defensive strategy. They certainly don't mind being called and told of an additional profit opportunity. But the bank cannot guarantee that this will be an opportunity to make profit and not incur losses.

For example, in December 2015, many believed that stocks became significantly cheaper and it was time to buy. However, in February 2016 they declined even more. You never know whether another drop will occur tomorrow. Therefore, in asset management, we consider that the main thing for our client is to avoid losses. The client will not be very upset if the portfolio loses 1–2% and will not be extremely happy if it grows by 3–4%.

The other group is either comprised of clients, for whom operations on the financial markets are part of their professional lives, or by those who speculate financially as a hobby, but for whom, over the course of time, it has become something more serious. They are inclined to adopt more aggressive strategies. Moreover, bonds are popular with them, since bonds can be used as security to obtain financing from the bank. For example, someone has bought the bonds of Russian Sberbank at 5% p.a., obtained 50% financing secured by those offering 3% p.a., and then purchased the same bonds — therefore the profit can amount to 6–7%. Nowadays, this is rather a good return.

And a specific case among clients are those employing strategies on marginal markets. There the global statistical data is evil: 75% lose their money during first three months, and 15% over the course of a year. The remaining 10% are not exactly lucky, but people who understand what they are doing. The main thing there is to realize the risk and return ratio.

There are stories about marginal traders who, having opened a position, went to buy some bread. Upon their return, they found the market had moved the wrong way, they'd lost their money, and they could no longer afford to buy a car.
And it will be a long time till they can eat bread again. *(Smiles)* Right, but I would like to note that the bank's shareholders do not welcome such risky operations and are very reluctant to offer them to clients. We do not particularly advertise them, because a client with no experience of trading will lose his savings quickly and will definitely not be happy. The bank does not need this.

Meanwhile, we have access to absolutely all instruments available globally — for those who know what they are doing. Therefore, brokers begin work at 8:30 a.m. and end at 12:00 a.m.

What are the forecasts for 2016?
I believe that during the spring, the major global indices, i.e. the American S&P 500, German DAX, and Chinese SSE will turn and start climbing. And this will be a good opportunity to make profits for those who were buying low at the beginning of February. Another question is whether the markets will compensate the losses incurred earlier. It is known that to compensate a decrease by 50% an increase of 100% is necessary. And it is always harder to rise than to decline.

Current investment matters are being discussed at a monthly meeting of the Investment Committee

Traditionally, the conservative policy of ABLV increases the security of funds on deposit.

And what about the classic truth from books saying that investments in stocks are preferable when considering an investment horizon of over five years?
We are still relatively conservative. Moreover, our clients are mostly businessmen and not professional financial experts. They do not attempt to maximize profits using our programmes. Their logic is that earning is hard and safeguarding funds is even harder. And our task is to facilitate the safeguarding of the money they have earned and to help them earn a little extra. Therefore, we prefer bonds.

Furthermore, most managers usually buy ready-made global bond or stock funds, which are already packed with everything.
We also buy ETF bond funds, but the manager still has to keep a clear head. Not only does he need to choose the right funds, he also has to decide upon the correct time to buy or sell them and in the right proportion. And then the story begins, i.e. which manager is better at guessing and entering.

Do your clients from Russia and CIS states, where the economy is experiencing hard times, withdraw their savings for business needs or simply for living?
No, there is no such trend! Even as far as their businesses are concerned, people have different moods. Some say there are plenty of opportunities in Russia right now; others argue that everything is in a bad way.

Has the appetite for risk remained the same as well?
Both we and our clients mature, and the willingness to take risk decreases with age. There is an observation that until the age of 50 a man is inclined to earn actively, until 60 — preserve his capital, and then to spend. Today, those who started business in the 1990s are about fifty years of age. At this age, the attitude towards risk is not the same as at the age of 20. Some people have to take care of their children and grandchildren. You understand that your actions will affect your relatives, not just you.

You have mentioned gold as a risky asset. How much demand has there been at ABLV Bank Luxembourg for the service of purchasing physical gold?
It is not a mass market product, although there are people for whom physical form is important. But unallocated gold, in the form of bank account record, is purchased more, and the price fluctuations are reflected on the account.

The peculiarity of physical gold is that even those who purchase it do not take it out of Swiss and Luxembourg banks, because after gold is withdrawn, the bar should be subject to expert examination for repurchase. And in terms of storage, the cheapest way is to buy gold futures.

Most probably, all your clients from Russia and CIS states also receive services from their local banks. Why do they choose Latvia for savings and asset management?
There are different reasons. First of all, it is said to be for the reason that the further you hide it, the closer you find it. The fact that the traditionally conservative policy of ABLV increases the security of funds on deposit also plays its role. It is no secret that many banks in Russia still sin by using clients' money for their investment programmes. As far as we are concerned, this is impossible. Many investors split their assets: keeping one part at home and the other part abroad. It is difficult to name the major reason for the demand to invest in Latvia; there are a number of factors.

The role of tax planning and information protection is decreasing. The world is changing and the banking secrecy that was present 20 years ago is disappearing. Even in Switzerland it is no longer possible to conceal information about clients with regard to taxation. And this is true for all, be it in US or Europe. In Russia, the programme of joining the information exchange system will start functioning in 2018. There is no need to cherish illusions. Life is changing.

Yes, in the 1990s, Latvian banks opened anonymous accounts, having learnt this from their Austrian colleagues. Now this should be forgotten or recalled over a glass of beer, telling stories about past possibility to open an account without a passport by just saying a combination of ten digits. There is no such technology anymore. Now the human factor and convenient communication with the bank are becoming increasingly important for clients.

Assets of ABLV Bank Open-End Mutual Funds

2014

€ 106,432,174

11 mutual funds

2015

€ 129,432,174

12 mutual funds

Many investors split their assets: keeping one part at home and the other part abroad.

It is said about 2016 that the major investment concept to earn and lose the most money will involve oil price fluctuations. As far as I understand it, most of your clients do not play in this risky area.
No, this is not our investment idea and we are not going to implement it for our clients. The opportunity to earn several times more, or lose several times more… My personal opinion is that currently the market is unfair for investors. Earlier it was like: you aim to earn 3% and realise that losses can amount to 2%. Or your target 10% earnings and you are aware of the risk of losing 20%. Now though you aim to earn 5% and your losses can be 50%. It is like swimming in the ocean: you take two steps, and in taking a third one you find yourself totally under water.

For which instruments is this true?
Investment-grade bonds, not the highest ones. Once upon a time, these were considered to be largely resistant to volatility. However, looking at the lists of these bonds at the beginning and the end of 2015, one finds that many of these became junk bonds over the course of the year. And you actually wanted to earn 5%, but your losses in a year amounted to 7–8%, because the relevant countries or companies turned out to be problematic in the opinion of rating agencies.

One particular example is Russia at the end of 2014. At that time, the value of most Russian bonds dropped by 30%. Those who waited for a year eventually broke even. But those who became afraid or market hysterics actually lost 30%. Although, nothing seemed to bode ill, people were not looking to play a risky game and to earn two-digit returns. Their target was growth of 5–6%.

What is the bond yield that remains relatively predictable?
3%. And as soon as you want to gain more than 3% p.a. you should ask yourself whether you are ready to lose 10 times more. Therefore, we recommend more conservative bonds and a small portion of stocks or other risky assets.

One can definitely say that: I earned 50% or more on the S&P 500 over a five year period, whereas with the bonds you offer the return is just 10–15%. Yes, it is possible to gain more. But the question is whether the client, in waking up every morning, is ready to watch quotations of stocks and oil instead of thinking about his own business.

Our Accountant for Your Business

Zane Kurzemniece, a member of the Board of ABLV Corporate Services, tells about the meaning and essence of accounting services and their role in any company, as well as about the advantages of our offers.

Accounting is one of the most essential components of entrepreneurship. In long forgotten past bookkeepers mechanically maintained accounting records. However, nowadays the best accountants are those specialists who are able to independently analyse the financial state of the enterprise and offer their solutions in order to improve it. We believe that an accountant should be a sort of financial expert, so new technologies could never replace a professional representative of this job. Thanks to the qualitative timeous financial analysis, an enterprise can make right decisions for further development.

The role of an accountant in the modern entrepreneurship is invaluable. State institutions pay special attention to those who establish their own company and become a taxpayer, to check whether all regulations in the field of business are abided or taxes and duties paid in proper time. In addition, it is necessary to submit a variety of reports, notices and other specific business-related documents. If during this complex process a delay occurs, then sanctions may follow — beginning with a fine and ending with the suspension of activity. Even if you have mastered the basics of accounting, due to constant amendments to the laws it is almost impossible to keep track of all the new requirements and interpretations of the legislation. That is why an entrepreneur cannot do without the accountants who help to avoid errors in bookkeeping. In order to accomplish the above-mentioned tasks, external accounting services are being increasingly used. They have many advantages: the company does not need to have an additional staff member, to buy special licensed software, to worry about trainings so that the accountant is aware of the latest standards. External accounting services also relieve entrepreneurs from the routine of accounting maintenance and allow concentrating on the management, as well as minimize costs and improve the quality of bookkeeping.

Earlier, entrepreneurs often believed that the quality of external services will be low because such specialists are not able to delve into the specifics of a particular company, but now the situation is different. Every year, competition in the field of external accounting services is growing, which has a positive effect on the offer. Now such priorities are of the utmost importance as orientation to the customers' wishes, understanding the specifics of their work and responsibility for the growth of the company. We believe that these components are a valuable contribution into achieving our clients' objectives.

Accounting services for Latvian companies

Accounting services are one of the main activities of ABLV Corporate Services. Our accounting department has been specializing in providing services to local enterprises.

Our accounting services have numerous advantages: they help to minimize costs and improve the quality of bookkeeping.

Our advantage is that we offer a comprehensive service that includes all the phases required for the implementation of business activity — beginning with the enterprise registration, legal support, accounting services, as well as the administration provided within a professional management and ending with consulting on tax issues.

Our team includes experienced lawyers who prepare the necessary contracts or check them out before signing, as well as explain legal nuances. We formed a team of over 15 experienced accountants who maintain bookkeeping at our customers' enterprises. Although we began to actively address these issues only three years ago, today we are one of the largest enterprises in Latvia delivering external accounting services.

We provide the preparation of monthly, quarterly, and annual reports, conduct accounting throughout the reporting period, as well as represent the clients' interests when dealing with requests from the tax authorities. We serve businesses in the language they choose to communicate, and any of them can directly contact the accountant of their enterprise.

Accounting services for foreign companies

In 2014, we expanded the range of accounting services and offered international accounting to our clients, starting with such jurisdictions as Cyprus and Singapore. This service is provided according to the International Financial Reporting Standard (IFRS) and the legislation of a corresponding country.
In 2015, we expanded the list of jurisdictions in which one can receive services in the field of accounting or management. Currently we are offering accounting services to clients in more than ten jurisdictions, including offshore, which do not require submission of book records.

We care about the continuity of our customers' business, analyse a huge variety of accounting tasks and follow constant changes in the legislations of different countries, thus our specialists are always aware of the latest requirements put forward by tax authorities and other fiscal institutions.

During this time, we have gained accounting experience in different forms of entrepreneurship and in many jurisdictions, have formed a professional team; the benefits of our services in this sphere have been appreciated by more than 180 enterprises which entrusted their financial and fiscal accounting to the team of ABLV Corporate Services.

Corporate Style as a Source of Inspiration

As we know, the environment influences people, their habits and even a working style. In that regard, the representative office of ABLV Group in Moscow which provides consulting services, as well as its employees are close to perfection, because in 2015 they received a beautiful gift — offices in a united corporate style. We spoke to Alexander Gradov, Deputy Head of Representative Office in Moscow of ABLV Consulting Services, about the renovation and everyday life of the office.

To what extent did the renovation in the corporate style increase the feeling of belonging to ABLV Group, and did it give extra inspiration for work?
Extra inspiration — definitely! New things are always wonderful, and I can say that renovation, which made our office's style united with the whole group, is a great accomplishment. We have got a beautiful, functional and comfortable environment.

How much time did it take to complete all the transformations?
Four months. We planned to finish it in three, but then understood that we possibly have to exceed this deadline. We were temporarily renting premises in the same building as our office. That allowed us to control the renovation more effectively and speed up the process. Although, there are always some problems with construction workers — they never seem to finish in time.

How comfortable was the transition period for the representative office?
As I mentioned, we were lucky to get premises on the first floor of the same building. The office centre has four floors, and our office is on the top floor. We only needed to take the elevator three floors up to supervise the renovation. That helped a lot. We were considering moving to another business centre during the renovation, but the owner made a very interesting offer to move to a nearly finished office on the first floor, and we did not decline.

ABLV group is famous for its attention to detail. Is the new office equipment convenient for daily work? Have the designers and construction workers taken into account all the nuances and needs of your work environment?
For employees, of course, the office has become more functional. Now we have perfect furniture. In my opinion, it is the best furniture for working spaces. We have it in all of our group's offices. Now everything is brand new, except of a couple small things. The grey wall colour has become a special element of the interior. Grey is a colour of stability. Notably, it goes well with minimalism. If you hang a simple painting on a grey wall, the colour glistens. And if there are some bright accents, for example yellow or bright green, like our chairs, then you do not even need other decorations.

Client area of representative office in Moscow after the reconstruction


ABLV

New things are always wonderful, and renovation in corporate style is a great accomplishment.

What is the working area of your office and how cardinally did its layout change?
The area of our office is 250 m². The previous layout changed dramatically. When we talked about rebuilding things, after being working for 5–6 years in this office, we thought that there is no need in changing anything, because it already was comfortable and functional. We even tried to convince the designer to make only minor changes and improvements, because people got used to their environment. However, the specialist made some dramatic changes. Initially we were against the proposed solutions, but now we understand, why they were made. After all, designers have some kind of genius, sense of the atmosphere that can be achieved in the specific room.

How deeply did you get involved in the nuances of renovation works?
For better or worse, I got involved in almost everything. Of course, I would prefer that men in blue costumes came and did everything like in the TV show, but in a real life, you have to supervise everything. That is why now my colleagues and friends are joking that before the renovation in Kiev (the representative office of ABLV Consulting Services in Kiev is the next to be renovated in the corporate style) they should send me there as a consultant. But on a serious note, I must point out the tremendous support from ABLV Bank General Service Department. The employees of the bank — our parent company — organized the delivery of furniture and materials from Latvia and helped in the renovation process. ABLV Bank Deputy Head of Corporate and Private Clients Service Division Mihails Ponomarenko was a great help in the renovation — he was directly involved in the supervision, communication with designers and acted as an ordering party on behalf of the bank.

Do clients appreciate the new interior of the representative office?
Definitely. You cannot dislike this interior. The comments are always very emotional. Especially about the client area, which is quite clearly separated from the working area. Everything that clients see there is impressive, starting with the front door. It is identical to the front door of the Mortgage Loans Service Department at 21a Elizabetes Street, Riga. Our guests even make selfies with the door in the background! Many ask for the name of the manufacturer. The address of the Latvian company goes like hot cakes! Many colleagues from Riga note that they feel like in their own office.

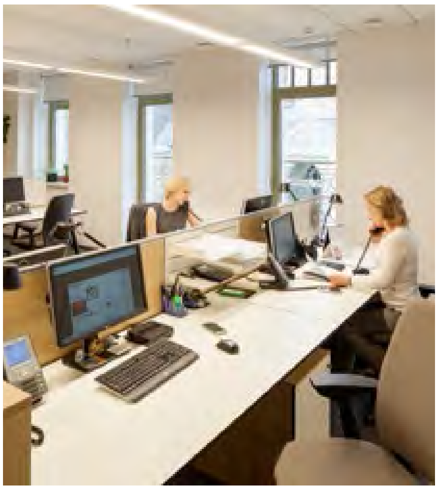
It is like the situation with large supermarket chains, which are designed so similarly, that you forget for a moment, which store you are in…
…because the ketchup is always on the right shelf. *(Laughs)* I agree. It is also important for the clients — whether they come to us or our Riga office, they end up in the same atmosphere, which I hope they enjoy. That gives the feeling of confidence and reliability.

How much do people pay attention to office culture and designing the branch offices in a united style in Moscow?
I shall say that we rarely visit other offices. However, we know that in Moscow the corporate style is mostly noticeable when it comes to the branches of the largest banks. They really have a united style, for example, Alfa-Bank, Bank of Moscow, Sberbank. You can tell by the colour scheme, which bank you are in. Perhaps, there is some truth in the fact that when you have a corporate style, people will approach and recognize you.

Noev Kovcheg business centre, in which your office is located, once was awarded a prize for the best facade among the A class business centres. With the completion of renovation, ABLV Group in Moscow is represented on the highest level in all senses.
That is correct. Our office is located in the heart of Moscow — on one of the so-called seven hills. We like this building because it is not a trendy high-rise anthill. The business centre is quite comfortable — there are few offices and few people. The building fits organically in the cityscape, our office is the pearl of this beautiful business centre, and the owners do not hesitate to say it. Sometimes they even ask us to show to visitors how the results of proper and carefully designed work can look.

The zone of your physical comfort, without any doubts, has expanded — how often do you have to step out of your comfort zone when servicing or attracting clients? Does the necessity to conform to the highest standards put extra responsibility?
Every employee, of course, has their own comfort zone. However, we are not only afraid to step out of it, but we are even used to it. The thing is, the clients, generally, come here with different moods, different mind states, and of course, sometimes, we have to lead complicated negotiations. Our branch is kind of like an outpost, where clients from Russia find out what service they can get. Daily communication with people of different tempers, moods, life experiences and income levels is quite difficult. However, the new environment — new interior — sometimes significantly lightens the negotiation process.

Office with a total area of 250 m^2, equipped with the latest office appliances and elegant office furniture



Our office is the pearl of the business centre and embodiment of proper and carefully designed work.

The field of consulting services is very wide. What are the basic areas of activity of your representative office?
We talk about all of the activity areas of our group. Primarily these are banking services, recently we have begun helping with formalities of getting a residence permit in Latvia. We inform people about the services of ABLV Bank's subsidiary — property developer Pillar. Also operations with securities and all kinds of tax consulting. We are ready to tell a client in Moscow about all the ABLV Group's services. It is his decision to choose a solution that fits his needs.

Moscow is a very competitive place — this most likely applies to consulting, too. Why do the clients choose you amongst all the alternatives?
Actually, in our field, the competition in Moscow is not that big. As for the choice of clients, I think they are influenced by the high quality of servicing, which spreads and reaches our potential customers through the word of mouth. The higher the quality of servicing in Riga is, the higher the chance that the clients will appreciate it and will tell their acquaintances, and they will also come to us.

That is the best type of advertising, right?
That is the best and most reliable advertisement — the quality of the offered services.

There is a Maslow's pyramid of person's needs. Can you structure the needs of your clients in a similar manner? What is the most basic need?
Of course, the safety of funds. People have earned money, and want to keep it safe. The basis of a similar pyramid, in my opinion, is safety and security. Then, I suppose, I would put the access to your own finances. By trusting finances to some foreign bank, the client from the Russian Federation understands, that his money is "somewhere over there". Therefore, if safety is the basis, access to funds is the second important thing. Above that — service, provided by the group, in terms of communication with private bankers, internet banking, which we are working very hard on.

Our guests make selfies with the door in the background!

Highlight of the office —
woven front doors

Designers have some kind of genius, sense of the atmosphere that can be achieved in the specific room.

