AS DNB BANKA
CONSOLIDATED AND BANK`S ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2015

Contents

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A REPORT FROM THE MANAGEMENT BOARD AND THE SUPERVISORY COUNCIL

The financial results of both DNB Group in Latvia and the entire Latvian banking industry in 2015 were influenced by several important external factors. Fragility of the global economy and continuing geopolitical risks increased caution of entrepreneurs in planning and making new investments. Interest rates continued to decrease as a result of economic stimulus activities of central banks. At the beginning of the year real estate and mortgage loan market in Latvia was affected by amendments to the Insolvency Law passed at the end of 2014; in the second half of the year activity in mortgage lending increased.

Notwithstanding the complicated external environment and challenges created by it, the year 2015 has been successful for DNB Group in Latvia.

Operating profit of DNB Group in Latvia in 2015 was EUR 17.7 million. With new loan-loss provisions created in the amount of EUR 2.5 million, net profit for 2015 amounted to EUR 14.7 million.

Operating income reached EUR 55.5 million in 2015. It was influenced by low interest rate environment mentioned previously and cautious approach of the population and businesses to assuming new credit obligations. As a result, net loan portfolio of DNB Group in Latvia decreased and amounted to EUR 1 527 million at the year-end of 2015. Fee and commission income grew by 5%; net interest income decreased by 11%. Other income was affected in particular by decrease of value of the repossessed real estate by EUR 3.3 million.

Continuing the operational efficiency improvement projects commenced earlier, administrative costs of DNB Group in Latvia were reduced by 6% in comparison to the previous reporting period. In 2015 the administrative costs amounted to EUR 37.8 million.

Financial stability ratios of DNB banka in 2015 exceeded the regulatory requirements substantially – at the end of the reporting period, the liquidity ratio was 45.2% and the capital adequacy – 17.6%.

Accessible financing on favourable terms

In 2015 DNB banka paid particular attention to increase of accessibility of mortgage loans to the population of Latvia. In the middle of summer new terms and conditions of mortgage loans were developed. The customers, especially young families, highly appreciate also the properties offered by SIA Salvus, a subsidiary of DNB banka, with more favourable mortgage loan terms and conditions – financing of up to 90% and lower commissions, and the mortgage loans available in the framework of the state housing support program and offered in co-operation with ALTUM. As a result, in the second half of the year the volume of new issued mortgage loans increased by 80% in comparison to the first half.

DNB banka also paid attention to increase of availability of financing to companies. Volume of new loans granted to legal entities increased by 10% during the year. Volume of new leasing transactions increased by 25%, of which the majority (73%) were leases to legal entities. Car leasing volume increased by 24%, industrial leasing – by 25%. Most of the industrial leasing growth is a result of expanding the co-operation with agriculture companies.

Customers continue savings

In 2015 the customers of DNB banka paid more attention also to savings. Subsequently the Bank's deposit portfolio increased by 13% during the year and reached EUR 1.2 billion; contributions to accumulative life insurance or alternative to pension offered by the Bank in co-operation with ERGO Life Insurance SE Latvia Branch increased by 56%.

Leading position in securing long-term profitability of pension capital under management

Increase of value of the pension capital in a long-term is a priority of DNB 2nd pillar pension plans in Latvia. It is evidenced by 10-year performance results in all three pension plan strategies. DNB Balanced Investment Plan and DNB Active Investment Plan were the most profitable in the balanced and active strategies, earning on average 4.09% p.a. and 4.18% p.a., respectively. DNB Conservative Investment Plan returned 4.38% p.a., which is the second best result among all conservative plans.

Remote service and convenient payments

Taking into account changing customer behaviour, DNB banka paid particular attention to development and improvement of self-service and remote customer service to enable the customers to receive the necessary banking services conveniently and also make cash transactions using the technology rather than visiting a bank branch.

In 2015 DNB banka became accessible to the customers on Facebook twenty-four hours. In December the new Mobile Bank was launched, and it has already gained recognition of the customers – the number of active users during the month increased by 11% in comparison with the end of November. Customers of the Bank can receive payment cards without visiting the Bank, apply for a consumer loan at ATM, and also withdraw the cash at ATM without the payment card, by using only a one-time code.

A REPORT FROM THE MANAGEMENT BOARD AND THE SUPERVISORY COUNCIL (continued)

DNB – partner of the State Treasury in government bond issue in international financial markets

In September Latvia successfully returned to international financial markets by issuing new 10-year bonds in the amount of EUR 500 million, and we are proud that this bond issue was arranged by DNB in co-operation with HSBC and Natixis. The bonds were issued with the historically lowest yield level, reflecting the high evaluation that international investors give to development of the economy of Latvia.

Growth potential in 2016

Two opposite economic forces will influence the customer activity in 2016. The beginning of the year shows that macroeconomic uncertainty and volatility in global financial markets would most probably continue this year as well. At the same time purchasing power of the population is increasing and interest rates are low. Observing these factors and previous trends gives the reason to cautious optimism that the customers would increase the volume of investments and there would be higher demand for bank financing. Increase of customer activity level presents also new opportunities for the bank.

We are thankful to all the customers for loyalty to DNB banka and to the employees – for high quality of their day-to-day work and at the same time the ability to implement projects for future growth and development.

Mats Wermelin	Atle Knai	Janis Teteris
Chairman of the Supervisory Council	CEO, Chairman of the Management Board	CFO, Member of the Management Board

Riga
17 March 2016

The Supervisory Council and the Management Board of the Bank as of 31 December 2015

The Supervisory Council

Name	*Institution*	*Position*	*Date of appointment*
Mats Wermelin	DNB Bank ASA	Chairman of the Supervisory Council	26 March 2015*
Tony Samuelsen	DNB Bank ASA	Member of the Supervisory Council	26 March 2008
Eline Skramstad	DNB Bank ASA	Member of the Supervisory Council	11 December 2012
Leif Rene Hansen		Member of the Supervisory Council	31 May 2013

* From 23 March 2015 till 26 March 2015 Mats Wermelin was the Member of the Supervisory Council.

On 23 March 2015 Terje Turnes resigned from the position of the Member of the Supervisory Council.

The Management Board

Name	*Position*	*Date of appointment*
Atle Knai	CEO, Chairman of the Management Board	1 January 2015
Janis Teteris	CFO, Member of the Management Board	1 August 2009*
Arne Vilhelmsen	CRO, Member of the Management Board	1 July 2014**
Lauris Macijevskis	Vice President, Member of the Management Board	1 August 2014
Dace Kaulina	Vice President, Member of the Management Board	25 January 2013
Intars Sloka	Vice President, Member of the Management Board	25 January 2013
Anita Berzina	Head of Retail Banking, Member of the Management Board	1 July 2015

* Till 31 July 2014 Janis Teteris was the Head of Corporate Banking, Member of the Management Board.

** On 1 January 2016 Arne Vilhelmsen resigned from the position of the Member of the Management Board.

From 1 January 2016 Hannu Kalevi Saksala is the CRO, Member of the Management Board.

The following members of the Management Board have left their positions since 31 December 2014:

Name	*Position*	*Date of resignation*
Ole Christian Karterud	CRO, Member of the Management Board	30 June 2014
Tom Erdal	CFO, Member of the Management Board	31 July 2014
Aasmund Skar	CEO, Member of the Management Board	1 January 2015
Ivars Kapitovics	Head of Retail Banking, Member of the Management Board	1 July 2015

STATEMENT OF RESPONSIBILITY OF THE MANAGEMENT BOARD

The Management Board of AS DNB banka is responsible for the preparation of the financial statements of the Group and the Bank.

The financial statements on pages 8 to 72 are prepared in accordance with the source documents and present fairly the financial position of the Group and the Bank as at 31 December 2015 and the results of their operations and cash flows for the year ended 31 December 2015.

The financial statements are prepared in accordance with International Financial Reporting Standards as adopted in European Union (EU) on a going concern basis. Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgements and estimates have been made by the Management Board in the preparation of the financial statements.

The Management Board of AS DNB banka is responsible for the maintenance of proper accounting records, the safeguarding of the Group's and the Bank's assets and the prevention and detection of fraud and other irregularities. They are also responsible for operating the Bank in compliance with the Law on Credit Institutions, regulations of the Bank of Latvia, Financial and Capital Market Commission and other legislation of the Republic of Latvia applicable for credit institutions.

Atle Knai CEO, Chairman of the Management Board	Hannu Saksala CRO, Member of the Management Board	Janis Teteris CFO, Member of the Management Board	Anita Berzina Member of the Management Board

Lauris Macijevskis Member of the Management Board	Dace Kaulina Member of the Management Board	Intars Sloka Member of the Management Board

Riga
17 March 2016

INDEPENDENT AUDITORS' REPORT

To the shareholder of AS DNB banka

Report on the financial statements

We have audited the accompanying consolidated financial statements of AS DNB banka and its subsidiaries (hereinafter – the Group) and the accompanying financial statements of AS DNB banka (hereinafter - the Bank), which are set out on pages 8 through 72 of the accompanying 2015 Annual Report, which comprise the financial position as at 31 December 2015, the statement of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of 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 financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion
In our opinion, the financial statements give a true and fair view of the financial position of Group and Bank of 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.

Report on other legal and regulatory requirements

Furthermore, we have read the management report for the year ended 31 December 2015 (set out on pages 3 through page 4 of the accompanying 2015 Annual Report) and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2015.

SIA Ernst & Young Baltic
Licence No. 17

Iveta Vimba
Member of the Board
Latvian Certified Auditor
Certificate No. 153

Riga,
30 March 2016

Statement of comprehensive income for the years ended 31 December 2015 and 2014

	Notes	2015 Group EUR'000	2014 Group EUR'000	2015 Bank EUR'000	2014 Bank EUR'000
Interest income	5	47,206	56,175	43,315	52,107
Interest expense	6	(7,073)	(11,176)	(6,217)	(9,603)
Net interest income		**40,133**	**44,999**	**37,098**	**42,504**
Fees and commission income	7	18,572	18,275	15,748	15,858
Fees and commission expenses	8	(5,640)	(5,951)	(5,366)	(5,696)
Net fees and commissions		**12,932**	**12,324**	**10,382**	**10,162**
Net result from operations with foreign currency, trading securities and derivative financial instruments	9	831	1,298	820	1,269
Net result from operations with investment property	10	(3,252)	(1,105)	(1,167)	(1,226)
Other operating income	11	4,799	2,651	7,120	4,822
Dividend income		71	9	321	9
Operating income		**55,514**	**60,176**	**54,574**	**57,540**
Personnel expenses	12	(17,534)	(18,699)	(17,348)	(18,143)
Other administrative expenses	12	(15,099)	(16,218)	(15,276)	(16,381)
Depreciation	22, 23	(3,973)	(3,711)	(3,113)	(2,868)
Other operating expenses	13	(1,232)	(1,589)	(1,130)	(1,496)
Net allowances for impairment loss	26	(2,508)	62	(5,953)	(168)
Profit before income tax		**15,168**	**20,021**	**11,754**	**18,484**
Corporate income tax	14	(478)	(540)	-	(14)
Profit for the period from continuing operations		**14,690**	**19,481**	**11,754**	**18,470**
Profit attributable to:					
Equity holders of the Bank		14,690	19,481	11,754	18,470
Other comprehensive income					
Items that may be reclassified to profit or loss					
Changes in revaluation reserve of financial assets available for sale	33	10,500	-	10,500	-
Items that will not be reclassified to profit or loss					
Changes in revaluation reserve of fixed assets	33	(54)	20	(54)	20
Other comprehensive income total		**10,446**	**20**	**10,446**	**20**
Total comprehensive income		**25,136**	**19,501**	**22,200**	**18,490**
Total comprehensive income attributable to:					
Equity holders of the Bank		25,136	19,501	22,200	18,490

The financial statements on pages 8 to 72 have been approved by the Supervisory Council and the Management Board of the Bank and signed on their behalf by:

Mats Wermelin	Atle Knai	Janis Teteris
Chairman of the Supervisory Council	CEO, Chairman of the Management Board	CFO, Member of the Management Board

Riga,
17 March 2016

The accompanying notes are an integral part of these financial statements

Statement of financial position at 31 December 2015 and 31 December 2014

Assets	**Notes**	**2015 Group EUR'000**	**2014 Group EUR'000**	**2015 Bank EUR'000**	**2014 Bank EUR'000**
Cash and balances with central banks	15	38,160	52,606	38,160	52,606
Due from other credit institutions (on demand)	16	60,237	40,358	59,906	39,806
Derivatives	21	46,199	19,168	46,199	19,168
Financial assets designated at fair value through profit or loss:	18	77,540	35,337	77,540	35,337
Debt securities and other fixed income securities		*77,540*	*34,790*	*77,540*	*34,790*
Investment funds		-	*547*	-	*547*
Financial assets available-for-sale	19	10,752	267	10,752	267
Loans and advances:		1,996,044	2,093,622	1,925,446	2,049,300
Due from other credit institutions (term)	16	*469,537*	*486,523*	*469,537*	*486,523*
Loans to customers	17	*1,526,507*	*1,607,099*	*1,455,909*	*1,562,777*
Accrued income and deferred expenses		3,444	1,603	2,292	1,269
Investment property	24	48,395	62,148	6,615	10,245
Property, plant and equipment	23	30,107	32,330	5,281	6,733
Intangible assets	22	2,377	3,001	2,005	2,589
Investments in subsidiaries	20	-	-	11,142	8,841
Deferred corporate income tax	14	8,813	8,701	8,701	8,701
Current corporate income tax		171	374	-	-
Other assets	25	10,733	12,960	7,560	3,767
Total assets		**2,332,972**	**2,362,475**	**2,201,599**	**2,238,629**

The financial statements on pages 8 to 72 have been approved by the Supervisory Council and the Management Board of the Bank and signed on their behalf by:

Mats Wermelin	Atle Knai	Janis Teteris
Chairman of the Supervisory Council	CEO, Chairman of the Management Board	CFO, Member of the Management Board

Riga,
17 March 2016

***Statement of financial position at 31 December 2015 and 31 December 2014** (continued)*

Liabilities	**Notes**	**2015 Group EUR'000**	**2014 Group EUR'000**	**2015 Bank EUR'000**	**2014 Bank EUR'000**
Liabilities to central banks	27	60,596	60,500	60,596	60,500
Liabilities to credit institutions (on demand)	28	3,174	6,903	3,174	6,903
Derivatives	21	44,346	14,751	44,346	14,751
Financial liabilities at amortised cost:		1,930,846	2,012,158	1,787,936	1,866,849
Due to credit institutions (term)	28	*711,210*	*930,261*	*561,107*	*780,074*
Deposits from customers and other financial liabilities	29	*1,219,636*	*1,081,897*	*1,226,829*	*1,086,775*
Accrued expenses and deferred income	30	5,586	4,574	5,396	4,393
Deferred tax liability	14	31	49	-	-
Income tax liability		85	126	-	-
Other liabilities	31	7,355	6,607	2,868	1,764
Provisions	32	1,456	2,446	18,494	26,880
Total liabilities		**2,053,475**	**2,108,114**	**1,922,810**	**1,982,040**
Shareholders' equity					
Share capital	33	191,178	191,178	191,178	191,178
Share premium		69,713	69,713	69,713	69,713
Reserve capital	33	224,118	224,118	224,118	224,118
Revaluation reserve	33	10,633	187	10,633	187
Accumulated result		(216,145)	(230,835)	(216,853)	(228,607)
Total shareholders' equity attributable to the shareholders of the Bank		**279,497**	**254,361**	**278,789**	**256,589**
Total shareholders' equity		**279,497**	**254,361**	**278,789**	**256,589**
Total liabilities and shareholders' equity		**2,332,972**	**2,362,475**	**2,201,599**	**2,238,629**

The financial statements on pages 8 to 72 have been approved by the Supervisory Council and the Management Board of the Bank and signed on their behalf by:

Mats Wermelin	Atle Knai	Janis Teteris
Chairman of the Supervisory Council	CEO, Chairman of the Management Board	CFO, Member of the Management Board

Riga,
17 March 2016

The accompanying notes are an integral part of these financial statements

Statement of changes in equity for the years ended 31 December 2015 and 31 December 2014

Group

	Share capital EUR'000	Share premium EUR'000	Reserve capital EUR'000	Revaluation reserve EUR'000	Accumulated result EUR'000	Total EUR'000
At 31 December 2013	**191,178**	**69,713**	**224,118**	**167**	**(250,316)**	**234,860**
Profit for the year	-	-	-	-	19,481	**19,481**
Increase of revaluation reserve	-	-	-	20	-	**20**
Total comprehensive income	**-**	**-**	**-**	**20**	**19,481**	**19,501**
At 31 December 2014	**191,178**	**69,713**	**224,118**	**187**	**(230,835)**	**254,361**
Profit for the year	-	-	-	-	14,690	**14,690**
Increase of revaluation reserve	-	-	-	10,446	-	**10,446**
Total comprehensive income	**-**	**-**	**-**	**10,446**	**14,690**	**25,136**
At 31 December 2015	**191,178**	**69,713**	**224,118**	**10,633**	**(216,145)**	**279,497**

Bank

	Share capital EUR'000	Share premium EUR'000	Reserve capital EUR'000	Revaluation reserve EUR'000	Accumulated result EUR'000	Total EUR'000
At 31 December 2013	**191,178**	**69,713**	**224,118**	**167**	**(247,077)**	**238,099**
Profit for the year	-	-	-	-	18,470	**18,470**
Increase of revaluation reserve	-	-	-	20	-	**20**
Total comprehensive income	**-**	**-**	**-**	**20**	**18,470**	**18,490**
At 31 December 2014	**191,178**	**69,713**	**224,118**	**187**	**(228,607)**	**256,589**
Profit for the year	-	-	-	-	11,754	11,754
Increase of revaluation reserve	-	-	-	10,446	-	10,446
Total comprehensive income	**-**	**-**	**-**	**10,446**	**11,754**	**22,200**
At 31 December 2015	**191,178**	**69,713**	**224,118**	**10,633**	**(216,853)**	**278,789**

Statement of cash flows for the years ended 31 December 2015 and 31 December 2014

		2015 Group EUR'000	2014 Group EUR'000 Restated	2015 Bank EUR'000	2014 Bank EUR'000 Restated
Cash flow from operating activities					
Profit before income tax and dividends		15,168	20,021	11,754	18,484
Depreciation and amortization of intangible assets and property and equipment		3,973	3,711	3,113	2,868
Increase/(Decrease) in provisions for doubtful debts and off-balance sheet liabilities		2,508	(62)	5,953	168
Loss from revaluation of securities, derivatives and loans		1,613	1,372	1,613	1,372
Loss from revaluation of investment property		3,281	792	649	822
(Profit)/Loss from sale of fixed and intangible assets		(36)	25	(39)	11
Dividends received		(71)	(9)	(321)	(9)
(Profit)/Loss from foreign currency revaluation		(3)	12	7	41
Cash flow from operating activities before changes in assets and liabilities		**26,433**	**25,862**	**22,729**	**23,757**
Decrease in loans and advances to customers		77,927	113,167	104,528	118,976
Decrease in due from credit institutions		-	2,671	-	2,665
(Increase)/Decrease in financial assets designated at fair value through profit and loss		(43,032)	5,760	(43,032)	5,760
(Increase) in due to credit institutions		(218,955)	(44,493)	(218,871)	(44,462)
(Increase) in accrued income and deferred expenses		(1,841)	(337)	(1,023)	(344)
(Increase) in other assets and taxes		(8,010)	(2,196)	(14,242)	(334)
Increase/(Decrease) in clients deposits		137,739	(13,181)	140,054	(13,771)
Increase/(Decrease) in derivatives		1,780	(4,621)	1,780	(4,621)
Increase/(Decrease) in accrued expenses and deferred income		1,012	(1,755)	1,003	(1,528)
Increase/(Decrease) in other liabilities		9,667	2,219	3,164	(5,126)
(Decrease)/Increase in cash and cash equivalents as a result of operating activities		**(17,280)**	**83,096**	**(3,910)**	**80,972**
Cash flow from investing activities					
(Acquisition) of property and equipment and intangible assets		(1,516)	(4,031)	(1,394)	(3,681)
Sale of property and equipment and intangible assets		425	230	355	111
(Acquisition) of participation in share capital of subsidiary and Business Unit		-	-	(5,950)	(301)
Sale of investment property		10,472	4,052	2,981	6,303
Increase/(Decrease) in cash and cash equivalents as a result of investment activities		**9,381**	**251**	**(4,008)**	**2,432**
Cash flow from financing activities					
Dividends received		71	9	321	9
Increase in cash and cash equivalents as a result of financing activities		**71**	**9**	**321**	**9**
Net (decrease)/increase in cash and cash equivalents		**(7,828)**	**83,356**	**(7,597)**	**83,413**
Cash and cash equivalents at the beginning of the year		572,584	489,240	572,032	488,660
Profit/(Loss) of foreign currency revaluation on cash and cash equivalents		3	(12)	(7)	(41)
Cash and cash equivalents at the end of the year	15	**564,759**	**572,584**	**564,428**	**572,032**
Cash flow from interest received		48,071	57,593	44,203	53,555
Cash flow from interest paid		7,191	11,607	6,254	10,000

Notes to the Financial Statements

1 INCORPORATION AND PRINCIPAL ACTIVITIES

AS DNB banka was established as Rigas Komercbanka PLC on 26 June 1989. On 6 September 1991 it was incorporated in the Republic of Latvia as a joint stock company. The Bank and its subsidiaries (the Group) are engaged in banking and the financial services business.

