Baltikums Bank

BALTIKUMS BANK AS

Group Consolidated and Bank Separate Financial Statements for the year ended 31 December 2013

Contents

Report of Council and Management Board

Baltikums Bank Closes another Year with High Profits

The strategy selected by the bank allowed it to increase its financial performance and strengthen its positions at a steady pace.

Overall, the business environment remained complicated for the entire year, although we were able to make the market work to our advantage: to the advantage of the bank, its clients and partners. Therefore, the excellent financial performance achieved by the bank is good cause for celebration. Clients and counterparties appreciated the image of Latvia as a stable European financial centre and the bank's efforts in shaping a favourable commercial climate. Many of them have already made use of the bank's mediation in making major investments and establishing holding companies in Latvia.

With a net profit of 9 million Latvian lats (12.8 million Euros) (after tax) in 2013, Baltikums Bank is among Latvia's best in terms of profitability, return on equity and return on assets (26.08% and 2.25%), liquidity and capital adequacy (78.90% and 22%). Operating income in 2013 reached a record of 20.7 million Latvian lats (29.45 million Euros).

Continuing with its strategy of expanding an international network and providing flawless private banking service, the bank acquired a financial company in Luxemburg, opened a representative office in Kyrgyzstan, and founded BB Broker Systems, SIA, a brokerage company.

We justify the trust of our clients by understanding their ongoing priorities and long-term goals, diversifying risks in a smart way and working to get results, by acting as their trusted advisor and reliable strategic partner.

In 2013, more than 30 new qualified professionals joined our team, including client relationship directors, private bankers, investment managers and consultants.

This is a practical testament of our bank's strategic aim of creating the industry's best environment for expressing one's potential and achieving professional growth for banking specialists.

During the year, we implemented a number of initiatives having strategic importance for the bank, shaping a competitive investment environment for professional private investors and institutional clients. We opened a structural division devoted to trading stocks that circulate on international financial markets. We introduced trading platforms that meet exacting global standards. We made support of our securities operations more robust and developed new strategies for servicing financial and non-financial assets.

The bank's successful work and the business of its clients have allowed a 37% increase in assets under management during the year, with an average return on managed assets of 6.2%, or nearly twice the industry average on the investment portfolio management market.

Fiduciary deposits placed by clients increased by 78%; this type of savings is unusual for Latvia but did yield our clients high returns – in excess of 8% per annum.

The bank also organised and executed several issues of corporate bonds totalling more than 12 million Latvian lats (10 million Euros and 10 million U.S. dollars). Furthermore, in cooperation with leading international financial organisations, Baltikums Bank took active part in organising syndicated loans for Eastern European and CIS banks.

The bank continued to expand its correspondent banking network: it now works with over 40 financial institutions in more than 20 countries. There are more options for making transfers in U.S. dollars, the bank's clients are able to execute international payments in Turkish liras.

An important event in December 2013 was the establishment of the Baltikums Foundation charity in Latvia. This foundation will continue implementing initiatives to support socially important projects in a systemic, planned manner.

Report of Council and Management Board

All this gives us great momentum moving forward. We are certain that, in 2014, the bank will maintain its dynamic development pace and offer our clients interesting new solutions for their businesses and personal fortunes.

We thank our clients and partners for their trust and their support. We hope to continue developing relations that work in 2014.

Aleksandrs Peškovs
Chairman of the Council

Dmitrijs Latiševs
Chairman of the Board

28 February 2014

Council and Board of the Bank

As at the date of signing the financial statements, members of the Board and Council of the Bank (hereafter "Bank's management") were as follows:

Council as at 31 December 2013

Name, Surname	Position	Date of Appointment
Aleksandrs Peškovs	Chairman of the Council	22 June 2001
Sergejs Peškovs	Member of the Council	22 June 2001
	Deputy Chairman of the Council	25 July 2002
Andrejs Kočetkovs	Member of the Council	22 June 2001

Board as at 31 December 2013

Name, Surname	Position	Date of Appointment
Dmitrijs Latiševs	Board Member	1 July 2002
	Deputy Chairman of the Board	25 April 2003
	Chairman of the Board	21 April 2011
Leonarda Višņevska	Board Member	25 April 2003
Inga Mukāne	Board Member	6 March 2013

On 18 June 2013, Tatjana Drobina was released from her duties of a member of the Board.

On 26 September 2013, Aleksandrs Halturins was released from his duties of a member of the Board.