As the first representative office of ABLV Group, you have been operating for more than 10 years, and this period has allowed you to observe some tendencies of potential client moods changing depending on various internal and external factors. For example, to what extent can the political situation influence the eagerness of Russians to become clients of a European, or, in particular, Latvian bank?
We truly have been operating for more than ten years. And of course, the political situation in Russia during this period has been changing dramatically, and the financial tendencies, caused by different political reasons, were noticeable. As I mentioned, the safety and security of funds are very important, so any news report about Latvia on the Russian television, to put it mildly, concerns the clients. When Russia is making remarks about Latvia, it causes a quite serious tension. Any unfavourable political situation, of course, is a challenge for the clients, and we understand it.

The business strategy of ABLV Group emphasizes the understanding of client's business. How is this principle reflected in your work?
First and foremost, we are meticulous with the information provided by our clients, to comply with the ever increasing compliance requirements.

Are the clients understanding or do they perceive these requirements as a kind of invasion of privacy?
Background security checks allow us not only to save our reputation, but also to provide the best service, which is our top priority.

One of four conference rooms — comfortable and private

Living in the Business Rhythm of Hong Kong

In 2015, reclaiming newly targeted regions and striving to stay close to clients, the holding company ABLV Consulting Services established its representative office in Hong Kong. Dmitrijs Semjonovs, Head of Representative Office in Hong Kong, shares his reflections on the outlook for working in this region.

The first steps are the most difficult

Hong Kong has an informal motto which says that Hong Kong is the global city of Asia. Hong Kong is the place where western efficiency and goal orientation harmoniously blend with Eastern insistence and respect for details, while English remains the language of business communication. There are so many business opportunities in Hong Kong — one only has to work and results will follow. The main goal of the rep office is to inform potential and existing clients about the financial, investment and advisory services that ABLV group offers. It is interesting to note that these services are mainly tailored to clients from Russia and CIS countries who register companies in Hong Kong in order to grow their businesses.

Attractive business environment

Hong Kong is not only the financial centre of Asia, but also a thoroughfare that brings business people to China (here the so-called principle of one country with two systems works). Nobody knows what will happen in 2047 when Hong Kong falls completely under Chinese control. However, I am sure we can use the advantage of this time gap to make a huge leap in this region. The bank management's plans are long-sighted and pragmatic; they correspond to the realities of geopolitics and geoeconomics.

Nowadays, there are one and a half million companies registered in Hong Kong. In the context of taxation and international business, Hong Kong is a convenient jurisdiction where one can play by transparent rules. The taxation system is clear, loyal and simple. Certainly, our clients also use this jurisdiction for their businesses — a lot of them travel to Hong Kong on business and for leisure. Some use Hong Kong as a transportation hub; some consider Hong Kong a domicile.

More than that, at the beginning of 2016, the abolition of dual taxation between Hong Kong and Russia came into effect. It allows Russian companies to take advantage of Hong Kong's jurisdiction while working in the Asia-Pacific markets. In April, a similar agreement was signed between Hong Kong and Latvia.

The dynamic business environment of Hong Kong has attracted a vast number of companies that specialise in delivering corporate services to our potential clients. Now, having become a member of this environment, step by step we are turning into an active participant in the financial advisory market.

"Latvia? Never heard of it, but it sounds interesting..."

While we are promoting the services of ABLV group in both the West and the East, Latvia also gets its recognition as a country in these regions.

At the beginning of 2016, the abolition of dual taxation between Hong Kong and Russia came into effect; in April, the same agreement was signed between Hong Kong and Latvia.

Few people know about us in Asia, therefore I always have something to tell them about Latvia. For example, Latvia was acknowledged as being the second greenest country in the world. We unite Europe and Asia. In 2015, Latvia's GDP index was one of the highest in Europe. The first ever publicly displayed Christmas tree was also in Latvia. Latvia is famous for its pharmaceuticals, world-famous music bands, Olympic champions, and its potential in logistics, IT, start-ups and the financial sector. Having learnt some more about Latvia, the inhabitants of the mainland tend to think of Latvia as of an attractive place for investment and temporary residence, as they consider Latvia to be safe, economically stable and environmentally healthy.

The specifics of development

Some businesspeople delude themselves when they think that they may sell to China no matter what — the business environment in China is not that simple. I am convinced that the trading route to China is better through Hong Kong. In 2003, the Closer Economic Partnership Arrangement was concluded between Hong Kong and the mainland, and now ensures easier access to the mainland market through Hong Kong. This agreement is open to all members; therefore, its geography is expanding and every year new parties join. Being located in Hong Kong, it is easier to find distributors, business partners and necessary contacts to do business in China. According to World Bank data, Hong Kong ranks third place when it comes to convenience in doing business, whereas China takes only 90th place. This rating illustrates pretty well the potential obstacles to starting a business in China.

The One Belt, One Road programme is another interesting issue to discuss. It is a new global initiative from mainland China, launched in 2013. This mega project unites two programmes: The Silk Road Economic Belt and the 21st-century Maritime Silk Road. As envisioned by China, this initiative will influence 65 countries from both Asia and Europe, including the Baltic States. This project is powerful enough to change the political and economic landscape of the world. The General Secretary of the Communist Party of China, Xi Jinping, predicts the volume of business in this economic initiative will reach USD 2.5 billion within 10 years.

I am convinced that ABLV group, with its experience and understanding of doing business in Central Asia and Russia, can become a member of this initiative. Wherever trade exists, there is always a need for a reliable financial partner.

ABLV Bank Luxembourg: a Safe Haven of Stability

As the performance of our subsidiary ABLV Bank Luxembourg, S. A. gathers pace, Benoît Wtterwulghe, ABLV Bank Luxembourg Chief Executive Officer, gives an insight into the bank's activities, achievements and challenges. At this rate, the banking group is about to obtain a strong and steady member at the very heart of Europe.

At the end of 2015, our Luxembourg bank celebrated its second full year of activity. We believe that during this time, we have managed to establish a very strong foundation for its further development. Our bank started to offer its products and services to the clients of ABLV Bank, AS at the end of 2014 after obtaining its bank license in late 2013.

Running the Extra Mile

Our team is highly skilled and qualified in alignment with the elaborated strategy. The bank employs over 20 people dedicated to the service of our clients and specialising in CIS markets, private banking and wealth management. The majority of the employees were hired on the local market, but some came directly from Latvia and Switzerland. Indeed, several employees of our parent company, ABLV Bank in Latvia, decided to take the challenge to move to the international financial centre that is Luxembourg and brought with them the specific client centric approach and strong culture of ABLV group, which I was truly happy to learn and accept.

Grand Ducal Palace is one of the outstanding symbols of Luxembourg

Previously, I thought that the client centric approach was specific to private banking only, but finally discovered that it can be present in other domains of banking as well. All employees directly in contact with our clients speak perfect Russian and know their culture and mentality. Our team is dedicated to deliver a very high quality service in a transparent way. They all want to offer an individualized service to our clients and run the extra mile for them. Our team is the key element in achieving this goal. We want each client to feel unique.

Snapping at competitors' heels

Our product range last year was almost as wide as that of our competitors in Luxembourg and other international financial centres like Geneva, Zurich or London. However, in our case, there is a major difference, namely, we tailor our products and services for clients from CIS markets and entrepreneurs from this region. Not only do we understand the culture and communicate with our clients in Russian, but our products are bespoke for those markets. It is a unique proposal in private banking and wealth management; no other bank has the same strategy, approach or offering. At the end of 2015, we started to propose Lombard loans granted against the pledge of financial instruments. Clients have the opportunity to use them in a very flexible way and for any purpose. They can do leverage and increase the size of their securities portfolio or transfer money out of the bank to finance some acquisitions or business activities.

Gaining recognition

Even though a significant part of our clients are introduced by private bankers and agents of our parent bank in Riga, more and more clients are coming to us courtesy of a reference from other clients or professionals specialized in CIS markets in Luxembourg. The bank has managed to achieve recognition and standing in the local market thanks to two years of hard work. In the Luxembourg market, over 20 local professionals (law firms, tax advisors, fiduciary companies, etc.) have advised their CIS clients to make contact with the bank. We aim to triple the number of such local professionals during the next few years.

The client base that we have built is a strong indicator that our approach answers the needs of individuals and legal entities based in the CIS. They enjoy personalized services in a stable and growing international financial centre.

Our team is the key element in achieving the goals we set ourselves.

The bank has managed to achieve recognition and standing in the local market thanks to two years of hard work.

Addressing Challenges

Luxembourg managed to emerge from the financial crisis of 2008 safe and sound, although tax transparency in Europe is now getting stronger. The country's economic growth continues to be one of the strongest in Europe and all the rating agencies' note for Luxembourg is continuously the best possible.

The bank ended 2015 with results far better than planned thanks to both revenues that were higher than planned and better management of costs. The offering of advisory services and even more discretionary asset management exceeded our expectations. The low volatility and high liquidity strategies that we offer have found favour with a high number of clients.

One of the major challenges for 2016 is the impact of the economic crisis affecting CIS markets. Some of our clients are suffering from the economic environment with declining turnover, pressure on margins and very tight or impossible access to credit. We need to offer them a safe haven of stability and flexibility during this tough period, which will hopefully end soon.

I am very impressed by the dynamism of the entrepreneurs in the CIS countries. They live in an environment that is far more risky, complex and volatile than in Europe, yet still have the courage to take risks and not give up even under the most challenging circumstances.

Reception at ABLV Bank Luxembourg

ABLV Group News

Banking news

ABLV Bank as one of the best Latvian export brands

In 2015, ABLV Bank was named one of the best Latvian export brands. In order to identify the best exporters, an export advisory company Gateway Baltic in cooperation with a financial consultant BDO and a marketing agency DDB Latvia examined the performance indicators of 1,300 exporters whose annual export turnover exceeds EUR 1 million. Within the research, 100 best Latvian exporters were determined. Following the examination, the expert panel nominated 25 most prominent export brands, including ABLV Bank, for the title The Red Jackets.

Financial achievements

During 2015, a planned development of the bank and other companies of the ABLV Group continued because of consistent implementation of the group's strategy, thus the aims set were achieved. The main focus was put on providing services to private and corporate clients. ABLV Bank is the largest bank in Latvia by the local capital and second largest by the assets.

The major audited financial indicators at the end of 2015 were as follows:

- the bank's profit — EUR 69.0 million,
- the bank's operating income — EUR 126.3 million,
- the amount of the clients' deposits — EUR 3.79 billion,
- the amount of issued debt securities — EUR 558.4 million,
- the amount of the bank's assets — EUR 4.93 billion,
- the bank's loan portfolio — EUR 873.5 million,
- the bank's capital and reserves — EUR 281.5 million,
- common equity Tier 1 capital adequacy ratio — 10.79%, the bank's overall capital adequacy ratio — 17.27%, liquidity — 82.68%,
- ROE reached 27.76%, ROA — 1.49%.

The major taxpayer

The analysis of data received in 2015 from the Lursoft database, the State Revenue Service, as well as the Financial and Capital Markets Commission showed that the five largest commercial banks of Latvia paid over EUR 90 million in taxes. The leader with EUR 27 million paid in taxes was ABLV Bank.

In 2015, ABLV Bank was named one of the best Latvian export brands.

Ambitious financing

In February 2015, an ambitious transaction in real estate financing for EUR 28 million was concluded, and, as a result, the main artery of the Old Town — Kaļķu Street — has turned into a family-friendly shopping street. The financial cooperation of ABLV Bank with AS Baltic RE Group has breathed a new life in a number of historic buildings, which in addition were reconstructed according to the wishes of new tenants — the representatives of well-known brands.

In March, in the historical building at 1 Vingrotāju Street two new clinics, Rigaer Turn-Verein and MAMA Rīga were open. Rigaer Turn-Verein takes care of patients' physical, visual, and psychological wellbeing; and MAMA Rīga is the biggest reproductive health centre in the Baltics with a day hospital. The total amount of investments equalled to EUR 3.5 million, out of which 3 million were spent on restoration works, and 500,000 — on medical equipment.

In August, a four-star hotel Wellton Hotel Riga was opened in the very centre of Riga, at 49 Vaļņu Street. It is the seventh and the biggest hotel of Latvian Wellton Hotel Group chain. There are 174 spacious rooms, a French restaurant Allumette, and SPA. The interior is accented by the artist Juris Dimiters' paintings. The investments in the hotel amounted to EUR 12 million, from which more than half was a loan granted by ABLV Bank. It is the fourth Wellton hotel in the Old Riga opened during the last ten years thanks to the financial partnership with ABLV Bank.

New financial services

In the second half of the year, we started offering a new financing service — transactional trade finance for commodities traded on stock exchange and over the counter. This service will be interesting for trading companies, which have successful experience in distributing highly liquid raw materials.

ABLV Bank offers transactional trade finance for such commodities as energy raw materials (crude oil, oil products, coal, gas), chemicals (methanol, benzene, mineral fertilizers, etc.), and different metals. These commodities should be moved from Baltic or CIS states to any place in the world. Within this service, the bank is ready to provide financing of the whole transaction cycle — from prepayment to the supplier to payment after delivery by the end buyer. The maximum loan amount can reach EUR 20 million.

We also offer our corporate clients loans secured by business value of a company.

To ensure more reliable and secure Internetbank, we have launched safer code cards Digipass GO 100 that generate unique authorization codes for each transaction.

This is an alternative solution in lending — unlike general practice, under which loans are mostly secured by real estate, this type of loan involves assessment of the business' ability to generate income. Such loans can be obtained by legal entities having more than five year experience of operating in the Baltic States. The maximum loan amount can be up to EUR 15 million, and shares of the company's capital are used as main pledge under the loan.

State support in providing mortgages to families with children

In 2015, ABLV Bank and the Latvian Development Finance Institution (ALTUM) concluded an agreement on participation in the state support programme under which ALTUM provides guarantees for home purchase or housing construction for families with children.

The size of a state guarantee depends on the number of children. Families with one child under 18 can receive a state guarantee of 10% of the mortgage sum (up to EUR 10,000). Families with two children under 18 can receive a state guarantee of 15% of the mortgage up to EUR 15,000 and a state guarantee of 20%, but not more than EUR 20,000 is available for families with three or more children.

Better insurance conditions

The list of risks insured under travel insurance was expanded for holders of Gold and Gold Business payment cards, as well as Platinum and Infinite payment cards. For example, insurance of Gold and Gold Business level includes the risk of travel cancellation or delay of transit flight. The limit of insurance compensation for holders of Classic and Business cards is now equal to that under Gold and Gold Business level. Also, the maximum limit of compensation for holders of Infinite cards has been set equal to EUR 200,000. A significant innovation is the possibility to include unlimited number of children under 17 years of age in the insurance policy, subject to additional fee.

Whereas under insurance of residential property, we have developed two unique insurance policies, in cooperation with the Latvian branches of Seesam Insurance AS and Compensa TU S.A. Vienna Insurance Group:

- ABLV Apartment Insurance, and
- ABLV House Insurance.

These policies include not only real estate insurance, but also insurance of movable property (furniture, kitchen and household appliances, computer equipment, electrical appliances, etc.), landscape elements (for private houses: fences, gates, lighting fixtures, benches, elements of plant arrangement, etc.), and civil liability.

Higher security of the Internetbank

To ensure more secure Internetbank, we have introduced significant changes in the process of clients' identification. Now two-factor authentication (recognition) is applied to the clients having one representative, one Internetbank user, and one authorization tool — when logging in to the Internetbank, these clients need to provide not just user ID and password but also the code card or Digipass value. Additionally, we should note that until 2017 the usual code cards with printed values will be gradually replaced to a safer electronic Digipass GO 100, which generate unique codes. The new card is as thin as a code card, so it is still convenient to carry in a wallet or purse. And in use it is even easier, because when you click on the button only one correct code is being displayed.

Well-known multifunctional devices Digipass 270 and large Digipass 300 Comfort are also available upon the client's request.

Moreover, last year we offered our clients a new Internetbank application for iPads. It includes both functional and visual innovations aimed at making the application even more convenient to use.

The most significant changes:

- new section 'Locations and Contacts' at the application start page, providing information on the bank's headquarters, contact information of all representative offices of ABLV group, as well as their location on map, alongside the possibility to plan the route,
- possibility to send details via SMS or e-mail,
- displaying the payment cards linked to the card account in the account list.

ABLV Bank increases share capital

To improve the capital adequacy and ensure funds required for development, another issue of ABLV Bank shares was performed at the beginning of 2015 in order to increase share capital. Under the issue, there were 2,385,000 registered shares issued, and 82 shareholders of the bank applied for acquisition of those. The sale price of one share was EUR 13.85. Whereas at the end of the year, 265,000 personnel shares were issued. Following the increase, the share capital of ABLV Bank amounted to EUR 35.3 million, and the same was comprised of 31,770,000 ordinary shares and 3,530,000 personnel shares.

Investments

New bond issues

Continuing the bond issue programme, in 2015, seven issues of bonds were performed: two coupon bond issues — under the Fourth Bond Offer Programme, and four — under the Fifth Bond Offer Programme, as well as one issue of subordinated bonds — under the Fifth Bond Offer Programme. The total amount of issues performed last year constituted USD 225 million and EUR 80 million.

New investment opportunities

As we promised, to ensure diversification of our clients' investment portfolios, every year we launch at least one new mutual fund. From February 2015, the customers are offered a new open-end mutual fund managed by ABLV Asset Management, i.e., ABLV Multi-Asset Total Return USD Fund established for the sake of providing investors with the opportunity to make diversified investments in different asset classes, depending on the economic cycle stage and situation in financial markets. The fund's assets are invested in debt securities of commercial companies, credit institutions, governments, municipalities, and central banks, as well as in ETF securities (investment certificates of a mutual fund traded on the regulated market), stocks of commercial companies and credit institutions, and depositary receipts.

From September we offer a new fund to our customers — ABLV Emerging Markets Corporate USD Bond Fund. The base currency of the new mutual fund is USD, and its assets are invested in debt securities issued or guaranteed by companies and credit institutions registered in developing countries.

SWAP agreements on oil products

We develop our brokerage services, and now we offer our clients SWAP agreements on oil products, i.e. the agreements on changing a floating price of the asset (oil product) to a fixed one, or vice versa, for a set term. Such transactions are made over-the-counter, but settlements are ensured by stock exchange.

Tax advantages for bond holders

A long and labour-intensive process was completed, and thus ABLV Bank acquired the status of Qualified Intermediary (QI) of the US Internal Revenue Service (IRS). This status ensures significant competitive advantages for our bank and the clients. Due to the acquisition of QI status, it is possible to apply reduced US tax rates to coupon payments on bonds of the US issuers that are included in the clients' securities portfolios, according to the tax residence declared by the client. For example, if our client is not a resident of the USA (and the client can prove this fact by applying the corresponding form W-8BEN or W-8BEN-E), the tax rate of 30% applied to coupon payments on bonds of the US issuers earlier is reduced to 0%.

Support under corporate events of the issuers improved

Support under corporate events of the issuers is one of the key elements in ensuring securities custody. We have put a lot of effort to ensure the opportunity to receive the information about corporate events clearly and conveniently. We already provide customer support under voluntary (where customer's participation is not required) and mandatory (where customer's participation is required) corporate events.

From February this year, we also offer the service allowing participation in the issuer's general meeting of shareholders in person or in absentia. The client can decide to take part in a general meeting of shareholders in which participation in person is required (we provide all necessary documents and instructions) or delegate participation to us, having agreed upon all conditions in advance.

Successfully completed issue of AmberStone Group shares

In June 2015, the issue of shares of AmberStone Group, organised by ABLV Bank, was successfully completed.

In addition to brokerage services, we offer SWAP agreements on oil products.

AmberStone Group is a holding company, managing its own subsidiaries and associated companies in different spheres.

Following the issue of shares of AmberStone Group, the company's share capital has been increased by EUR 21.0 million, reaching EUR 35.0 million. The issue was aimed at raising additional funds for the company's development and at increasing the number of shareholders. Altogether, 95 applicants took part in the share capital increase — both current shareholders of AmberStone Group, including ABLV Bank, and third parties, such as bank's customers, shareholders, and employees.