On June 30, 2011 DNB Bank ASA (former DnB NOR Bank ASA) has acquired from Bank DNB A/S (former Bank DnB NORD A/S) all Bank shares which belonged to Bank DNB A/S (Denmark) and constituted 100% of share capital of Bank; DNB Bank ASA (Norway) became the direct shareholder of the Bank.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

a) Reporting currency

The accompanying financial statements are reported in thousands of euro (EUR'000), unless otherwise stated.

b) Basis of presentation

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the EU. These financial statements are prepared on a historical cost basis, except for certain financial assets and liabilities (financial assets available-for-sale, land, buildings and investment properties, financial assets and liabilities at fair value through profit or loss and derivatives) which are reported at fair value.

The preparation of financial statements in conformity with IFRS as adopted in the EU requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

These financial statements comprise of both, the financial statements of the parent company AS DNB banka and the consolidated statements.

In 2015 the classification of certain cash flow and notes to the financial statements positions (Notes 6, 7, 8, 11, 12, 16, 38) were changed to better present the essence of income and expense. Total financial results of the Group or the Bank are not affected by these changes. Comparative figures of 2014 have been restated accordingly.

c) Consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

***Notes to the Financial Statements** (continued)*

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Income and expense recognition

Interest income and expense are recognised in the statement of comprehensive income for all instruments measured at amortised cost using the effective interest rate method. Interest income includes coupons earned on fixed income investment securities.

When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the effective interest rate that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Interest expense also comprises regulatory charges such as payments to Deposit Guarantee Fund and Single Resolution Fund as well as charge of financial stability, which are recognised in the statement of comprehensive income as incurred.

Fee and commission income and expense are recognised on an accrual basis. Fees earned from the provision of services over a period of time are recognised over that service period. Fees attributable to loan issuance and other credit related fees are deferred and recognised as an adjustment to the effective interest rate on the loan. Commitment fees are recognised over the commitment period on a straight line basis. Commission fees which compensate the Bank's external costs attributable to the conclusion of underlying transaction are included in the statement of comprehensive income. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Fee and commission expense paid to other financial institutions are recognised as transaction costs and recorded using the effective interest rate method.

Income and expense other than interest and/ or commission and fee income/ expense represent items associated with the core business of related entities of the Group.

e) Foreign currency translation

Transactions denominated in foreign currencies are recorded in euro at actual rates of exchange set forth by the European Central Bank at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency, such as investments in equity instruments, are translated using the exchange rates at the date, when the fair value was determined. Monetary assets and liabilities denominated in foreign currencies are translated into euro at the rate of exchange prevailing at the end of the period. Any gain or loss resulting from a change in rates of exchange subsequent to the date of the transaction is included in the statement of comprehensive income as a profit or loss from revaluation of foreign currency positions.

The principal rates of exchange (1 EUR to foreign currency units) set by the European Central Bank and used in the preparation of the Group's and the Bank's statements of financial position were as follows:

Reporting date	USD
As at 31 December 2015	1.08870
As at 31 December 2014	1.21410

f) 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. It is recognised as an expense in the period in which profits arise.

Deferred tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The deferred tax liability is calculated using the tax rates that have been enacted or substantially enacted by the statement of financial position date and that are expected to apply when the temporary differences reverse. The principal temporary differences arise from different fixed asset depreciation rates, accrual for employee vacation pay, and revaluation of items of the statement of financial position, including securities revaluation and fair value revaluation reserve, as well as tax losses carried forward. Where an overall deferred taxation asset arises, it is only recognised in the financial statements to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Taxes other than on income are recorded within operating expenses.

g) Cash and cash equivalents

For purposes of the cash flow statements cash and cash equivalents comprise cash balances, balances due from the central banks, due from other credit institutions with original maturity less than 3 months and insignificant risk due to change in value, less balances on demand due to other credit institutions.

Notes to the Financial Statements *(continued)*

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Loans and receivables and allowances for loan impairment

Balances due from banks and loans and advances to customers are accounted for as loans and receivables and are carried at amortised cost. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in active markets. All loans and advances are recognised in the statement of financial position when cash is advanced to borrowers. For the purposes of these financial statements, finance lease receivables are included in loans and advances to non-banking customers.

A credit risk allowances for loan impairment is established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the allowances is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original interest rate of the loans or the current one in case of immaterial deviance

The Group first assesses whether objective evidence of impairment exists individually for material loans. Loans that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. If the Group determines that no objective evidence of impairment exists, the loan is included in a group of loans with similar credit risk characteristics and collectively assessed for impairment. For the purposes of a collective evaluation of impairment loans are grouped on a basis of similar credit risk characteristics.

The Group reviews their loan portfolios to assess impairment on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Group makes judgements as to whether there is any objective indication that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. Management uses estimates based on historical loss experience for assets with similar credit risk characteristics and current economic climate in which the borrowers operate. The methodology and assumptions used are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Nevertheless, it is possible, that outcomes within the next financial year, that are different from assumptions, could require a material adjustment to the carrying amount of the asset or liability affected.

When a loan is uncollectible, it is written off against the related allowances for credit losses; subsequent recoveries are credited to the statement of comprehensive income.

Allowances for individual loan impairment are made in the currency of the related asset and are subject to revaluation at period end at the rate set by the European Central Bank. Foreign exchange rate differences arising from such revaluation are recorded in the statement of comprehensive income as additional allowances or income from the recovery of existing allowances (if any). The corresponding result of revaluing the respective asset covered by the allowances for loan impairment is recorded as profit / loss to foreign currency transactions. Allowances for collective loan impairment are made in EUR.

Individual and collective impairments

Material loans are subject for quarterly individual assessment of provision need if at least one loss event has occurred, e.g. one or more commitments of the customer are overdue more than 90 days (principal or interest), restructuring of one or more commitments of the customer, customer has major financial problems or other issues that will lead to major financial problems, customer has breached financial covenants / other covenants that affects the customer's ability to service his liabilities, suspension or revocation of license held by the customer engaged in licensed activities, significant drop in rating class etc. If the Group determines that no loss event has occurred for specific loan, it is included in a group of loans with similar credit risk characteristics and collectively assessed for impairment (using IBNR approach, where provisions amount is based on historical loss rate for specific group and probability of becoming impaired).

Immaterial loans (materiality threshold is set based on exposure amount) are assessed quarterly on the basis of portfolios, i.e. mortgage loans, private loans secured with real estate collateral, small and medium size loans to legal entities, as well as active lease agreements. Within each portfolio approach differs based on loans quality – number of overdue days and status of restructuring. The main part of immaterial loans is mortgage and private loans secured with real estate collateral. Provisions for non-performing loans (over 90 days overdue) are made based on information about updated collateral values, expected realisation value of collateral, estimated expenses related to collateral realisation as well as potential recovery of uncovered loan amount after realisation of collateral. If loan is not due or delayed up to 90 days or restructured, impairment is calculated based on historical and estimated migration to non-performing status. Impairment for non-performing loans is classified as specific provisions while impairment for restructured loans and impairment for performing loans are classified as group provisions (IBNR). Impairment for terminated leasing agreements is calculated based on average realised losses.

Notes to the Financial Statements *(continued)*

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Loans and receivables and allowances for loan impairment

Restructured loans

Where possible, the Group and the Bank seeks to restructure loans rather than take possession of collateral. This mostly involves adjusting the payment schedule made by a borrower in a manner matching the borrower's financial capacity (temporarily reducing principal repayments, extending payment terms) and the agreement of new loan conditions. If the customer faces long term financial difficulties, the Group and the Bank together with the customer is looking for long term solution if possible (e.g. extended maturity, voluntarily sales of property etc.). Once the terms have been renegotiated and executed a loan is no longer considered non-performing as long as a borrower complies with the renegotiated terms and conditions. Such loans are continuously reviewed to ensure that all criteria are met and that future payments are likely to occur and interest and fee income is accrued and recognised as for other performing loans. Restructured loans continue to be subject to an individual or collective impairment assessment on a quarterly basis.

The Group and the Bank recognises decreasing provisions for impairment losses due to shortening of discounting period of expected cash flows and treats it as a part of interest income.

j) Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific assets and the arrangement conveys a right to use the asset.

The Group or the Bank as a lessor

When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Leases where the Group does not transfer substantially all the risk and benefits of ownership of the asset are classified as operating leases. Contingent rents are recognised as revenue in the period in which they are earned.

Assets under operating leases are recognised as equipment at historical cost net of accumulated depreciation and impairment, if any. Depreciation is calculated on a straight-line. Assets are depreciated till its residual value over the estimated useful life of property and equipment that is determined based on useful lives of similar assets of the Group and the Bank. Rentals receivable under operating leases are credited to the statement of comprehensive income on a straight-line basis over the lease term and presented in other income.

If a sale and leaseback transaction results in an operating lease and the sales price is above fair value of the asset sold, the excess over fair value is deferred and amortised over the period for which the asset is expected to be used.

The Group or the Bank as a lessee

The Group acts as a lessee only in operating leases. A lease where the lessor retains substantially all the risks and benefits of ownership of the asset is classified as operating lease. Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

k) Financial assets at fair value through profit or loss

Financial assets designated at fair value through profit and loss are designated by management on initial recognition as a part of financial assets which are managed and their performance evaluated on a fair value basis.

Financial assets at fair value through profit or loss are measured at fair value based on quoted bid prices. In the absence of the active market, the fair value of financial assets at fair value through profit or loss is derived from the value of an instrument that is substantially the same or from discounted cash flow models. Gains and losses arising from changes in the fair value of financial assets are recognised in the statement of comprehensive income.

Interest earned whilst holding financial assets at fair value through profit or loss is recorded as interest income.

All regular way purchases and sales of financial assets at fair value through profit or loss are recognised at settlement date.

Notes to the Financial Statements *(continued)*

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Financial assets available-for-sale

Financial assets available-for-sale include equity investments. Equity investments classified as financial assets available-for-sale are those that are neither classified as held for trading nor designated at fair value through profit or loss.

After initial measurement, financial assets available-for-sale are subsequently measured at fair value with unrealised gains or losses recognised in other comprehensive income and credited in the available-for-sale reserve until the investment is derecognised. If a financial asset available-for-sale is determined to be impaired, the cumulative gain or loss previously recognised in the statement of comprehensive income is recognised in the statement of comprehensive income.

m) Subsidiaries

Investments in subsidiaries in the Bank's financial statements are accounted for under the cost method.

The Bank recognises income from investment only to the extent that the Bank receives dividends from the accumulated profit of the subsidiaries arising after the date of acquisition.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets transferred. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

If there is objective evidence that an impairment loss on investments in subsidiaries carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of investment. The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognised in profit or loss.

n) Property, plant and equipment

Land and buildings are carried at revalued amounts less accumulated depreciation on buildings and impairment losses, if any. Equipment and other assets are recorded at cost, less accumulated depreciation and accumulated impairment losses, if any.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Depreciation is provided using the straight-line method to write off the cost or revaluated amount of each asset to their residual value over the estimated useful life of the asset. The following depreciation rates have been applied:

Category	Annual Rate
Buildings	1% – 2%
Building parts	2% – 6%
Engineering networks and equipment	4%
Office equipment	10% – 20%
Network and computer equipment	20% –25%
Vehicles	20%

Maintenance and repair costs are charged to the statement of comprehensive income as incurred. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

Leasehold improvements are capitalised and depreciated over the shorter of their useful life and remaining lease contract period on a straight-line basis.

Revaluation reserve

The fair value of land and buildings is determined from market-based evidence by appraisal that is normally undertaken by professionally qualified values. The fair value of items of plant and equipment is their market value determined by appraisal.

The frequency of revaluations depends upon the changes in fair values of the items of property, plant and equipment being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is required.

If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued.

Notes to the Financial Statements *(continued)*

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Property, plant and equipment (continued)

A revaluation surplus is recorded in other comprehensive income and credited to the asset revaluation surplus in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit and loss. A revaluation deficit is recognised in the statement of comprehensive income, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

o) Investment property

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the statement of comprehensive income in the period in which they arise.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the statement of comprehensive income in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

p) Intangible assets

Acquired computer software licences are recognised as intangible assets on the basis of the costs incurred to acquire and bring to use the software. These costs are amortised on the straight-line basis of their expected useful lives, not exceeding five years.

q) Derivative financial instruments

Derivative financial instruments including foreign exchange contracts, interest rate swaps and options, commodity swaps are initially recognised and subsequently carried at their fair value. Derivatives are revalued at least monthly. Fair values are obtained from quoted market prices and discounted cash flow models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Changes in the fair value of derivatives are reported in the statement of comprehensive income.

Derivatives notional amounts are recognised in Bank off-balance sheet accounts.

r) Financial liabilities carried at amortised cost

Financial liabilities carried at amortised cost are mainly amounts due to customers and due to banks. These are recognised initially at cost, being their issue proceeds (fair value of consideration received) net of directly attributable transaction costs incurred. Financial liabilities are subsequently stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

s) Off-balance sheet items

In the ordinary course of business, the Group and the Bank have been involved with off-balance sheet financial instruments consisting of commitments to extend loans and advances, financial guarantees and commercial letters of credit. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

***Notes to the Financial Statements** (continued)*

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

t) Fair values 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. Fair values of financial assets or liabilities, including derivative financial instruments, in active markets are based on quoted market prices.

u) Off-setting financial instruments

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

v) Provisions

Provisions are recognised when the Group and the Bank have a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. These provisions relate to the guarantees issued, to other off-balance sheet items and also to legal reserve. The assessment of provisions requires the application of management's judgement and estimates, as to the probability of an outflow of resources, the probability of recovery of resources from corresponding sources including security or collateral or insurance arrangements where appropriate, and the amounts and timings of such outflows and recoveries, if any.

w) Financial Guarantees

The Group measures issued financial guarantees initially at their fair value, which is normally evidenced by the amount of fees received. This amount is then amortised on a straight-line basis over the life of the guarantee. At each statement of financial position date, the guarantees are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at statement of financial position date.

x) Trust Activities

Funds managed or held in custody by the Group and the Bank on behalf of individuals, trusts and other institutions are not regarded as assets of the Group and the Bank and, therefore, are not included in the statement of financial position.

y) Critical accounting estimates and judgements

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Such estimates and assumptions are outlined below:

- Impairment losses of loans and advances:
  The Group reviews its loan portfolio to assess impairment on a regular basis as described in Note 2(h).
  The provisioning approach is aligned to the methodology used in parent company in Norway to the possible extent. The Group in 2015 has revised provisioning approach for loans not assessed individually, however, no significant changes have been made. Pool rates for loans assessed collectively and overdue more than 90 days are reassessed at least once a year.
  To assess the provisioning level for mortgage and private loans secured with real estate collateral, the Group and the Bank has performed individual and statistical revaluation of real estate collaterals, as well as reviewed and adjusted assumptions used in calculations (e.g. expected recovery of unsecured part after realisation of collateral and estimated migration of restructured loans to non-performing status). In total it resulted in decrease in provisions by EUR 600 thou. As a result of statistical revaluation of real estate collaterals provisions decreased by EUR 1,900 thou, as a result of adjusted assumptions related to outcome in auctions provisions increased by EUR 2,400 thou and as a result of adjusted assumption regarding expected recovery of unsecured part after realisation of collateral provisions decreased by EUR 1,100 thou.

- Deferred assets:
  Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The deferred tax assets are recognised based on profitability assumptions over five year horizon. The future taxable profit of 2016-2018 has been approved by the Management Board, while 2019-2020 is considered as plausible taxable profit of the Group and the Bank.

Notes to the Financial Statements *(continued)*

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

y) Critical accounting estimates and judgements (continued)

- Fair values:
  Where the fair value of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgements include considerations of liquidity and model inputs. The valuation of financial instruments is described in more detail in Note 37.
  Fair value measurement of the equity investments in Visa Europe as at 31 December 2015:
  In the statement received from Visa Europe the Bank will receive approximately 0.07% of the total settlement. This ownership-percentage is used to estimate the fair value as at year end.

  In the fair value measurement the following assumptions have been used:
    - Exchange rate USD/EUR as at 31 December 2015
    - Share price for Visa Inc. as at 31 December 2015
    - Liquidity discount of 30%
    - No reduction in the cash amount due to leakage
    - No impact of the ownership-percentage due to the appeal process
    - Contingent consideration as estimated by Visa Inc.
    - 80% certainty of the transaction execution according to plan.

  The fair value estimated as at year end is EUR 10.5 million.

- Impairment of investments in subsidiaries:
  Investments in subsidiaries are valued at cost less impairment in the Bank's separate financial statements. On a regular basis, the Bank compares the cost of investment with the carrying value of net assets of a subsidiary to see whether any impairment indication exists. If impairment indication exists, the recoverable amount of the investment is calculated based on discounted estimated future free cash flows to equity of the subsidiary. Future cash flows are based on budgets and projections prepared by the subsidiary and assessed for reasonableness. Discount rate is equal to the required rate of return to equity. An impairment loss is recorded when the decline in value of subsidiary is significant and prolonged.

  Key assumptions used in calculations and sensitivity to changes in assumptions:
  Management believes that reasonable impairment of investment indication exists only in SIA Salvus and SIA Salvus 3 subsidiaries as of 31 December 2015.

  SIA Salvus and SIA Salvus 3 subsidiaries cash flows are most sensitive to the following assumptions:
  Gross margins - gross margins are based on average actual sales margins of previous 18 months at impairment calculation time. The margins are projected to decrease over the budget period as the liquidity of portfolio declines with the assumption that the most appealing objects are sold first. Additional decrease in gross margin by 1% per annum would result in a further impairment of investments in amount of EUR 150 thou for SIA Salvus and EUR 20 thou for SIA Salvus 3.
  Discount rates - a pre-tax discount factor of 12% has been applied to forecast free cash flows to equity used in the impairment testing. A rise in pre-tax discount rate to 12.5% in SIA Salvus subsidiary would result in a further impairment in amount of EUR 54 thou.
  Period of cash flow projections – management's cash flow projections until the end of 2018 were used for objects in the portfolio at impairment calculation date. Life cycle of investment property portfolio has been determined based on historical sales volumes, thus, based on reasonable facts.

  Impairment has been identified for both subsidiaries in 2015 and 2014 (see Note 20).

- Investment property:
  See Note 37.

Notes to the Financial Statements *(continued)*

3 ADOPTION OF NEW AND/OR CHANGED IFRS AND INTERNATIONAL FINANCIAL REPORTING INTERPRETATIONS COMMITTEE (IFRIC) INTERPRETATIONS

Adoption of new and/or changed IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations

The following new and/or amended IFRSs have been adopted by the Group as of 1 January 2015:

- Annual Improvements to IFRSs 2011 – 2013 Cycle
- IFRIC Interpretation 21: Levies

When the adoption of the standard or interpretation is deemed to have an impact on the financial statements or performance of the Group, its impact is described below:

Annual Improvements to IFRSs 2011 – 2013 Cycle is a collection of amendments to the following IFRSs:

- IFRS 1 *First-time adoption of IFRS* - This improvement clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity’s first IFRS financial statements. The implementation of this amendment had no impact on the financial statements of the Group since it is not of a first time adoption.
- IFRS 3 *Business Combinations* - This improvement clarifies that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. The implementation of this amendment had no impact on the financial statements of the Group since it has no joint ventures.
- IFRS 13 *Fair value Measurement* - This improvement clarifies that the scope of the portfolio exception defined in paragraph 52 of IFRS 13 includes all contracts accounted for within the scope of IAS 39 Financial Instruments: Recognition and Measurement or IFRS 9 Financial Instruments, regardless of whether they meet the definition of financial assets or financial liabilities as defined in IAS 32 Financial Instruments: Presentation. The implementation of this amendment had no impact on the financial statements of the Group.
- IAS 40 *Investment property* - This improvement clarifies that determining whether a specific transaction meets the definition of both a business combination as defined in IFRS 3 Business Combinations and investment property as defined in IAS 40 Investment Property requires the separate application of both standards independently of each other. The implementation of this amendment had no impact on the financial statements of the Group.

IFRIC Interpretation 21 *Levies*
This interpretation addresses the accounting for levies imposed by governments. Liability to pay a levy is recognised in the financial statements when the activity that triggers the payment of the levy occurs. The implementation of this standard had no effect on the financial statements of the Group.

Standards issued but not yet effective

The Group has not applied the following IFRS and IFRIC interpretations that have been issued as of the date of authorization of these financial statements for issue, but which are not yet effective:

Amendments to IAS 1 *Presentation of financial statements: Disclosure Initiative* (effective for financial years beginning on or after 1 January 2016)

The amendments to IAS 1 further encourage companies to apply professional judgment in determining what information to disclose and how to structure it in their financial statements. The Group has not yet evaluated the impact of the implementation of this standard.

Amendments to IAS 7 *Statement of Cash Flows: Disclosure Initiative* (effective for financial years beginning on or after 1 January 2017, once endorsed by the EU)

The amendments improve information provided to users of financial statements about an entity's financing activities. Entities are required to disclose changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes, for example, by providing reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. The implementation of these amendments will not have any impact on the financial position or performance of the Group but may result in changes in disclosures.

Amendments to IAS 12 *Income Taxes: Recognition of Deferred Tax Assets for Unrealized Losses* (effective for financial years beginning on or after 1 January 2017, once endorsed by the EU)

The amendments clarify how to account for deferred tax assets for unrealized losses on debt instruments measured at fair value. The Group has not yet evaluated the impact of the implementation of this standard.

Notes to the Financial Statements *(continued)*

3 ADOPTION OF NEW AND/OR CHANGED IFRS AND INTERNATIONAL FINANCIAL REPORTING INTERPRETATIONS COMMITTEE (IFRIC) INTERPRETATIONS (continued)

Amendments to IAS 16 *Property, Plant & Equipment* and IAS 38 *Intangible assets: Clarification of Acceptable Methods of Depreciation and Amortization* *(*effective for financial years beginning on or after 1 January 2016)

The amendment provides additional guidance on how the depreciation or amortisation of property, plant and equipment and intangible assets should be calculated. It is clarified that a revenue-based method is not considered to be an appropriate manifestation of consumption. The implementation of this amendment will have no impact on the financial statements of the Group, as the Group does not use revenue-based depreciation and amortisation methods.