On behalf of the Bank's management,

Aleksandrs Peškovs
Chairman of the Council

Dmitrijs Latiševs
Chairman of the Board

28 February 2014

Statement of the Management's Responsibility

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

The Group consolidated and Bank separate financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union on a going concern basis. Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgments and estimates have been made by the management in the preparation of the Group consolidated and Bank separate financial statements.

The Group consolidated and Bank separate financial statements on pages 8 to 62 are prepared in accordance with the source documents and present fairly the financial position of the Group as at 31 December 2013 and the consolidated results of its operations and cash flows for the year then ended, as well as the financial position of the Bank as at 31 December 2013 and the results of its operations and cash flows for the year ended 31 December 2013.

The management of the Bank is responsible for the maintenance of a proper accounting system, safeguarding the Group's and Bank's assets, and the prevention and detection of fraud and other irregularities in the Group and Bank. Management is also responsible for operating the Group and Bank in compliance with the Law on Credit Institutions, regulations of the Finance and Capital Market Commission and other legislation of the Republic of Latvia applicable to credit institutions.

On behalf of the Bank's management,

Aleksandrs Peškovs
Chairman of the Council

Dmitrijs Latiševs
Chairman of the Board

28 February 2014

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Independent Auditors' Report

To the shareholders of Baltikums Bank AS

Report on the Separate and Consolidated Financial Statements

We have audited the accompanying separate financial statements of Baltikums Bank AS ("the Company"), which comprise the separate statement of financial position as at 31 December 2013, the separate statements of profit and loss, the separate statement of other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 8 to 62. We have also audited the accompanying consolidated financial statements of Baltikums Bank AS and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2013, the consolidated statements of profit and loss, the consolidated statement of other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 8 to 62.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these separate and consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal controls as management determines are necessary to enable the preparation of these financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these separate and consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether these financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate and consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of these financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the Company's and Group's preparation and fair presentation of these financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and Group's internal controls. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by Company's and Group's management, as well as evaluating the overall presentation of the separate and consolidated financial statements.

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

Opinion

In our opinion, the separate financial statements give a true and fair view of the financial position of the Baltikums Bank AS as at 31 December 2013, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Baltikums Bank AS and its subsidiaries as at 31 December 2013, and of the consolidated financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Report on Other Legal and Regulatory Requirements

In addition, our responsibility is to assess whether the accounting information included in the Consolidated Management Report, as set out on pages 2 to 3, the preparation of which is the responsibility of management, is consistent with the consolidated financial statements. Our work with respect to the Consolidated Management Report was limited to the aforementioned scope and did not include a review of any information other than drawn from the consolidated financial statements of the Group. In our opinion, the Consolidated Management Report is consistent with the consolidated financial statements.

KPMG Baltics SIA
License No 55

Ondrej Fikrle
Partner pp
KPMG Baltics SIA
Riga, Latvia
28 February 2014

Valda Užāne
Sworn Auditor
Certificate No 4

Group Consolidated and Bank Separate Income Statement

	Note	2013		2012	
		Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Interest income		4 848	4 843	4 777	4 919
Interest expense		(979)	(979)	(1 042)	(1 010)
Net interest income	6	**3 869**	**3 864**	**3 735**	**3 909**
Fee and commission income		13 338	13 338	11 064	11 034
Fee and commission expense		(1 091)	(1 091)	(1 022)	(1 022)
Net fee and commission income	7	**12 247**	**12 247**	**10 042**	**10 012**
Net profit/(loss) from financial assets and liabilities at fair value through profit or loss	8	(79)	(78)	1 258	1 258
Net foreign exchange income/(loss)	9	4 401	4 402	3 463	3 466
Share of profit/loss of associated companies	21	(288)	37	51	91
Other operating income	10	325	199	522	94
Total operating income		**20 475**	**20 671**	**19 071**	**18 830**
Administrative expenses	11	(9 586)	(9 347)	(7 918)	(7 796)
Other operating expenses	12	(498)	(287)	(597)	(435)
Net impairment losses	13	(794)	(762)	(2 369)	(2 401)
Total operating expenses		**(10 878)**	**(10 396)**	**(10 884)**	**(10 632)**
Profit before taxation		**9 597**	**10 275**	**8 187**	**8 198**
Corporate income tax	14	(1 283)	(1 281)	(1 082)	(1 082)
Net profit for the year		**8 314**	**8 994**	**7 105**	**7 116**
Attributable to:					
Equity holders of the Bank		*8 386*	*8 994*	*7 105*	*7 116*
Non-controlling interest		*(72)*	-	-	-

The accompanying notes on pages 15 - 62 form an integral part of these financial statements.