ABLV Bank Luxembourg

New investment opportunities

For the clients of our subsidiary bank ABLV Bank Luxembourg a new service Discretionary Portfolio Management is now available. Currently they are able to diversify their securities portfolios and completely entrust making decisions on the investments to the specialists of the Luxembourg bank.

Under this service, the customer's investment portfolio is managed in accordance with the pre-approved strategy, and it is also possible to implement investment ideas immediately. The clients are able to monitor the portfolio and receive timely information on transactions made, as well as detailed reports.

There is one more investment portfolio management service provided by ABLV Bank Luxembourg — Active Investment Advisory. Earlier, under the said service, the clients could choose among three types of investment strategies: Capital Preservation, Defensive, and Balanced ones. Taking into account the demand, from 2016, ABLV Bank Luxembourg offers a new investment strategy — Growth. This strategy is supposed for substantial increase of invested assets with acceptance of considerable risk of loss. Compared with the other strategies, the new one implies including much higher portion of shares in the client's investment portfolio.

Lombard loans

We have prepared one more new service for the clients of ABLV Bank Luxembourg — lombard loans. This service is an overdraft on the current account granted against pledge of the portfolio under Active Investment Advisory or Discretionary Portfolio Management.

In September 2015, a premium class apartment block Miera Park House in the silent centre of Riga was put in commission.

Using this service, the clients can obtain funds without selling their investment portfolios, and those funds can be applied towards various purposes, e.g., the increase of the investment portfolio. The lombard loan is an indefinite-term loan (whereas the bank is entitled to request early repayment of the loan), and it can be obtained in US dollars and euros.

ABLV Bank Luxembourg acquired the status of VISA Associate Membership

Last year, the Risk Committee of VISA Europe international payment system confirmed that ABLV Bank Luxembourg became a member of VISA Associate Membership. Now the bank is able to offer payment cards on its own behalf — starting from debit cards and up to premium VISA Platinum and Infinite payment cards.

Consultations

Now we are represented in Hong Kong

Exploring new target regions and following the desire to be next to its clients, ABLV group has opened a new representative office in the financial world centre — Hong Kong. The main task of the representative office is to inform potential and existing clients about banking, investment, and advisory services offered by ABLV Group.

One of the main advantages of the representative office in Hong Kong is a liberal taxation system and a widely developed sector of financial services. Many clients from Russia and the CIS countries establish and register enterprises in Hong Kong in order to develop their business.

ABLV Group participates in conferences

As usually, ABLV Group specialists participated in different international conferences, exhibitions and seminars, during which ABLV Group services were presented to existing and prospective customers. Among international conferences and exhibitions there were:

- CIS Wealth conference in Yekaterinburg,
- Intax Expo Moscow,
- international conference Intax Forum in Kiev on tax planning and structuring assets,
- International Real Estate Investments in Latvia conference held in Riga.

Real estate

Year of changes and good performance

For Pillar, a company operating in the field of real estate development and trade, 2015 was a year full of changes. It concluded 373 real estate deals for a

total of EUR 18.1 million. In comparison with 2014, the number of real estate deals fell by half due to the significant reduction of the supervised real estate portfolio, namely, the number of the properties reduced from 730 to 420 in a year.

In 2015, Pillar managed to double the sales of detached houses and land plots — the company sold 90 detached houses and 32 land plots. As to the apartments, 203 were sold in total — 118 in Riga and 85 outside the city. The company sold 37 apartments located in new and renovated projects. Moreover, in 2015 the last available apartment in Elizabetes Park House premium class building was sold as well.

Construction project of ABLV Bank headquarters in New Hanza City approved

At the end of 2015, construction projects to be implemented among the first ones within the initiative of a financial and recreation centre located in New Hanza City (NHC), a territory developed by Pillar, were approved. Consequently, construction projects of ABLV Bank headquarters, multifunctional office building and engineering communications received all necessary approvals.

In 2016, first construction works involving the installation of engineering communications on the NHC territory will start. Upon the completion of the construction works in 2017, Pillar will be able to launch the construction of two buildings, which will meet the highest quality and comfort level requirements. A shared underground parking lot will be located under the buildings.

The planned floor space of ABLV Bank headquarters is 21,690 square meters. It will be a 15-floor skyscraper with a representative lobby, deliberative customer service area, working premises for 900 employees, vast rest area for employees and meeting rooms. In order to find a unique architectonic decision that would also suit the urban environment, different but mutually harmonizing types of facades have been created, i. e., a classic facade with natural stone plates and modern facade with clear (glass) system in steel structures, as well as a winter garden atrium glass roof.

Structural reorganisation of Pillar Group companies

The main objective of the last year was structural reorganization of Pillar Group companies in order to restructure and distribute the workload and areas of responsibility taking into account the future activity cycle mostly connected with the development of a large-scale project New Hanza City. Under the reorganization, the following three groups were formed: Pillar Management, SIA; Pillar Holding Company, KS; and New Hanza City, SIA.

Miera Park House put in commission

In September 2015, Miera Park House premium class apartments in Riga at 57a Miera Street, developed by Pillar, were put in commission. Pillar purchased this new building from an affiliate company of SEB bank for EUR 2.4 million in 2013. The amount of investments in reconstruction and finishing works reached 5.8 million.

Miera Park House is one of the rare premium class apartments in Riga, during the construction of which modern technology was used meeting the highest standards of quality. Its construction was a professional challenge for the specialists. To ensure elite housing conditions, high quality was of the outmost importance.

National Real Estate Development Alliance

With the participation of Pillar and other real estate developers, last year the National Real Estate Development Alliance was established with the aim to promote interests of the field on state and municipal levels, ensure long-term development and regulation of the real estate industry, as well as popularise the role of developers in Latvian economy.

In summer 2015, the Brainstorm concert in the territory of New Hanza City gathered around 45 thousand music lovers.

More convenient home page

Last year, for the convenience of current and prospective customers Pillar optimized its website www.pillar.lv by introducing a so-called responsive web design, which means that the home page can be adapted to various devices. Now a new home page is equally convenient for using on computer, smartphone, or tablet, as it adapts to the screen.

The second major innovation was a simplified search function, which helps to find, for example, facilities offered for rent. Also the cards of objects with large pictures were improved, and layout information was optimized. For each object recommended alternative options are offered.

For society

The results of a Christmas charitable campaign

In the end of 2015, for the ninth year in a row, the ABLV Charitable Foundation organised a Christmas charitable campaign, in which general public was invited to make donations. 233 people took part in the campaign, and the budget of programs was supplemented by EUR 482,534, including:

- Let's Help Them to Grow Up! — by EUR 177,170; EUR 88,585 were donated, and the bank doubled this sum from its own resources;
- New Riga — by EUR 290,253;
- Let's Help Them to Hear! — by EUR 5,111;
- Support for Contemporary Art Exhibitions — by EUR 10,000.

Development of the Latvian Museum of Contemporary Art

Until 2021, in the brand-new building in the territory of New Hanza City, the ABLV Charitable Foundation, the Boris and Ināra Teterev Foundation, and the Ministry of Culture will open the Latvian Museum of Contemporary Art. The project is being developed for approximately one year. The founders of the Foundation intend to secure the necessary funding of EUR 30 million without government help.

In autumn 2015, the expert committee completed work on the development of the museum concept. The document includes the main principles of how the Latvian Museum of Contemporary Art will operate regarding collections, exhibitions, historical researches, as well participation in important events in the world of art. The concept also introduces different forms of a dialogue between the museum and its visitors. Now the architectonic vision of the building is becoming clearer — the work on creation of the first visual image has been implemented.

Alexandre Vassiliev surprises again

From 16 July to 25 October 2015, the Museum of Decorative Arts and Design in Riga hold the exhibition "Invitation to the Centenary Ball. 1915–2015" presenting the most glamorous evening gowns from the private collection of Alexandre Vassiliev. The 7th exhibition from the outstanding fashion historian collection brought together the most beautiful costumes characterizing the historical period from 1915 to 2015. The exposition comprised unique ball and evening gowns from the latest acquisitions of the Alexandre Vassiliev Foundation.

The Brainstorm concert in Riga sponsored

2015 prepared a surprise for music lovers, as one of the best-known Latvian bands Brainstorm announced the release of their new album "7 soļi svaiga gaisa" (7 Steps of Fresh Air) and the beginning of a concert tour to support the album.

A sponsor of the gala concert on 29 August in Riga was the ABLV Group company Pillar that ensured the place of performance in the territory of New Hanza City managed by the brand.

According to the Brainstorm managers, almost 100,000 listeners have attended the concert tour. The number of audience mounted up to 45,000 in Riga but at least 50,000 more people watched the magnificent show from the balconies of surrounding buildings, in live broadcast, and even from bus-roofs.

A wonderful gift to Riga

The most beautiful vision of the autumn has been fulfilled thanks to the support of the ABLV Charitable Foundation — planting the state-owned pavement adjacent to 21a Elizabetes Street, Riga of the non-government organisation Elizabetes Park House Association. The project was implemented under the auspices of the New Riga programme.

The objective of this project devised by the Elizabetes Park House Association is to create an attractive and aesthetically pleasing residential and tourism environment. The solution implemented as part of the project involved planting nine Dutch lime trees, making the overall green landscape in this spot visually harmonious.

In general, young plantings improve the city environment. Their number and diversity not only create well-managed but also healthy environment. In the city, trees clean air, protect from winds, dust and noise, as well as influence temperature and humidity.

The Future is Already Here

According to Ieva Valtere, Chief Executive Officer at Pillar Management, SIA, "2015 allowed us to set various new priorities and became a milestone for Pillar, the group of property developers owned by its parent company ABLV". New Hanza City, a new area in Riga, will soon become reality.

How did the Pillar group of companies fare in 2015? What was the biggest challenge? What brought you the biggest satisfaction?
2015 was a productive year. Firstly, we reached our set goal of reducing the portfolio of properties under our management. As you know, Pillar group was established in order to sell properties passed into the ownership of ABLV. The portfolio was rather big, and in 2015 we reduced it by half; the return on sales was EUR 18 million, which we consider to be a good performance. As for the remaining properties, they will be sold out in a few years.

Secondly, we succeeded in reorganising the group. Considering our plans, we decided to divide up the directions of our operations and set new priorities, and thus the process began. The reorganisation process took almost a year, in which time each of the groups of companies was formed in order to undertake a particular set of operations.

We established a parent group, Pillar Management, which now consists of a architecture company, Pillar Architekten and a real estate management company, Pillar RE Services. Over the years, we have managed our elaborated projects ourselves, but now we see this activity as a separate direction, as we need to gain experience and acquire new strength in order to implement and manage a new future project. We have also established Pillar Contractor, a company organizing construction works and controlling quality. We believe that the decision to establish such a company was quite logical, because we will need to do a huge amount of work in the near future, and it is vital that we keep a watchful and controlling eye on finances.
The second group of companies will maintain and sell the properties that were taken over, while the third one will develop the financial and business centre, New Hanza City (NHC).

Has the appointment of the person chosen to Chief Executive Officer of Pillar Contractor been approved?
Yes. The new CEO Jānis Lāčaunieks has already started work. He has over 15 years' experience in this professional field. We hope his appointment will prove to be successful and that all of us will have the required endurance to successfully carry out the tasks facing us!

Name three remarkable events in the operations of the group in 2015 that you can highlight and explain what made them so.
There were many events, and right now it is difficult to pick just three of them that stand out from the rest. However, I would definitely like to mention the concert by Brainstorm, a legendary Latvian band, which took place at NHC. The event attracted over 45,000 spectators, and we're glad everything went smoothly; the feedback was entirely positive. Projects on such a scale rarely take place in territories under development. Having said this, we thought it would be a good decision to green light this particular event.

Is this the start of a new tradition?
We are planning to begin the construction works at NHC in 2016. A concert on the construction site is a pretty much unreal task. The project involving Brainstorm was unique. It isn't the first time we have collaborated with the band, and it was good to work with them again. The guys chose the concert venue themselves and we agreed — it was a great idea, so why not? Who knows, maybe we will have another concert there at the opening ceremony. But I can't promise that, as people will trample down all the grass. *(Laughs)*

Returning to the topic of remarkable events, I can also highlight the completion of the Miera Park House project. Two years ago, when we bought the new-built building, the situation on the market was different, and we were laying our account to a particular segment of clients. Unfortunately, the timing and decisions by the government took their toll. Although we finished the project when the situation on the market was rather unfavourable, we believe that the project was ultimately completed successfully. The sales are looking good too, as one quarter of the apartments have been sold.

The third remarkable event that comes to mind is the approval of the technical projects of the bank's headquarters and office building. In 2014, we took over the Riga offices of Schaller Kyncl Architekten Riga, a German architecture company, (now Pillar Architekten). In 2015, we completed the project smoothly and received unconditional approval for it. Things are tougher with other developers; it isn't that easy for them to get approvals… We strive for perfection in everything. Approval of the projects means a great deal to us. The design project lasted for five years, starting from the moment when German architects got involved. We are seeking to commence construction works in 2016.

Why was the bank interested in the New Hanza City project?
The first thoughts about the territory date back in 1998. Now we can't remember exactly what the city development plan was at that time and what was planned for the site.

Any growing company knows that it will eventually need more spacious, modern and comfortable premises. And what could be better than a site located near the centre of Riga? Therefore, we decided to buy a plot in the area of Hanzas Street and Pulkveža Brieža Street. Later, we purchased additional plots and now we are cherishing the idea of "a city within the city", which will be situated on the plot between Hanzas Street, Sporta Street, Skanstes Street and Pulkveža Brieža Street.

The area named Skanste is also marked as a priority on the general city development plan. Although, in all probability, Riga can't compete with London or Paris, each city should have its own Central Business District. Considering the location of the territory, namely, its proximity to the city centre, it is the best place for a business area.

Why the choice was made in favour of Skanste and not, for example, Ķīpsala, which was once considered a promising business area?
There were many ideas regarding the location for a commercial district in Riga. However, each area should "grow" on its own. Compared to our territory, all those districts of Riga located on islands, such as Ķīpsala, Lucavsala, Zaķusala, have their disadvantages in terms of the classic estimate of real estate property, i.e. according to the principle "location, location and once more location". NHC is situated close to the historical centre of Riga, which isn't true of the other potential development areas.

Any growing company knows that it will eventually need more spacious, modern and comfortable premises.

The second important factor is road communications and infrastructure. Office employees and people living in new houses need public transport. NHC is reachable by tram, bus, and trolleybus. These means of transport are so far unavailable, for example, in Lucavsala.

Another key moment is utility engineering. For example, the development of Lucavsala might pose a serious challenge for developers. This was recently confirmed by the unsuccessful results of tenders held by the municipality. Although the territory is located quite near to the centre, its price is relatively low and, on these grounds, it might seem promising; estimates of potential expenses per square meter of the end-product, which also includes design and utility engineering, totally changes the picture. Moreover, these expenses are not only related to financial resources, but also time.

In Ķīpsala, in turn, public engineering communications are in place, but the logistic solutions haven't been thought through. The current transport communication seems acceptable for now, but big enterprises still have problems with it. Therefore, the further development of Ķīpsala without any fundamental changes will be difficult, but separate objects are likely to appear there anyway.

Moreover, we shouldn't forget about gradual population decline; therefore, the development of such impressive territories should be treated with caution.

How much has already been invested in New Hanza City? And what is the provisional total amount of investments in the development of the project?
So far, finances have been actively invested in the improvement of the territory including the expenses of purchasing the plot of land, and come to more than EUR 30 million in total. However, it is very difficult, if not impossible, to define the amount necessary for the transformation of a territory of 25 ha.

NHC, like any big development project, is being implemented in several stages. At this particular moment in time, it is possible to talk about the first and the second stage. We are starting from the territory, which is closer to the historical centre of Riga. The core of NHC will be established there, and we will be expanding from that core.

The priority will definitely be the new headquarters of the bank. The idea about the bank's own building was the key reason for developing the area. Therefore, construction will mark the first stage of the project.

In the next five or six years, our total expenses will reach approximately EUR 150–170 million.

However, we need to make some preparations and build the infrastructure first; also in several stages. In 2016, we expect to get the streets and utilities built. The construction of new buildings will commence in 2017. The bank's headquarters and office centre will each cover an area of approximately 20,000 square meters, while the total area of the new buildings within the project is expected to be 53,000 square meters, including the underground floor.

The next stage includes the development of the area in terms of residential buildings. Specialists are currently designing the apartment blocks. One of the buildings will be a middle-class residence spanning an area of approximately 15,000 square meters, while another building is planned as a premium-class residence whose area will be over 15,000 square meters. Then, we come to the Latvian Museum of Contemporary Art which has already evoked a widespread public debate. The museum will be located at the very heart of the area, near the park, and will constitute the core of NHC. The museum is undoubtedly a key site within NHC.

How much will the first stages of NHC cost?
We don't have precise numbers related to the first buildings, as we haven't made an estimate yet. However, it is very likely that the construction of the bank's headquarters and office centre will cost EUR 80–100 million. We still don't know several items that will contribute to the final amount, such as the final architectural design of the bank. Moreover, the buildings will have complicated engineering systems. The office centre will comply with BREEAM standards. Therefore, the project is not only very high rated, but as the best in Latvia.

The Latvian Museum of Contemporary Art Foundation has promised to contribute EUR 30 million to the construction of the museum. However, this amount excludes the park, regarding which there are no calculations yet, as it will be created simultaneously to the construction of the museum. We'll see what decision the architects will propose after the contest. The middle-class residence will cost EUR 13–15 million, whereas the investments in the construction of the premium-class area might reach EUR 25 million. So, in the next five or six years, our total expenses will reach approximately EUR 150–170 million.

Why have you chosen such a concept for the development of the area?
When developing an area, one shouldn't forget about an office component and a residential component, as well as opportunities for outdoor activities. Should all of them be in place, the effective development and "full life" of the territory becomes possible. It's not the best choice to build office buildings only. Besides which, Riga doesn't need such a huge number of them. In order for city areas to exist, an optimal combination, in other words, the right proportion, of offices and apartments is required. Typical office blocks in the largest cities of the world become empty during weekends. Try taking a walk in London's commercial district, the City, on a Sunday!

The museum, in its turn, will generate a special atmosphere. A building of this kind would be a very valuable element in any area of Riga. It's likely the citizens wouldn't know where the A class office building or ABLV Bank are located, but the location of the museum will be widely known. Moreover, we shouldn't forget about the synergy effect: museum visitors will want to enjoy a cup of coffee after the exhibition and to view the product offering available in stores in the area. All of this will make the area a hub of movement and live communication.

ABLV Bank continues to take care of its collection of contemporary art, which currently has no place where it can be exhibited. If one owns a collection, there should be a museum where the works of art may be displayed. And we're not talking about a profitable piece of real estate in this case; this project is more for the soul, as all of us love art! *(Smiles)*

Does the development of the area meet your expectations so far? Have you introduced any changes? If so, then why and what kind of changes are they?
So far, the development process has more or less met our expectations. Things were unlikely to go wrong as we started planning the territory in details back in 2007, so we precisely know the structure of the inner sections and the location of particular objects. The architectural solutions haven't been discussed at this stage, but the key aspects are in place. We're sticking to the detailed plan, which makes our lives a lot easier.

The local planning of Skanste area also spans the territory of NHC, which is why we have difficulties regarding elaboration works and corresponding approvals. However, we have managed to escape the problems on a large scale because of the detailed plan. However, we have had to make several corrections due to local planning.