Amendments to IAS 16 *Property, Plant & Equipment* and IAS 41 *Agriculture: Bearer Plants* *(*effective for financial years beginning on or after 1 January 2016)

Bearer plants will now be within the scope of IAS 16 Property, Plant and Equipment and will be subject to all of the requirements therein. The implementation of this amendment will have no impact on the financial statements of the Group, as the Group does not have bearer plants.

Amendments to IAS 19 *Employee Benefits* *(*effective for financial years beginning on or after 1 February 2015)

The amendments address accounting for the employee contributions to a defined benefit plan. Since the Group's employees do not make such contributions, the implementation of this amendment will not have any impact on the financial statements of the Group.

Amendments to IAS 27 *Equity method in separate financial statements* *(*effective for financial years beginning on or after 1 January 2016)

The amendments reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements. The Group has not yet evaluated the impact of the implementation of this standard.

IFRS 9 *Financial Instruments* (effective for financial years beginning on or after 1 January 2018, once endorsed by the EU)

IFRS 9 replaces IAS 39 and introduces new requirements for classification and measurement, impairment and hedge accounting. The Group has not yet evaluated the impact of the implementation of this standard.

Amendment to IFRS 11 *Joint arrangements: Accounting for Acquisitions of Interests in Joint Operations* (effective for financial years beginning on or after 1 January 2016)

IFRS 11 addresses the accounting for interests in joint ventures and joint operations. The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business in accordance with IFRS and specifies the appropriate accounting treatment for such acquisitions. the implementation of this amendment will not have any impact on the Group.

Amendments to IFRS 10, IFRS 12 and IAS 28 *- Investment Entities: Applying the consolidation exception* *(*effective for financial years beginning on or after 1 January 2016, once endorsed by the EU)

The amendments address issues that have arisen in the context of applying the consolidation exception for investment entities. The Group has not yet evaluated the impact of the implementation of this standard.

Amendments to IFRS 10 and IAS 28 – *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* *(endorsement deferred indefinitely)*

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business and partial gain or loss is recognised when a transaction involves assets that do not constitute a business. The Group has not yet evaluated the impact of the implementation of this standard.

IFRS 14 *Regulatory Deferral Accounts* (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU)

It provides first-time adopters of IFRS with relief from derecognising rate-regulated assets and liabilities. However, to enhance comparability with entities that already apply IFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the standard. The implementation of this standard will not have any impact on the Group.

Notes to the Financial Statements *(continued)*

3 ADOPTION OF NEW AND/OR CHANGED IFRS AND INTERNATIONAL FINANCIAL REPORTING INTERPRETATIONS COMMITTEE (IFRIC) INTERPRETATIONS (continued)

IFRS 15 *Revenue from Contracts with Customers* *(*effective for financial years beginning on or after 1 January 2018, once endorsed by the EU)

IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer, regardless of the type of revenue transaction or the industry. Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. The Group has not yet evaluated the impact of the implementation of this standard.

IFRS 16 *Leases* (effective for financial years beginning on or after 1 January 2019, once endorsed by the EU)

IFRS 16 replaces IAS 17 and specifies how to recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessor accounting is substantially unchanged. The Group has not yet evaluated the impact of the implementation of this standard.

Improvements to IFRSs

In December 2013 IASB issued the Annual Improvements to IFRSs 2010 – 2012 Cycle (effective for financial years beginning on or after 1 February 2015):

- IFRS 2 *Share-based Payment;*
- IFRS 3 *Business Combinations;*
- IFRS 8 *Operating Segments;*
- IFRS 13 *Fair value Measurement;*
- IAS 16 *Property, Plant and Equipment;*
- IAS 24 *Related Party Disclosures;*
- IAS 38 *Intangible Assets.*

In September 2014 IASB issued the Annual Improvements to IFRSs 2012 – 2014 Cycle (effective for financial years beginning on or after 1 January 2016):

- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operation;*
- IFRS 7 *Financial Instruments: Disclosures;*
- IAS 19 *Employee Benefits;*
- IAS 34 *Interim Financial Reporting.*

The adoption of these amendments may result in changes to accounting policies or disclosures but will not have any impact on the financial position or performance of the Group.

The Group plans to adopt the above mentioned standards and interpretations on their effectiveness date provided they are endorsed by the EU.

4 RISK MANAGEMENT

Sound risk management is a prerequisite for long-term value generation as the profitability is dependent on Group’s ability to identify, manage and accurately price risk. In 2015 the Group and the Bank continued to carry out harmonisation of risk management process with the parent bank DNB Bank ASA (Norway) and further on aims to follow main parent bank’s policies and guidelines to the extent possible. However, it has to be taken into account that the Group is using standardised approach for calculation of credit risk capital requirements while parent bank follows internal ratings based approach. Therefore, harmonization of some sub-processes in risk management area is limited.

Organisation and authorization structure

- *Supervisory Council and Management Board.* The Supervisory Council sets long-term targets for the Group’s risk profile. The risk profile is operationalised through the risk management framework, including the establishment of authorisations. The Management Board is responsible for development, implementation, control and regular revision of risk management framework.
- *Authorisations*. Authorisations must be in place for the extension of credit and for position and trading limits in all critical financial areas.
- *Annual review of limits*. Risk limits are reviewed at least annually.
- *Independent risk management functions*. Risk management functions and the development of risk management tools are undertaken by units that are independent of operations in the individual business areas.

Notes to the Financial Statements *(continued)*

4 RISK MANAGEMENT *(continued)*

Monitoring and use

- *Accountability*. All executives are responsible for risk within their own area of responsibility and must consequently be fully updated on the risk situation at all times.
- *Risk reporting*. Risk reporting in the Group ensures that all executives have the necessary information about current risk levels and possible future developments. To ensure high-quality, independent risk reports, responsibility for reporting is assigned to units that are independent of the operative units.
- *Capital assessment*. A summary and analysis of the Group's capital and risk situation is presented on a regular basis to the Bank`s senior management.
- *Use of risk information*. Risk is an integral part of the management and monitoring of business areas to the extent possible, including taken into account during strategic and planning processes, lending process, product development and other daily business activities.

Relevant risk measures

Risk is followed up through risk measures adapted to operations in the various business areas, for example, monitoring of set limits, key financial and risk figures and ratios, portfolio risk targets, stress testing as well as risk analysis during internal capital adequacy assessment process.

Risk categories

For risk management purposes, Group distinguishes between the following main risk categories:

- *Credit risk* is the risk of financial losses due to failure on the part of the Group's customers (counterparties) to meet their payment obligations towards DNB. Credit risk also includes concentration risk and residual risk.
- *Market risk* is the risk of losses in on and off-balance sheet positions arising from adverse movements in market prices.
- *Liquidity risk* is the risk to incur unacceptable losses due to inability to fund increases in assets and meet obligations as they come due.
- *Operational risk* is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition also includes, but not limited to such types of operational risk like legal risk, compliance risk, money laundering risk, conduct risk, IT risk and information security risk.
- *Business risk* is the risk of profit fluctuations due to changes in external factors such as the market situation, government regulations or the loss of income due to a weakened reputation. Reputational risk is often a consequence of other risk categories. The Group's business risk is generally handled through the strategy process and by maintaining ongoing focus on safeguarding and improving the Group's reputation.

The Group quantifies total risk during internal capital adequacy assessment process by calculating capital needed to cover various types of risk, except liquidity risk. Risk measurement is a field in constant development, and measurement methods and tools are subject to continual improvement.

a) Credit risk

Credit risk is the main risk category in the Group. The credit portfolio includes loans, liabilities in the form of other extended credits, guarantees, leasing, factoring, interest bearing securities, approved, undrawn credits, as well as counterparty risk arising through derivatives and foreign exchange contracts. Settlement risk, which arises in connections with payment transfers as not all transactions take place in real time, also involves counterparty risk.

Credit risk management framework

The Group’s credit policy, credit strategies and credit guidelines (*Credit Manual*) regulate credit activity in the Group and are based on the parent bank’s relevant credit policies and guidelines. The best practice, experience and competence of the parent bank are taken over in order to have common and strong credit culture.

Strategic goal for the whole DNB Group is to ensure that the loan portfolio has a quality and compositions which secure the Group’s profitability in the short and long term. The Group intends to grow credit portfolio with low and medium risk customers.

Notes to the Financial Statements *(continued)*

4 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Main credit risk management principles

- Customer's true willingness and ability to repay the loan is/ must be the key element when considering whether to approve a loan; collateral is considered only as a risk mitigant.
- Keep a balanced loan portfolio from concentration point of view, including the balance between private individuals and legal entities.
- Avoidance of large risk concentrations related to a single customer/ group or clusters in higher risk categories and specific business sectors whereby significant changes in one or a few risk drivers may substantially affect the Group's profitability.
- Not financing industries where the Group does not have competence and experience.
- Any changes to a credit facility are approved at the appropriate decision making level.

Risk classification

Risk classification is an important element of the credit process and the management of the Group's credit risk. The Group has developed different risk classification models to cover specific loan portfolios/ credit products. Risk classification systems are used for decision support, risk monitoring and internal reporting. The risk parameters used in the classification systems are an integral part of the credit process and ongoing monitoring including the follow-up of credit strategies.

The Group's credit risk models provide a basis for statistically based calculations of expected losses in a long-term perspective and risk-adjusted capital in a portfolio perspective. Customers are classified based on the probability of default (PD). Customers are re-classified according to risk with every significant credit approval or major change in customer's risk profile, but at least once a year, unless otherwise decided.

The risk classes are defined on the basis of the scales used by international rating agencies. Probability of default (PD) is a statistical measure representing the expected rate of defaulted customers to the total number of customers initially attributed to the specific class (grade) in one year horizon. There are ten risk classes for performing loans. In addition, doubtful and non-performing commitments are placed in classes 11 and 12 for internal reporting purposes.

Risk segmentation	Risk class	PD (%) as from	PD (%) up to
Low	1	0,01	0,10
	2	0,10	0,25
	3	0,25	0,50
	4	0,50	0,75
Moderate	5	0,75	1,25
	6	1,25	2,00
	7	2,00	3,00
High	8	3,00	5,00
	9	5,00	8,00
	10	8,00	…

Credit approval authorizations

Credit decision making is based on a dual credit approval system with individual credit approval authorities.
All individual credit approval authorities are personal and are assigned based on person's qualification, experience and competence. "Two pairs of eyes" principle follows throughout all credit approval process.
The Group has defined a list of criteria when credit decisions must be lifted one level up than ordinary decision making level or delegated to specially authorized persons.

Credit risk mitigation

Credit risk mitigation is an integral part of credit risk management process in the Group. Defined requirements for new customers, prudent evaluation of debt service capacity and collateral held as security are the main credit risk mitigation measures. However, other risk mitigation techniques, tools and processes, including but not limited to different risk classification models, calculation of debt service capacity, transparent credit approval authorities and strict credit decision making rules, ongoing credit risk monitoring are used in daily activities as well.

Notes to the Financial Statements *(continued)*

4 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Credit risk measurement

Credit risk is monitored by following developments in risk parameters, migration and distribution over the various risk classes. Developments in risk concentrations are monitored closely with respect to exposure and risk classes.

The Group has developed different management tools in order to monitor the ongoing credit risk of a customer and implement relevant measures proactively in the case of negative development, already at an early stage. Larger exposures are monitored individually case-on-case basis where the frequency and scope depends on the size and risk classification of the exposure, while monitoring of smaller exposures is performed by business units based on automatically generated reports or in close cooperation with risk reporting unit. The Group has established the system for identification of commitments showing early warning signals when special attention and separate follow up is needed.

Credit risk stress testing

Stress testing is used to define the potential impact of diverse extraordinary, yet possible and materially unfavourable occurrences or changes in market conditions on the risk profile, financial and capital ratios of the Group. Stress testing supports management understanding of risk profile with forward-looking view on resilience under adverse conditions. Stress tests are performed at least once in every six months. Within the stress test at least 2 scenarios are developed – standard scenario and severe scenario. Stress tests are performed for at least two time periods, i.e. 1 and 2 years' periods; within the framework of the annual ICAAP also for 3 years' period.

In case of private individuals stress testing is performed based on top-down method, which is based on macroeconomic indicators (unemployment, GDP, inflation etc.), as well as scenario analysis of non-performing and restructured loan portfolio development.

According to standard scenario macroeconomic situation will improve, e.g. moderate GDP growth, decrease in registered unemployment. According to severe scenario macroeconomic indicators will significantly deteriorate. According to this scenario GDP will decrease, while unemployment will increase.

Stress testing for legal entities is performed based on bottom-up method - enough representative proportion of the performing portfolio in terms of total exposures is subject to individual assessment. Afterwards, results are extrapolated in order to cover whole performing loan portfolio. Also non-performing and doubtful loans are subject for individual assessment.

The stress tests help to identify possible future changes in economic conditions which could have a negative impact on the Group's credit exposure and ability to withstand such changes. These assessments are taken into account in the Group's risk and capital adequacy assessment process as well as to estimate the necessary capital buffer. Results of stress testing have direct impact on strategic and business decisions of the Group.

Industry risk management

The Group has defined maximum limit to any single industry sector. The Group has recognised and regularly reviews sensitive sectors to which lending is frozen on existing level. Within Real estate sector the Group has strict guidelines and limits to manage, reduce the volumes and increase the quality of the portfolio in this segment.

Acceptable Risk Criteria have been prepared for the different industries. These are used as indicative standards when appraising a customer's creditworthiness. In order to increase industry competence the Group has organized the Corporate Banking according to industry strategy specialization, and complex financing is done in close cooperation with the industry divisions and sections of the parent bank.

Following parent bank's credit policy, ethical and corporate social responsibility guidelines the Group has determined to which industry sectors financing shall not be pursued.

Country risk management

The Group closely follows "home market" approach. The Group restricts to the large extent any exposure related to countries where DNB Group has no presence.

All countries are classified according to Group's PD risk scale the classification of country risk is based on classification by external rating agencies. Risk grades are reviewed and updated not less than once a year. Country risk limits are approved only based on parent bank's recommendations. Country risk limits are reviewed annually, unless there is any deterioration in risk classification of the particular country.

In 2015 the Group continued launching new initiatives in order to improve credit risk management process as well as harmonizing further credit processes with DNB Group.

Notes to the Financial Statements *(continued)*

4 RISK MANAGEMENT (continued)

b) Market risk

The Group is mainly exposed to such market risks as currency risk and interest rate risk. The Group does not have any open positions in commodity or equity instruments and is not exposed to changes in commodity or equity prices. During the year 2015 there were no significant changes in market risk management process.

Currency risk

The Group and the Bank seek to match assets, liabilities and off-balance sheet items denominated in foreign currencies in order to keep foreign currency exposures within limits set by the Credit Institution Law and internally by the sole shareholder DNB Bank ASA. According to the Credit Institution Law the Bank's open position in each foreign currency may not exceed 10% of the Bank's own funds and that the total foreign currency open position may not exceed 20% of the Bank's own funds. During the year 2015 the Bank was in compliance with all limits.

Sensitivity to currency risk

Sensitivity of the Group and the Bank to a reasonably possible change in currency exchange rates, with all other variables held constant, is calculated by multiplying foreign currency open positions by possible changes in currency rates. An impact on the Group's profit or loss, assuming a changes in currency rates by 5%, is EUR 7.6 thou as of December 31, 2015 (December 31, 2014: EUR 8 thou). The effect on equity does not differ from the effect on the Group`s profit or loss.

Interest rate risk

In normal course of business, the interest rate risk arise due to timing differences in the maturity (for fixed rate) and repricing (for floating rate) of the Group's and the Bank's assets, liabilities and off-balance sheet items.
Interest rate risk from single currency positions is calculated and monitored, using the basis point value (BPV) analysis, which reflects the sensitivity of the present value of the Group's future cash flows to a parallel shift of 0.01% in market interest rates. The Group follows a conservative approach to interest rate risk and seeks to match maturity and repricing profiles of assets, liabilities and off-balance sheet items in order to keep BPV within limits set by the sole shareholder, DNB Bank ASA. Limits are set for each currency in which the Group and the Bank have significant activity as well as for all currencies altogether. During the year 2015 the Group and the Bank were in compliance with the limits.
Interest rate risk management involves the usage of funding and fund placements for different time periods or/and different repricing periods as well as derivative financial instruments, such as interest rate swap agreements.

Sensitivity to interest rate risk

Sensitivity of the Group to an interest rate risk, in terms of a basis point value, is provided in the table below.

		EUR'000
	December 31, 2015	**December 31, 2014**
EUR	4.0	9.1
USD	-0.4	-0.3
Other currencies	0.01	0.1
Total	4.5	9.5

c) Liquidity risk

The Group has a low liquidity risk profile as it is supported by a committed long-term multicurrency funding line from the sole shareholder DNB Bank ASA (counterparty credit rating A-1/A+/Negative, affirmed by Standard & Poor's in December 2015). DNB Bank ASA acts as a lender of a last resort. This commitment was proven during the recent global financial turmoil, when DNB Bank ASA supplied the Group with liquidity at all times in sufficient amounts and in a timely manner.

Liquidity risk management process

The level of the Bank's liquidity risk is limited by the surviving periods analysed across different stress scenarios, which are based on both idiosyncratic and systemic stress assumptions. The survival periods are defined as a period with a positive cumulative cash flow; these are regularly measured and reported to the Bank's management bodies.

The Bank uses a set of liquidity risk metrics to measure its liquidity position, structural liquidity mismatches, and a concentration of funding. Liquidity ratio, calculated using the methodology approved by the Financial and Capital Market Commission (FCMC), as of December 31, 2015 is 45.17% (December 31, 2014: 47.7%), which is sufficiently above the regulatory minimum of 30%.
As at 31 December 2015, the liquidity coverage ratio (LCR) of the group and the bank was 140.6% and 130.4%, 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%.

***Notes to the Financial Statements** (continued)*

4 RISK MANAGEMENT (continued)

c) Liquidity risk (continued)

Liquidity risk is managed in a manner to ensure a constant ability to settle contractual obligations. The Bank has developed a set of early warning indicators for a timely identification of liquidity crises, and a contingency funding plan to manage the Bank's liquidity during the market disruption.

d) Operational risk

Operational risk management

Operational risk management in the Group is performed by following the policy for the management of operational risk. Operational risk should be low, and risk management should ensure that the risk of unwanted losses is reduced.

All managers are responsible for knowing and managing operational risk within their own area of responsibility. This is to be ensured through risk assessment of everyday operations of all major changes in operations as well as of particularly critical functions. When a need for improvement measures is identified, special follow-ups are initiated. In order to limit the consequences of serious events, operational disruptions etc., comprehensive contingency and business continuity plans have been drawn up to be able to handle a crisis situation in a rational and effective manner, thus contributing to limiting damage and restoring a normal situation.

The Group's insurance coverage is an element in operational risk management. Insurance contracts are entered into to limit the financial consequences of undesirable events which occur in spite of established security routines and other risk-mitigating measures. The insurance program also covers legal liabilities the Group may face related to its operations.

Operational risk measurement

Operational risk events in the Group which result in losses and near-events with a loss potential are registered, reported and followed up on an ongoing basis in the Group's event database. Undesirable events which cause, or could have caused, financial losses for the Group represent valuable information and learning about necessary improvement needs.

The Group's management is kept updated on the status of operational risk through the periodic risk report, which provides a basis for analysing the risk situation. In addition, the Group's management is kept updated on the Group's operational risk in the annual status report on ongoing management and control of operational and business risk. The status report includes a presentation of key group-wide risks, relevant improvement measures and a detailed qualitative assessment based on the Group's ambitions within key areas of risk management and quality assurance.