The Council and the Board of the Bank approved the issue of these financial statements as presented from page 8 - 62 on 28 February 2014. The financial statements are signed on behalf of the Council and the Board of the Bank by:

Aleksandrs Peškovs	Dmitrijs Latiševs
Chairman of the Council	*Chairman of the Board*

28 February 2014

Group Consolidated and Bank Separate Statement of Other Comprehensive Income

		2013		2012	
	Note	**Group LVL'000**	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Net profit for the year		**8 314**	**8 994**	**7 105**	**7 116**
Revaluation reserve including tax for AFS financial assets		-	-	10	10
Other comprehensive income for the period		**-**	**-**	**10**	**10**
Total comprehensive income for the reporting period		**8 314**	**8 994**	**7 115**	**7 126**
Attributable to:					
Equity holders of the Bank		*8 386*	*8 994*	*7 115*	*7 126*
Non-controlling interest		*(72)*	-	-	-

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Aleksandrs Peškovs
Chairman of the Council

Dmitrijs Latiševs
Chairman of the Board

28 February 2014

Group Consolidated and Bank Separate Statement of Financial Position

		2013		2012	
Assets	**Note**	**Group LVL'000**	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Cash and demand deposits with central banks	15	51 551	51 548	34 690	34 690
Loans and receivables	16	207 622	207 605	200 987	200 971
Demand deposits with credit institutions		*99 216*	*99 199*	*133 413*	*133 397*
Term deposits with credit institutions		*99 861*	*99 861*	*58 038*	*58 038*
Loans issued to credit institutions		*8 545*	*8 545*	*9 536*	*9 536*
Financial assets at fair value through profit or loss		12 117	12 117	10 299	10 299
Fixed income securities	17	*11 766*	*11 766*	*10 080*	*10 080*
Non fixed-income securities	17	-	-	*218*	*218*
Derivatives	32	*351*	*351*	*1*	*1*
Financial assets available for sale	18	646	63	63	63
Fixed income securities		*583*	-	-	-
Non fixed-income securities		*63*	*63*	*63*	*63*
Loans and receivables	19	26 966	31 190	19 776	24 004
Held-to-maturity financial assets	20	20 525	20 525	37 988	37 988
Investments in associates	21	2 203	1 100	2 528	1 100
Investments in subsidiary undertakings	21	-	6 277	-	6 091
Investment property	22	4 891	3 417	4 897	3 423
Property and equipment	23	8 161	173	8 203	237
Intangible assets	24	910	410	671	184
Prepayments and accrued income		92	86	67	67
Other assets	25	8 719	8 427	6 771	6 046
Total assets		**344 403**	**342 938**	**326 940**	**325 163**

The accompanying notes on pages 15 - 62 form an integral part of these financial statements.

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28 February 2014

Group Consolidated and Bank Separate Statement of Financial Position

Liabilities and Equity	**Note**	**2013**		**2012**	
		Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Due to credit institutions on demand	26	1 568	1 568	2 211	2 211
Derivatives	32	70	70	79	79
Financial liabilities carried at amortized cost		303 090	303 199	292 049	292 306
Deposits and balances due to financial institutions	27	*99*	*99*	-	-
Deposits	28	*299 095*	*299 204*	*288 406*	*288 663*
Deposits (subordinated)	28	*1 648*	*1 648*	*1 464*	*1 464*
Debt securities (subordinated)	29	*2 248*	*2 248*	*2 179*	*2 179*
Deferred income and accrued expenses		211	211	304	304
Provisions	30	239	239	220	216
Current income tax liabilities		104	102	440	441
Other liabilities	31	222	207	403	259
Total liabilities		**305 504**	**305 596**	**295 706**	**295 816**
Capital and reserves					
Share capital	33	27 756	27 756	19 756	19 756
Reserves	33	17	17	17	17
Revaluation reserve – AFS financial assets		10	10	10	10
Retained earnings		9 231	9 559	9 845	9 565
Total equity attributable to equity holders of the Bank		**37 014**	**37 342**	**29 628**	**29 348**
Non-controlling interest		1 885	-	1 606	-
Total capital and reserves		**38 889**	**37 342**	**31 234**	**29 347**
Total capital and reserves and liabilities		**344 403**	**342 938**	**326 940**	**325 163**
Contingent liabilities and commitments	35	14 618	14 629	7 371	7 371