You mentioned that the territory of NHC will be developed in several stages. How much time will the whole process take?
That's an interesting question. As with the investments, the precise deadlines are unknown. Everything depends on the situation on the market, events taking place around the globe, and the development of the economy. Once, we declared we would build the whole city until 2033. This deadline is still in place and while we consider it to be the benchmark, we can't guarantee it 100%. First of all, we have to complete the first stages and then we'll decide what to do next. We don't build for appearances' sake. The building must be filled in with life first. Then you can move forward. To be fair, I have to say we're constantly generating new ideas and thinking, planning and designing.

What consequences may the changes in the real estate market and to the demand for properties bring?
Like offices, apartments will always be in demand. The issue here is the quantity and price category. It's already clear that we'll experience another wave of crisis in the real estate sector which will make adjustments to the set terms.

When?
(Laughs) If we knew, we'd open an account with a Swiss bank. More than once, we've made sure that the key to success is being active during the crisis; the experience of major investors around the world has also proven this assumption.

It's more than likely that we won't stop and that we will maintain our operations during that difficult period. Now, the volume of construction is falling and sales are dropping, you'll hear everybody saying that.

Apart from the new bank headquarters, the reconstruction of the historical building of the former railway station will be a priority within the NHC project

However, we keep moving forward, taking advantage of time and the situation. For example, prices of construction materials could drop during the crisis.

Let's get back to the timeframes. When do you plan to complete the construction of the first buildings?
We're looking at 2021. I hope we'll also have the museum ready by that time. Of course, a lot will depend on the design and competitions. Right now, for example, the museum conceptual design is taking place. We will see an architectural model in May 2016. We are really looking forward to the results.

So far, our plan is to complete the construction of the bank headquarters and office building by the end of 2019 or 2020. The buildings are big and complicated in nature. We're going to build the block of middle-class apartments a year earlier, while the premium-class house will be under development together with the museum and park.

By the way, we are now holding the competition for the reconstruction of the historical building of the railway station. We like it very much. We're thinking of ways to transform it into a multifunctional public centre with spacious halls for different events. Riga lacks buildings of this kind; it is a problem that we ourselves are confronted with from year to year.

The railway station building might be used also for cultural functions. We believe that we'll celebrate the 25th anniversary of the bank there. Those are our aims and tasks until 2021.

You mentioned the discussion of the local planning of Skanste is not going as smoothly as you would like it to be. Were there any other difficulties during the project implementation? Why did they occur and how did you manage to solve them?
Although, we didn't have any major problems, minor ones are always present. I can't say that everything is going swimmingly and that everybody is welcoming with open arms saying, "We love your project, please proceed as you like". However, we don't have any serious problems worth mentioning. Of course, we could discuss the deficiencies in the law and in the drafting and approval of regulations, as well as in development rules, so there's always a room for improvement. We're a member of the National Real Estate Development Alliance, under the auspices of which we gather together and discuss how to change the current situation. However, there were no particular problems within the NHC project. If you elaborate a project of high quality and follow the regulations, everything should proceed smoothly.

Pillar already has detailed projects of planned buildings in NHC at its disposal

Let's peer into the future. Who is going to live in the high-class quarter? Who will work there?
I believe we should start with those who will work there *(laughs)* and then proceed to the residents. Most likely, these will be the same people. In the office building, we would definitely like to see big international companies that have moved their offices to Riga. Right now, Vilnius is far ahead of us in this regard, as the city has managed to attract such companies. We'll try to draw them in by offering them high-value offices. Moreover, we think any citizen would like to work and live in the same area.

As for the middle-class apartment building, our bank employees are often interested in the opportunity to buy a home near their work place. Bearing in mind that not all employees are top managers who can afford an apartment in the premium segment, we decided to build a middle-class building as well.

NHC will be a place for those who care about the environment. It will be a great area, where everything will be located within walking distance. If the municipality builds a tramline on Sporta Street, this will confer added value to the whole Skanste area. NHC is located along public transport routes, but the other part of the Skanste area is difficult to reach.

Many new and representative houses in Riga offer quite poor views from their windows. NHC will be nothing like that. However, nor can we promise a sea view. *(Laughs)* The environment will be well-kept. We would like to ensure everything necessary for urban life, even a kindergarten.

New Hanza City is a part of Skanste area which is gradually developing. Do you collaborate with other land owners and developers?
The development of the area in general is taking place thanks in large part to the Skanste Development Agency managed by Mārtiņš Vanags. He works with great enthusiasm. Like other developers, we know that one man does not make a team. A year ago, the local land owners decided to unite, and the situation started to change. For example, the municipality is now ready to hear our opinion. I believe that the collaboration of the city council and Skanste Development Agency will be fruitful. For example, now we're discussing a unified plan for planting greenery along the central streets. As there is an intention to build infrastructure in the undeveloped part of Skanste, additional forces are required. We're glad that this territory is marked as a priority in the city development plans. To some extent, this is also regarded as a plus on the public interest organization's part. We come together, tell them how things are going, and discuss plans and investments. The council has started reckoning with us.

How do you see this part of the city in five, ten, twenty years?
Most likely, the environment will be very attractive here, as other developers have similar plans. Around Skanstes Street, mostly business premises will be built; residential houses will be located further away. The whole area will be something different from a business zone in its classical meaning, as nobody would want life to stop in Skanste after 6 p.m.

Numerous new buildings will appear for sure. It's very interesting to observe a new part of the city developing and to take part in the process. This is a unique possibility to make our own contribution to the transformation of Riga!

We are Oriented to Long-Term Relationships

"The human capital of ABLV Group is our most valuable asset. We acknowledge that and work towards long-term goals". Dace Rūķīte-Kariņa, the Head of ABLV Bank Human Resources Department, talks about the strategy of working with personnel.

Statistics show that the level of unemployment in Latvia keeps decreasing. How do you evaluate the employment situation within the financial sector?
Unfortunately, we have to admit that the employment situation within the Latvian financial sector is, mildly speaking, close to critical. Let me conditionally divide human resources into two major groups: the management level which includes the positions of heads of departments and senior specialists, and the entry level which includes such positions as secretaries and assistants. Finding a specialist at the entry level, which contains university graduates or final year students, is extremely difficult. We continue to suffer the consequences of the demographic gap that hit Latvia 20–25 years ago. Moreover, the majority of youngsters and economically active inhabitants have left Latvia.

Young people tend to think that it is almost impossible to find a job in Latvia.
In order to start working in a secretarial or assistant position, one has to meet certain criteria.

The scenography of ABLV Christmas Event for employees was awarded as the best scenography of the year by the Latvian Association of Producers

Becoming an expert is a fine art — to grow from a sales person into a partner for clients and to establish long-term relationships with them.

Young people have to have a higher education in economics or law or to be, at least, a final year student. Some positions require specialists with philological education. Ideally, young specialists should know three languages but knowing two languages is enough for some positions. However, personal characteristics are important as well: intelligence and other skills that will ensure easy integration into a potential working environment and will help to establish good relationships with the team. Great results can be achieved only in a healthy environment. It is worth noting that finding young people who meet our requirements is quite difficult. Some people also mention importing manpower. Nevertheless, let us be honest — working in the financial sector in Latvia without knowing the Latvian language is impossible as all regulatory documents are in Latvian. However, pleasant exceptions occur — there are some among our employees, but they are few.

Why do you have such high requirements for specialists, even at the entry level?
Taking into account the shortage of qualified manpower in the labour market, we follow the strategy of "talent pool": the personnel at the entry level acquire the necessary knowledge and improve certain skills at this level so that within a year they grow professionally and step up the career ladder. We closely watch them growing so that they do not stay long in entry-level positions. Therefore, we have high requirements for these candidates and carefully evaluate their professional competences and compliance with the job requirements — these two factors are the main ones in the development of manpower at the bank.

What about available vacancies for private bankers? Do you feel there is a shortage of qualified personnel for this job?
The job of a private banker has always been in high demand and positions in the market are very scarce. Taking into account the fact that these employees sell not only products and services, but demonstrate the culture and values of the enterprise, the majority of banks tend to grow these personnel themselves.

In the financial market, the tradition of bringing up private bankers, financing managers and client service managers from the entry level is strong and has a long history. People in these positions "absorb" the unwritten rules of the company that basically distinguish the company and make a difference.

What skills should a private banker possess? Can you please name the main ones?
A private banker should be an extrovert, with a positive approach towards life; clever, with great erudition and an open mind.

Employment Period

less than 5 years	from 5 to 9 years	from 10 to 14 years	from 15 to 19 years	more than 20 years	average employment period
444	209	143	53	31	6 years

Employees' Education

College	Bachelor's degree	Master's degree	Doctor's degree
128	259	278	4

Career Development in 2015

227
employees got promotion

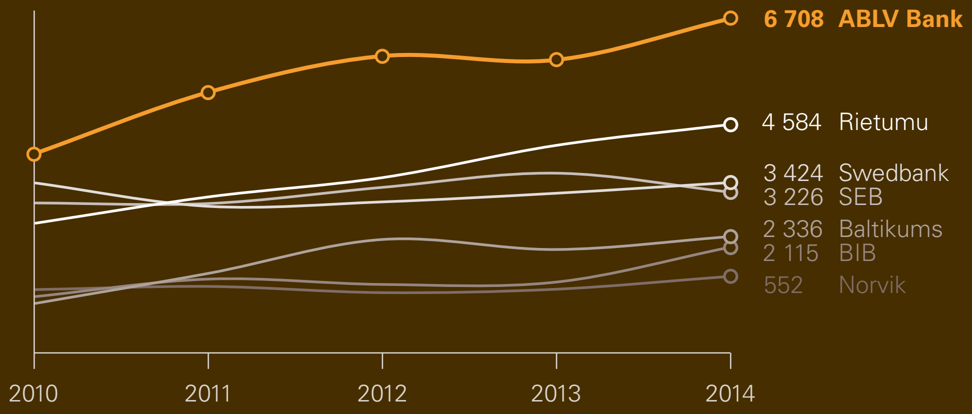
New Jobs in 2015

36

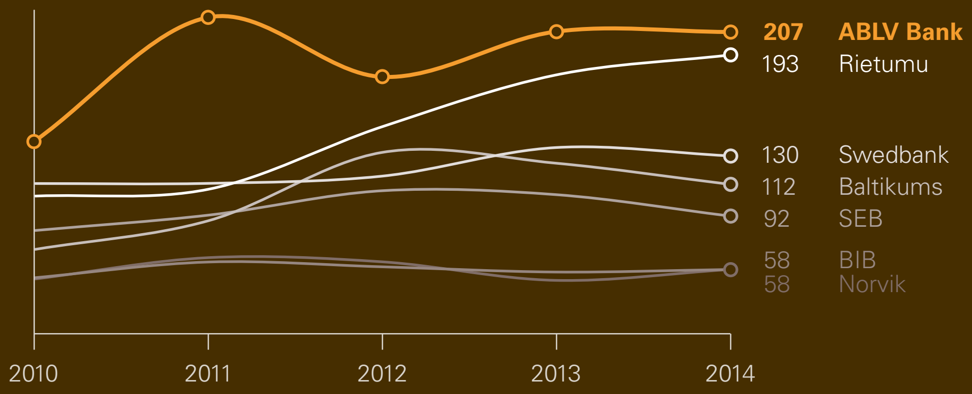
Number of ABLV Group Employees

ABLV Bank ranks first in*:

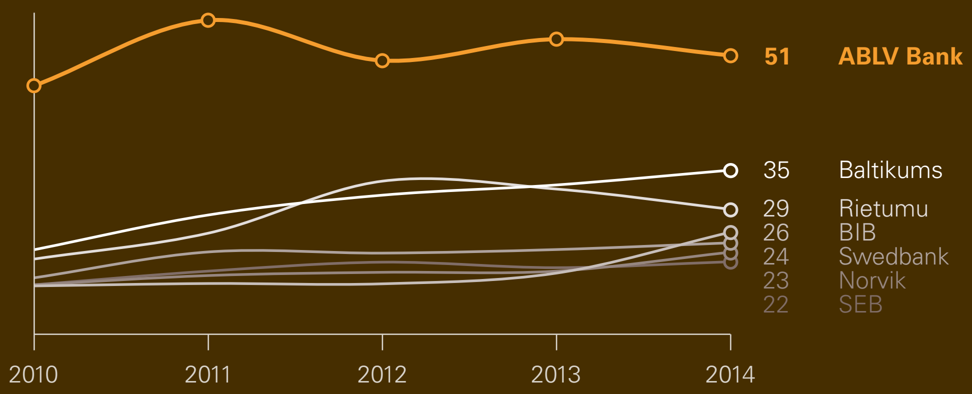
Bank assets, thousands EUR:



Underlying profit, thousands EUR:



Salary expenses, thousands EUR:



* Based on the indications of one employee.

Source: data from annual reports dated from 2010 to 2014

Being flexible in communication and being able to listen to others' opinions and not to insist on your own are must-have skills. One should be able to hear the client's wishes and understand his / her demands.

A specialist should be fluent in three languages, know the nature of the client's business well, possess knowledge of the wide range of services and products that we offer and be able to find the most suitable solution. Becoming an expert is a fine art — to grow from a sales person into a partner for clients and to establish long-term relationships with them.

Some of the aforementioned skills can be learnt at school, however most of these skills are acquired over time just by working at one company, starting a career at the very bottom and climbing up the career ladder, step by step. Where there's a will, there's a way — everything is possible!

How do you select personnel? When there are available vacancies which do you prefer — your own or external human resources?
We select human resources ourselves. In the HR department, our HR managers are all professionals with experience in psychology. We know the values of the brand and our corporate environment and we are capable of evaluating the compliance of a candidate with our ABLV team and each and every business unit. Heads of particular departments can evaluate professional competences, but they cannot evaluate less obvious skills, such as teamwork or the ability to get on well with people. Therefore, we entrust the selection of employees to professionals. We pay great attention to our long-term strategy of personnel training and development; our department carefully selects personnel at the entry level and we look closely at their professional future growth. When new vacancies appear, we give preference to our employees. Within a year, 22% of our employees grow professionally, both horizontally and vertically. Around 59% become middle-level managers and 19% become top managers. Only one of our seven directors joined the team of top managers in the position of director, all of the others have grown professionally within the ABLV team.

We externally announce vacancies at the entry level. For example, recently we were looking for a secretary. We received 200 applications; however, only nine got an invitation to a job interview.

Do you attract applicants through social networks?
Yes, we have been posting job ads on Facebook for a couple of years. According to the statistics, these posts have wide reach — on average, they appear on 5,000 users' walls. Experience shows — we need these posts.

In 2015, we started to use LinkedIn. Let me say that the main advantage of LinkedIn is that it brings together professionals from different areas. When we post our job ads on LinkedIn, we add certain criteria so that we address our targeted audience. One can get in touch with certain applicants and examine their profiles. This social network allows us to learn more about suitable applicants who may not be looking for a job but meet our requirements.

What are the main tools of motivation at ABLV?
The main factor is the working environment and relationships within the team. If the working environment is not comfortable for employees, it will be difficult to keep them. It is important for an employee that his / her professional skills are evaluated.

We have our own ABLV traditions — at Christmas parties or bank anniversaries, top management awards loyal employees who have been working for ten or twenty years for ABLV with a memorable award. Celebrating winter holidays with children is another great tradition that we are proud of. These events are highly appreciated by our employees and their children — for example, at our last Christmas party, we hosted 650 of our employees' children.

We highly appreciate those employees who have been working at ABLV for a long time. Together with some intangible recognition and appreciation, we award long-time employees with tangible bonuses. The system of salary calculation is based on a formula that contains a special coefficient — extra payment for the years that an employee has worked at ABLV. As well as this bonus, these employees get extra days off on top of their annual holidays. The longer an employee has worked for the company, the more free days he / she has that can be used in conjunction with official holidays.

Our top management never forgets to be grateful and also rewards employees financially. We regularly review our salary system, index salaries and improve our motivation system. We give our employees health insurance and accumulative insurance that the employer regularly pays for. In a certain period, every employee can get accumulated contributions paid by the employer.

What motivation methods are the most appreciated?

Certainly, people like to receive tangible things. However, let me note that a positive environment and management appreciation form the basis of our employees' loyalty. We have very low personnel turnover — it is around 5–6% a year (the total number of employees is over 800 people).

We are lucky to have such shareholders as Oļegs Fiļs and Ernests Bernis — they work with us at the same bank. They know the personnel and feel the environment. They often generate various initiatives to improve working conditions and our motivation system. This is what separates us from other banks and large enterprises. We, the employees, do not have to persuade the shareholders about what we need; they know the situation from the inside.

A positive environment and management appreciation form the basis of our employees' loyalty.

Our overarching goal is to become better every year.

This is a strong reason and motivation for employees to stay loyal. The findings of our annual employee satisfaction and engagement survey undertaken by research agency TNS (part of WPP holding and research department Kantar), showed the same evidence. Owing to this research, we can compare ourselves with other enterprises from similar sectors in Latvia, the Baltic States and Europe.

How does your bank see the results of this research?
With great pleasure and satisfaction I can say: "We look good!" Last year, the average index of satisfaction equalled 65%, while the satisfaction index of our employees was 83%. TNS specialists admitted that neither in Latvia, nor in the Baltics or Europe had they seen an organisation like ours, with such a high rank of employee satisfaction and engagement. One of the questions on their anonymous questionnaire was as follows: How do you rate your working environment and place? Would you recommend it to your friends and acquaintances? 91% of ABLV employees gave a positive response. This index grows by half a percent to one percent every year. It has never dropped or decreased. Naturally, there are dissatisfied employees in our team. This is exactly how it should be. To a certain extent, grumblers are the driving force!

Our overarching goal is to become better every year. We realise that our set goal should remain reasonable. One should remember what has already been achieved. Only when you realise and appreciate what you have achieved you can strive for more.

Comments by New Employees

Gints Pumpurs
Head of Insurance Intermediation Department

Honestly, before I was invited to apply for this position, my knowledge about the bank, the same as of an average person, was superficial and stereotypical. That is why I decided to turn to my friends who have been working at the bank and ask for some feedback. The information received has strengthened me in the opinion that ABLV Bank should be regarded as a good employer. I must admit it was a surprise for me that the bank in many respects outstrips Scandinavian financial magnates and is one of the largest in Latvia. The decision was made: I want to work and gain experience in this organization. My patriotism served as an additional motivation — I was impressed by the idea that it is a local company that has proved its viability, in addition to attracting well-paid staff. And, as it later turned out, by the volume of tax payments to the state our bank outstrips major organizations with branches in almost every town and in each shopping centre. I was also surprised by numerous job interviews and tests, which I took during the first two months. On the one hand, it puzzled me, on the other, fuelled interest.

Despite the fact that I worked in the insurance industry before — also under the regulation of the FCMC, initially the biggest challenges for me were many different instructions, which define and govern each action. With regard to the working environment, I can say that it is very democratic and regulated, beginning with the articles in an internal newspaper, various surveys or cooperation assessments among departments and ending with enterprise policy promoting long-term staff loyalty.

I am impressed by the level of standards set by managers both for themselves and employees. Everything we do should be precisely and flawlessly executed. And, although it is not an easy task, I am sure that it is a really effective way for the company to grow and for me, as a person, to develop.

I am already used to the strict banking approach and action control; alongside with initial experience, I am confident in my decision to work for the bank.

Jekaterina Koļesina
PR Specialist

The undoubted advantage of the bank's personnel policy is an extensive training provided on the first working day during which a new employee receives basic knowledge about the history of the bank and is explained various aspects of banking activity. During the initial stage of work, the introductory course greatly facilitated my integration because I did not have to concentrate on how to bring together such concepts as "me" and "new environment". Thanks to the information received, I felt at ease immediately.