5 INTEREST INCOME

	2015 Group EUR'000	**2014 Group EUR'000**	**2015 Bank EUR'000**	**2014 Bank EUR'000**
Interest income:				
Interest on financial assets measured at amortised cost:	44,970	54,366	41,079	50,298
- interest on loans and receivables to customers	*43,117*	*51,156*	*39,226*	*47,088*
- interest on impaired loans	*1,734*	*2,384*	*1,734*	*2,384*
- interest on balances due from credit institutions and central banks	*119*	*826*	*119*	*826*
Interest on financial assets designated at fair value through profit or loss	878	1,062	878	1,062
Interest on derivatives	1,358	747	1,358	747
Total interest income	**47,206**	**56,175**	**43,315**	**52,107**

***Notes to the Financial Statements** (continued)*

6 INTEREST EXPENSE

	2015 Group EUR'000	2014 Group EUR'000 Restated	2015 Bank EUR'000	2014 Bank EUR'000 Restated
Interest expense:				
- interest on deposits from customers	(1,101)	(2,054)	(1,113)	(2,069)
- interest on balances due to credit institutions	(2,201)	(6,033)	(1,334)	(4,445)
- financial stability fee costs	(968)	(740)	(968)	(740)
- payments to Deposit Guarantee Fund	(1,747)	(2,112)	(1,747)	(2,112)
- Single Resolution Fund expense	(939)	-	(939)	-
- interest on derivatives	(117)	(237)	(116)	(237)
Total interest expense	**(7,073)**	**(11,176)**	**(6,217)**	**(9,603)**
Net interest income	**40,133**	**44,999**	**37,098**	**42,504**

7 FEES AND COMMISSION INCOME

	2015 Group EUR'000	2014 Group EUR'000 Restated	2015 Bank EUR'000	2014 Bank EUR'000 Restated
Money transfers	2,372	2,351	2,372	2,352
Credit card service	7,647	7,604	7,647	7,604
Assets management	2,827	2,477	-	-
Commissions on loans monitoring and service	850	1,015	466	651
Client service	1,362	1,286	1,362	1,287
Guarantees	494	532	583	535
Insurance	851	779	851	779
Cash operations	350	571	350	571
Trade finance	134	104	134	104
Financial instruments	1,002	856	1,007	870
Other	683	700	976	1,105
Total fees and commission income	**18,572**	**18,275**	**15,748**	**15,858**

8 FEES AND COMMISSION EXPENSES

	2015 Group EUR'000	2014 Group EUR'000 Restated	2015 Bank EUR'000	2014 Bank EUR'000 Restated
Money transfers	(359)	(254)	(358)	(253)
Credit card service	(3,514)	(3,461)	(3,514)	(3,461)
Cash operations	(756)	(884)	(756)	(884)
Client Service	(364)	(359)	(364)	(359)
Guarantees	(24)	(21)	(24)	(21)
Securities	(114)	(117)	(113)	(117)
Other	(509)	(855)	(237)	(601)
Total fee and commission expenses	**(5,640)**	**(5,951)**	**(5,366)**	**(5,696)**
Net fees and commission	**12,932**	**12,324**	**10,382**	**10,162**

***Notes to the Financial Statements** (continued)*

9 NET RESULT FROM OPERATIONS WITH FOREIGN CURRENCY, TRADING SECURITIES AND DERIVATIVE FINANCIAL INSTRUMENTS

	2015 Group EUR'000	2014 Group EUR'000	2015 Bank EUR'000	2014 Bank EUR'000
Gain from operations with foreign currencies	2,258	2,285	2,257	2,285
Gain from trading with financial assets at fair value through profit or loss	183	397	183	397
Loss from revaluation of financial assets at fair value through profit or loss	(829)	(358)	(829)	(358)
Gain / (Loss) from foreign currency revaluation	3	(12)	(7)	(41)
(Loss) / gain from derivatives revaluation	(784)	(1,014)	(784)	(1,014)
	831	**1,298**	**820**	**1,269**

10 NET RESULT FROM OPERATIONS WITH INVESTMENT PROPERTY

	2015 Group EUR'000	2014 Group EUR'000	2015 Bank EUR'000	2014 Bank EUR'000
Net rental expenses/income				
Rent of investment property*	1,643	1,641	54	69
Investment property related expenses	(3,372)	(3,017)	(588)	(806)
Net rental expenses	**(1,729)**	**(1,376)**	**(534)**	**(737)**
Net profit / loss from revaluation and sale				
Unrealised (loss) from investment property revaluation	(3,281)	(792)	(649)	(822)
Realized profit from sale of investment property	1,758	1,063	16	333
Net profit/(loss) from revaluation and sale	**(1,523)**	**271**	**(633)**	**(489)**
Net result from operations with investment property	**(3,252)**	**(1,105)**	**(1,167)**	**(1,226)**

*Group and Bank receive income from renting commercial objects only.

11 OTHER OPERATING INCOME

	2015 Group EUR'000	2014 Group EUR'000 Restated	2015 Bank EUR'000	2014 Bank EUR'000 Restated
Profit from sale of fixed assets	115	36	115	26
Income from subsidiaries	-	-	2,848	2,765
Income from other related parties	1,059	76	1,059	76
Income from sales of MasterCard shares	1,795	-	1,795	-
Other operating income	1,830	2,539	1,303	1,955
	4,799	**2,651**	**7,120**	**4,822**

***Notes to the Financial Statements** (continued)*

12 ADMINISTRATIVE EXPENSES

	2015 Group EUR'000	2014 Group EUR'000 Restated	2015 Bank EUR'000	2014 Bank EUR'000 Restated
Salary to Management Board*	377	1,054	377	1,054
Salary to employees	13,852	14,297	13,702	13,847
Social insurance contributions	3,305	3,348	3,269	3,242
Personnel expenses	**17,534**	**18,699**	**17,348**	**18,143**
IT costs	4,982	5,228	4,883	5,089
Advertising and representation	1,750	2,288	1,559	2,089
Maintenance and occupancy costs of building	2,673	2,925	3,374	3,613
Payments for management services to Group*	2,107	1,334	2,107	1,334
Communications	646	747	613	706
Professional services	242	265	191	193
Training	284	264	279	246
Insurance to personnel	239	231	237	225
Insurance	195	264	155	214
Business travel	111	180	110	175
Other personal costs	423	386	423	386
Other	1,447	2,106	1,345	2,111
Other administrative expenses	**15,099**	**16,218**	**15,276**	**16,381**
Total administrative expenses	**32,633**	**34,917**	**32,624**	**34,524**

* In 2015 salaries to expatriated board members from the parent company were paid in their home countries; payments for management services to the Group increased accordingly.

The total number of staff employed by the Group as at 31 December 2015 was 670, by the Bank was 665 (by the Group as at 31 December 2014 was 722, by the Bank was 717).

13 OTHER OPERATING EXPENSES

	2015 Group EUR'000	2014 Group EUR'000	2015 Bank EUR'000	2014 Bank EUR'000
Loss from write off and sale of fixed assets	80	61	77	37
Other operating expenses	1,152	1,528	1,053	1,459
	1,232	**1,589**	**1,130**	**1,496**

14 CORPORATE INCOME TAX

	2015 Group EUR'000	2014 Group EUR'000	2015 Bank EUR'000	2014 Bank EUR'000
Corporate income tax for the year	608	505	-	-
Deferred tax	(130)	35	-	14
	478	**540**	**-**	**14**

Notes to the Financial Statements *(continued)*

14 CORPORATE INCOME TAX (continued)

Corporate income tax differs from the theoretically calculated tax amount, which would be applicable on profit before taxation at the 15% rate as stipulated by the law (see below):

	2015 Group EUR'000	2014 Group EUR'000	2015 Bank EUR'000	2014 Bank EUR'000
Profit before taxation	**15,168**	**20,021**	**11,754**	**18,484**
Theoretically calculated tax at a tax rate of 15%	2,275	3,003	1,763	2,773
Non-deductible revaluation of securities and derivatives	732	510	326	429
Impairment for debtors	15	81	1	127
Other net expenses not deductible for tax purposes	632	98	866	267
Non-taxable income	(505)	-	(505)	-
Unrecognised deferred tax asset	(2,541)	(4,197)	(2,451)	(3,596)
	608	(505)	-	-
Net deferred tax asset at the beginning of the year	(8,652)	(8,687)	(8,701)	(8,715)
Change in net deferred tax asset during the year	(130)	35	-	14
Net deferred tax at the end of the year	**(8,782)**	**(8,652)**	**(8,701)**	**(8,701)**

Deferred tax has been calculated from the following temporary differences between assets and liabilities values for financial and tax purposes:

	2015 Group EUR'000	2014 Group EUR'000	2015 Bank EUR'000	2014 Bank EUR'000
Gross deferred income tax liability:				
Temporary difference on property and equipment depreciation	1,977	2,146	758	1,025
Gross deferred income tax asset:				
Temporary difference on accruals for unused annual leave and bonuses	(539)	(255)	(539)	(255)
Other temporary differences	(1,849)	223	(1,161)	(314)
Unrecognised deferred tax asset	23,725	22,991	21,974	23,080
Tax loss carried forward	(32,096)	(33,757)	(29,733)	(32,237)
Net deferred tax assets	**(8,782)**	**(8,652)**	**(8,701)**	**(8,701)**

Deferred income tax assets are recognised for tax loss carried forward to the extent that realization of the related tax benefit through future taxable profits is probable. The deferred tax assets recognised at 31 December 2015 in respect of tax losses have been based on profitability assumptions over five year horizon. The expected future taxable profits are based on business plan assumptions taking into consideration uncertainties arising from the current economic environment. If the business plan earnings and assumptions in following quarters substantially deviate from the current assumptions, the amount of existing deferred tax assets may need to be adjusted.

As at 31 December 2015 tax losses of the Group constituted EUR 214 million. In accordance with the law “On Corporate Income Tax” tax losses can be carried forward and set off against taxable income during the unlimited period of time. However, the deferred tax asset has been recognised only on the portion of these losses within the above-mentioned five-year horizon.

Notes to the Financial Statements *(continued)*

15 CASH AND CASH EQUIVALENTS

	2015 Group EUR'000	2014 Group EUR'000	2015 Bank EUR'000	2014 Bank EUR'000
Cash	26,791	27,490	38,160	27,490
Balances with the central banks	11,369	25,116	-	25,116
Cash and balances with central banks	**38,160**	**52,606**	**38,160**	**52,606**
Balances due from other credit institutions with the original maturity less than 3 months	529,773	526,881	529,442	526,329
Balances on demand due to other credit institutions	(3,174)	(6,903)	(3,174)	(6,903)
Total cash and cash equivalents	**564,7590**	**572,584**	**564,428**	**572,032**

The correspondent account with the Bank of Latvia reflects the balance of the Bank's correspondent account, on which interest is paid in the amount of the compulsory reserve requirement.

The Bank is required to comply with minimum reserve requirements set by the European Central Bank. This requires the Bank's monthly average EUR balance on its correspondent account with the Bank of Latvia to exceed a specified minimum during the maintenance period of requirements.

The Bank was in compliance with the reserve requirement during the reporting period.

16 DUE FROM CREDIT INSTITUTIONS

	2015 Group EUR'000	2014 Group EUR'000 Restated	2015 Bank EUR'000	2014 Bank EUR'000 Restated
Demand deposits				
Republic of Latvia credit institutions	339	555	8	3
OECD credit institutions*	59,750	38,409	59,750	38,409
Non-OECD credit institutions	148	1,394	148	1,394
Total demand deposits	**60,237**	**40,358**	**59,906**	**39,806**
Term deposits				
OECD credit institutions**	469,537	486,523	469,537	486,523
Total term deposits	**469,537**	**486,523**	**469,537**	**486,523**
Total	**529,774**	**526,881**	**529,443**	**526,329**

The effective interest rate on balances due from other credit institutions as for 31 December 2015 was -0.11% (2014: 0.05%)

* Including DNB Bank ASA EUR 58,830 thou (2014: EUR 37,556 thou)
** Including DNB Bank ASA EUR 469,527 thou (2014: EUR 485,000 thou)

Due from credit institutions includes six buy/sell-back deals (2014: one buy/sell-back deal) with DNB Bank ASA totalling to EUR 57,483 thou (2014: EUR 60,500 thou) with the rollover option. Several issues of the bonds were received as collateral for these deals. According to the terms of transactions, price risk arising from the off-balance sheet bonds position is borne by DNB Bank ASA. The bonds thus received are used as collateral for long-term funding from the Bank of Latvia (see Note 27).

Notes to the Financial Statements *(continued)*

17 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysis of loans by original maturity

	2015 Group EUR'000	2014 Group EUR'000	2015 Bank EUR'000	2014 Bank EUR'000
Less than a year	14,058	18,956	9,218	14,011
More than a year	1,648,717	1,750,777	1,563,890	1,684,685
Accrued interest	3,362	4,307	3,266	4,234
	1,666,137	**1,774,040**	**1,576,374**	**1,702,930**
Less allowances for loan impairment	(138,756)	(165,726)	(119,591)	(138,938)
Less allowances for unpaid interest	(874)	(1,215)	(874)	(1,215)
Total	**1,526,507**	**1,607,099**	**1,455,909**	**1,562,777**

Loan portfolio includes loans secured by the Republic of Latvia Government guarantees of EUR 4,513 thou (2014: EUR 4,777 thou).

The average interest rate on loans as at 31 December 2015 was 2.1% (2014: 2.3%).

(b) Analysis of loans by client type

	2015 Group EUR'000	2014 Group EUR'000	2015 Bank EUR'000	2014 Bank EUR'000
Individuals	1,015,040	1,047,560	973,097	1,011,517
Private companies	567,415	654,801	518,117	620,634
Public companies	57,755	42,233	55,295	39,529
Management/employees of Bank	13,804	15,567	12,861	14,567
Local government	5,515	6,040	5,382	5,856
Finance institutions	3,246	3,532	8,356	6,593
Accrued interest	3,362	4,307	3,266	4,234
	1,666,137	**1,774,040**	**1,576,374**	**1,702,930**
Less allowances for loan impairment	(138,756)	(165,726)	(119,591)	(138,938)
Less allowances for unpaid interest	(874)	(1,215)	(874)	(1,215)
Total	**1,526,507**	**1,607,099**	**1,455,909**	**1,562,777**

(c) Analysis of loans by products

	2015 Group EUR'000	2014 Group EUR'000	2015 Bank EUR'000	2014 Bank EUR'000
Mortgage loans	855,593	893,355	855,593	893,355
Commercial loans	540,018	593,578	601,368	672,568
Private loans	94,205	112,035	94,205	112,035
Leasing	151,017	150,027	-	-
Card loans	9,338	10,084	9,338	10,084
Consumer loans	12,604	10,556	12,604	10,556
Other	-	98	-	98
Accrued interest	3,362	4,307	3,266	4,234
	1,666,137	**1,774,040**	**1,576,374**	**1,702,930**
Less allowances for loan impairment	(138,756)	(165,726)	(119,591)	(138,938)
Less allowances for unpaid interest	(874)	(1,215)	(874)	(1,215)
Total	**1,526,507**	**1,607,099**	**1,455,909**	**1,562,777**

Notes to the Financial Statements *(continued)*

17 LOANS AND ADVANCES TO CUSTOMERS (continued)

(d) Analysis of loans by industry

	2015 Group EUR'000	2014 Group EUR'000	2015 Bank EUR'000	2014 Bank EUR'000
Individuals	999,862	1,042,898	958,514	1,007,013
Management of real estate	169,287	184,104	234,338	264,782
Manufacturing	88,639	85,763	71,015	64,198
Trade	80,764	88,742	60,755	66,551
Transport	68,747	61,374	52,174	35,386
Agriculture	45,864	40,289	27,453	28,132
Construction	15,709	57,526	4,736	45,708
Management/employees of Bank	13,804	15,567	12,861	14,567
Non-profit and religious organizations	11,613	11,191	11,114	11,139
Other	146,138	163,698	124,215	143,217
Total loans to residents	**1,640,427**	**1,751,152**	**1,557,175**	**1,680,693**
Loans issued to non-residents	22,348	18,581	15,933	18,003
Accrued interest	3,362	4,307	3,266	4,234
	1,666,137	**1,774,040**	**1,576,374**	**1,702,930**
Less allowances for loan impairment	(138,756)	(165,726)	(119,591)	(138,938)
Less allowances for unpaid interest	(874)	(1,215)	(874)	(1,215)
Total	**1,526,507**	**1,607,099**	**1,455,909**	**1,562,777**

(e) Analysis of loans by countries

	2015 Group EUR'000	2014 Group EUR'000	2015 Bank EUR'000	2014 Bank EUR'000
Latvia	1,640,427	1,751,152	1,557,175	1,680,693
Other countries	22,348	18,581	15,933	18,003
Accrued interest	3,362	4,307	3,266	4,234
Total	**1,666,137**	**1,774,040**	**1,576,374**	**1,702,930**
Less allowances for loan impairment	(138,756)	(165,726)	(119,591)	(138,938)
Less allowances for unpaid interest	(874)	(1,215)	(874)	(1,215)
Total	**1,526,507**	**1,607,099**	**1,455,909**	**1,562,777**

(f) Gross investment in finance lease

	2015 Group EUR'000	2014 Group EUR'000	2015 Bank EUR'000	2014 Bank EUR'000
Not later than 1 year	58,303	75,109	-	-
1 – 5 years	97,794	80,582	-	-
More than 5 years	475	100	-	-
Total gross finance lease receivables	**156,572**	**155,791**	**-**	**-**

Unearned future interest income from investments in finance lease

	2015 Group EUR'000	2014 Group EUR'000	2015 Bank EUR'000	2014 Bank EUR'000
Not later than 1 year	2,642	2,826	-	-
1 – 5 years	2,913	2,847	-	-
Total unearned future interest income	**5,555**	**5,673**	**-**	**-**

Notes to the Financial Statements *(continued)*

17 LOANS AND ADVANCES TO CUSTOMERS (continued)

(f) Gross investment in finance lease (continued)

Net investment in finance lease

	2015 Group EUR'000	2014 Group EUR'000	2015 Bank EUR'000	2014 Bank EUR'000
Not later than 1 year	55,661	72 283	-	-
1 – 5 years	94,881	77 735	-	-
More than 5 years	475	100	-	-
Total investment in finance lease	**151 017**	**150 118**	**-**	**-**
Less allowances for individual loan impairment	(16 986)	(22 943)	-	-
Less allowances for homogenous groups of loans	(212)	(357)	-	-
Total net investment in finance lease	**133 819**	**126 818**	**-**	**-**

(g) The following table provides the division of loans and advances to customers by quality:

	2015 Group EUR'000	2014 Group EUR'000	2015 Bank EUR'000	2014 Bank EUR'000
Neither past due nor impaired	1,315,690	1,365,928	1,259,676	1,335,332
Past due but not impaired	106,726	110,207	93,867	98,826
Impaired	240,359	293,598	219,565	264,538
Accrued interest	3,362	4,307	3,266	4,234
Total gross loans and advances to customers	**1,666,137**	**1,774,040**	**1,576,374**	**1,702,930**
Less allowances for individual loan impairment	(131,184)	(156 348)	(112,231)	(129,916)
Less allowances for homogenous groups of loans	(7,572)	(9,378)	(7,360)	(9,022)
Less allowances for unpaid interest	(874)	(1,215)	(874)	(1,215)
Total net loans and advances to customers	**1,526,507**	**1,607,099**	**1,455,909**	**1,562,777**

(h) The following table provides the division of loans and advances to customers neither past due nor impaired:

Grades	**Risk classes**	**2015 Group EUR'000**	**2014 Group EUR'000**	**2015 Bank EUR'000**	**2014 Bank EUR'000**
Corporate *	**Low**	173,941	162,053	230,143	247,926
	Medium	162,506	188,065	154,876	160,299
	High	37,084	58,607	32,909	57,757
SME*	**Low**	4,308	3,045	3,652	1,569
(Small and medium sized	**Medium**	97,188	104,409	37,744	47,567
enterprises)	**High**	24,244	22,985	18,749	22,746
Private individuals	**Low**	653,963	653,353	638,226	644,245
	Medium	112,353	119,042	96,161	101,168
	High	50,103	54,369	47,216	52,055
	Total	**1,315,690**	**1,365,928**	**1,259,676**	**1,335,332**

* The information is based on business lines. The legal entities are treated as Corporate if gross commitments are over 1 MEUR or turnover is more than 10 MEUR. Central and local government are also treated as Corporate.