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Chairman of the Council

Dmitrijs Latiševs
Chairman of the Board

28 February 2014

Group Consolidated Statement of Changes in the Shareholders' Equity

	Share capital LVL`000	Reserves LVL`000	Fair value reserve LVL`000	Retained earnings LVL`000	Total equity attributable to equity holders of the parent LVL`000	Non controlling interest LVL`000	Total equity LVL`000
Balance at 31 December 2011	**19 756**	**17**	**-**	**2 740**	**22 513**	**1 606**	**24 119**
Comprehensive income for the reporting period:							
Net profit for the year	-	-	-	7 105	**7 105**	-	**7 105**
Revaluation reserve – AFS financial assets	-	-	10	-	**10**	-	**10**
Total comprehensive income for the reporting period	**-**	**-**	**10**	**7 105**	**7 115**	**-**	**7 115**
Balance at 31 December 2012	**19 756**	**17**	**10**	**9 845**	**29 628**	**1 606**	**31 234**
Comprehensive income for the reporting period:							
Net profit for the reporting period	-	-	-	8 386	**8 386**	(72)	**8 314**
Total comprehensive income for the reporting period	**-**	**-**	**-**	**8 386**	**8 386**	**(72)**	**8 314**
Transactions with shareholders recorded directly in equity:							
Increase in share capital	8 000	-	-	-	**8 000**		**8 000**
Acquisition of non-controlling interest without change in control	-	-	-	-	-	351	351
Dividends paid	-	-	-	(9 000)	**(9 000)**	-	**(9 000)**
Balance at 31 December 2013	**27 756**	**17**	**10**	**9 231**	**37 014**	**1 885**	**38 899**

The accompanying notes on pages 15 - 62 form an integral part of these financial statements.

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Chairman of the Council

Dmitrijs Latiševs
Chairman of the Board

28 February 2014

Bank Separate Statement of Changes in the Shareholders' Equity

	Share capital	Reserves	Fair value reserve	Retained earnings	Total capital and reserves
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
Balance at 31 December 2011	**19 756**	**17**	**-**	**2 449**	**22 222**
Net profit for the reporting period	-	-	-	7116	**7 116**
Revaluation reserve – AFS financial assets	-	-	10	-	**10**
Balance at 31 December 2012	**19 756**	**17**	**10**	**9 565**	**29 348**
Comprehensive income for the reporting period:					
Net profit for the reporting period	-	-	-	8 994	**8 994**
Total comprehensive income for the reporting period	**-**	**-**	**-**	**8 994**	**8 994**
Transactions with shareholders recorded directly in equity:					
Increase in share capital	8 000	-	-	-	**8 000**
Dividends paid	-	-	-	(9 000)	**(9 000)**
Balance at 31 December 2013	**27 756**	**17**	**10**	**9 559**	**37 342**

The accompanying notes on pages 15 - 62 form an integral part of these financial statements.

The Council and the Board of the Bank approved the issue of these financial statements as presented from page 8 - 62 on 28 February 2014. The financial statements are signed on behalf of the Council and the Board of the Bank by:

Aleksandrs Peškovs
Chairman of the Council

Dmitrijs Latiševs
Chairman of the Board

28 February 2014

Group Consolidated and Bank Separate Statement of Cash Flows

	Note	2013		2012	
		Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Cash flow from operating activities					
Profit before taxation		9 597	10 275	8 187	8 198
Depreciation of intangible assets, fixed assets and investment property		221	209	224	216
Impairment of financial assets		549	767	2 308	2 337
Foreign exchange (gain)/loss		4	3	(29)	(30)
Other changes in assets		1 370	-	(40)	10
(Gain)/loss from disposal of subsidiaries		(50)	(1)	(193)	(1)
		11 691	**11 253**	**10 457**	**10 730**
(Increase)/decrease in loans and receivables		(8 586)	(7 990)	(2 692)	(2 858)
(Increase)/decrease in available-for-sale financial assets		(583)	-	(29)	(29)
Increase in financial assets at fair value through profit or loss		(1 818)	(1 818)	6 732	6 735
(Increase)/decrease in held-to-maturity financial assets		16 636	16 636	(23 171)	(21 961)
(Increase)/decrease in prepayments and accrued income		(25)	(19)	(10)	(25)
Increase /(decrease) in other assets		(1 911)	(1 999)	(4 096)	(4 018)
Increase in customer deposits		10 873	10 725	103 756	103 857
Increase/(decrease) in held-for-trading financial liabilities		(9)	(9)	(35)	(35)
Increase/(decrease) in other liabilities and current tax liabilities		(573)	(470)	1 347	(1)
Increase/(decrease) in deferred income and accrued expenses		(93)	(93)	132	132
Net cash from operating activities before tax		**25 602**	**26 216**	**92 391**	**92 527**
Corporate income tax paid		(1 179)	(1 179)	(613)	(613)
Net cash from/(used in) operating activities		**24 423**	**25 037**	**91 778**	**91 914**
Cash flow from investing activities					
Purchase of fixed and intangible assets		(473)	(430)	(177)	(144)
Disposal of fixed assets		67	65	23	12
Acquisition of subsidiaries, net of cash acquired		(15)	(775)	-	(72)
Sales of associated companies and subsidiaries		108	245	2 126	2 116
Dividends received		37	-	91	-
Net cash from/(used in) investing activities		**(276)**	**(895)**	**2 063**	**1 912**
Cash flows from financing activities					
Issued bonds		70	70	2 179	2 179
Cash flow from (decrease)/increase of share capital		8 000	8 000	-	-
Dividends paid		(9 000)	(9 000)	-	-
Net cash from/(used in) financing activities		**(930)**	**(930)**	**2 179**	**2 179**
Net changes in cash and cash equivalents		**23 217**	**23 212**	**96 020**	**96 005**
Cash and cash equivalents at the beginning of reporting year		**220 751**	**220 735**	**124 702**	**124 700**
Effects of exchange rates fluctuations on cash held		(4)	(3)	29	30
Cash and cash equivalents at the end of the year	35	**243 964**	**243 944**	**220 751**	**220 735**