Here, colleagues' outgoingness creates an easy atmosphere in which one can think freely, be inspired to work and express personal opinion without fear of getting into a hobble. One more pleasant surprise was the incredible efficiency of technical support that is of paramount importance for the full-fledged work, especially during the periods of heavy workload.

Jānis Grinbergs
Deputy Head of Product Development Division

I decided to join ABLV Bank for several reasons. First, a certain harmony and stability was established with my previous employer, BTA Insurance Company, SE, which allowed me to work in the comfort zone. Many processes in the company have been improved, and I felt a relative routine, as well as an inner readiness for new challenges at BTA or another company. This fact made me reconsider the loyalty to the employer, because until then I had refused all the proposals of other recruiting companies. Second, during the job interview at ABLV Bank I was pleasantly surprised by the format it was held, I liked the assignments and tests received from headhunters and the representatives of the bank. All these conclusions and reflections confirmed me in the decision to become a part of it and contribute to the bank's activity. I must admit that I had never participated in such a scrutinised selection of the staff. Six job interviews, several tasks and tests brought me the satisfaction with my abilities, as well as confirmed the bank's rigorous approach to personnel selection.

Honestly speaking, prior to the interview I did not have any definite opinion about ABLV Bank or its subsidiaries. It is rarely advertised in media, and the information about the bank often passes through the prism of social events. Perhaps it was a lack of information that gave rise to doubts in making the decision. But, when I came to the first meeting with representatives of the bank, I was pleasantly surprised by the interview, the atmosphere, responsive and friendly attitude. 60-minute conversation was enough for me to radically change my opinion about banking environment and my potential employers. It is said that the first experience can be an accident, but the second is a system. The next meeting was not less interesting, and I realized that ABLV Bank is the place where I wanted to work, and I wish these people were my colleagues.

After entering the office, I was finally convinced that the corporate atmosphere is wonderful, including peer support and mutual cooperation. I was pleased to see how the internal environment, all the processes and normative base are regularised, how much attention is paid to details. During the first nine months of work, in various projects I have met many new colleagues. I can see how our team is united, how actively senior management takes part in the bank's life.

I should admit that sometimes I think about how lucky the employees of the bank and the customers are. I am proud to tell friends about the company for which I work. ABLV is a unique place that really follows the principle "Work conquers all" (Labor Omnia Vincit), and everyone supports each other, treating the job with great piety to achieve the best overall result.

Ļubova Kazačenoka
Acting Work Organisation Specialist

It has always seemed to me that ABLV Bank is a unique institution. After joining the team, I have fully realised that the bank has a single style, a strong brand, unshakeable values and a unique approach to the business.

I have been most attracted by how the bank values its employees, focusing on their training, professional development, and motivation. My first impressions were very positive — new associates welcomed me really friendly and provided all kind of support. During the work at the bank I have never had any reasons to be disappointed — my colleagues are not only professionals, but also brilliant, open-minded people, who are pleasant to work with, who do not leave problems unsolved. Together, we can do anything!

Time Will Reveal the Museum's Potential

The creative strategy for the prospective Latvian Museum of Contemporary Art (LMoCA) is explained by Kaspars Vanags, one of the authors of the museum's concept, Project Manager of the ABLV Charitable Foundation, in a conversation with Romans Surnačovs, the Board Chairman of the Latvian Museum of Contemporary Art Foundation.

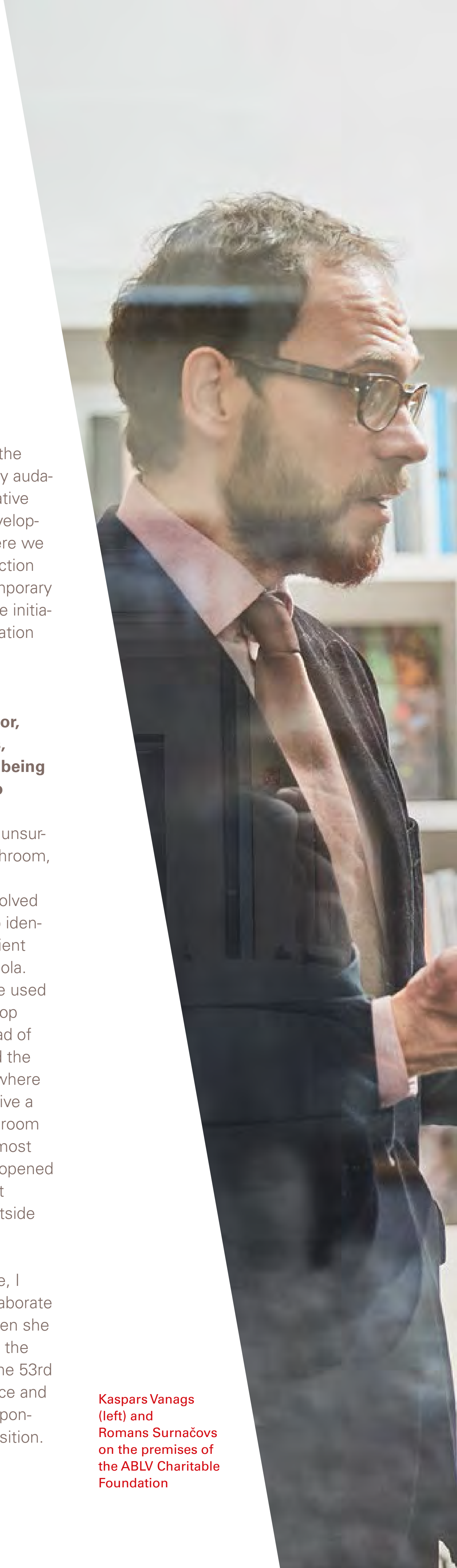
What were you doing before you joined the team that devised the concept for the prospective museum?
Having just returned from my studies in Berlin, I got together with some like-minded friends to establish Open — the inter-disciplinary collaborative platform, in order to hook up visual arts talents, electronic music experimenters, poets, activists in the newly born field of internet art, as well as other creative forces within the framework of joint art projects. Joining us in this creative endeavour were a number of young artists, now well-known on the Latvian cultural scene, such as Miķelis Fišers, Gints Gabrāns, Katrīna Neiburga, as well as the set designer of Alvis Hermanis' legendary theatre productions Monika Pormale and others.

I still find it hard to comprehend how we managed to successfully organise major events such as a week-long series of happenings spread across all five floors of the former Dzintars cosmetics production plant in Central Riga or a multimedia-based electronic music and arts festival in a deserted warehouse just around the corner from the President's official residence in the Old Town.

From that period, I carry with me the conviction that idealism, ostensibly audacious innovations and private initiative have a huge role to play in the development of contemporary art. And here we return to the vision of the construction of the Latvian Museum of Contemporary Art, which is the fruit of the private initiative of the ABLV Charitable Foundation and the Boris and Ināra Teterev Foundation.

Looking at your work as a curator, no doubt there are arts projects, which you'd like to highlight as being especially significant or close to your heart.
As far as Latvia is concerned, still unsurpassed, in my opinion, is Tea Mushroom, an art project created by Katrīna Neiburga in the early 2000s. It involved the use of improvised methods to identify people who still drink this ancient home beverage instead of Coca Cola. The resulting video materials were used to produce non-commercial TV Shop video clips and a film, while instead of the traditional gallery; we installed the exhibition inside an empty shop, where members of the public could receive a test tube containing the tea mushroom yeast free of charge. I recall that most mornings, the shop had not even opened when a sizable queue of impatient customers had already formed outside its doors.

After an interlude of over a decade, I once again had the chance to collaborate with Katrīna Neiburga in 2015, when she and Andris Eglītis were chosen as the artists for the Latvian Pavilion at the 53rd International Art Exhibition in Venice and I was invited to be the curator responsible for the creation of their exposition.



Kaspars Vanags (left) and Romans Surnačovs on the premises of the ABLV Charitable Foundation

In contemporary art, idealism, audacious innovations and private initiative are hugely important.

This major art installation was created thanks to the ABLV Charitable Foundation's decision to become the general supporter of the Latvian Pavilion. As a result of this joint collaboration, I am now involved in another, even bigger, project supported by the foundation — I am participating in the development of the creative strategy for the Latvian Museum of Contemporary Art.

The work prepared for the Venice Biennale, Armpit, was included in the 2016 programme of the legendary Californian festival Coachella and the collaborative duo of artists responsible for it has also been invited to take part in a contemporary visual arts biennale in India. Does this prove that Latvia has the potential to be a player in the international art world? And how should this be reflected in the prospective museum's creative strategy?
First of all, despite the fact that it occasionally places excessive demands on its viewers, contemporary art has honed an internationally convertible communication language. The national pavilions at the Venice Biennale are a clear example that contemporary art can focus on subject matter specific to a particular locale, while at the same time investing in universal means of communication, which are far more effective than Esperanto. Under these conditions, it is hardly likely that art museums can afford a narrowly regional programme, because the language of art itself has become international.

Secondly, local viewers have also changed rapidly in recent decades. Before long, their grasp of international culture will rival their knowledge of domestic cultural-historical references. This is why the local audience at the museum will want to analyse the aspects of affinity conferred by a local perspective, at the same time retaining its global vision.

This situation poses a considerable challenge in which one has to find solutions as to how one can understand the concept of the local audience and how regional and international interaction should be interpreted under 21st century conditions. Hence our decision to adopt the Baltic Sea region as our positioning in the museum strategy. The contrasting nature of this geographic area is fascinating. For some countries, post-war history is more of a unifying factor than more ancient cultural-historical ties or current affairs. This stems from the interaction of radically differing historical experiences, standards of living, traditions of social affinity and understanding of democracy. Although questionable, even internationally tried and tested stereotypes of the mentality characteristic of the schools of art in this region offer a motley palette of impressions, ranging from the understated ascetic design of the Nordic countries to the Balts' love of storytelling and the tight-lipped conceptualism of the Poles, through to the tightrope walking existential absurdity of Russian non-conformists.

In your opinion, what was the biggest challenge during the initial phase of planning the museum's activity?
The biggest responsibility facing the team entrusted with the task of drafting its strategy was deciding what would set the Latvian Museum of Contemporary Art apart, as a newcomer to the international museum community, from other institutions. The main point of difference chosen was a specific operating profile, centred on the mutual relations between fine arts and visual culture.

The dominance of visual culture defines our age. A large proportion of information reaches us on a visually-dictated interface, thus shaping our mutual relations, habits, learning methods and ways of thinking. Consider how often we succumb to the tendency to substitute a phone call with the combination of the click of a camera and a text message! Nowadays, a lack of knowledge of the grammar of visual culture is comparable to a new form of illiteracy. It is surprising how many people still consider sight to be a physiological ability to be taken for granted, instead of a construct of beliefs formed culturally and socially.

To a certain extent, the operating profile chosen for the museum is also based on a paradox. On the one hand, the visual is increasingly taking a backseat as far as the phenomena of contemporary art are concerned. For example, there is not that much to see in conceptual art or in creative social condenser projects based on an idea alone, and for the most part, the visual exhibit is documentation instead of a work of art. On the other hand, the disputes concerning the theory of visual culture that were once engaged in under the auspices of art have now died down, assuming a place within our everyday existence without adequate further reflection. For example, the studies conducted by the Russian futurists into the texture of the written word are a forerunner of contemporary graphic design and the logotype production kitchen. The innovative approaches to the technique of editing introduced by Rigan Sergejs Eizenšteins and his kindred spirits are still worth their weight in gold, when it comes to producing ideologically-hued television reports. And the selfies invented by Andy Warhol now pollute social network platforms, providing a clear reminder of the predictions made by the genius of Pop Art that, in the future, everyone will have the chance to be famous, if only for 15 minutes.

The future belongs to youth. But will the museum be interesting for the younger generation?
The founding of new cultural institutions and the construction of a suitable building prompt one to consider what will have changed in our society in a decade's time. What are the somersaults in contemporary art that we should predict in advance so that the museum infrastructure is not already out of date shortly after its opening? When the first conceptual designs were approved for the National Library of Latvia's new building, how many of those involved could have predicted the revolution that the internet would spring upon Gutenberg's galaxy?

Therefore, it is vital that the youngest generation of artists, museologists and viewers are actively involved in the project for the prospective museum. In the decade that it has been in operation, the ABLV Charitable Foundation has demonstrated a particular commitment to supporting the Art Academy of Latvia, as well as maintaining a balance between eminent professionals and tyros in its awarding of arts grants. In turn, in providing support under our cultural education programme to educational projects for schoolchildren organised within the framework of art exhibitions, we are getting an idea of the habits and interests of the audience of the future.

You know what I found worrying after a conversation with a secondary school pupil? His question about the principles according to which this or that photograph was included in the museum collection in 2015, given that we already know that even then about 40 million photographs a day were being uploaded to the Instagram platform.

Back in 2005, ABLV Bank allocated funding in the amount of EUR 1.5 million to support the formation of the museum's collection. On a serious note, how will the collection actually be assembled?
In assembling a collection of contemporary art nowadays, you find yourself confronted with three basic problems: over-production, speculation and megalomania. These days, art market trends change rapidly and some collectors exploit this to reintroduce works they've bought to the market before their value has stopped rising. In turn, ordinarily museums are not in the habit of selling the works in their collections; therefore any purchase price must include the expenses related to keeping the work long-term. Since art installations are becoming even bigger in terms of their size, museums are forced to reckon with the reality that a single contemporary art object can occupy a gallery in which it was previously possible to present the entire history of a style of painting. Also worrying is the technology used in contemporary art, which rapidly ages, not only making it difficult to preserve works, but also to exhibit them properly in future.

When it comes to assembling the collection, one possible solution to the problem is to pay greater attention to the presentation and documentation of the context in which trends occur, as opposed to focusing on individual modern day masterpieces. One decision that has been integrated into the LMoCA strategy is to work with subjects related to the interaction of visual culture and contemporary art during the period from the 1960s through to the present day.

This opens up tremendous opportunities to identify the changes that have affected our relations with the image. What's happening to our long unseen family photo albums and travel slides? Where does art end and creative industries begin? At which moment in time did video games become more popular than feature films? And will figural painting be contemporary in a decade's time?

In order to be able to answer these and other similar questions, one has to understand that a contemporary art museum cannot exclusively be a home for masterpieces. Alongside them, the museum's operating focus must also extend to what may ostensibly seem to be profanities. Our everyday life takes place in a saturated media environment and amidst an abundance of visual cultural signs. Accordingly, museums are expected to provide audiences with help in getting their day-to-day bearings. They must seek to explain parallels and the mutual gearing between seemingly unconnected systems of visual images, i.e., graphic design and the mass media, fashion and consumption, art and communications technologies, and between the self and one's self-image.

The relations between museums and audience have also changed. The flow of information within museums is no longer in one direction only; the range of social condenser mechanisms give museums new functions. They serve as social platforms where people swap experiences under the auspices of the kids' museum and education initiatives for the family, lifelong learning programmes for adults, lectures organised in partnership with universities, as well as volunteer programmes for students and senior citizens. This was all taken into account in our contemplation of the Latvian Museum of Contemporary Art, which, in our opinion, is destined to become a hub of creative activity, self-discovery and playful thinking.

What do you think of the decision to locate the museum in a part of the city under development?

The Latvian Museum of Contemporary Art building is due to be built in the territory of New Hanza City, giving this location, with its peculiar place in the city's history, a future development perspective, while the building itself will serve as a long-term stimulus for the whole city.

The international team of architects are inspecting the NHC territory in which Latvian Museum of Contemporary Art will be built

Nowadays, contemporary art museums are not just repositories for masterpieces, but also a platform for collaboration and swapping experience.

The Hanzas Street neighbourhood is special, because it marks the boundary line beyond which the most impressive Tsarist-era Art Nouveau quarters of civic Riga end and where the industrial complexes built in the historicism style begin. The industrial district and the nearby port provided the financial guarantee for the magnificence of the residential houses and public buildings that rose up in the years before the revolution. Further evidence of the story of the mutual interaction between these two parts of the city is provided in the form of the goods station that was once upon a time built in the middle. It is a reminder of old-style economic logistics, which are being increasingly superseded in contemporary Europe by the flow of data generated by the financial sector, service industry, as well as creative industries. This is an ideal location for the contemporary art museum, providing a ready answer to the question of what contribution has the new Riga made to the international circulation of the products of intangible industry.

At present, a number of architects invited to take part in the conceptual design competition for the building are studying the museum concept drawn up by the commission of experts. How were the candidates chosen?
Organising the museum's architectural conceptual design competition was entrusted to the team of Malcolm Reading Consultants, whose services in organising competitions and selecting architects have been used by the British Government and NATO, as well as the Victoria and Albert Museum, Oxford University and the City of Mumbai. A string of successful projects testify to their competence including the recently concluded architectural competition for the Guggenheim Museum in Helsinki, while the British Pavilion building at the Expo 2015 World Fair was acclaimed as being the most outstanding in terms of its architecture.

The first visual outlines of the vision for the construction of the Latvian Museum of Contemporary Art are now under development. In a closed competition, architectural conceptual designs are being drafted by seven internationally renowned architecture firms represented by: David Adjaye (Adjaye Associates, United Kingdom), Willem Jan Neutelings and Michiel Riedijk (Neutelings Riedijk Architects, Netherlands), Henning Larsen's architectural practice (Henning Larsen Architects, Denmark), Matthias Sauerbruch and Louisa Hutton (Sauerbruch Hutton, Germany), Adam Caruso and Peter St John (Caruso St John Architects, United Kingdom), Kulapat Yantrasast (wHY, USA), and Ilmari Lahdelma and Rainer Mahlamäki (Lahdelma & Mahlamäki Architects, Finland).

The decisive factor in the process of selecting these architects was the direct focus on specific aspects of the problems of building contemporary museums and the desire to involve Riga in the global debate about the developmental trends of buildings of this type. When one studies the profiles of the invited architects in depth, one can see that we have invited the kind of professionals to give thought to our building, whose experience testifies to the fact that cultural edifices of a similar type occupy an important, even central, place in their practice. The museum projects that they have executed in recent times have not only received international acclaim, but have also become exemplars for both architects and museum-keepers, because they illustrate the manner in which institutional cultural premises can become a crossroads for creative activity, historical memories and social mobility. One could say that, parallel to the opportunity to acquire an outstanding museum building for the Latvian capital, any of the seven heavyweight competitors on the list meet another important criterion. Their creative activity to date testifies to collaboration of an inter-disciplinary nature within international cultural networks. Even in its design phase, this enables the prospective Latvian Museum of Contemporary Art to position itself as a player on the big stage.

Active Relaxation Outdoors: Playing Golf

"Several years ago, after the first time visiting the golf club to organise the ABLV Golf Tournament, I could not contain my fascination and afterwards told all of my friends and acquaintances about this experience. The soothing beauty of nature, elegant players in bright polo shirts, excitement, when you just cannot wait to pick up your club, swing it gracefully and watch the ball flying far away and landing somewhere near the hole…," says ABLV Bank Brand Manager Anna Celma of this exciting sport and the ABLV Invitational Golf Tournament.

Oh golf, you are a joy!

Golf is a universal game that combines sport, entertainment, and outdoor activities. In the 500 years of its existence, this game has acquired more than 100 million fans all around the world, mostly in Western Europe and US. During the last decade, interest in golf has also increased in Latvia. Everyone who plays golf finds the much-needed peace of mind by spending time outdoors and communicating with like-minded people, who have chosen this wonderful game as a hobby. Golf is a great workout that involves almost every muscle group. Judge for yourself: the game takes 4–5 hours, during which players walk 8–10 kilometres while hitting the ball with various degrees of power.