Notes to the Financial Statements *(continued)*

17 LOANS AND ADVANCES TO CUSTOMERS (continued)

(h) The following table provides the division of loans and advances to customers neither past due nor impaired (continued)**:**

	2015 Group EUR'000	2014 Group EUR'000	2015 Bank EUR'000	2014 Bank EUR'000
Mortgage loans	702,458	715,402	702,458	715,402
Commercial	414,555	450,979	479,078	535,688
Leasing	120,537	115,305	-	-
Private loans	60,038	67,802	60,038	67,802
Card loans	5,869	6,275	5,869	6,275
Consumer loans	12,233	10,165	12,233	10,165
Total	**1,315,690**	**1,365,928**	**1,259,676**	**1,335,332**

(i) The following table provides the division of loans and advances to customers past due but not impaired:

	2015 Group EUR'000	2014 Group EUR'000	2015 Bank EUR'000	2014 Bank EUR'000
Commercial loans				
Past due up to 30 days	6,972	10,356	5,874	7,985
Past due 31-60 days	10,064	2,973	9,954	2,684
Past due 61-90 days	203	92	203	92
Past due over 90 days	501	2,296	501	2,296
Total	**17,740**	**15,717**	**16,532**	**13,057**
Mortgage loans (issued to private individuals secured with real estate collateral)				
Past due up to 30 days	44,147	49,148	44,147	49,148
Past due 31-60 days	12,493	13,568	12,493	13,568
Past due 61-90 days	5,509	5,863	5,509	5,863
Past due over 90 days	743	-	743	-
Total	**62,892**	**68,579**	**62,892**	**68,579**
Private loans (issued to private individuals secured with real estate collateral)				
Past due up to 30 days	7,399	9,819	7,399	9,819
Past due 31-60 days	2,584	2,955	2,584	2,955
Past due 61-90 days	617	658	617	658
Past due over 90 days	305	305	305	305
Total	**10,905**	**13,737**	**10,905**	**13,737**
Consumer loans				
Past due up to 30 days	227	191	227	191
Past due 31-60 days	40	-	40	-
Past due 61-90 days	28	-	28	-
Past due over 90 days	-	-	-	-
Total	**295**	**191**	**295**	**191**
Leasing				
Past due up to 30 days	8,288	5,458	-	-
Past due 31-60 days	1,075	1,180	-	-
Past due 61-90 days	425	193	-	-
Past due over 90 days	1,863	1,890	-	-
Total	**11,651**	**8,721**	**-**	**-**

Notes to the Financial Statements *(continued)*

17 LOANS AND ADVANCES TO CUSTOMERS (continued)

(i) The following table provides the division of loans and advances to customers past due but not impaired (continued):

	2015 Group EUR'000	2014 Group EUR'000	2015 Bank EUR'000	2014 Bank EUR'000
Card loans				
Past due up to 30 days	3,068	3,261	3,068	3,261
Past due 31-60 days	113	-	113	-
Past due 61-90 days	57	-	57	-
Past due over 90 days	5	-	5	-
Total	**3,243**	**3,261**	**3,243**	**3,261**
Other loans				
Past due up to 30 days	-	-	-	-
Past due 31-60 days	-	1	-	1
Past due 61-90 days	-	-	-	-
Past due over 90 days	-	-	-	-
Total	**-**	**1**	**-**	**1**
Total				
Past due up to 30 days	70,101	78,233	60,715	70,404
Past due 31-60 days	26,369	20,677	25,184	19,208
Past due 61-90 days	6,839	6,806	6,414	6,613
Past due over 90 days	3,417	4,491	1,554	2,601
Total	**106,726**	**110,207**	**93,867**	**98,826**
Total gross loans and advances to customers past due but not impaired	106,726	110,207	93,867	98,826
Fair value of collateral	**78,146**	**77,013**	**74,394**	**73,076**

(j) The following table provides the division of impaired loans and advances to customers of Group and Bank:

	2015 Group EUR'000	2014 Group EUR'000	2015 Bank EUR'000	2014 Bank EUR'000
Commercial	107,725	126,882	105,758	123,822
Mortgage loans	90,242	109,373	90,242	109,373
Private loans	23,262	30,497	23,262	30,497
Leasing	18,827	26,000	-	-
Card loans	227	549	227	549
Consumer loans	76	200	76	200
Other	-	97	-	97
Total	**240,359**	**293,598**	**219,565**	**264,538**

(j) The following table provides the total fair value of collateral by class of Group`s loans and advances to customers:

	Commercial loans EUR'000	Mortgage loans EUR'000	Private loans EUR'000	Other loans EUR'000	Total EUR'000
31 December 2015					
Total gross loans	540,020	855,592	94,205	172,958	**1,662,775**
Fair value of collateral	396,771	687,615	75,623	32,470	**1,192,479**
31 December 2014					
Total gross loans	593,578	893,354	112,036	170,765	**1,769,733**
Fair value of collateral	443,547	694,654	87,291	56,353	**1,281,845**

Notes to the Financial Statements *(continued)*

17 LOANS AND ADVANCES TO CUSTOMERS (continued)

(j) The following table provides the total fair value of collateral by class of Bank`s loans and advances to customers:

	Commercial loans EUR'000	Mortgage loans EUR'000	Private loans EUR'000	Other loans EUR'000	Total EUR'000
31 December 2015					
Total gross loans	601,368	855,592	94,205	21,943	**1,573,108**
Fair value of collateral	396,771	687,615	75,623	235	**1,160,244**
31 December 2014					
Total gross loans	672,567	893,354	112,036	20,739	**1,698,696**
Fair value of collateral	443,547	694,654	87,291	80	**1,225,572**

(k) The following table provides the division of restructured loans and advances to customers:

Information regarding all kinds of restructured loans included (impaired, past due but not impaired and neither past due nor impaired)

	2015 Group EUR'000	2014 Group EUR'000	2015 Bank EUR'000	2014 Bank EUR'000
Mortgage loans	70,105	85,953	70,105	85,953
Commercial	92,230	101,531	92,230	100,873
Private loans	15,366	19,560	15,366	19,560
Leasing	3,501	9,273	-	-
Consumer loans	34	7	34	7
Other	-	97	-	97
Total	**181,236**	**216,421**	**177,735**	**206,490**

The following table provides the division of Group's restructured loans and advances to customers as at 31 December 2015:

	Neither past due nor impaired EUR'000	Past due but not impaired EUR'000	Impaired EUR'000	Total EUR'000
Mortgage loans	10,749	15,465	43,891	**70,105**
Commercial	17,731	1,760	72,739	**92,230**
Private loans	2,659	3,093	9,614	**15,366**
Leasing	1,537	416	1,548	**3,501**
Consumer loans	32	-	2	**34**
Other	-	-	-	**-**
Total	**32,708**	**20,734**	**127,794**	**181,236**

The following table provides the division of Bank's restructured loans and advances to customers as at 31 December 2015:

	Neither past due nor impaired EUR'000	Past due but not impaired EUR'000	Impaired EUR'000	Total EUR'000
Mortgage loans	10,749	15,465	43,891	**70,105**
Commercial	17,731	1,760	72,739	**92,230**
Private loans	2,659	3,093	9,614	**15,366**
Consumer loans	32	-	2	**34**
Total	**31,171**	**20,318**	**126,246**	**177,735**

17 LOANS AND ADVANCES TO CUSTOMERS (continued)

(k) The following table provides the division of restructured loans and advances to customers (continued)**:**

The following table provides the division of Group's restructured loans and advances to customers as at 31 December 2014:

	Neither past due nor impaired EUR'000	Past due but not impaired EUR'000	Impaired EUR'000	Total EUR'000
Mortgage loans	14,749	18,745	52,459	**85,953**
Commercial	16,491	5,532	79,508	**101,531**
Private loans	2,787	4,965	11,808	**19,560**
Leasing	7,344	223	1,706	**9,273**
Consumer loans	4	1	2	**7**
Other	-	-	97	**97**
Total	**41,375**	**29,466**	**145,580**	**216,421**

The following table provides the division of Bank's restructured loans and advances to customers as at 31 December 2014

	Neither past due nor impaired EUR'000	Past due but not impaired EUR'000	Impaired EUR'000	Total EUR'000
Mortgage loans	14,749	18,745	52,459	**85,953**
Commercial	16,491	5,532	78,850	**100,873**
Private loans	2,787	4,965	11,808	**19,560**
Consumer loans	4	1	2	**7**
Other	-	-	97	**97**
Total	**34,031**	**29,243**	**143,216**	**206,490**

Loan is considered as restructured if at least one of following action has been performed:

- There are postponed or cancelled principal payment for the Loan for period that is longer than 90 calendar days or repeatedly postponed or cancelled principal payments and total period in last year exceeds 90 calendar days;
- There are postponed, cancelled or capitalized interest payments for the Loan for period that is longer than 90 calendar days or repeatedly postponed, cancelled or capitalized interest payments and total period in last year exceeds 90 calendar days;
- Change of Loan principal repayment schedule that result in decrease of monthly payments by more than 30%;
- There are repossessed collateral or other assets for full or partial loan repayment;
- Substitution of initial borrower or attraction of additional borrower if in case attraction of additional borrower would not be performed that would result in overdue of payments more than 90 days;
- Decrease of loan interest rate due to financial difficulties of the customer.

Loan is not considered as restructured anymore if at least for one year customer has done all payments in accordance with amount and term stated in new changed agreement never behind the schedule by more than 30 days.

18 FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets designated at fair value through profit or loss

	2015 Group EUR'000	2014 Group EUR'000	2015 Bank EUR'000	2014 Bank EUR'000
Debt securities				
Latvian government securities	43,067	34,790	43,067	34,790
OECD financial institutions securities	34,473	-	34,473	-
Total debt securities	**77,540**	**34,790**	**77,540**	**34,790**
Investment funds				
DNB Reserve Fund	-	547	-	547
Total investment funds	**-**	**547**	**-**	**547**
Total	**77,540**	**35,337**	**77,540**	**35,337**

Notes to the Financial Statements *(continued)*

18 FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

	Moody's equivalent grades	2015 EUR'000	2015 %	2014 EUR'000	2014 %
High grade					
Risk rating class 1	**Aaa**	-	-	-	-
Risk rating class 2	**Aa1-A3**	77,540*	100	-	-
Risk rating class 3	**Baa1-Baa2**	-	-	34,790*	98
Risk rating class 4	**Baa3**	-	-	-	-
Not rated		-	-	547	2
Total		**77,540**	**100**	**35,337**	**100**

* Latvian government securities are classified according to credit rating of Latvia; OECD financial institutions securities are classified according to credit rating of covered securities. In February 2015 the international credit rating agency Moody's Investors Service upgraded Latvia's credit rating from Baa1 to A3.
The effective interest rate on securities at fair value through profit or loss as at December 31, 2015 was 0.6% (2014: 3.2%).

19 FINANCIAL ASSETS AVAILABLE-FOR-SALE

	2015 Group EUR'000	2014 Group EUR'000	2015 Bank EUR'000	2014 Bank EUR'000
Equity instruments				
VISA Europe share	10,500	-	10,500	-
AS Kredītinformācijas Birojs	231	231	231	231
S.W.I.F.T. SCRL shares	21	36	21	36
Financial assets available-for-sale	**10,752**	**267**	**10,752**	**267**

20 INVESTMENTS IN SUBSIDIARIES

The Bank's investments in subsidiaries are specified as follows:

	Share capital EUR'000	Bank's share %	Investment value 2015 EUR'000	Impairment 2015 EUR'000	Net investment Value 2015 EUR'000	Investment value 2014 EUR'000	Impairment 2014 EUR'000	Net investment Value 2014 EUR'000
SIA DNB līzings	4,838	100	4,838	-	4,838	4,838	-	4,838
IPAS DNB Asset Managemant	3,000	100	947	-	947	947	-	947
SIA Skanstes 12	1,181	100	1,181	-	1,181	1,181	-	1,181
SIA SALVUS*	7,967	100	7,967	5,175	2,792	3,217	2,326	891
SIA SALVUS 2*	3,031	100	3,031	2,917	114	3,031	2,917	114
SIA SALVUS 3*	1,057	100	1,057	857	200	57	57	-
SIA SALVUS 4*	485	100	485	-	485	285	-	285
SIA SALVUS 5*	285	100	285	-	285	285	-	285
SIA SALVUS 6*	300	100	300	-	300	300	-	300
	22,144		**20,091**	**8,949**	**11,142**	**14,141**	**5,300**	**8,841**

* Subsidiaries of AS DNB banka established with the aim to ensure sales and/or management of real estate foreclosed in the course of compulsory and/or voluntary collection proceedings.

***Notes to the Financial Statements** (continued)*

21 DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives are financial instruments whose value depends on the value of one or more underlying assets defined in the contract.

Derivatives are used to hedge market risk positions arising from ordinary banking operations and from derivative transactions with counterparties.

Types of derivatives held:

- **Foreign exchange forward** – agreement to exchange two currencies at a future date at an agreed upon forward exchange rate.

- **Foreign exchange swap** – agreement to exchange two currencies at a set rate and then to re-exchange those currencies at an agreed upon rate at a fixed date in the future.

- **Interest rate swap** – agreement to exchange a series of periodic interest payments. The most common interest rate swap is an agreement that involves the exchange of fixed-rate payments for floating-rate payments.

- **Cross-currency interest rate swap** – agreement to exchange interest payments and principals denominated in two different currencies and then to re-exchange those principals at an agreed upon rate at a fixed date in the future. The most common cross-currency interest rate swap is an agreement that involves the exchange of principals and floating-rate payments in one currency for floating-rate payments in another currency.

- **Interest rate caps** – an interest rate cap is a series of interest rate calls designed to protect a buyer from losses resulting from an increase in interest rates. The option buyer has to pay an initial payment – premium to owe the right to receive compensation when an interest rate exceeds agreed level of rate.

- **Interest rate floors** – an interest rate floor is a series of interest rate puts designed to protect a buyer from losses resulting from a decrease in interest rates. The option buyer has to pay an initial payment – premium to owe the right to receive compensation when an interest rate is below agreed level of rate.

- **Interest rate collars** – an interest rate collar is combination of an interest rate cap and an interest rate floor. Depending on the terms the buyer of interest rate collar option pays or receives an initial payment – a premium.

- **Commodity swaps** – agreement to exchange cash flows based on the fixed price calculated on the notional amount of commodity for a cash flow based on the floating price calculated on the same notional amount of commodity.

The Group’s and the Bank's counterparty credit risk represents the potential cost to replace derivative contracts if counterparties fail to perform their obligation. Credit risk divides into current and potential credit risk. Current credit risk is the risk that the party owing more than the bank in a derivative contract will default at the reporting date. Potential credit risk is the risk that the counterparty will default at any future time during the life of the contract.

To control the level of credit risk taken, the Group and the Bank assess counterparties using similar techniques as for its lending activities. The counterparty credit risk is managed primarily through limitation of exposures to each counterparty, valuation of exposures on a daily basis and collateralization of exposures.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on off-balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and do not indicate the Group’s and the Bank's exposure to credit risks. The financial result from positions in derivatives becomes favourable or unfavourable as a result of fluctuations in market prices, such as interest rates, foreign exchange rates and commodity prices relative to the terms specified in agreements.

***Notes to the Financial Statements** (continued)*

21 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The notional amounts and fair values of derivative instruments held are set out in the following table (Group and Bank):

	2015			2014		
	Contract/ notional amount EUR'000	Fair value Assets EUR'000	Fair value Liabilities EUR'000	Contract/ notional amount EUR'000	Fair value Assets EUR'000	Fair value Liabilities EUR'000
Derivatives held for trading:						
- currency swaps*	789,614	38,773	37,421	600,321	13,711	10,344
- interest rate swaps	246,008	1,824	2,037	307,719	2,551	2,770
- forwards	908	7	4	5,924	296	193
- options	153,502	705	69	184,782	1,175	192
- commodity	22,260	4,890	4,815	57,641	1,435	1,252
Total		**46,199**	**44,346**		**19,168**	**14,751**

* Including cross-currency interest rate swaps

22 INTANGIBLE ASSETS

Movement table of intangible assets of the Group and the Bank for 2015 is as follows:

	Licences and software Group EUR'000	Goodwill Group EUR'000	Total intangible assets Group EUR'000	Licences and software Bank EUR'000	Total intangible assets Bank EUR'000
Historical cost					
31 December 2014	**8,829**	**351**	**9,180**	**8,268**	**8,268**
Additions	566	-	566	566	**566**
Disposals and write-offs	(75)	-	(75)	(75)	**(75)**
31 December 2015	**9,320**	**351**	**9 671**	**8 759**	**8 759**
Amortisation					
31 December 2014	**6,179**	**-**	**6,179**	**5,679**	**5,679**
Amortisation for the period	1,190	-	1,190	1,150	**1,150**
Disposals and write-offs	(75)	-	(75)	(75)	**(75)**
31 December 2015	**7,294**	**-**	**7,294**	**6,754**	**6,754**
Net book value					
31 December 2014	**2,650**	**351**	**3,001**	**2,589**	**2,589**
31 December 2015	**2,026**	**351**	**2,377**	**2,005**	**2,005**

Intangible assets include advance payments for acquired intangible assets as of 31 December 2015 in amount of EUR 5,6 thou (2014: EUR 126,4 thou).

***Notes to the Financial Statements** (continued)*

22 INTANGIBLE ASSETS (continued)

Movement table of intangible assets of the Group and the Bank for 2014 is as follows:

	Licences and software Group EUR'000	Goodwill Group EUR'000	Total intangible assets Group EUR'000	Licences and software Bank EUR'000	Total intangible assets Bank EUR'000
Historical cost					
31 December 2013	**7,491**	**351**	**7,842**	**6,932**	**6,932**
Additions	1,338	-	1,338	1,336	**1,336**
Disposals and write-offs	-	-	-	-	**-**
31 December 2014	**8,829**	**351**	**9,180**	**8,268**	**8,268**
Amortisation					
31 December 2013	**5,430**	**-**	**5,430**	**4,977**	**4,977**
Amortisation for the period	749	-	749	702	**702**
Disposals and write-offs	-	-	**-**	-	**-**
31 December 2014	**6,179**	**-**	**6,179**	**5,679**	**5,679**
Net book value					
31 December 2013	**2,061**	**351**	**2,412**	**1,955**	**1,955**
31 December 2014	**2,650**	**351**	**3,001**	**2,589**	**2,589**

23 PROPERTY, PLANT AND EQUIPMENT

Movement table of property, plant and equipment of the Group for 2015 is as follows:

	Land and buildings EUR'000	Office equipment EUR'000	Leasehold improve-ments EUR'000	Operating lease EUR'000	Total EUR'000
Historical cost or revaluation					
31 December 2014	**29,323**	**19,059**	**3,150**	**234**	**51,766**
Additions	76	804	70	-	**950**
Disposals and write-offs	(325)	(2,442)	(32)	(234)	**(3,033)**
31 December 2015	**29,074**	**17,421**	**3,188**	**-**	**49,683**
Depreciation					
31 December 2014	**3,252**	**14,145**	**1,879**	**160**	**19,436**
Depreciation for the year	722	1 839	221	1	**2,783**
Disposals and write-offs	(25)	(2,425)	(32)	(161)	**(2,643)**
31 December 2015	**3,949**	**13,559**	**2,068**	**-**	**19,576**
Net book value					
31 December 2014	**26,071**	**4,914**	**1,271**	**74**	**32,330**
31 December 2015	**25,125**	**3,862**	**1,120**	**-**	**30,107**

Notes to the Financial Statements *(continued)*

23 PROPERTY, PLANT AND EQUIPMENT (continued)

Movement table of property, plant and equipment of the Group for 2014 is as follows:

	Land and buildings EUR'000	Office equipment EUR'000	Leasehold improve-ments EUR'000	Operating lease EUR'000	Total EUR'000
Historical cost or revaluation					
31 December 2013	**29,267**	**18,612**	**2,797**	**741**	**51,417**
Additions	56	2,282	355	-	2,693
Disposals and write-offs	-	(1,835)	(2)	(507)	(2,344)
31 December 2014	**29,323**	**19,059**	**3,150**	**234**	**51,766**
Depreciation					
31 December 2013	**2,535**	**13,871**	**1,643**	**514**	**18,563**
Depreciation for the year	717	1,989	236	20	2,962
Disposals and write-offs	-	(1,715)	-	(374)	(2,089)
31 December 2014	**3,252**	**14,145**	**1,879**	**160**	**19,436**
Net book value					
31 December 2013	**26,732**	**4,741**	**1,154**	**227**	**32,854**
31 December 2014	**26,071**	**4,914**	**1,271**	**74**	**32,330**

Movement table of property, plant and equipment of the Bank for 2015 is as follows:

	Land and buildings EUR'000	Office equipment EUR'000	Leasehold improve-ments EUR'000	Total EUR'000
Historical cost or revaluation				
31 December 2014	**1,386**	**18,843**	**2,490**	**22,719**
Additions	8	795	25	828
Disposals and write-offs	(325)	(2,442)	(32)	(2,799)
31 December 2015	**1,069**	**17,196**	**2,483**	**20,748**
Depreciation				
31 December 2014	**219**	**14,053**	**1,714**	**15,986**
Depreciation for the year	12	1,800	151	1 963
Disposals and write-offs	(25)	(2,425)	(32)	(2,482)
31 December 2015	**206**	**13,428**	**1,833**	**15,467**
Net book value				
31 December 2014	**1,167**	**4,790**	**776**	**6,733**
31 December 2015	**863**	**3,768**	**650**	**5,281**

Property, plant and equipment include advance payments as of 31 December 2015 in amount of EUR 149,5 thou (2014: EUR 16,4 thou).

Notes to the Financial Statements *(continued)*

23 PROPERTY, PLANT AND EQUIPMENT (continued)

Movement table of property, plant and equipment of the Bank for 2014 is as follows:

	Land and buildings	Office equipment	Leasehold improve-ments	Total
	EUR'000	**EUR'000**	**EUR'000**	**EUR'000**
Historical cost or revaluation				
31 December 2013	**1,366**	**18,469**	**2,376**	**22,211**
Additions	20	2,209	116	2,345
Disposals and write-offs	-	(1,835)	(2)	(1,837)
31 December 2014	**1,386**	**18,843**	**2,490**	**22,719**
Depreciation				
31 December 2013	**206**	**13,803**	**1,526**	**15,535**
Depreciation for the year	13	1,965	188	2,166
Disposals and write-offs	-	(1,715)	-	(1,715)
31 December 2014	**219**	**14,053**	**1,714**	**15,986**
Net book value				
31 December 2013	**1,160**	**4,666**	**850**	**6,676**
31 December 2014	**1,167**	**4,790**	**776**	**6,733**

Minimum lease payments receivable under operating leases	**2015 Group**	**2014 Group**
	EUR'000	**EUR'000**
Not later than 1 year	-	74
Later than 1 year and not later than 5 years	-	-
Later than 5 years	-	-
Total	**-**	**74**

24 INVESTMENT PROPERTY

Investment property contains properties that Group has overtaken from existing loans (as collaterals).

The structure of investment property by type (based on investment amount) is following:

	2015 Group	**2014 Group**
Apartments, parking places	30%	32%
Empty land plots	28%	22%
Private house	14%	15%
Objects for commercial use	28%	31%

The structure of investment property by geographic location:

	2015 Group	**2014 Group**
Riga and Riga region (incl. Jurmala)	93%	93%
Other regions	7%	7%

***Notes to the Financial Statements** (continued)*

24 INVESTMENT PROPERTY

	Group EUR'000	Bank EUR'000
Investment property book value as at 31 December 2013	**66,992**	**17,370**
Additions, purchases of new properties	11,119	320
Net gain / (loss) resulting from adjustment to fair value of projects	271	(489)
Disposals	(16,234)	(6,956)
Investment property book value as at 31 December 2014	**62,148**	**10,245**
Additions, purchases of new properties	13,611	1,167
Net loss resulting from adjustment to fair value of projects	(1,523)	(633)
Disposals	(25,841)	(4,164)
Investment property book value as at 31 December 2015	**48,395**	**6,615**

Detailed information regarding fair value measurement of investment properties is described in Note 37.

25 OTHER ASSETS

	2015 Group EUR'000	2014 Group EUR'000	2015 Bank EUR'000	2014 Bank EUR'000
Guarantee deposits for auctions and prepayments for investment property	1,757	8,446	14	12
Prepayments and overpaid taxes	1,367	611	585	129
Credit card claims and other payment services	6,360	1,931	6,361	1,931
Short term debts	570	648	570	648
Other	1,295	2,097	550	1,603
Total	**11,349**	**13,733**	**8,080**	**4,323**
Less provisions for debtors	(616)	(773)	(520)	(556)
Total	**10,733**	**12,960**	**7,560**	**3,767**

***Notes to the Financial Statements** (continued)*

26 PROVISIONS FOR IMPAIRMENT LOANS AND OTHER ASSETS

Group	Loans Total EUR' 000	Com-mercial EUR' 000	Mort-gage loans EUR' 000	Consu-mer loans EUR' 000	Leasing EUR' 000	Card loans EUR' 000	Private and other EUR' 000	IBNR EUR' 000	Other assets EUR' 000	Off balance sheet liabilities EUR' 000	Total EUR' 000
31 December 2013	**243,669**	**62,789**	**117,319**	**558**	**29,034**	**1,048**	**31,139**	**1,782**	**1,778**	**19**	**245,466**
Fully provided for and written off	**(74,247)**	(11,114)	(44,030)	(556)	(5,688)	(912)	(11,947)	-	**(1,228)**	**-**	**(75,475)**
Charge to statement of comprehensive income :	**27,170**	**11,452**	**10,624**	**179**	**181**	**353**	**2,842**	**1,539**	**223**	**4**	**27,397**
- individual loans and assets	**25,631**	11,452	10,624	179	181	353	2,842	-	**223**	**4**	**25,858**
- homogenous groups of loans	**1,539**	-	-	-	-	-	-	1,539	**-**	**-**	**1,539**
Interest income due to shortening of discounting period	**(2,385)**	(2,031)	(174)	-	-	-	(180)	-	**-**	**(3)**	**(2,388)**
Released during the period	**(27,265)**	(7,670)	(14,056)	(30)	(419)	(132)	(4,620)	(338)	**-**	**-**	**(27,265)**
31 December 2014	**166,942**	**53,426**	**69,683**	**151**	**23,108**	**357**	**17,234**	**2,983**	**773**	**20**	**167,735**
Fully provided for and written off	**(28,705)**	(10,402)	(8,861)	(153)	(6,175)	(329)	(2,785)	-	**(304)**	**(18)**	**(29,027)**
Charge to statement of comprehensive income :	**26,791**	**9,634**	**10,413**	**109**	**1,260**	**278**	**2,879**	**2,218**	**147**	**-**	**26,938**
- individual loans and assets	**21,223**	9,352	7,873	105	1,212	278	2,403	-	**147**	**-**	**21,370**
- homogenous groups of loans	**5,568**	282	2,540	4	48	-	476	2,218	**-**	**-**	**5,568**
Interest income due to shortening of discounting period	**(1,481)**	(1,315)	(91)	-	-	-	(75)	-	**-**	**(2)**	**(1,483)**
Other changes	**-**	904	-	-	500	-	(1,404)	-	**-**	**-**	**-**
Released during the period	**(23,917)**	**(5,527)**	**(11,646)**	**(29)**	**(1,637)**	**(97)**	**(2,578)**	**(2,403)**	**-**	**-**	**(23,917)**
- individual loans and assets	**(16,543)**	(5,170)	(7,780)	(29)	(1,495)	(97)	(1,972)	-	-	-	**(16,543)**
- homogenous groups of loans	**(7,374)**	(357)	(3,866)	-	(142)	-	(606)	(2,403)	-	-	**(7,374)**
31 December 2015	**139,630**	**46,720**	**59,498**	**78**	**17,056**	**209**	**13,271**	**2,798**	**616**	**-**	**140,246**

Statement of comprehensive income item "Net allowances for impairment loss" also includes recovered loans and other assets that were written-off in previous periods in amount of EUR 915 thou (2014: EUR 873 thou).

Statement of comprehensive income item "Net allowances for impairment loss" includes expenses for non-performing commitments in amount of EUR 402 thou (2014: EUR 679 thou).

Notes to the Financial Statements *(continued)*

26 PROVISIONS FOR IMPAIRMENT LOANS AND OTHER ASSETS (continued)

Bank	**Loans Total EUR' 000**	Com-mercial EUR' 000	Mort-gage loans EUR' 000	Consu-mer loans EUR' 000	Card loans EUR' 000	Private and other EUR' 000	IBNR EUR' 000	**Other assets EUR' 000**	**Off-balance sheet liabilities EUR' 000**	**Total EUR' 000**
31 December 2013	**211,427**	**59,707**	**117,319**	**558**	**1,048**	**31,139**	**1,656**	**5,431**	**30,646**	**247,504**
Fully provided for and written off	**(68,965)**	(11,520)	(44,030)	(556)	(912)	(11,947)	-	**-**	**(4,324)**	**(73,289)**
Charge to statement of comprehensive income :	**26,917**	**11,452**	**10,624**	**179**	**353**	**2,842**	**1,467**	**425**	**188**	**27,530**
- individual loans and assets	**25,450**	11,452	10,624	179	353	2,842	-	**425**	**188**	**26,063**
- homogenous groups of loans	**1,467**	-	-	-	-	-	1,467	**-**	**-**	**1,467**
Interest income due to shortening of discounting period	**(2,385)**	(2,031)	(174)	-	-	(180)	-	**-**	**(3)**	**(2,388)**
Released during the period	**(26,841)**	(7,670)	(14,056)	(30)	(132)	(4,620)	(333)	**-**	**(312)**	**(27,153)**
31 December 2014	**140,153**	**49,938**	**69,683**	**151**	**357**	**17,234**	**2,790**	**5,856**	**26,195**	**172,204**
Fully provided for and written off	**(21,870)**	(9,742)	(8,861)	(153)	(329)	(2,785)	-	**(40)**	**(6,841)**	**(28,751)**
Charge to statement of comprehensive income:	**25,465**	**9,635**	**10,413**	**109**	**278**	**2,879**	**2,151**	**3,653**	**-**	**29,118**
- individual loans and assets	**20,012**	9,353	7,873	105	278	2,403	-	**3,653**	**-**	**23,665**
- homogenous groups of loans	**5,453**	282	2,540	4	-	476	2,151	**-**	**-**	**5,453**
Interest income due to shortening of discounting period	**(1,641)**	(1,475)	(91)	-	-	(75)	-	**-**	**(2)**	**(1,643)**
Other changes	**(4)**	1,399	-	-	-	(1,404)	1	**-**	**-**	**(4)**
Released during the period	**(21,638)**	**(5,002)**	**(11,646)**	**(29)**	**(97)**	**(2,578)**	**(2,286)**	**-**	**(973)**	**(22,611)**
- individual loans and assets	**(14,523)**	(4,645)	(7,780)	(29)	(97)	(1,972)	-	**-**	**(898)**	**(15,421)**
- homogenous groups of loans	**(7,115)**	(357)	(3,866)	-	-	(606)	(2,286)	**-**	**(75)**	**(7,190)**
31 December 2015	**120,465**	**44,753**	**59,498**	**78**	**209**	**13,271**	**2,656**	**9,469**	**18,379**	**148,313**

Statement of comprehensive income item "Net allowances for impairment loss" also includes recovered loans and other assets that were written-off in previous periods in amount of EUR 915 thou (2014: EUR 873 thou).

Statement of comprehensive income item "Net allowances for impairment loss" includes expenses for non-performing commitments in amount of EUR 361 thou (2014: EUR 664 thou)

Notes to the Financial Statements *(continued)*

27 LIABILITIES TO CENTRAL BANKS

	2015 Group EUR'000	2014 Group EUR'000	2015 Bank EUR'000	2014 Bank EUR'000
Central Bank	60,500	60,500	60,500	60,500
Accrued interest	96	-	96	-
Terms deposits	**60,596**	**60,500**	**60,596**	**60,500**

In December 2014 AS DNB banka participated in the European Central Bank's Targeted Long-Term Refinancing Operations (TLTRO) and received the funding EUR 60.5 million for 4 years at 0.15% p.a.

28 DUE TO OTHER CREDIT INSTITUTIONS

	2015 Group EUR'000	2014 Group EUR'000	2015 Bank EUR'000	2014 Bank EUR'000
Demand deposits				
Republic of Latvia credit institutions	2,412	6,316	2,412	6,316
OECD credit institutions	144	91	144	91
Non-OECD credit institutions	618	496	618	496
Total demand deposits	**3,174**	**6,903**	**3,174**	**6,903**
Term deposits				
Republic of Latvia credit institutions	36,103	80,469	36,103	80,469
OECD credit institutions*	675,000	849,535	525,000	699,535
	711,103	**930,004**	**561,103**	**780,004**
Accrued interest	107	257	4	70
Total term deposits	711,210	930,261	561,107	780,074
Total deposits	**714,384**	**937,164**	**564,281**	**786,977**

* Including DNB Bank ASA for the Group EUR 675,000 thou, Bank - EUR 525,000 thou (2014: Group - 820,000 thou, Bank – 670,000 thou).

29 DUE TO CUSTOMERS

Analysis of deposits by maturity and client type

	2015 Group EUR'000	2014 Group EUR'000	2015 Bank EUR'000	2014 Bank EUR'000
Demand deposits				
Private companies	388,990	334,128	392,330	335,845
Individuals	377,812	318,037	377,812	318,037
State institutions	53,303	15,920	53,303	15,920
Funds in transit	3,787	2,545	3,787	2,545
Non-residents OECD	11,732	5,680	11,732	5,680
Non-residents non-OECD	11,255	10,833	11,255	10,833
Total demand deposits	**846,879**	**687,143**	**850,219**	**688,860**
Term deposit accounts				
Private companies	204,171	172,159	208,021	175,314
Individuals	144,911	164,395	144,911	164,395
State institutions	13,648	38,404	13,648	38,404
Non-residents OECD	272	2,836	272	2,836
Non-residents non- OECD	9,357	16,266	9,357	16,266
Accrued interest	398	694	401	700
Total term deposits	**372,757**	**394,754**	**376,610**	**397,915**
Total deposits and transit funds	**1,219,636**	**1,081,897**	**1,226,829**	**1,086,775**

Notes to the Financial Statements (continued)

30 ACCRUED EXPENSES AND DEFERRED INCOME

	2015 Group EUR'000	2014 Group EUR'000	2015 Bank EUR'000	2014 Bank EUR'000
Accrued expenses for unused annual leave and bonuses	939	1,700	936	1,694
Accrued expenses for payments to Deposit Guarantee Fund and FCMC	1,654	828	1,654	828
Other accrued expenses	2,993	2,046	2,806	1,871
	5,586	**4,574**	**5,396**	**4,393**

31 OTHER LIABILITIES

	2015 Group EUR'000	2014 Group EUR'000	2015 Bank EUR'000	2014 Bank EUR'000
Accrued liabilities	4,436	3,771	174	94
Accounts payable	62	200	62	159
Other short-term liabilities	2,857	2,636	2,632	1,511
	7,355	**6,607**	**2,868**	**1,764**

32 PROVISIONS

	2015 Group EUR'000	2014 Group EUR'000	2015 Bank EUR'000	2014 Bank EUR'000
Provisions for SIA DNB līzings obligations	-	-	18,380	26,176
Other provisions	1,456	2,446	114	704
	1,456	**2,446**	**18,494**	**26,880**

Provisions were made for SIA DNB līzings obligations for the loan portfolio issued by SIA DNB līzings based on the Bank's guarantee.

Calculations of the write downs were made based on the quality of the assets of the SIA DNB līzings using the same approach as in the Bank.

33 SHARE CAPITAL AND RESERVES

Share capital

On 15 September 2015 the denomination of Bank`s share capital took place. As a result, the share capital of the Bank is EUR 191,178,337, consisting of 191,178,337 shares, each share having the par value of EUR 1.

Before the denomination, the share capital of the Bank was LVL 134,360,900 and consisted of 134,360,900, each having the par value of LVL 1 (EUR 1.42).

As of December 31, 2015 100% of AS DNB banka were owned by DNB Bank ASA.

Reserve capital

As of December 31, 2015 reserve capital in amount of EUR 224,118 (2014: EUR 224,118) represents contributions made by the shareholder in previous years.

Notes to the Financial Statements (continued)

33 SHARE CAPITAL AND RESERVES (continued)

Revaluation reserve
A revaluation reserve represents the increase in the fair value of property, plant and equipment and financial assets available for sale

	2015 Group EUR'000	2014 Group EUR'000	2015 Bank EUR'000	2014 Bank EUR'000
As at 1 January	**187**	**167**	**187**	**167**
Increase due to fair value adjustment of financial assets available-for-sale	10,500	-	10,500	-
Other changes	(54)	20	(54)	20
As at 31 December	**10,633**	**187**	**10,633**	**187**

34 OFF-BALANCE SHEET ITEMS

	2015 Group EUR'000	2014 Group EUR'000	2015 Bank EUR'000	2014 Bank EUR'000
Memorandum items				
Contingent liabilities				
guarantees	41,509	43,017	86,509	43,017
Commitments				
loan issuing commitments	127,584	184,498	158,739	189,460
guarantee issue agreements	23,319	24,397	23,319	24,397
letters of credit	5,108	440	5,108	440

35 MAXIMUM EXPOSURE TO CREDIT RISK BEFORE COLLATERAL HELD OR OTHER CREDIT ENHANCEMENTS

	2015 Group EUR'000	2014 Group EUR'000	2015 Bank EUR'000	2014 Bank EUR'000
Credit risk exposures relating to on-balance sheet assets are as follows:				
Balances due from banks	529,774	526,881	529,443	526,329
Loans and advances to customers	1,526,507	1,607,099	1,455,909	1,562,777
Securities designated at fair value through profit and loss	77,540	35,337	77,540	35,337
Derivative financial instruments	46,199	19,168	46,199	19,168
Credit risk exposures relating to off-balance sheet items are as follows:				
Contingent liabilities	41,509	43,017	86,509	43,017
Financial commitments	5,108	440	5,108	440

36 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

Related parties are defined as shareholders, members of the Supervisory Council and the Management Board, key management personnel, their close relatives and companies in which they have a controlling interest as well as associated companies.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits, foreign currency transactions and financial instruments. These transactions were carried out on commercial terms and at market rates. The volumes of related party transactions, outstanding balances at the year end, and relating income and expense for the year are as follows:

Notes to the Financial Statements *(continued)*

36 RELATED PARTY TRANSACTIONS (continued)

Due from related parties	**2015 Group EUR'000**	**2014 Group EUR'000**	**2015 Bank EUR'000**	**2014 Bank EUR'000**
Due from parent companies:				
DNB Bank ASA	566,511	535,133	566,511	535,133
Due from subsidiaries	-	-	73,131	88,477
Due from other related parties:				
DNB Bank ASA Latvijas filiale	2	-	2	-
DNB bankas AB	102	561	101	561
DNB Pank AS	40	48	40	38
DNB Bank Polska S.A.	12	27	12	27
Balances due from related parties	**566,667**	**535,769**	**639,797**	**624,236**

Due to related parties

	2015 Group EUR'000	**2014 Group EUR'000**	**2015 Bank EUR'000**	**2014 Bank EUR'000**
Due to parent companies:				
DNB Bank ASA	685,038	827,074	534,935	676,887
Due to subsidiaries			7,193	4,879
Due to other related parties:				
DNB Bank ASA Latvijas filiale	961	3,152	920	3,129
DNB bankas AB	618	496	618	496
DNB Pank AS	144	91	144	91
Balances due to related parties	**686,761**	**830,813**	**543,810**	**685,482**

***Notes to the Financial Statements** (continued)*

36 RELATED PARTY TRANSACTIONS (continued)

The Group's and Bank's income/expenses from transactions with related parties are analysed as follows:

	2015 Group EUR'000	2014 Group EUR'000	2015 Bank EUR'000	2014 Bank EUR'000
Interest received from money market deposits/ loans	**104**	**793**	**657**	**1,771**
Parent companies	104	793	104	793
Subsidiaries	-	-	553	978
Commission received	**422**	**427**	**846**	**891**
Subsidiaries	-	-	424	464
Other related parties	422	427	422	427
Dividends	**-**	**-**	**250**	**-**
Subsidiaries	-	-	250	-
Other income	**1,510**	**325**	**4,120**	**2,986**
Subsidiaries	-	-	3,035	2,833
Other related parties	1,510	325	1,085	153
Interest paid on money market deposits/loans	**(2,054)**	**(5,806)**	**(1,157)**	**(4,232)**
Parent companies	(2,054)	(5,806)	(1,145)	(4,217)
Subsidiaries	-	-	(12)	(15)
Expenses from derivatives	**(2,521)**	**(10,804)**	**(2,521)**	**(10,804)**
Parent companies	(2,521)	(10,804)	(2,521)	(10 804)
Derivative revaluation result	**26,098**	**17,808**	**26,098**	**17,808**
Parent companies	26,098	17,808	26,098	17,808
Commission paid	**(118)**	**(200)**	**(118)**	**(199)**
Parent companies	(87)	(198)	(87)	(197)
Other related parties	(31)	(2)	(31)	(2)
Other expenses	**(2,656)**	**(1,901)**	**(4,072)**	**(3,471)**
Parent companies	(1,612)	(1,153)	(1,612)	(1,153)
Subsidiaries	-	-	(1,416)	(1,570)
Other related parties	(1,044)	(748)	(1,044)	(748)
	20,785	**642**	**24,103**	**4,750**

As at 31 December 2015 loans issued to key management personnel amounted to EUR 422 thou (2014: EUR 444 thou).

As at 31 December 2015 the provision for investment in subsidiaries were made in amount EUR 8,949 thou (2014: EUR 5,300 thou).

According to agreement the Bank made settlement for debtor in SIA DNB līzings in amount of EUR 6,858 thou (2014: EUR 4,556 thou) for debts covering and write-off.

For the information regarding salary to Management Board see Note 12.

37 FAIR VALUES OF ASSETS AND LIABILITIES

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, there are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values.

The Bank and the Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

***Notes to the Financial Statements** (continued)*

37 FAIR VALUES OF ASSETS AND LIABILITIES

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

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Assets
Fair value of securities has been estimated based on quoted price where available. To build the yield curve, debt securities of the same issuer with known average bid yields are used and connected into a curve using a linear interpolation. An average bid yield is used in case the market price is observable from more than one source. In assessing the fair value for other financial assets, the management has performed discounted cash flow analysis; up-to-date market information at assessment moment is being used assessing cash flows. For loans, where base interest rates are pegged to floating market interest rates, the Group has considered difference between average interest margin of issued loans and average interest margin for newly issues loans. Given that for part of the loan portfolio this margin has been changed (increased) since issuance, the Group has estimated that for such loans the carrying value is considered equal to fair value.

Liabilities
Fair value of financial liabilities at amortized cost such as Due to credit institutions and Due to customers which are not on demand have been estimated based on discounted cash flow model using interest rates for similar products as at year end. Fair value of those financial liabilities that are on demand or have floating interest rate (e.g. Due to credit institutions) have been estimated to be approximately equal to its carrying amount.

A discounted cash flow model is used to value foreign exchange derivatives, commodity derivatives and over-the-counter vanilla interest rate swaps. The model estimates future variable cash flows and discounts those cash flows, together with the fixed cash flows, to arrive at a net present value. Market value of interest rate option is calculated using Black-Scholes option pricing model.

(a) Fair value hierarchy: assets and liabilities recognised at fair value in statement of financial position

Group		**2015**			
	Level 1 EUR'000	**Level 2 EUR'000**	**Level 3 EUR'000**	**Total fair value EUR'000**	**Statement of financial position EUR'000**
Recurring fair value					
Assets					
Derivatives	-	46,199	-	**46,199**	**46,199**
Financial assets designated at fair value through profit or loss	-	77,540	-	**77,540**	**77,540**
Financial assets available-for-sale*	-	-	10,752	**10,752**	**10,752**
Investment properties	-	-	48,395	**48,395**	**48,395**
Liabilities					
Derivatives	-	44,346	-	**44,346**	**44,346**
Non-recurring fair value					
Assets					
Fixed assets – land and buildings	-	-	25,125	**25,125**	**25,125**

Notes to the Financial Statements *(continued)*

37 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

(a) Fair value hierarchy: assets and liabilities recognised at fair value in statement of financial position (continued)

Group		2014			
	Level 1 EUR'000	Level 2 EUR'000	Level 3 EUR'000	Total fair value EUR'000	Statement of financial position EUR'000
Recurring fair value					
Assets					
Derivatives	-	19,168	-	**19,168**	**19,168**
Financial assets designated at fair value through profit or loss	-	34,790	547	**35,337**	**35,337**
Financial assets available-for-sale*	-	-	267	**267**	**267**
Investment properties	-	-	62,148	**62,148**	**62,148**
Liabilities					
Derivatives	-	14,751	-	**14,751**	**14,751**
Non-recurring fair value					
Assets					
Fixed assets – land and buildings	-	-	26,071	**26,071**	**26,071**

Bank		2015			
	Level 1 EUR'000	Level 2 EUR'000	Level 3 EUR'000	Total fair value EUR'000	Statement of financial position EUR'000
Recurring fair value					
Assets					
Derivatives	-	46,199	-	**46,199**	**46,199**
Financial assets designated at fair value through profit or loss	-	77,540	-	**77,540**	**77,540**
Financial assets available-for-sale*	-	-	10,752	**10,752**	**10,752**
Investment properties	-	-	6,615	**6,615**	**6,615**
Liabilities					
Derivatives	-	44,346	-	**44,346**	**44,346**
Non-recurring fair value					
Assets					
Fixed assets – land and buildings	-	-	863	**863**	**863**

Bank		2014			
	Level 1 EUR'000	Level 2 EUR'000	Level 3 EUR'000	Total fair value EUR'000	Statement of financial position EUR'000
Recurring fair value					
Assets					
Derivatives	-	19,168	-	**19,168**	**19,168**
Financial assets designated at fair value through profit or loss	-	34,790	547	**35,337**	**35,337**
Financial assets available-for-sale*	-	-	267	**267**	**267**
Investment properties	-	-	10,245	**10,245**	**10,245**
Liabilities					
Derivatives	-	14,751	-	**14,751**	**14,751**
Non-recurring fair value					
Assets					
Fixed assets – land and buildings	-	-	1,167	**1,167**	**1,167**

* Under Level 3 of fair value hierarchy there are shares classified, the fair value of which is measured based on estimated fair value. Shares in Visa Europe Limited are valued based on calculation received from Visa Europe Limited as part of the acquisition by Visa Inc. and management estimation (see note 2y).