The ABLV Invitational Golf Tournament

Since 2012, every summer the bank has been holding the ABLV Invitation Golf Tournament. Only invited players participate in the tournament — mostly our Latvian and foreign clients, business partners, the bank's employees, and a couple of members of the Ozo Golf Club — our potential clients. The tournament is for amateur players (non-professionals) and is held according to the rules approved by The Royal & Ancient Golf Club of St. Andrews. The points are counted according to the Stableford scoring system. The skill levels of male players vary greatly, so they are split into three handicap groups. The ladies play in a single group, because there are not that many of them yet.

Our tournament is traditionally held on the best golf course in Latvia, i.e. that of the Ozo Golf Club. It is the first 18-hole golf course in Latvia that was designed by the world-famous American architect Rob Swedberg. The golf-reviewer of The New York Times Robert Sidorsky recommended this club in his book "Golf Courses of the World: 365 Days". Ozo has also been included in the Top 100 golf courses of the world. The location is truly picturesque, being on the shores of a lake with a pleasant landscape: small hills, forest and perfect grass. You walk on this soft springy carpet and enjoy the well-maintained and beautiful surroundings. The height of the grass varies — in some places it is tall, whereas elsewhere it is really short and velvety.

At the start of the golf tournament, players are grouped in foursomes

This variation is necessary to create different conditions in different sections of the course; it is no coincidence that golfers carry not just two or three, but about ten clubs. The ability to pick the club depending on the situation is a skill that players can only gain with experience. The location of the golf club is also very convenient, being 30 minutes from the centre of Riga and a little over half an hour from the airport.

Even beginners can win

The aim of the game is to get the ball into the hole with the least amount of shots (strokes). The number of holes can vary, but usually it is 9–18. The points are calculated when the last player puts the ball into the last hole. In tournaments, the players are split into foursomes. Golf brings people together, because it allows you to get to know your foursome partners from various angles: to see how they respond to losing or winning and how they handle themselves in difficult situations. Surprisingly enough, even a beginner has every chance of winning against an experienced player. The trick is in the so-called handicap (HCP). In simple terms, this is a head start that the amateur gets when playing against professionals. Players of different skill levels get different head starts. The handicap can be defined more precisely as the "best golfing ability", or the number of strokes, determined specifically for this golf course, the so-called PAR for the course. For example, if the PAR for the course is 72 strokes (or sometimes shorter: PAR 71 and 70), and the player's handicap is 36, this player's potential number of strokes is calculated as follows: 72 + 36 = 108 strokes. For beginners, the handicap is usually set at 36. The higher the skill level, the lower the handicap. For example, the handicap of professionals usually is 0 or lower. The average level of players who are qualifying for European tournaments is -2 (i.e. they finish the course two strokes under PAR). Tournament winners usually finish the course four to five strokes under PAR, depending on its difficulty.

The handicap system allows players of various skill levels to precisely calculate the head start they give one another and to remain highly competitive. In this way, any beginner can play against an experienced golfer with an appropriate head start, and the game will be equally challenging for both of them. Even if the competitiveness does not make your blood boil, you can simply enjoy the game and the atmosphere.

The new prize for the tournament

Latvian sculptor Aleksandrs Makarenko has created a new prize for the ABLV Invitation Golf Tournament — the "Flying Ball" trophy. In creating this work, the master set himself the goal of designing a concept that is not only radically different from its existing equivalents, but which also reflects the bank's unique style. The city of Riga, the Elizabetes Street neighbourhood and the building of ABLV are in many respects associated with Art Nouveau. Besides, the historical emergence of this style at the turn of the last century (late 19th–early 20th) coincided with the boom in golf. The flying ball became the idea for the cup. The wing and the dynamic form of the trophy enhance the feeling of flight, and the wavy lines that are common in Art Nouveau serve as a decoration. Bronze was chosen as an appropriate material, because it suits the status of the event. The combination of various materials — the smooth, polished surface and the rough, "live" moulding, shaded with light patina, harmonically complete the image, symbolising difficult circumstances on the road to victory. It is worth noting that the bank held a multiple-stage contest for the creation of the tournament trophy and invited three talented artists to participate — Aleksandrs Makarenko, Olga Šilova and Aigars Bikše. Although all the presented works were very original; each of them possessing its own story and spirit, it was Makarenko's "Flying Ball" that stood out with its individuality, finely judged proportions and inimitable charm that matched the overall profile of the tournament.

Aleksandrs Makarenko,
the sculptor and author
of the “Flying Ball” trophy

The thrill overtakes you instantly — you inevitably want to hit the ball as far as you can, as close to the hole as possible...

Therefore, the 2016 tournament will start a new tradition: the winner of each of the four groups will receive a replica of the cup; while the runners-up and third place finishers, as well as the players who make the longest and the shortest shots will receive bronze plates with a large image of the flying ball. These prizes are completely different in terms of shape, but they incorporate the most important element — the ball with a wing, so the connection with the cup can clearly be seen. The grand prize of the tournament bearing the names of each year's winners will be placed in the meeting area of our headquarters at 23 Elizabetes Street, where ABLV Bank clients and guests will be able to see and appreciate it.

I should mention that the winners of the tournaments held from 2012 to 2015 received trophies in the form of cups made from bronze glass, created for the tournament by the glass artist and designer Anda Munkevica.

Moreover, the tournament has another super prize — the Hole in One, which is awarded for completing the 13th hole in one shot to a player, who, in recognition of his or her achievement, receives the elite ABLV VISA Infinite credit card with EUR 100,000 on it. The distance to the 13th hole is impressive: women make the shot from 90 metres, whereas men tackle the hole from a tee that is 120 metres away. So far, no player has been lucky enough to win this prize, although some competitors have come quite close with the shot landing less than a metre from the hole.

It is not just a game for millionaires

Some people think that golf is very expensive and is only for rich people. This is not true. In terms of expenses, golf is similar to skiing or photography. To get involved in golf you need to buy the initial set of clubs, special footwear and clothing, as well as attend a training course with an instructor. You cannot do it without making some financial investments, just like in any other sport. However, the longer you play the game, the less expensive it gets.

You can and you should try

You cannot feel and understand golf through stories and photos alone. You need to try it yourself — pick up the club, swing and shoot… During the bank's tournament, everyone has a chance to practice with a trainer on the training course. The thrill overtakes you instantly — you inevitably want to hit the ball as far as you can, as close to the hole as possible… I should mention that you can start playing golf at any age, regardless your fitness level or gender.

Golf is a sport that you can play with the whole family — children and seniors together. It has no age restrictions. If you have never played golf, you should definitely try it. Come to the golf course in your spare time and enjoy relaxation, sport, and excitement!

BANKING / INVESTMENTS \ ADVISORY

ABLV

Consolidated financial report for 2015

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Bank's Management Report

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

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

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

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

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

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

Financial results

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

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

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

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

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

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

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

The bank's profit in 2015 amounted to EUR 69.0 million.

delivery by the end buyer. The maximum loan amount can be up to EUR 20 million.

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

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

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

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

Investments

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

As at the end of December 2015, total assets under ABLV Asset Management, IPAS management amounted to EUR 131.2 million.

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

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

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

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

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

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

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

Real estate

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

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

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

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

In September, structural reorganization of Pillar group companies was completed successfully. The main objective of the reorganization was to ensure appropriate structure and divide the responsibilities within the real estate line of business, taking into account that future operations of Pillar will primarily concern implementation of large-scale New Hanza City project. Under the reorganization, three groups of companies were formed: Pillar Management, SIA, Pillar Holding Company, KS, and New Hanza City group of companies. Each of those is assigned its own tasks. The areas of operations of several companies have been changed or extended, and thus Pillar will be able to implement all stages of real estate development on its own — from project development, organization of construction works, supervision of their quality, and sale of properties to rendering utility and management services.

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

Advisory

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

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

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

Luxembourg

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

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

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

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

For society

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

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

In 2015 the companies of ABLV Group donated a total of more than EUR 1.000.000 for charity projects and projects of social significance.

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

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

Plans for 2016

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

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

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

Chairman of the Council
Oļegs Fiļs

Chairman of the Board
Ernests Bernis

Riga, 26 February 2016

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

The council and the board

The council of the bank:

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

The board of the bank:

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

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

Statement of management's responsibility

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

The financial statements and notes thereto set out on pages 134 to 233 are prepared in accordance with the source documents and present truly and fairly the financial position of the bank and the group as at 31 December 2015 and 2014, and the results of their operations, changes in the shareholders' equity and cash flows for the years then ended.

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

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

Chairman of the Council
Oļegs Fiļs

Chairman of the Board
Ernests Bernis

Riga, 26 February 2016

Statements of comprehensive income

EUR '000

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

Riga, 26 February 2016

Chairman of the Council
Oļegs Fiļs

Chairman of the Board
Ernests Bernis

The accompanying notes set out on pages 140 through 233 form an integral part of these financial statements.

Statements of financial position

EUR '000

Assets	Note	Group 31.12.2015	Group 31.12.2014	Bank 31.12.2015	Bank 31.12.2014
Cash and deposits with central banks	11	449,136	259,872	448,187	258,908
Balances due from credit institutions	12	669,980	816,936	671,772	795,282
Derivatives	16	121	4,079	121	4,079
Financial assets at fair value through profit or loss	13	26,121	21,165	22,286	14,884
Available-for-sale financial assets	14	1,833,073	1,271,227	1,780,554	1,209,073
Loans	17	874,003	790,113	873,499	790,247
Held-to-maturity investments	15	1,015,047	958,423	965,253	930,579
Investments in subsidiaries	18	-	-	111,266	115,099
Investments in associates	18	9,068	2	8,770	-
Investment properties	19	22,976	30,057	25,069	25,033
Property and equipment	20	23,867	37,877	9,529	10,606
Intangible assets	20	6,365	6,309	6,036	5,700
Current corporate income tax receivables		3,148	3,596	3,042	3,257
Deferred corporate income tax	10	379	2,300	-	1,457
Repossessed real estate		52,312	59,774	-	-
Other assets	21	5,992	8,356	2,737	5,640
Total assets		**4,991,588**	**4,270,086**	**4,928,121**	**4,169,844**
Liabilities					
Derivatives	16	365	5,630	365	5,630
Balances held with Bank of Latvia	22	180,072	16,797	180,072	16,797
Demand deposits from credit institutions		49,154	23,869	63,294	28,962
Term deposits from credit institutions		-	6,319	-	2,971
Deposits	23	3,875,455	3,488,516	3,793,192	3,406,032
Current corporate income tax liabilities		322	423	-	-
Other liabilities	27	41,737	29,603	35,072	13,205
Deferred corporate income tax	10	1,016	524	1,001	-
Provisions		-	352	-	352
Issued securities	24	550,877	441,598	558,411	454,581
Subordinated deposits	25	15,261	14,413	15,261	14,413
Total liabilities		**4,714,259**	**4,028,044**	**4,646,668**	**3,942,943**
Shareholders' equity					
Paid-in share capital	26	35,300	32,650	35,300	32,650
Share premium		96,918	66,270	96,918	66,270
Reserve capital and other reserves		2,238	2,174	2,134	2,134
Fair value revaluation reserve of available-for-sale financial assets		9,461	(1,504)	9,497	(1,427)
Retained earnings brought forward		71,259	66,762	68,565	68,600
Retained earnings for the period		61,277	63,353	69,039	58,674
Attributable to the equity holders of the bank		**276,453**	**229,705**	**281,453**	**226,901**
Non-controlling interests		**876**	**12,337**	**-**	**-**
Total shareholders' equity		**277,329**	**242,042**	**281,453**	**226,901**
Total liabilities and shareholders' equity		**4,991,588**	**4,270,086**	**4,928,121**	**4,169,844**
Memorandum items					
Contingent liabilities	28	9,949	9,531	9,516	9,444
Financial commitments	28	75,610	61,318	68,907	60,228

Riga, 26 February 2016

Chairman of the Council
Oļegs Fiļs

Chairman of the Board
Ernests Bernis

Statement of changes in shareholders' equity of the group

EUR '000

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

Statement of changes in shareholders' equity of the bank

EUR '000

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

The accompanying notes set out on pages 140 through 233 form an integral part of these financial statements.

Statement of cash flows

EUR '000

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

EUR '000

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

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

Notes to the financial statements

Note 1

General information

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

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

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

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

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

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

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

Note 2

Information on principal accounting policies

a) Basis of Preparation

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

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

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

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

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

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

b) Significant Estimates and Assumptions

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

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

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

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

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

Goodwill represents the excess of the cost of a business combination over the group's interest in the fair value of the net identifiable assets and contingent liabilities of the acquired subsidiary at the acquisition date. Goodwill on acquisitions of business operation is included in intangible assets. The carrying amount of associates' goodwill in equity is included in the carrying amount of investment in associate. Goodwill is allocated to cash-generating units and is stated at cost less impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of a business acquisition include the carrying amount of goodwill relating to assets sold. Negative goodwill arising on an acquisition is recognised immediately in the income statement.

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

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

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

d) Recognition and Derecognition of Financial Assets and Liabilities
A financial asset is any asset that is cash, an equity instrument of another

The accompanying notes set out on pages 140 through 233 form an integral part of these financial statements.

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

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

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

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

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

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

e) Fair Value of Financial Assets and Liabilities

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

f) Offsetting of Financial Assets and Financial Liabilities

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

g) Income and Expense Recognition

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

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

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

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

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

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

h) Foreign Currency Translation

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

i) Taxation

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

j) Financial Instruments

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the group and the bank intend to sell immediately or in the near term and those that the group and the bank upon initial recognition designate as at fair value through profit or loss;
- those that the group and the bank, upon initial recognition, designate as available for sale; or
- those for which the group and the bank may not recover substantially all of its initial investment, other than because of credit deterioration.

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

Held-to-maturity investments

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

Available-for-sale financial assets

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

Available-for-sale securities are divided into two portfolios:

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

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

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

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

Financial assets at fair value through profit or loss

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

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

Derivatives

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

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

Securities repo agreements

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

Issued debt securities

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

Other financial liabilities measured at amortised cost

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

The accompanying notes set out on pages 140 through 233 form an integral part of these financial statements.

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

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

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

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

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

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

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

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

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

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

In determining the rates of allowances for homogeneous pools of mortgage loans, the bank relies on the recoverable amount of loans and the historical number of loans, which become collectible over a certain period, and which in 12 months are brought to the pool with the highest credit risk (incl. the status of collectible loans). When determining the rate for impairment allowances 'incurred, but not yet known to the bank', the identification period of a loss event is assumed to be 3 months. In determining the rates of allowances for individually assessed business loans which have no individual impairment, the bank relies on the historical proportion of loans, which become collectible over a 12 month period and the recoverable value of these loans. When determining the rate for impairment allowances 'incurred, but not yet known to the bank', the identification period of a loss event is assumed to be 6 months. In determining the amount of allowance for unsecured balances of current accounts and payment cards, it is assumed that these loans become non-recoverable after a specified number of days of delay (between 15-60 days of delay).

The existing allowances are decreased, if any of the following occurs:

- the bank obtains reliable information about additional sources of loan repayment;
- the recoverable amount of the loan has increased as a result of the improvement of the borrower's financial situation or growth of the collateral value. Changes in the market value of collateral may be taken into consideration only if the growth is observed for at least three months.

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

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

The group/ bank conducts an analysis and measures held-to-maturity investments on a regular basis and determines the amount of allowances according to the following principles:

- if objective evidence exists that a listed financial instrument is impaired the amount of allowance to be recognised is determined as the difference between the carrying amount and the current market value of the security;
- financial instruments that have been defaulted are measured based on the information at the group's/ bank's disposal concerning debt restructuring. In this case, the amount of allowance is determined as the difference between the carrying amount of the security and the present value of the expected future cash flows expected to be received as a result of debt restructuring;
- if objective evidence exists that a held-to-maturity investment is impaired the required amount of allowance is determined using the discounted cash flow analysis as the difference between the carrying amount

of the security and the present value of the expected future cash flows discounted at the effective interest rate of a similar financial asset.

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

For available-for-sale financial assets, the group/ bank assesses regularly, if there is an indication that the assets may be impaired. If there are objective evidence of significant and permanent impairment, then the incurred fair value revaluation reserve is recognised in the statement of comprehensive income as "impairment of financial instruments".
Impairment loss recognised in profit or loss is not reversed through profit or loss. If, in a subsequent period, the fair value of a financial instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

p) Impairment of Non-financial Assets

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

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

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

q) Intangible Assets

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

r) Property and equipment

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

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

Category	Annual rate
Buildings and property improvements	1,25%—20%
Vehicles	14%
Office equipment, EDP equipment and software	10%—50%

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

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

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

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

v) Adjustments to financial statements after their publication
Following the issuance of financial statements to their approval at shareholders' meeting, the shareholders of the bank are entitled to adjust these statements.

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

x) Adoption of new and/ or changed IFRS and IFRIC interpretations in the reporting year
The group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2015. The application of new standards and amendments did not have any impact on these consolidated financial statements:

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

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

y) Standards issued but not yet effective and not early adopted
Standards that are issued, but not yet effective or not endorsed by the EU, and which are not applied prior to their official date of validity. The group and the bank has not applied the following IFRS and IFRIC interpretations that have been issued as of the date of authorisation of these financial statements for issue, but which are not yet effective: IFRS 11: Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016)

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

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

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

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

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

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

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

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

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

IAS 27 — Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016) The amendments allow an entity to use the equity method in its separate financial statements to account for investments in subsidiaries, associates and joint ventures. The Entity does not expect that the amendments, when initially applied, will have a material impact on the financial statements as the Entity intends to continue to carry its investments in subsidiaries, associates at cost/ in accordance with IAS 39.

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

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

Note 3

Interest income and expense

EUR '000

Interest income	Group 01.01.2015—31.12.2015	Group 01.01.2014—31.12.2014	Bank 01.01.2015—31.12.2015	Bank 01.01.2014—31.12.2014
Total interest income on financial assets at fair value	**403**	**548**	**-**	**14**
Interest income on available-for-sale financial assets at amortised cost				
on loans and advances to customers	34,904	34,280	34,579	33,556
on held-to-maturity securities	31,827	24,775	30,831	24,570
on available-for-sale securities	16,076	8,000	15,820	7,924
on balances due from credit institutions and central banks	2,338	2,560	2,317	2,554
Total interst income on available-for-sale financial assets at amortised cost	**85,145**	**69,615**	**83,547**	**68,604**
Total interest income	**85,548**	**70,163**	**83,547**	**68,618**

Interest expense				
on ordinary bonds issued	7,304	4,817	7,361	5,254
on subordinated liabilities	5,892	4,637	5,892	4,641
on the deposit guarentee fund	4,690	6,479	4,690	6,479
Single Resolution Fund expense	1,337	-	1,337	-
on balances due to credit institutions and central banks	802	221	674	191
financial stability fee costs	425	291	425	263
on deposits from non-bank customers	139	239	129	265
Total interest expense	**20,589**	**16,684**	**20,508**	**17,093**

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

Note 4

Commission and fee income and expense

EUR '000

Commission and fee income	Group 01.01.2015—31.12.2015	Group 01.01.2014—31.12.2014	Bank 01.01.2015—31.12.2015	Bank 01.01.2014—31.12.2014
commission on payment transfer handling on behlaf of customers	30,001	33,505	29,894	33,489
commission on account service	12,325	10,274	12,087	10,169
commission on handling of settlement cards	9,034	9,105	9,037	9,108
commission on brokerage operations	8,310	5,035	-	-
commission on assets management	2,363	2,130	628	783
commission on documentary operations	1,189	1,219	1,189	1,219
other commission and fee income	2,342	2,648	2,943	3,176
Total commission and fee income	**65,564**	**63,916**	**55,778**	**57,944**

Commission and fee income				
correspondent bank service charges	4,065	4,962	4,010	4,923
commission on payment cards	2,436	2,322	2,436	2,322
commission on customer attraction	2,385	2,531	9,036	9,121
commission on brokerage operations	1,409	927	-	-
other commission and fee expense	136	155	61	77
Total commission and fee expense	**10,431**	**10,897**	**15,543**	**16,443**

Note 5

Net gain on transactions with financial instruments and foreign exchange

EUR '000

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

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

The accompanying notes set out on pages 140 through 233 form an integral part of these financial statements.