Notes to the Financial Statements *(continued)*

37 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

(b) Fair value hierarchy: assets and liabilities recognised at amortised cost in statement of financial position

Group 2015

	Level 1 EUR'000	Level 2 EUR'000	Level 3 EUR'000	Total fair value EUR'000	Statement of financial position EUR'000
Assets					
Cash and balances with central banks	-	-	38,160	**38,160**	**38,160**
Due from credit institutions on demand	-	-	60,237	**60,237**	**60,237**
Loans	-	-	1,985,346	**1,985,346**	**1,996,044**
Liabilities					
Liabilities to credit institutions on demand	-	-	3,174	**3,174**	**3,174**
Financial liabilities at amortised cost	-	-	1,991,509	**1,991,509**	**1,991,442**

Group 2014

	Level 1 EUR'000	Level 2 EUR'000	Level 3 EUR'000	Total fair value EUR'000	Statement of financial position EUR'000
Assets					
Cash and balances with central banks	-	-	52,606	**52,606**	**52,606**
Due from credit institutions on demand	-	-	40,358	**40,358**	**40,358**
Loans	-	-	2,050,926	**2,050,926**	**2,093,622**
Liabilities					
Liabilities to credit institutions on demand	-	-	6,903	**6,903**	**6,903**
Financial liabilities at amortised cost	-	-	2,072,961	**2,072,961**	**2,072,658**

Bank 2015

	Level 1 EUR'000	Level 2 EUR'000	Level 3 EUR'000	Total fair value EUR'000	Statement of financial position EUR'000
Assets					
Cash and balances with central banks	-	-	38,160	**38,160**	**38,160**
Due from credit institutions on demand	-	-	59,906	**59,906**	**59,906**
Loans	-	-	1,914,748	**1,914,748**	**1,925,446**
Liabilities					
Liabilities to credit institutions on demand	-	-	3,174	**3,174**	**3,174**
Financial liabilities at amortised cost	-	-	1,848,599	**1,848,599**	**1,848,532**

Bank 2014

	Level 1 EUR'000	Level 2 EUR'000	Level 3 EUR'000	Total fair value EUR'000	Statement of financial position EUR'000
Assets					
Cash and balances with central banks	-	-	52,606	**52,606**	**52,606**
Due from credit institutions on demand	-	-	39,806	**39,806**	**39,806**
Loans	-	-	2,006,604	**2,006,604**	**2,049,300**
Liabilities					
Liabilities to credit institutions on demand	-	-	6,903	**6,903**	**6,903**
Financial liabilities at amortised cost	-	-	1,927,652	**1,927,652**	**1,927,349**

37 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

(c) Fair value: investment properties and fixed assets (building)

Classes of investment properties

Level 3 measurement of fair value is applied for all investment properties. Properties are categorized according to the real estate segment:

- residential (apartments, living houses)
- land plots
- commercial objects

Fair value measurement, valuation techniques, changes in valuation techniques, inputs and other key information

Valuation methods in fair value measurement has remained as before – market comparable method, income capitalization method and discounted cash flow method (DCF). All valuations are carried out according to the market value definition and calculations are performed at highest and best use.

Portfolio	Valuation technique	Inputs		Average per square meter 2015, EUR	Range* per sqm 2015, EUR
Residential					
Apartments	comparable method			615	32 – 2500
Living house	comparable method			331	17 – 1760
Land plots					
Agricultural	comparable method			0.38	0.06 – 1.23
Residential	comparable method			13	0.1 – 258
Commercial	comparable method, DCF			29	1 – 1286
Commercial					
Offices	DCF	rent rate	3 - 10 EUR/sqm		
		occupancy	70%-95%		
		discount rates	9%-12%		
		exit yield	8%-11%		
Industrial	DCF	rent rate	0.7 – 5 EUR/sqm		
		occupancy	70%-90%		
		discount rates	10%-15%		
		exit yield	9%-14%		

* Due to extensive variety of properties in real estate portfolio, indicated price ranges are wide. Each portfolio consists of properties in different technical conditions/with different zoning, located in different regions of Latvia. Value difference between capital city and other cities/country side is very substantial.

Reconciliation of balances of classes of investment property

Group

	Apartments EUR'000	Land plots EUR'000	Living houses EUR'000	Commercial objects EUR'000	Total EUR'000
Book value as at 31 December 2014	**19,318**	**13,371**	**9,613**	**19,846**	**62,148**
Additions, purchases of new properties	5,162	5,067	2,788	594	**13,611**
Net result from adjustment to fair value projects	(1,247)	(497)	(977)	1,198	**(1,523)**
Disposal	(9,044)	(4,066)	(4,577)	(8,154)	**(25,841)**
Book value as at 31 December 2015	**14,189**	**13,875**	**6,847**	**13,484**	**48,395**

Notes to the Financial Statements *(continued)*

37 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

(c) Fair value: investment properties and fixed assets (building) (continued)

Bank

	Apartments EUR'000	Land plots EUR'000	Living houses EUR'000	Commercial objects EUR'000	Total EUR'000
Book value as at 31 December 2014	**3,360**	**2,070**	**3,096**	**1,719**	**10,245**
Additions, purchases of new properties	259	838	42	28	**1,167**
Net result from adjustment to fair value projects	53	(252)	(260)	(174)	**(633)**
Disposal	(1,239)	(1,075)	(1,449)	(401)	**(4,164)**
Book value as at 31 December 2015	**2,433**	**1,581**	**1,429**	**1,172**	**6,615**

Valuation process

Revaluation process is managed by Loan Recovery and Repossessed Asset department. Revaluation results are approved by the Bank`s Management board. The Member of the Management Board responsible for revaluation process is the Bank's Chief Financial Officer (CFO). Revaluation is performed according to repossessed assets revaluation methodology. Revaluation methodology determines precise guidelines for the whole annual revaluation process. The methodology is reviewed each year together with internal/external auditors and internal evaluators (two employees, both of whom hold professional qualification certificates and has significant experience in real estate valuation) in order to determine whether any changes or adjustments are necessary.

General approach

Assets are divided in three groups or portfolios:

- Under 100 thou portfolio (book value under EUR 100 thou);
- Over 100 thou portfolio (book value between EUR 100 thou – EUR 500 thou);
- Over 500 thou portfolio (book value over EUR 500 thou).

Under 100 thou portfolio is revaluated trough The Matrix (tool developed by external evaluators which reflects quarterly prices changes for different type of properties in different locations). Over 100 thou portfolio and Over 500 thou portfolio is revaluated using individual valuations (prepared by external evaluators) which are not older than current year.

Adjustments

All individual valuations can be considered as subjective, so there exists and can exist a difference between two valuers/valuations (i.e. market values) for one property. According to the Latvian Association of Property Appraisers (also member of TEGVO and IVSC) the acceptable difference is up to 15% depending on the complexity of the property. To maintain conservative approach and to avoid reflecting overoptimistic valuations in the books, following adjustments to Individual valuations (i.e. market values) are applied:

- Under 100 thou portfolio - 10% reduction to the latest available valuations which further are used in The Matrix;
- Over 100 thou portfolio - 10% reduction;
- Over 500 thou portfolio is reviewed manually and adjustments, if any, are made according to the methodology of revaluation.

Check-up of the results

All Individual valuations in Over 500 thou portfolio are reviewed by the Banks internal evaluators. All other Individual valuations are reviewed on a random basis.

Revaluation results (after all adjustments) are manually reviewed by responsible asset managers. If any inaccuracies are discovered, manual adjustments are performed according to the methodology of revaluation.

Sensitivity information

Fair value measurement inputs (i.e. rent rates and their growth, occupancy rates, discount rates, yield etc.) used in income method calculations (direct income capitalization method or discounted cash flow method) can significantly influence outcome of calculations. Higher rent rates and occupancy rates gives higher value and vice versa if the rates are lower. Higher discount rates and exit yields gives lower value and vice versa if the rates are lower.

However all those inputs are connected and significant changes in one input trigger changes in other inputs; e.g. if an optimistic rent rates and long term occupancy rates are used then it affects discount rate and it should go up and this understanding is maintained through the whole valuation process.

37 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

(c) Fair value: investment properties and fixed assets (building) (continued)

Highest and best use

There are number of properties that currently are not used according to highest and best use. Mostly those are undeveloped (for residential, commercial or mixed development) land plots or unfinished development (unfinished multi-apartment or office buildings). In terms of value, it makes approximately EUR 10 million or 20% from whole real estate portfolio.

38 CAPITAL ADEQUACY

Regulation (EU) No 575/2013 (Capital requirements regulation) of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 and Directive 2013/36/EU (Capital requirements directive) of the European Parliament and of the Council on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC were approved on 26th of June 2013. Capital adequacy assessment of the Group is performed according to the requirements of the Capital requirements regulation and Capital requirements directive.

The Group from year to year concentrates its' attention to continuously improve capital adequacy assessment processes.

The capital of the Group is calculated and allocated for the risk coverage following the Group's Capital Adequacy Assessment Policy and Minimum Capital Requirements Calculation Regulations. The Group's objectives when managing capital are:

1) to comply with the capital requirements set by the Financial and Capital Market Commission as well as the internal targets set by the Bank's senior management
2) to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders
3) to support the development of the Group's business with the help of the strong capital base.

Capital adequacy report is submitted to the supervising authority quarterly. Internally reports on capital adequacy are available on request, however, usually are prepared on a quarterly basis and submitted to the senior management afterwards.

The Group's regulatory capital is equal to Tier 1 capital which consists of the ordinary shares, share premium, mandatory reserve, retained earnings of the previous financial year, the audited profit of current financial year and less the intangible assets, revaluation profit of investment properties and current year losses, if any.

At the end of 2015 the Group's capital adequacy ratio is 16.6% and the Bank's – 17.6% (2014: 13.8%; 15.3%). The Capital requirements regulation determines capital ratio as at least 8%. The Group and the Bank fully comply with requirement of capital conservation buffer (2.5% or total risk exposure amount).

According to the Capital requirements regulation, the Bank shall provide own funds which shall at all times exceed or equal the sum of the capital requirements for:

- credit risk
- market risk
- operational risk.

The Group calculates credit risk capital requirement using standardised approach, for the calculation of market risk capital requirement the Group uses open positions and applies Basic Indicators Approach for calculation of operational risk capital requirement.

The risk-weighted assets are measured by means of risk weights classified according to the essence of each asset and counterparty. A similar treatment with some adjustments is adopted for the off-balance sheet exposures.

***Notes to the Financial Statements** (continued)*

38 CAPITAL ADEQUACY (continued)

The Group reviews and improves the risk identification and management policies and procedures according to changes in the Group's activities and financial situation at least once a year. Amendments and updates mostly are done during annual internal capital adequacy assessment process when significant risks are to be reassessed or identified and assessed.

	2015 Group EUR'000	2014 Group EUR'000 Restated	2015 Bank EUR'000	2014 Bank EUR'000 Restated
Total own funds for solvency purposes	**241,059**	**223,990**	**245,693**	**233,698**
Tier 1: Original own funds	241,059	223,990	245,693	233,698
--Paid up capital	191,178	191,178	191,178	191,178
--Share premium	69,713	69,713	69,713	69,713
Reserves	3,916	(26,198)	6,144	(22,959)
-Valuation differences to eligible as original own funds	(9,717)	(7,702)	(7,683)	(1,645)
Other deductions from Original Own Funds				
-- Intangible assets	(2,377)	(3,001)	(2,005)	(2,589)
-- Due to requirements, that are stricter than required by Regulation	(11,654)	-	(11,654)	-
Tier 2: Additional own funds	-	-	-	-
--Revaluation reserves	-	-	-	-
Total own funds for solvency purposes	**241,059**	**223,990**	**245,693**	**233,698**
Capital requirements	**116,085**	**129,922**	**112,005**	**122,088**
Standardised approach (SA)	104,847	118,394	101,276	110,870
Capital requirements for operational risks (OpR)	9,652	10,283	9,143	9,973
Capital requirements for credit valuation adjustment risk	1,586	1,245	1,586	1,245
Surplus /(Deficit) of own funds, before other and transitional capital requirements	124,974	94,068	133,688	111,610
Solvency ratio (%)	**16.6%**	**13.8%**	**17.6%**	**15.3%**
Internal assessment of capital	**241,059**	**223,990**	**245,693**	**233,698**

The Group uses "Pillar 1 +" approach for internal capital adequacy assessment, at first minimum regulatory capital requirements are analysed and after that internal capital add-ons are calculated without taking into account any diversification effects between particular risks.

During internal capital adequacy assessment process, the Group usually performs actions as follows:

- analyses available amount of own funds and its historical volatility, including the breakdown of certain capital elements
- analyses amount of minimum and internal capital requirements and its historical volatility in the breakdown of the risk types
- analyses significant risks for which capital needs to be maintained
- analyses asset and off-balance sheet items, including analysis of loan portfolio volume, structure, quality, amount of provisions made as well as estimates appropriate forecasts for following periods
- calculates minimum and internal capital requirements by taking into account planned changes in the Group's activities and financial situation
- performs stress testing and estimates capital buffer
- prepares forecast of available own funds by taking into account planned incomes and expenses, including provision amount to be made, planned capital injections and other significant factors
- prepares regulatory and internal capital adequacy forecast, including setting appropriate strategic goals.

***Notes to the Financial Statements** (continued)*

38 CAPITAL ADEQUACY (continued)

Regular monitoring and control of capital adequacy has been carried out in the Group. Internal capital adequacy assessment process has been done according to the Financial and Capital Market Commission requirements. Internal capital adequacy assessment process is a part of DNB Bank ASA capital adequacy assessment process. Adaptation of processes, models and methods to DNB Bank ASA requirements is done according to DNB Bank ASA policies and guidelines. Improvement of internal capital adequacy assessment process will continue in the coming years by taking into account changes in internal and external factors.

There were several risks that have been assessed as significant for 2015 and for which adequate internal capital has been kept in addition to the set of minimum regulatory capital requirements.

Concentration risk
Internal capital requirements for individual and inter-connected party's concentration, industries concentration, collateral concentration and concentration of currencies are calculated. The Group applies its internal methodology based on standardized Herfindahl-Hirshmann Index to calculate add-ons to the regulatory capital for specific concentration dimensions.

Operational risk
The basic indicator approach is used for the regulatory capital requirement calculation for the operational risk. The internal capital requirement is calculated by comparing regulatory capital requirement with the amount evaluated during the internal capital adequacy assessment process. The most conservative of the two values is used for the capital requirement.

Business risk and strategic risk
Business and strategic risks are mitigated through annual budgeting and strategic planning processes. However, according to the requirements stipulated by the Financial and Capital Market Commission, the Group keeps capital not less than 5% of the sum of minimum capital requirements to cover these risks.

Interest rate risk
For interest rate risk management the Group uses an internal model based on gap analysis and Basis Point Value method, which covers the most significant interest rate risk sources and allows assessing influence on the Group's income and economic value. The Group has set internal parameters for possible changes in interest rates for each significant currency. Capital add-on is calculated as an absolute maximum impact on the Group's economic value.

As internal capital adequacy assessment process (ICAAP) is an integral part of risk management framework, the risk definitions used are the same as in overall risk management.

39 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below allocates the Group's assets and liabilities to maturity groupings based on the time remaining from the statement of financial position date to the contractual maturity dates. The maturity analysis of assets and liabilities as at 31 December 2015 was as follows:

	Up to 1 month EUR`000	1 - 3 months EUR`000	3 – 12 months EUR`000	Over 12 months and undated EUR`000	Total EUR`000
Assets					
Cash and balances with the Central banks	38,160	-	-	-	**38,160**
Due from other credit institutions (on demand)	60,237	-	-	-	**60,237**
Derivatives	9,534	1,651	855	34,159	**46,199**
Financial assets at fair value through profit or loss	77,540	-	-	-	**77,540**
Debt securities and other fixed income securities	*77,540*	-	-	-	***77,540***
Financial assets available-for-sale	-	-	-	10,752	**10,752**
Loans and advances to customers	527,097	74,440	217,110	1,177,397	**1,996,044**
Due from other credit institutions (term)	*451,534*	*18,003*	-	-	***469,537***
Loans to customers	*75,563*	*56,437*	*217,110*	*1,177,397*	***1,526,507***
Accrued income and deferred expenses	1,110	2,278	18	38	**3,444**
Investment property	-	-	-	48,395	**48,395**
Property, plant and equipment	-	-	-	30,107	**30,107**
Intangible assets	-	-	-	2,377	**2,377**
Deferred corporate income tax	-	-	-	8,813	**8,813**
Current corporate income tax	171	-	-	-	**171**
Other assets	6,895	1,347	2,491	-	**10,733**
Total assets	**720,744**	**79,716**	**220,474**	**1,312,038**	**2,332,972**
Liabilities					
Liabilities to central banks	-	-	-	60,596	**60,596**
Liabilities on demand to credit institutions	3,174	-	-	-	**3,174**
Derivatives	9,525	1,248	956	32,617	**44,346**
Financial liabilities at amortised cost:	1,074,317	152,335	207,223	496,971	**1,930,846**
Due to credit institutions	*86,107*	*70,103*	*80,000*	*475,000*	***711,210***
Deposits and other financial liabilities	*988,210**	*82,232*	*127,223*	*21,971*	***1,219,636***
Accrued expenses and deferred income	35	5,399	152	-	**5,586**
Deferred tax liability	-	31	-	-	**31**
Income tax liabilities	-	85	-	-	**85**
Other liabilities	2,295	3,602	1,289	169	**7,355**
Provisions	-	-	114	1,342	**1,456**
Total liabilities	**1,089,346**	**162,700**	**209,734**	**591,695**	**2,053,475**
Shareholders` equity				279,497	**279,497**
Total liabilities and shareholders` equity	**1,089,346**	**162,700**	**209,734**	**871,192**	**2,332,972**
Contingent liabilities	1,455	1,857	11,683	26,514	41,509
Commitments	127,619	2,672	17,551	8,169	156,011
Liquidity risk	**(497,676)**	**(87,513)**	**(18,494)**	**406,163**	**(197,520)**

* Including demand deposits from customers in amount of EUR 846,789 thou

***Notes to the Financial Statements** (continued)*

39 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

The table below allocates the Group's assets and liabilities to maturity groupings based on the time remaining from the statement of financial position date to the contractual maturity dates. The maturity analysis of assets and liabilities as at 31 December 2014 was as follows:

	Up to 1 month EUR\`000	**1 - 3 months EUR\`000**	**3 – 12 months EUR\`000**	**Over 12 months and undated EUR\`000**	**Total EUR\`000**
Assets					
Cash and balances with the Central banks	52,606	-	-	-	**52,606**
Due from other credit institutions (on demand)	40,358	-	-	-	**40,358**
Derivatives	5,217	2,074	2,304	9,573	**19,168**
Financial assets at fair value through profit or loss	35,337	-	-	-	**35,337**
Financial assets available-for-sale	-	-	-	267	**267**
Loans and advances to customers	525,399	79,910	183,592	1,304,721	**2,093,622**
Due from other credit institutions (term)	*486,523*	*-*	*-*	*-*	***486,523***
Loans to customers	*38,876*	*79,910*	*183,592*	*1,304,721*	***1,607,099***
Accrued income and deferred expenses	236	596	229	542	**1,603**
Investment property	-	-	-	62,148	**62,148**
Fixed assets	11	-	74	32,245	**32,330**
Intangible assets	-	-	-	3,001	**3,001**
Other assets	4,338	491	8,478	8,728	**22,035**
Total assets	**663,502**	**83,071**	**194,677**	**1,421,225**	**2,362,475**
Liabilities					
Liabilities to central banks	-	-	-	60,500	**60,500**
Liabilities on demand to credit institutions	6,903	-	-	-	**6,903**
Derivatives	4,378	1,385	1,751	7,237	**14,751**
Financial liabilities at amortised cost:	951,392	230,100	506,688	323,978	**2,012,158**
Due to credit institutions (term)	*77,815*	*150,890*	*386,951*	*314,605*	***930,261***
Deposits from customers	*873,577**	*79,210*	*119,737*	*9,373*	***1,081,897***
Accrued expenses and deferred income	9	1,352	191	3,022	**4,574**
Other liabilities	4,365	3,294	1,329	240	**9,228**
Total liabilities	**967,047**	**236,131**	**509,959**	**394,977**	**2,108,114**
Shareholders\` equity				254,361	**254,361**
Total liabilities and shareholders\` equity	**967,047**	**236,131**	**509,959**	**649,338**	**2,362,475**
Contingent liabilities	1,148	2,458	12,646	26,765	**43,017**
Commitments	184,508	172	1,619	23,036	**209,335**
Liquidity risk	**(489,201)**	**(155,690)**	**(329,547)**	**722,086**	**(252,352)**

* Including demand deposits from customers in amount of EUR 687,143 thou

39 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

The table below allocates the Bank's assets and liabilities to maturity groupings based on the time remaining from the statement of financial position date to the contractual maturity dates. The maturity analysis of assets and liabilities as at 31 December 2015 was as follows:

	Up to 1 month EUR`000	1 - 3 months EUR`000	3 – 12 months EUR`000	Over 12 months and undated EUR`000	Total EUR`000
Assets					
Cash and balances with the Central banks	38,160	-	-	-	**38,160**
Due from other credit institutions (demand)	59,906	-	-	-	**59,906**
Derivatives	9,534	1,651	855	34,159	**46,199**
Financial assets at fair value through profit or loss	77,540	-	-	-	**77,540**
Debt securities and other fixed income securities	*77,540*	-	-	-	***77,540***
Financial assets available-for-sale	-	-	-	10,752	**10,752**
Loans and advances to customers	516,216	56,087	248,029	1,105,114	**1,925,446**
Due from other credit institutions (term)	*451,534*	*18,003*	-	-	***469,537***
Loans to customers	*64,682*	*38,084*	*248,029*	*1,105,114*	***1,455,909***
Accrued income and deferred expenses	14	2,256	-	22	**2,292**
Investment property	-	-	-	6,615	**6,615**
Property, plant and equipment	-	-	-	5,281	**5,281**
Intangible assets	-	-	-	2,005	**2,005**
Investments in subsidiaries	-	-	-	11,142	**11,142**
Deferred corporate income tax	-	-	-	8,701	**8,701**
Other assets	6,990	-	570	-	**7,560**
Total assets	**708,360**	**59,994**	**249,454**	**1,183,791**	**2,201,599**
Liabilities					
Liabilities to central banks	-	-	-	60,596	**60,596**
Liabilities on demand to credit institutions	3,174	-	-	-	**3,174**
Derivatives	9,525	1,248	956	32,617	**44,346**
Financial liabilities at amortised cost:	1,077,898	152,732	210,335	346,971	**1,787,936**
Due to credit institutions (term)	*86,107*	*70,000*	*80,000*	*325,000*	***561,107***
Deposits from customers	*991,791**	*82,732*	*130,335*	*21,971*	***1,226,829***
Accrued expenses and deferred income	34	5,362	-	-	**5,396**
Other liabilities	2,172	696	-	-	**2,868**
Provisions	-	-	114	18,380	**18,494**
Total liabilities	**1,092,803**	**160,038**	**211,405**	**458,564**	**1,922,810**
Shareholders` equity				278,789	278,789
Total liabilities and shareholders` equity	**1,092,803**	**160,038**	**211,405**	**737,353**	**2,201,599**
Contingent liabilities	1,455	1,857	11,683	71,514	**86,509**
Commitments	158,774	2,672	17,551	8,169	**187,166**
Liquidity risk	**(544,672)**	**(104,573)**	**8,815**	**366,755**	**(273,675)**

* Including demand deposits from customers in amount of EUR 850,219 thou

***Notes to the Financial Statements** (continued)*

39 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

The table below allocates the Bank's assets and liabilities to maturity groupings based on the time remaining from the statement of financial position date to the contractual maturity dates. The maturity analysis of assets and liabilities as at 31 December 2014 was as follows:

	Up to 1 month EUR`000	1 - 3 months EUR`000	3 – 12 months EUR`000	Over 12 months and undated EUR`000	Total EUR`000
Assets					
Cash and balances with the Central banks	52,606	-	-	-	**52,606**
Due from other credit institutions (on demand)	39,806	-	-	-	**39,806**
Derivatives	5,217	2,074	2,304	9,573	**19,168**
Financial assets at fair value through profit or loss	35,337	-	-	-	**35,337**
Financial assets available-for-sale	-	-	-	267	**267**
Loans and advances to customers	520,595	62,149	138,272	1,328,284	**2,049,300**
Due from other credit institutions (term)	*486,523*	-	-	-	***486,523***
Loans to customers	*34,072*	*62,149*	*138,272*	*1,328,284*	***1,562,777***
Accrued income and deferred expenses	4	586	145	534	**1,269**
Investment property	-	-	-	10,245	**10,245**
Fixed assets	11	-	-	6,722	**6,733**
Intangible assets	-	-	-	2,589	**2,589**
Investments in the share capital of related companies	-	-	-	8,841	**8,841**
Other assets	3,736	-	3	8,729	**12,468**
Total assets	**657,312**	**64,809**	**140,724**	**1,375,784**	**2,238,629**
Liabilities					
Liabilities to central banks	-	-	-	60,500	**60,500**
Liabilities on demand to credit institutions	6,903	-	-	-	**6,903**
Derivatives	4,378	1,385	1,751	7,237	**14,751**
Financial liabilities at amortised cost:	953,253	80,084	509,534	323,978	**1,866,849**
Due to credit institutions (term)	*77,815*	*703*	*386,951*	*314,605*	***780,074***
Deposits from customers	*875,438**	*79,381*	*122,583*	*9,373*	***1,086,775***
Accrued expenses and deferred income	-	1,330	41	3,022	**4,393**
Other liabilities	2,224	-	19	26,401	**28,644**
Total liabilities	**966,758**	**82,799**	**511,345**	**421,138**	**1,982,040**
Shareholders` equity	**-**	**-**	**-**	256,589	256,589
Total liabilities and shareholders` equity	**966,758**	**82,799**	**511,345**	**677,727**	**2,238,629**
Contingent liabilities	1,148	2,458	12,646	26,765	**43,017**
Commitments	189,471	172	1,619	23,035	**214,297**
Liquidity risk	**(500,065)**	**(20,620)**	**(384,886)**	**648,257**	**(257,314)**

* Including demand deposits from customers in amount of EUR 688,860 thou

Notes to the Financial Statements *(continued)*

39 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

The following table represents the analysis of the remaining cash flows of financial liabilities.

The table below allocates the Group's financial liabilities undiscounted cash flows as at 31 December 2015:

	Up to 1 month EUR'000	1-3 months EUR'000	3-12 months EUR'000	1-5 years EUR'000	More than 5 years EUR'000	Total EUR'000
Short term funding	(39,278)	-	-	-	-	**(39,278)**
Long term funding	(50,025)	(70,055)	(80,346)	(535,615)	-	**(736,041)**
Demand deposits	(846,879)	-	-	-	-	**(846,879)**
Term deposits	(141,687)	(82,638)	(128,256)	(20,364)	(1,771)	**(374,716)**
Derivatives:						
Derivatives settled on a gross basis						
Currency swaps						
inflow	220,592	55,685	59,009	404,351	66,017	**805,654**
outflow	(220,548)	(55,231)	(58,715)	(403,497)	(66,007)	**(803,998)**
Foreign exchange derivatives						
inflow	547	356	-	-	-	**903**
outflow	(546)	(354)	-	-	-	**(900)**
Derivatives settled on a net basis	31	165	428	2,151	321	**3,096**
Total	**(1,077,793)**	**(152,072)**	**(207,880)**	**(552,974)**	**(1,440)**	**(1,992,159)**
Memorandum items*	(129,074)	(4,529)	(29,234)	(19,642)	(15,041)	(197,520)
Total financial liabilities and memorandum items	**(1,206,867)**	**(156,601)**	**(237,114)**	**(572,616)**	**(16,481)**	**(2,189,679)**

The table below allocates the Bank's financial liabilities cash flows as at 31 December 2015:

	Up to 1 month EUR'000	1-3 months EUR'000	3-12 months EUR'000	1-5 years EUR'000	More than 5 years EUR'000	Total EUR'000
Short term funding	(39,278)	-	-	-	-	**(39,278)**
Long term funding	(49,960)	(69,930)	(79,770)	(384,953)	-	**(584,613)**
Demand deposits	(850,219)	-	-	-	-	**(850,219)**
Term deposits	(141,928)	(83,138)	(131,374)	(20,364)	(1,771)	**(378,575)**
Derivatives:						
Derivatives settled on a gross basis						
Currency swaps						
inflow	220,592	55,685	59,009	404,351	66,017	**805,654**
outflow	(220,548)	(55,231)	(58,715)	(403,497)	(66,007)	**(803,998)**
Foreign exchange derivatives						
inflow	547	356	-	-	-	**903**
outflow	(546)	(354)	-	-	-	**(900)**
Derivatives settled on a net basis	31	165	428	2,151	321	**3,096**
Total	**(1,081,309)**	**(152,447)**	**(210,422)**	**(402,312)**	**(1,440)**	**(1,847,930)**
Memorandum items*	(160,229)	(4,529)	(29,234)	(64,642)	(15,041)	(273,675)
Total financial liabilities and memorandum items	**(1,241,538)**	**(156,976)**	**(239,656)**	**(466,954)**	**(16,481)**	**(2,121,605)**

* Including financial guarantee contracts.

Notes to the Financial Statements *(continued)*

39 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

The following table represents the analysis of the remaining cash flows of financial liabilities.

The table below allocates the Group's financial liabilities undiscounted cash flows as at 31 December 2014:

	Up to 1 month EUR'000	1-3 months EUR'000	3-12 months EUR'000	1-5 years EUR'000	More than 5 years EUR'000	Total EUR'000
Short term funding	(84,700)	(667)	(2,021)	-	-	**(87,388)**
Long term funding	(154)	(293)	(386,252)	(527,338)	-	**(914,037)**
Demand deposits	(687,143)	-	-	-	-	**(687,143)**
Term deposits	(187,064)	(79,652)	(121,980)	(8,797)	(737)	**(398,230)**
Derivatives:						
Derivatives settled on a gross basis						
Currency swaps						
inflow	121,310	29,773	43,766	69,822	387,143	**651,814**
outflow	(120,034)	(29,103)	(43,408)	(68,758)	(387,001)	**(648,304)**
Foreign exchange derivatives						
inflow	3,535	2,582	-	-	-	**6,117**
outflow	(3,445)	(2,577)	-	-	-	**(6,022)**
Derivatives settled on a net basis	99	(21)	(88)	234	-	**224**
Total	**(957,596)**	**(79,958)**	**(509,983)**	**(534,837)**	**(595)**	**(2,082,969)**
Memorandum items*	(185,656)	(2,630)	(14,265)	(24,828)	(24,973)	(252,352)
Total financial liabilities and memorandum items	**(1,143,252)**	**(82,588)**	**(524,248)**	**(559,665)**	**(25,568)**	**(2,335,321)**

The table below allocates the Bank's financial liabilities cash flows as at 31 December 2014:

	Up to 1 month EUR'000	1-3 months EUR'000	3-12 months EUR'000	1-5 years EUR'000	More than 5 years EUR'000	Total EUR'000
Short term funding	(84,700)	(667)	(2,021)	-	-	**(87,388)**
Long term funding	(66)	(126)	(385,473)	(375,409)	-	**(761,074)**
Demand deposits	(688,860)	-	-	-	-	**(688,860)**
Term deposits	(187,209)	(79,824)	(124,840)	(8,797)	(737)	**(401,407)**
Derivatives:						
Derivatives settled on a gross basis						
Currency swaps						
inflow	121,310	29,773	43,766	69,822	387,143	**651,814**
outflow	(120,034)	(29,103)	(43,408)	(68,758)	(387,001)	**(648,304)**
Foreign exchange derivatives						
inflow	3,535	2,582	-	-	-	**6,117**
outflow	(3,445)	(2,577)	-	-	-	**(6,022)**
Derivatives settled on a net basis	99	(21)	(88)	234	-	**224**
Total	**(959,370)**	**(79,963)**	**(512,064)**	**(382,908)**	**(595)**	**(1,934,900)**
Memorandum items*	(190,619)	(2,630)	(14,265)	(24,828)	(24,972)	(257,314)
Total financial liabilities and memorandum items	**(1,149,989)**	**(82,593)**	**(526,329)**	**(407,736)**	**(25,567)**	**(2,192,214)**

* Including financial guarantee contracts.

***Notes to the Financial Statements** (continued)*

40 CURRENCY ANALYSIS

The currency analysis of assets and liabilities by currency profile of the Group as at 31 December 2015 was as follows:

	USD	EUR	Other currencies	Total EUR'000
Assets				
Cash and balances with the central banks	2,786	35,278	96	**38,160**
Due from other credit institutions (on demand)	1,133	48,416	10,688	**60,237**
Derivatives	2,677	43,522	-	**46,199**
Financial assets at fair value through profit or loss	-	77,540	-	**77,540**
Debt securities and other fixed income securities	*-*	*77,540*	*-*	***77,540***
Financial assets available-for-sale	-	10,752	-	**10,752**
Loans and advances	13,364	1,981,417	1,263	**1,996,044**
Due from other credit institutions (term)	*-*	*469,537*	*-*	***469,537***
Loans to customers	*13,364*	*1,511,880*	*1,263*	***1,526,507***
Accrued income and deferred expenses	-	3,444	-	**3,444**
Investment property	-	48,395	-	**48,395**
Property, plant and equipment	-	30,107	-	**30,107**
Intangible assets	-	2,377	-	**2,377**
Deferred corporate income tax	-	8,813	-	**8,813**
Current corporate income tax	-	171	-	**171**
Other assets	126	10,606	1	**10,733**
Total assets	**20,086**	**2,300,838**	**12,048**	**2,332,972**
Liabilities				
Liabilities to central banks	-	60,596	-	**60,596**
Liabilities to credit institutions (on demand)	415	2,688	71	**3,174**
Derivatives	2,677	41,669	-	**44,346**
Financial liabilities at amortised cost:	181,437	1,706,708	42,701	**1,930,846**
Due to credit institutions (term)	*15,436*	*691,684*	*4,090*	***711,210***
Deposits from customers	*166,001*	*1,015,024*	*38,611*	***1,219,636***
Accrued expenses and deferred income	-	5,524	62	**5,586**
Deferred tax liability	-	31	-	**31**
Income tax liability	-	85	-	**85**
Other liabilities	109	7,243	3	**7,355**
Provisions	-	1,456	-	**1,456**
Total liabilities	**184,638**	**1,826,000**	**42,837**	**2,053,475**
Net long / (short) balance sheet position	*(164,552)*	*-*	*(30,789)*	*-*
Off-balance sheet claims arising from foreign exchange				
Net long / (short) position on foreign exchange	*164,756*	*-*	*30,940*	*-*
Net long / (short) position	**204**	**-**	**151**	**-**

***Notes to the Financial Statements** (continued)*

40 CURRENCY ANALYSIS (continued)

The currency analysis of assets and liabilities by currency profile of the Group as at 31 December 2014 was as follows:

	USD	EUR	Other currencies	Total EUR'000
Assets				
Cash and balances with the central banks	3,637	48,095	874	**52,606**
Due from other credit institutions (on demand)	7,465	16,786	16,107	**40,358**
Derivatives	-	19,168	-	**19,168**
Financial assets at fair value through profit or loss	-	35,337	-	**35,337**
Financial assets available-for-sale		267	-	**267**
Loans and advances	12,841	2,078,796	1,985	**2,093,622**
Due from other credit institutions (term)	*-*	*486,523*	*-*	***486,523***
Loans to customers	*12,841*	*1,592,273*	*1,985*	***1,607,099***
Accrued income and deferred expenses	4	1,599	-	**1,603**
Investment property	-	62,148	-	**62,148**
Property, plant and equipment	-	32,330	-	**32,330**
Intangible assets	-	3,001	-	**3,001**
Other assets	68	21,966	1	**22,035**
Total assets	**24,015**	**2,319,493**	**18,967**	**2,362,475**
Liabilities				
Liabilities to central banks	**-**	60,500	**-**	**60,500**
Liabilities to credit institutions (on demand)	320	6,567	16	**6,903**
Derivatives	-	14,751	-	**14,751**
Financial liabilities at amortised cost:	139,699	1,830,751	41,708	**2,012,158**
Due to credit institutions (term)	*38,301*	*891,893*	*67*	***930,261***
Deposits from customers	*101,398*	*938,858*	*41,641*	***1,081,897***
Accrued expenses and deferred income	-	4,574	-	**4,574**
Other liabilities	98	7,830	1,300	**9,228**
Total liabilities	**140,117**	**1,924,973**	**43,024**	**2,108,114**
Net long / (short) balance sheet position	*(116,102)*	*-*	*(24,057)*	***-***
Off-balance sheet claims arising from foreign exchange				
Net long / (short) position on foreign exchange	*116,099*	*-*	*23,159*	*-*
Net long / (short) position	**(3)**	**-**	**(898)**	**-**

Notes to the Financial Statements *(continued)*

40 CURRENCY ANALYSIS (continued)

The currency analysis of assets and liabilities by currency profile of the Bank as at 31 December 2015 was as follows:

	USD	EUR	Other currencies	Total EUR'000
Assets				
Cash and balances with the central banks	2,786	35,278	96	**38,160**
Due from other credit institutions (on demand)	1,133	48,085	10,688	**59,906**
Derivatives	2,677	43,522	-	**46,199**
Financial assets at fair value through profit or loss	-	77,540	-	**77,540**
Debt securities and other fixed income securities	*-*	*77,540*	*-*	***77,540***
Financial assets available-for-sale	-	10,752	-	**10,752**
Loans and advances	13,523	1,910,702	1,221	**1,925,446**
Due from other credit institutions (term)	*-*	*469,537*	*-*	***469,537***
Loans to customers	*13,523*	*1,441,165*	*1,221*	***1,455,909***
Accrued income and deferred expenses	-	2,292	-	**2,292**
Investment property	-	6,615	-	**6,615**
Property, plant and equipment	-	5,281	-	**5,281**
Intangible assets	-	2,005	-	**2,005**
Investments in the share capital of related companies	-	11,142	-	**11,142**
Deferred corporate income tax	-	8,701	-	**8,701**
Other assets	126	7,433	1	**7,560**
Total assets	**20,245**	**2,169,348**	**12,006**	**2,201,599**
Liabilities				
Liabilities to central banks	-	60,596	-	**60,596**
Liabilities to credit institutions (on demand)	415	2,688	71	**3,174**
Derivatives	2,677	41,669	-	**44,346**
Financial liabilities at amortised cost:	181,658	1,563,577	42,701	**1,787,936**
Due to credit institutions (term)	*15,436*	*541,581*	*4,090*	***561,107***
Deposits from customers	*166,222*	*1,021,996*	*38,611*	***1,226,829***
Accrued expenses and deferred income	-	5,334	62	**5,396**
Other liabilities	109	2,756	3	**2,868**
Provisions	13	18,481	-	**18,494**
Total liabilities	**184,872**	**1,695,101**	**42,837**	**1,922,810**
Net long / (short) balance sheet position	*(164,627)*	*-*	*(30,831)*	*-*
Off-balance sheet claims arising from foreign exchange				
Net long / (short) position on foreign exchange	*164,756*	*-*	*30,940*	*-*
Net long / (short) position	**129**	**-**	**109**	**-**

Notes to the Financial Statements *(continued)*

40 CURRENCY ANALYSIS (continued)

The currency analysis of assets and liabilities by currency profile of the Bank as at 31 December 2014 was as follows:

	USD	EUR	Other currencies	Total EUR'000
Assets				
Cash and balances with the central banks	3,637	48,095	874	**52,606**
Due from other credit institutions (on demand)	7,465	16,234	16,107	**39,806**
Derivatives	-	19,168	-	**19,168**
Financial assets at fair value through profit or loss	-	35,337	-	**35,337**
Financial assets available-for-sale		267	-	**267**
Loans and advances	12,938	2,034,371	1,991	**2,049,300**
Due from other credit institutions (term)	*-*	*486,523*	*-*	***486,523***
Loans to customers	*12,938*	*1,547,848*	*1,991*	***1,562,777***
Accrued income and deferred expenses	4	1,265	-	**1,269**
Investment property	-	10,245	-	**10,245**
Property, plant and equipment	-	6,733	-	**6,733**
Intangible assets	-	2,589	-	**2,589**
Investments in the share capital of related companies	-	8,841	-	**8,841**
Other assets	68	12,399	1	**12,468**
Total assets	**24,112**	**2,195,544**	**18,973**	**2,238,629**
Liabilities				
Liabilities to central banks	**-**	60,500	**-**	**60,500**
Liabilities to credit institutions (on demand)	320	6,567	16	**6,903**
Derivatives	-	14,751	-	**14,751**
Financial liabilities at amortised cost:	139,827	1,685,314	41,708	**1,866,849**
Due to credit institutions (term)	*38,301*	*741,706*	*67*	***780,074***
Deposits from customers	*101,526*	*943,608*	*41,641*	***1,086,775***
Accrued expenses and deferred income	-	4,393	-	**4,393**
Other liabilities	112	28,532		**28,644**
Total liabilities	**140,259**	**1,800,057**	**41,724**	**1,982,040**
Net long / (short) balance sheet position	*(116,147)*	-	*(22,751)*	**-**
Off-balance sheet claims arising from foreign exchange				
Net long / (short) position on foreign exchange	*116,099*	-	*23,159*	**-**
Net long / (short) position	**(48)**	**-**	**408**	**-**

41 LITIGATION AND CLAIMS

Due to its extensive operations in Latvia, the AS DNB banka and its subsidiaries will regularly be party to a number of legal actions. The foregoing actions, in most cases, are related to recovery of debts owed to AS DNB banka or its subsidiaries under loan agreements or other financial services agreements or to disputes connected with real estates which are or were pledged to AS DNB banka or its subsidiaries. However, none of the current disputes are expected to have any material impact on AS DNB banka or its subsidiaries financial position.

42 EVENTS AFTER STATEMENT OF FINANCIAL POSITION DATE

On 10 March, 2016 the Governing Council of the European Central Bank (ECB) decided to launch a new series of four targeted longer-term refinancing operations (TLTRO II). The new operations will offer attractive long-term funding conditions to banks to further ease private sector credit conditions and to stimulate credit creation. The four TLTRO II operations will be conducted in June, September and December 2016 and in March 2017. All TLTRO II operations will have a maturity of four years from their settlement date. This decision will enable the Bank to prolong the maturity of EUR 60.5 million funding received, if necessary (see Note 27).

There have been no other events requiring adjustment of or disclosure in the financial statements or notes thereto as of the last day of the reporting year until the date of signing these financial statements.