Note 6

Net gain on repossessed real estate

EUR '000

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

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

Note 7

Other operating income and expense

EUR '000

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

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

Note 8

Impairment allowance for loans

EUR '000

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

Changes in loan impairment allowances of the group in 2015:

EUR '000

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

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

Changes in loan impairment allowances of the group in 2014:

EUR '000

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

Changes in loan impairment allowances of the bank in 2015:

EUR '000

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

Changes in loan impairment allowances of the bank in 2014:

EUR '000

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

The accompanying notes set out on pages 140 through 233 form an integral part of these financial statements.

Note 9

Administrative expense

EUR '000

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

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

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

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

Note 10

Taxation

EUR '000

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

Deferred corporate income tax calculation:

EUR '000

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

Deferred tax movement of group:

EUR '000

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

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

EUR '000

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

Deferred tax movement of bank:

EUR '000

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

EUR '000

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

Taxes paid by the group and the bank:

EUR '000

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

Note 11

Cash and deposits with central banks

EUR '000

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

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

Note 12

Balances due from credit institutions

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

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

EUR '000

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

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

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

Note 13

Financial assets at fair value through profit or loss

EUR '000

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

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

As at 31 December 2015, group's and bank's investments at fair value of EUR 11,1 (3,8) million and EUR 18,7 (11,9) million respectively in open-ended investment funds registered in Latvia, which are redeemable at net asset value, were not listed on stock exchanges.

Ten largest exposures as at 31 December 2015 amounted to 46.6% (33.5%) of the total group's financial assets at fair value through profit or loss, whereas ten largest exposures of the total bank's financial assets at fair value through profit or loss, amounted to 87.9% (91.7%).

Note 14

Available-for-sale financial assets

EUR '000

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

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

Most of the debt securities' portfolio — 90.9% (95.4%) of assets - has been invested by the bank in investment-grade securities. At the end of the reporting year, the weighted average duration of the bank's securities portfolio was 2.5 (2.6) years.

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

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

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

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

The accompanying notes set out on pages 140 through 233 form an integral part of these financial statements.

Note 15

Held-to-maturity financial instruments

EUR '000

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

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

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

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

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

EUR '000

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

Note 16

Derivatives

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

EUR '000

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

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

Note 17

Loans

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

EUR '000

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

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

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

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

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

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

EUR '000

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

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

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

EUR '000

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

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

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

EUR '000

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

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

EUR '000

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

Collateral analysis for the group's loans:

EUR '000

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

Collateral analysis for the bank's loans:

EUR '000

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

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

Note 18

Investments in subsidiaries and associates

The group's investments in associates:

EUR '000

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

The bank's investments in associates:

EUR '000

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

The accompanying notes set out on pages 140 through 233 form an integral part of these financial statements.

Movements in the investments in subsidiaries and associates:

EUR '000

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

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

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

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

EUR '000

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

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

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

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

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

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

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

The bank’s investments in subsidiaries:

EUR ’000

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

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

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

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

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

Movements in the allowance for impairment of subsidiaries:

EUR '000

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

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

Movements in the bank's investment in subsidiaries:

EUR '000

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

Note 19

Investment properties

EUR '000

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

In 2015, lease and rent income from investments in real estate amounted to EUR 29.8 (12.7) thousand, maintenance expense — EUR 187.8 (193.1) thousand, including maintenance expense for non-performing real estate — EUR 161.4 (175.6) thousand.

The fair value of investment properties is provided in Note 32.

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

EUR '000

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

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

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

EUR '000

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

The accompanying notes set out on pages 140 through 233 form an integral part of these financial statements.

Note 20

Intangible assets, property and equipment

EUR '000

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

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

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

	Goodwill	Intangible fixed assets	Land	Production equipment
Acquisition value as at 01.01.2015	**229**	**10,962**	**4,055**	**7,270**
Additions	-	2,158	-	-
Reclassification	-	(2)	-	-
Disposals	(229)	(5)	(1,117)	(7,270)
Disposals and written-offs	-	(531)	-	-
Acquisition value as at 31.12.2015	**-**	**12,582**	**2,938**	**-**
Accumulated depreciation as at 01.01.2015	**-**	**5,699**	**-**	**2,213**
Depreciation charge	-	1,264	-	-
Reclassification	-	9	-	-
Disposals	-	(2)	-	(2,213)
Depreciation of disposals	-	(521)	-	-
Accumulated depreciation as at 31.12.2015	**-**	**6,449**	**-**	**-**
Net carrying amount as at 01.01.2015	**229**	**5,263**	**4,055**	**5,057**
Net carrying amount as at 31.12.2015	**-**	**6,133**	**2,938**	**-**

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

	Goodwill	Intangible fixed assets	Land	Production equipment
Acquisition value as at 01.01.2014	**229**	**9,720**	**1,234**	**6,773**
Additions	-	1,348	65	380
Reclassification	-	-	2,765	130
Disposals	-	(106)	(9)	(13)
Acquisition value as at 31.12.2014	**229**	**10,962**	**4,055**	**7,270**
Accumulated depreciation as at 01.01.2014	**-**	**4,767**	**-**	**1,443**
Depreciation charge	-	1,037	-	783
Reclassification	-	-	-	-
Depreciation of disposals	-	(105)	-	(13)
Accumulated depreciation as at 31.12.2014	**-**	**5,699**	**-**	**2,213**
Net carrying amount as at 01.01.2014	**229**	**4,953**	**1,234**	**5,330**
Net carrying amount as at 31.12.2014	**229**	**5,263**	**4,055**	**5,057**

EUR '000

Construction in progress and leasehold improvements	Buildings and property improvements	Vehicles	Office equipment and IT hardware	Total, excl. Prepayments
1,546	**26,822**	**2,273**	**13,965**	**67,122**
1,159	34	596	1,358	5,305
7,033	(8)	-	2	7,025
(199)	(15,653)	(531)	(686)	(25,690)
-	-	(280)	(623)	(1,434)
9,539	**11,195**	**2,058**	**14,016**	**52,328**
746	**6,153**	**703**	**8,867**	**24,381**
122	1,014	286	2,285	4,971
-	(2)	-	(9)	(2)
-	(2,250)	(191)	(758)	(5,414)
-	-	(181)	(610)	(1,312)
868	**4,915**	**617**	**9,775**	**22,624**
800	**20,669**	**1,570**	**5,098**	**42,741**
8,671	**6,280**	**1,441**	**4,241**	**29,704**

EUR '000

Construction in progress and leasehold improvements	Buildings and property improvements	Vehicles	Office equipment and IT hardware	Total, excl. Prepayments
1,567	**23,968**	**2,084**	**12,331**	**57,906**
422	1,203	454	2,008	5,880
(222)	2,545	(4)	543	5,757
(221)	(894)	(261)	(917)	(2,421)
1,546	**26,822**	**2,273**	**13,965**	**67,122**
858	**4,911**	**613**	**7,974**	**20,566**
109	1,242	305	1,786	5,262
-	-	(4)	-	(4)
(221)	-	(211)	(893)	(1,443)
746	**6,153**	**703**	**8,867**	**24,381**
709	**19,057**	**1,471**	**4,357**	**37,340**
800	**20,669**	**1,570**	**5,098**	**42,741**

The accompanying notes set out on pages 140 through 233 form an integral part of these financial statements.

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

EUR '000

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

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

EUR '000

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

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

Note 21

Other assets

EUR '000

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

Note 22

Due to Bank of Latvia

EUR '000

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

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

Note 23

Deposits

EUR '000

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

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

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

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

The accompanying notes set out on pages 140 through 233 form an integral part of these financial statements.

Note 24

Issued securities

EUR '000

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

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

Note 25

Subordinated liabilities

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

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

The analysis of subordinated deposits as at 31 December 2015:

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

The analysis of subordinated loans as at 31 December 2014:

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

The proportionate share of lenders (for each individual lender) does not exceed 10% of the total amount of the subordinated liabilities.

The remaining weighted average maturity of subordinated deposits from lenders is 3.4 (3.8) years.

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

Note 26

Paid-in share capital

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

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

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

In the reporting year, the bank issued 2 385 000 ordinary registered voting shares (based on the decisions of the ordinary shareholders' meeting of 31 March 2015). The par value of all the issued shares was EUR 1.0, while the emission price of each ordinary registered voting share was EUR 13.85, comprised of the par value of EUR 1.0 and the share premium of EUR 12.85. The issues were intended to ensure steady development of the group/ bank in the future. During the reporting period, the bank issued 265,000 personnel shares (from the previous years retained earnings) with nominal value EUR 1.0 (based on the decision of the Extraordinary Shareholders' Meeting of 30 October 2015).

After this issue, share capital of the bank consisted of 31,770,000 name shares with voting rights and 3,530,000 personnel shares. All name shares with voting rights rank equal with respect to dividends, liquidation quota and voting rights in the Shareholders meeting. All personnel shares grant equal rights to dividends. Personnel shares do not grant any right to vote or receive liquidation quotas. Most of the issued voting shares have been acquired by the existing shareholders of the bank - Cassandra Holding Company, SIA and OF Holding, SIA.

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

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

Dividends declared and paid:

EUR '000

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

EUR '000

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

Note 27

Other liabilities

EUR '000

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

Note 28

Memorandum items

EUR '000

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

Note 29

Funds under trust management

As at 31 December 2015, funds under trust management by the group amounted to EUR 226.3 (160.6) million, while funds under trust management by the bank amounted to EUR 39.7 (48.2) million. The bank's funds under trust management comprise loans issued from the funds specifically assigned by customers to the bank. Meanwhile, the group's funds under trust management also include funds of the customers of ABLV Asset Management, IPAS managed by the said company based on the customers' authorisation and the funds under trust management of ABLV Bank Luxembourg, S.A.

More detailed information on the funds of the customers of ABLV Asset Management, IPAS is disclosed in Note 18.

The related credit risk and other risks remain fully with the customer, which provided these funds to the group and/or the bank.

Note 30

Related party disclosures

Group's transactions with related parties:

					31.12.2015
Assets	Shareholders	Management	Related companies	Associated companies	Other related individuals
Loans	29	2,318	9,263	9,838	109
Liabilities					
Deposits	3,111	2,255	9,988	7,737	1,884
Ordinary bonds	150	45	1,139	14,063	28
Subordinated bonds	-	5,081	1,096	1,748	820
Memorandum items					
Undrawn credit facilities and payment card limits	-	150	198	937	29
Guarantees	-	125	-	-	-
Income/ expense					01.01.2015— 31.12.2015
Interest income	20	65	173	298	2
Interest expense	(2)	(167)	(71)	(127)	(28)
Commission and fee income	1	16	268	4	3
Net result from assets held for sale	-	-	-	72	-

Bank's transactions with related parties:

					31.12.2015
Assets	Shareholders	Management	Related companies	Subsidiaries	Other related individuals
Due from credit institutions	-	-	-	5,000	-
Loans	29	2,318	9,263	9,838	109
Liabilities					
Due to credit institutions	-	-	-	14,663	-
Deposits	3,111	2,245	9,988	26,317	1,884
Ordinary bonds	150	45	1,139	21,596	28
Subordinated bonds	-	5,081	1,096	1,748	820
Memorandum items					
Undrawn credit facilities and payment card limits	-	150	198	1,004	29
Guarantees	-	125	-	8	-
Income/ expense					01.01.2015— 31.12.2015
Interest income	20	65	173	521	2
Interest expense	(2)	(167)	(71)	(207)	(28)
Income from dividends	-	-	-	9,201	-
Commission and fee income	1	16	268	853	3
Commission and fee expense	-	-	-	(6,651)	-
Other operating income	-	-	-	3,222	-
Recognised impairment, net	-	-	-	(2,840)	-

EUR '000

			31.12.2014
Shareholders	Management	Related companies	Other related individuals
14	1,705	217	187
948	2,517	7,978	1,510
-	30	411	18
43	3,219	1,156	1,004
-	149	43	20
-	125	-	-
			01.01.2014— 31.12.2014
-	51	16	4
(2)	(106)	(52)	(34)
-	16	16	4
-	-	264	-

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

EUR '000

				31.12.2014
Shareholders	Management	Related companies	Subsidiaries	Other related individuals
-	-	-	6,000	-
14	1,705	668	13,026	169
-	-	-	5,091	-
948	2,517	7,978	14,765	1,374
-	30	411	12,775	18
43	3,219	1,156	36	564
-	149	43	330	20
-	125	-	8	-
				01.01.2014— 31.12.2014
-	51	16	941	3
(2)	(106)	(52)	(438)	(20)
-	-	-	5,966	-
-	16	16	630	4
-	-	-	(6,590)	-
-	-	-	3,547	-
-	-	-	(7,769)	-

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

The accompanying notes set out on pages 140 through 233 form an integral part of these financial statements.

Note 31

Segment information

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

The bank views its operations as one single segment, without making any separate disclosures, while at the group level the bank and all its subsidiaries are attributed to the group's operating segments as follows:

- banking services: ABLV Bank, AS, ABLV Bank Luxembourg, S.A;
- advisory services: ABLV Consulting Services, AS, ABLV Corporate Services Holding Company, SIA, ABLV Corporate Services, SIA, ABLV Corporate Services, LTD;
- investment management services: ABLV Asset Management, IPAS, ABLV Capital Markets, IBAS, ABLV Private Equity Management, SIA, ABLV Private Equity Fund 2010, KS investment funds included in the group (see Note 18).
- management of repossessed properties and investments in real estate: Pillar Holding Company, KS, Pillar, SIA, Pillar 3, SIA, Pillar 4 & 6, SIA, Pillar 7 & 8, SIA, Pillar 9, SIA, Pillar 10, SIA, Pillar 11, SIA, Pillar 2, 12 & 14 SIA, Pillar 18, SIA, Pillar 19, SIA, Pillar 20, SIA Pillar 21, SIA Pillar Investment Group, SIA, New Hanza City, SIA, NHC Utilities, SIA, Pillar Management, SIA, Pillar RE Services, SIA, Pillar Contractor, SIA, Schaller Kyncl Architekten Riga, SIA.

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

Analysis of the operating segments of the group:

EUR '000

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

EUR '000

	01.01.2014—31.12.2014						
	Banking	Investment management	Investment managemen excluded due to loss of control	Consultation services	Management of repossessed properties and investments in real estate	Excluded or corrected on consolidation	Group, total
Net interest income	51,891	1,881	(663)	-	31	339	53,479
incl. external transactions	51,872	1,607	-	-	-		
incl. Internal transactions	19	274	(663)		31		
Net commission income	41,828	7,111	(22)	(21)	(7)	4,130	53,019
incl. external transactions	47,830	5,199		10	-		
incl. Internal transactions	(6,002)	1,912	(22)	(11)	(7)		
Net result of transactions with securities and foreign exchange	25,517	(189)	(39)	(30)	(23)	462	19,187
incl. external transactions	19,538	(336)	-	24	-		
incl. Internal transactions	5,979	147	(39)	(6)	(23)		
Net other income/expenses	2,766	6,847	3,370	6,769	167	(9,828)	10,091
Personnel expense and other administrative expenses	(47,079)	(3,803)	(1,134)	(6,120)	(4,803)	5,041	(57,898)
Depreciation	(3,217)	(44)	(1,696)	(103)	(250)	-	(5,310)
Impairment allownace and other provisions	(12,442)	-	-	-	-	7,769	(4,673)
Corporate income tax	(3,993)	(469)	(8)	(91)	106	367	(4,088)
Total segment profit/ (loss)	**55,271**	**11,334**	**(192)**	**404**	**(4,779)**	**8,280**	**63,807**
Total segment assets	**4,293,942**	**44,014**	**50,869**	**2,702**	**153,154**	**(274,595)**	**4,270,086**
Total segment liabilities	**4,050,725**	**8,838**	**22,646**	**1,440**	**34,917**	**(90,522)**	**4,028,044**

Note 32

Fair values

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

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

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

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

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

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

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

EUR '000

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

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

EUR '000

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

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

The group and the bank use the following hierarchy of three levels of input data for determining and disclosing the fair value of assets and liabilities:
Level 1: Quoted prices in active markets;
Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable;
Level 3: Other techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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

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

EUR '000

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

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

EUR '000

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

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

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

EUR '000

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

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

EUR '000

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

Note 33

Capital management and capital adequacy

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

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

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

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

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

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

The accompanying notes set out on pages 140 through 233 form an integral part of these financial statements.

Own funds and capital requirements:

EUR '000

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

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

EUR '000

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

Note 34

Risk management

Risks are inherent in the group's and bank's business and risk management is one of the group's and bank's strategic values, which is based on the confidence that efficient risk management is critical for the success of the group and the bank. Managing risks permits keeping the group's and bank's exposure at a level meeting their willingness and ability to undertake risks. In the ordinary course of business, the group and the bank are exposed to various risks, the most significant of them being credit risk, market risk, liquidity risk, operational risk, AML/CTF risk and other unquantifiable risks (reputation risk, compliance risk, strategy and business risk, commission fee income and expenses volatility risk).

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

The risk management process includes the following:

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

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

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

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

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

Note 35

Credit risk

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

Credit risk management framework

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

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

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

In order to measure credit risk, the group and the bank perform the following:
- analysis of loan portfolio quality, compliance with limits and concentration on a regular basis, at least once every quarter;
- credit risk stress testing on a regular basis, at least once every six months;
- assessment of capital adequacy on a regular basis, at least once every year.

Before entering into any cooperation with customers, the group and the bank perform a comprehensive review of the customer's solvency and collateral.

In analysing any potential cooperation with financial institutions, the bank assesses each potential counterparty, by analysing both its financial performance and other criteria, and further reviews these indicators on a regular basis. Meanwhile, to assess solvency of private individuals, the bank has developed an internal rating system whereby customers are divided in categories on the basis of their income level and quality of their credit histories. The group and the bank assess creditworthiness of corporate customers by conducting the financial due diligence for each new customer; subsequently, the borrower's financial position is reviewed on a regular basis. Corporate customers are also granted monitoring/ risk factors, and any instances of non-compliance with these factors indicate that credit risk might have increased before the financial position of such customer is reviewed. Collateral is appraised by an independent appraiser accepted by the group and the bank. The bank may adjust (reduce) the value defined by the independent appraiser if, in the bank's opinion, the appraiser has not considered certain risk factors. For the purposes of loan collateral, the bank considers such reduced value. As collateral, the bank may accept real estate, new and used vehicles, commercial vehicles, goods held at customs or customer's warehouse, securities, technological equipment and machinery, receivables as the aggregation of property, etc. Based on the collateral type and liquidity, the group and the bank apply the maximum acceptable proportion of the loan to be issued. The Credit Policy, the Lending Regulation and other regulations provide for the main criteria and types of acceptable collateral, the basic principles and frequency of collateral evaluations. Depending on the type of collateral and risk exposure, the bank's employees perform monitoring of the collateral value 1—4 times per year. On certain occasions, an independent appraiser may be involved. With regard to exposures in excess of EUR 3 million or 5% of the bank's equity, independent appraisals are conducted once every three years. For effective credit risk management, the bank has set up the permanent Assets Evaluation Committee which performs a regular analysis of assets and memorandum items, i.e., their recoverability. Depending on the results of such analysis, the amount of the allowance for credit losses (impairment) is determined. For the purposes of such analysis, both specific and collective (portfolio) risks are considered.

The bank analyses the quality of its loan portfolio on a regular basis to identify loss events. If a loss event is identified, the loan is assessed for impairment. The age of past due loans is used as one of the quality criteria. The criteria applied to corporate loans also include the borrower's business performance and prospects, its existing and forecasted cash flows to meet the liabilities, compliance with the monitoring/ risk factors set, collateral value, etc. Past due loans are loans with delayed contractual interest and/ or principal payments. Different loan groups (mortgage loans, corporate loans, consumer loans, etc.) have different aging criteria (8 to 90 days) which are determined by assessing and considering risks inherent in the relevant loan group. Information on delayed credit payments is disclosed starting from the first day of delay. Impaired loans are loans for which the bank has recognised impairment allowances as a result of a loss event. Non-performing loans are loans with payments overdue by more than 90 days or impaired loans, or loans that are planned to be forwarded for collection by way of forced disposal of collateral, and loans with disposed collaterals. If a non-performing loan is restructured (provisions of the agreement are changed) it remains classified as a non-performing loan for at least 12 months after the date of change of provisions.

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

Credit quality analysis for the group:

EUR '000

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

Credit quality analysis for the bank:

EUR '000

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

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

As at 31 December 2015, the gross amount of loans having the maturity date for principal or interest changed totalled EUR 82.6 (74.2) million. These changes were made on the basis of the agreements between the group or the bank and customers amending respective loan conditions, as otherwise the loans might be past due. A loan is considered to be restructured from the date of the above mutual agreement to the date when at least two years have passed without delays of contractual payments by more than 30 days or any of the loss events has taken place. The group and the bank manage the credit quality of their financial assets by applying internal ratings. Loans to customers are assigned internal ratings where higher-rating assets are standard assets with a sound credit standing, while lower-rating assets are those assets which have doubtful credit quality and require close monitoring by the group and the bank. Meanwhile, balances due from credit institutions and securities are granted credit ratings assigned by rating agencies. Higher-rating assets represent investment-grade assets, i.e., assets having a rating of no lower than BBB-, while lower-rating assets represent assets rated below investment grade.

Financial assets of the group by risk rating:

EUR '000

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

Financial assets of the bank by risk rating:

EUR '000

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

Credit risk concentration

To mitigate concentration risk, the group and the bank apply diversification and a system of limits. The group and the bank place limits on the amount of risk for individual borrowers (groups of connected clients), and for geographical and industry concentrations as well as exposures having one type of collateral, etc. With a view to limiting credit risk and concentration risk, the target levels and limits of the loan portfolio are defined as a percentage of eligible capital, considering risks associated with the lending product and the location and liquidity of collateral. Concentration limits for individual industry sectors are determined on the basis of credit quality ratios in the relevant sector and industry trends both in Latvia and abroad. Concentration limits for geographical regions are based on the possibilities of registering and recovering collateral, as well as the political and economic situation in the relevant country. Concentration limits for a certain type of collateral are defined, considering the liquidity of collateral. In the event that any group of loans is affected by economic factors deteriorating the condition of all loans belonging to this group, it is decided to place certain restrictions on lending in the specific industry, and potential credit losses are identified. The exposure to any single borrower, including banks and brokers, is further restricted by sublimits. The credit risk concentration is analysed also by estimating the credit exposure ratio to eligible capital. According to the Regulation, the group and the bank treat credit exposure as a high risk transaction if it exceeds 10% of the eligible capital. For the purposes of the credit risk concentration analysis, the issuers incorporated in a country only for the attraction of funds are disclosed as attributable to the country or region where the guarantors of the issue are located. The credit risk inherent in the group's and bank's securities portfolios is reflected by the credit rating granted to respective securities and issuers. The group's and bank's securities portfolios are well-diversified and portfolio diversification is based on issues, credit rating classes, issuers and maturities. Apart from the effective management of credit risk concentration, the bank has set limits for credit institutions and financial companies in order to restrict balances held with one institution and group of related institutions as well as defined the limit control regulations specifying the independent procedure for controlling compliance with the limits. To enhance the effectiveness of credit risk management, which is associated with the assessment of existing and potential counterparties, the bank has designed an internal model for the assessment of credit institutions. With the model, the group determines the maximum recommended co-operation limits of credit institutions, which are used for decision-making when assigning cooperation limits. Accordingly the internal rules provide execution control in accordance to stated limits.

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

EUR '000

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

The accompanying notes set out on pages 140 through 233 form an integral part of these financial statements.

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

EUR '000

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

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

EUR '000

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

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

EUR '000

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

The accompanying notes set out on pages 140 through 233 form an integral part of these financial statements.

Note 36

Other financial risks

Liquidity risk

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

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

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

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

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

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

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

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

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

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

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

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

Contingency liquidity risk

Contingency liquidity risk relates to the organisation and planning for liquidity management in times of stress. Within the bank a specific crisis team is responsible for the liquidity manage-

The accompanying notes set out on pages 140 through 233 form an integral part of these financial statements.

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

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

Liquidity gap analysis

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

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

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

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

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

Impaired assets are stated net of allowances.

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

EUR '000

Assets	On demand and up to 1 month	1—3 months	3—12 months	1—5 years	More than 5 years and undated	Total
Cash and deposits with central banks	449,136	-	-	-	-	449,136
Balances due from credit institutions	631,612	7,350	7,805	-	23,213	669,980
Derivatives	53	68	-	-	-	121
Financial assets at fair value through profit or loss	6,369	19,543	209	-	-	26,121
Available-for-sale financial assets	1,690,252	71,037	31,099	33,616	7,069	1,833,073
Loans	98,911	24,841	69,314	475,839	205,098	874,003
Held-to-maturity investments	588,257	11,897	58,984	237,393	118,516	1,015,047
Other assets	5,767	228	3,524	-	114,588	124,107
Total assets	**3,470,357**	**134,964**	**170,935**	**746,848**	**468,484**	**4,991,588**
Liabilities						
Derivatives	150	215	-	-	-	365
Financial assets at amortised cost	902,149	199,120	693,950	2,752,584	123,016	4,670,819
Other liabilities	43,075	-	-	-	-	43,075
Total liabilities	**945,374**	**199,335**	**693,950**	**2,752,584**	**123,016**	**4,714,259**
Shareholders' equity	-	-	-	-	277,329	277,329
Total liabilities and shareholders' equity	**945,374**	**199,335**	**693,950**	**2,752,584**	**400,345**	**4,991,588**
Total memorandum items	35,450	3,763	5,511	16,038	24,797	85,559
Net liquidity position	2,489,533	(68,134)	(528,526)	(2,021,774)	43,342	x
Total liquidity position	2,489,533	2,421,399	1,892,873	(128,901)	(85,559)	x

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

EUR '000

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

The accompanying notes set out on pages 140 through 233 form an integral part of these financial statements.

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

EUR '000

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

The accompanying notes set out on pages 140 through 233 form an integral part of these financial statements.

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

EUR '000

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

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

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

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

EUR '000

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

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

EUR '000

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

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

EUR '000

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

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

EUR '000

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

The accompanying notes set out on pages 140 through 233 form an integral part of these financial statements.

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

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

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

Price risk
The "loss" indicator is used by the bank as one of the tools to manage price risk in order to identify any reductions in the securities prices below the mandatory level in a timely fashion. Based on the above, the heads of responsible structural units may decide whether the affected securities should be sold or kept in the portfolio. Non-fixed income financial instruments are held in the bank's trading portfolio. The exposure to equity securities not held in the bank's and group's trading portfolio has not been material in 2015 and as of the balance sheet date amounts to EUR 12.6 (0.4) million.
In 2015, the estimated value-at-risk of non-fixed income securities totalled EUR 1.1 (1.2) million. As part of liquidity stress testing, the bank and the group regularly evaluate the risk of changes in security prices. The capital requirement for the security price risk for the securities in the trading portfolio and available-for-sale portfolio is determined by the bank and group using the Value at Risk (VaR) and Stressed Value at Risk (SVaR) internal models.

Currency risk
The group and the bank are exposed to negative effects of fluctuations in foreign currency exchange rates on their financial position and cash flows. The exposure to currency risk is calculated for each separate currency and includes assets and liabilities denominated in foreign currencies, as well as cash flows arising from derivatives. According to the bank's policy, the bank may use derivatives to limit its exposure to currency risk. Any transactions involving derivatives with aim to earn profits are prohibited. The bank has major open positions in EUR and USD (US dollars). The bank's open currency position in USD is rather small as it is hedged by using currency forwards/ futures. As at 31 December 2014, the bank's open currency position in USD was 0.7% (2.7%) of bank's eligible capital and, therefore, the effect of changes in the USD exchange rate is insignificant, and the bank does not conduct a more detailed sensitivity analysis, only controlling this risk by applying the limits specified in the Limits Policy. As at 31 December 2015, all the above limits were met.

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

The accompanying notes set out on pages 140 through 233 form an integral part of these financial statements.

Group's currency position as at 31 December 2015:

EUR '000

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

Group's currency position as at 31 December 2014:

EUR '000

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

The accompanying notes set out on pages 140 through 233 form an integral part of these financial statements.

Bank's currency position as at 31 December 2015:

EUR '000

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

Bank's currency position as at 31 December 2014:

EUR '000

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

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

Interest rate risk is assessed on a regular basis both from the profitability perspective and the economic value perspective. The term 'economic value' denotes the economic value of equity, which is the difference between the economic value of claims and that of liabilities. Based on the results of analysis, it is evaluated whether an interest rate stress test is required and if so potential scenarios are developed for the stress test modelling potential adverse changes in interest rates. The aim of stress testing is to assess the impact of adverse changes in interest rates on net interest income and the economic value under difficult market conditions. The amount of capital required to cover interest rate risk in the non-trading portfolio for the group and the bank is determined using the internal duration method. In order to mitigate interest rate risk certain thresholds have been set for an acceptation decrease in the economic value and for the modified duration of the portfolio of open-ended investments. According to the bank's financial instrument policy, hedging derivatives may be used to hedge interest rate risk.

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

Derivatives are disclosed simultaneously as long and short off-balance-sheet positions. The impact of interest rate risk on the economic value of equity is calculated based on the duration method — a parallel increase in interest rates by 1 per cent (or 100 basis points) while the impact on profit is analysed using GAP analysis, i.e. analysis of the term structure of interest rate sensitive assets and liabilities and summing up the impact (profit or loss) calculated in each term interval up to one year. In determining the impact of interest rate risk on equity the analysis is conducted by taking into consideration potential changes in the market value of debt securities in the available-for-sale portfolio upon changes in market interest rates. The impact on profit is comprised of changes in interest income resulting from changes in market interest rates taking into consideration all assets and liabilities exposed to interest rate risk.

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

EUR '000

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

Commodity risk

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

Settlement risk

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

Counterparty credit risk

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

Note 37

Non-financial risks

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

Operational risk

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

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

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

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

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

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

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

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

- collection of data about operational risk events and losses of the group and the bank;
- analysis of operational risk events and losses;

The accompanying notes set out on pages 140 through 233 form an integral part of these financial statements.

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

Information is registered and categorised in the database following the good practice principles defined by the Operational Riskdata eXchange Association (ORX). In addition to events resulting in actual losses, information about events for which no actual losses have been registered is also aggregated in the database, which enables the bank to identify potential losses and take all required measures to prevent such losses. Operational risk testing is performed on a regular basis in order to assess potential losses related to operational risk. The results of operational risk testing are used in the assessment of the minimum capital requirement for operational risk. During the reporting year, 990 (1 349) events were registered in the database, of which only 61 (49) events were those which resulted in actual losses amounting to EUR 95.5 (4044) thousand. The considerable number of the identified and registered events and, at the same time, rather a small amount of loss testify to the active involvement of the group's and bank's employees in the operational risk management and to the effectiveness of the control environment.

Money laundering and terrorism financing risk

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

Management and control of ML/TF risk is the responsibility of Chief Compliance Officer. ML/TF risk is managed by the employees of the Compliance Department who develop risk prevention measures and ensure that approved ML/TF laws, regulations and standards are complied with and preclude the bank and the group companies from being involved in the laundering of proceeds derived from criminal activity and terrorism financing. To ensure effective customer monitoring and ML/TF risk management, the bank has set up a permanent Customer Control Committee whose functions include approval of procedures and instructions related to customer identification, acceptance and due diligence, consideration of the results of investigating suspicious transactions and adoption of relevant decisions, analysis of KYC (due diligence) results within the limits of its competence and decision-making on abstaining from/ termination or continuation of business relationships with a certain customer, as well as presentation to the board of recommendations for improvement of the ML/TF risk prevention system. The Customer Policy defines the principles of customer attraction and servicing based on the bank's and group's operational strategy that are implemented according to the local statutory requirements as well as good banking practice. To mitigate ML/TF risk, the bank has formulated and documented an internal ML/TF risk management and prevention system encompassing activities and measures aimed at ensuring compliance with the requirements of the Anti-Money Laundering and Counter-Terrorism Financing Law, Cabinet Regulations, FCMC Regulations and other applicable regulations. All the group's employees and authorised representatives involved in customer servicing and KYC processes are subject to the procedure prescribed by the aforementioned documents and relevant internal regulations.

Bank's ML/TF risk management regulations lay down the following:
- criteria to commence cooperation with customers and counterparties;
- potential customers;
- procedure for commencing business relationships;
- procedure for customer identification and establishing actual beneficiaries;
- indicators of unusual and suspicious transactions, the procedure for establishing and investigating such indicators;
- procedure for abstaining from and reporting suspicious transactions to the Financial Intelligence Unit;
- customer risk identification;
- KYC procedures;
- customer transactions monitoring and customer due diligence;
- the procedure for ensuring processing of check sheets.

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

Other risks

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

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

Reputational risk

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

Reputation risk is managed by the following methods:
- risk identification and assessment;
- risk monitoring;
- risk control and prevention;
- set up of a risk communication and action plan.

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

Monitoring measures are carried out in order to learn in due time and take immediate action in response to information on group companies or related parties published in the mass media that may impact the level of reputation risk. Monitoring and management reporting upon discovering information that may have an adverse impact on reputation is ensured by the Head of Public Relations. The group and the bank have documented rules in place for communication in reputation crisis, which aim to ensure that all structural units act in a prompt and consistent manner and there is optimum communication to prevent the crisis to the extent possible and to mitigate the harm to the bank's operations, reputation and image.

Reputation risk is mitigated by:
- control over compliance with legal requirements;
- analysis of reputation risk factors, impact on financial indicators and data;
- ensuring and controlling that settlements with customers and cooperation partners are made in due time;
- control of reliability of accounting data and reports;
- raising staff qualifications.

Compliance risk

Compliance risk is the risk that the bank or its subsidiary may incur losses or legal obligations, be subject to sanctions or suffer impairment of reputation as a result of a failure to comply or a breach of compliance laws, regulations and standards. Compliance risk is unquantifiable and its consequences and losses are difficult to determine. Compliance risk is managed according to the Compliance risk management policy.

The core elements of compliance risk management are:
- identification of compliance laws, regulations and standards and problems and critical areas;
- analysis of compliance risk and its impact;
- determination and implementation of measures to prevent (mitigate) compliance risk;
- monitoring of compliance risk.

Data required for the assessment of compliance risk are gathered and summarised by way of surveys and interviews conducted by a compliance expert. Interviews are conducted with heads of the bank's structural units and subsidiaries and, where required, with other employees (specialists, subject matter experts) who have knowledge and experience that may help in the risk assessment. In addition, the following is used: case studies, information from the litigation register, risk events registered in the risk event and loss data base, findings from regulator reviews and other sources of information. Compliance risk is assessed using expert valuations. The assigned level of risk indicates the type of reaction that needs to be taken, i.e. the level of detail of the preventive and corrective measures for the respective risk, what level of employees need to be assigned responsibility for the prevention of risk, and in what timeframe and manner one should react when the risk has materialised. Compliance risk is monitored in order to be able to learn about and take immediate action in response to changes in compliance laws, regulations and standards. Monitoring is carried out by the Compliance Expert Unit.

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

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

The group and the bank have a documented Strategic Planning Regulation which specifies that strategic planning involves the following:
- operational strategy;
- financial plan for one year;
- budget for one year;
- preliminary financial plan for three years;
- worst-case scenario for a two year period.

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

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

Information system risk
The bank has formulated the Information Technology Security Policy, the Information System Risk Analysis Regulations, the Security Requirements for Information Systems Being Designed, and other regulations dealing with information system risk management. Information system risk is included in operational risk based on the Operational Risk Management Policy adopted by the bank and, therefore, for capital adequacy purposes it was resolved not to segregate it from the capital requirement for operational risk. The bank analyses the data of the operational risk event and loss database to identify whether it is possible and necessary to establish a separate capital requirement for information system risk. The bank conducts risk analysis on the basis of a documented methodology, which enables the effective planning of risk management measures. According to the risk analysis results, the bank chooses appropriate risk management (security) tools. Risk management measures are determined by the bank based on the relationship between security costs and potential loss. The bank specifically focuses and makes every effort to prevent risks associated with

unauthorised access to the bank's information by third parties or leakage of confidential information via global networks (Internet, etc.), e-mail, modems, optical discs, USB flash and other information media. When commencing each new project for the designing, acquisition and alteration (modification) of information systems, the bank conducts risk analysis pertaining to these changes and takes measures to minimise the risk exposure.

Note 38

Litigation and claims

In the ordinary course of business, the bank has been involved in a number of legal proceedings to recover outstanding credit balances and maintain collateral, as well as other proceedings related to specific transactions. The management believe that any legal proceedings pending as at 31 December 2015 will not result in material losses for the bank and/ or the group, excepted below mentioned. During the reporting year, the Financial and Capital Market Commission conducted a number of reviews at the bank which resulted in initiating an administrative case on 18 December 2015. By the date of approval of the consolidated and separate financial statements, no administrative act has been issued and no decision has been taken to terminate the matter. According to the management of the bank, there have been no significant violations in the Bank's activities in relation to the results of these reviews and the management believes it will be possible to enter into an administrative agreement with the Financial and Capital Market Commission. The management of the bank has not recognized any provisions in these separate and consolidated financial statements as a material uncertainty exists regarding the potential outcome of this matter and it is not possible to estimate the amount of provision reliably. The potential irregularities may be interpreted in a number of ways and the amount of the fine to be imposed may differ accordingly depending on the provisions of the Credit Institution Law in effect at the date of the potential violation.

Note 39

Events after the reporting date

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

Independent Auditors' Report

To the shareholders of ABLV Bank, AS

Report on the Separate and Consolidated Financial Statements

We have audited the accompanying separate financial statements of ABLV Bank, AS ("the Bank"), which comprise the separate statements of financial position as at 31 December 2015, the separate statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 134 to 233. We have also audited the accompanying consolidated financial statements of ABLV Bank, AS and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2015, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 134 to 233.

Management's Responsibility for the Separate and Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these separate and consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether these separate and consolidated financial statements are free of material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate and consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of these separate and consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the Company's and the Group's preparation and fair presentation of these separate and consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and the Group's internal controls. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by the Company and the Group management, as well as evaluating the overall presentation of the separate and consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

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

Emphasis of matter

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

Other matters

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

Report on Other Legal and Regulatory Requirements

In addition, our responsibility is to assess whether the accounting information included in the Consolidated Management Report, as set out on pages 125 to 131, the preparation of which is the responsibility of management, is consistent with the consolidated financial statements. Our work with respect to the Consolidated Management Report was limited to the aforementioned scope and did not include a review of any information other than drawn from the consolidated financial statements of the Group. In our opinion, the Consolidated Management Report is consistent with the consolidated financial statements.

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

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

26 February 2016

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