The accompanying notes on pages 15 - 62 form an integral part of these financial statements.

The Council and the Board of the Bank approved the issue of these financial statements as presented from page 8 - 62 on 28 February 2014. The financial statements are signed on behalf of the Council and the Board of the Bank by:

Aleksandrs Peškovs
Chairman of the Council

Dmitrijs Latiševs
Chairman of the Board

28 February 2014

Notes to the Group Consolidated and Bank Separate Financial Statements

1. GENERAL INFORMATION

Baltikums Bank AS ("the Bank") is a Joint Stock Company which was registered with the Enterprise Register of Latvia on 22 August 2001. The address of the Bank is Smilšu iela 6, Riga, LV -1050, Latvia. The Bank holds a banking license issued in Latvia and it acts in accordance with the legislation of the Republic of Latvia and the European Union. The primary lines of business for the Bank are servicing corporate customers and wealthy private individuals, and managing investments and finances.

The sole shareholder of the Bank is Joint Stock Company BBG that holds 100% voting shares of the Bank. JSC BBG is a financial management company registered in Latvia and owned by four Latvian companies and two private individuals.

The Bank has a number of subsidiaries in Latvia, special purpose vehicles in foreign countries and investments in associated companies. The above entities form the Baltikums Group which comprises the following:

Name of the company	Country of incorporation	Line of business	Holding 31.12.2013, %	Holding 31.12.2012, %
AS IPS Baltikums Asset Management	Latvia	Financial services	-	100
SIA Baltikums International	Latvia	Financial services	100	100
Rostman Ltd.	Belize	Shipping	-	100
SIA CityCap Service	Latvia	Real estate development	100	100
SIA Zapdvina Development	Latvia	Real estate development	100	100
KamalyDevelopment EOOD	Bulgaria	Real estate development	100	100
KamalyDevelopment UAB	Lithuania	Management of overtaken collaterals	100	100
SIA Pils Pakalpojumi	Latvia	Real estate development	61	61
Foxtran Management Ltd.	Belize	Management of overtaken collaterals	100	100
Enarlia International Inc	Belize	Management of overtaken collaterals	100	100
Baltikums Luxembourg S.A	Luxembourg	Advisory services	100	-
BB Broker Systems SIA	Latvia	Insurance broker's services	100	-

Investments in associated companies (the Group and the Bank):

Company	Country of incorporation	Line of business	Holding 31.12.2013, %	Holding 31.12.2012, %
AAS Baltikums	Latvia	Insurance services	19.45	19.45
AS Termo biznesa Centrs	Latvia	Real estate development	26.15	26.15

2. BASIS OF PREPARATION

(1) Statement of Compliance

The Group consolidated and the Bank separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, and regulations of the Financial and Capital Market Commission of the Republic of Latvia in force as at 31 December 2013.

The Group consolidated and Bank separate financial statements were authorized for issue by the Board on 28 February 2014. The shareholders have the power to reject the financial statements prepared and issued by management and the right to request that new financial statements be issued.

(2) Functional and presentation currency

These Group consolidated and Bank separate financial statements are presented in Latvian lats, which is the Bank's functional currency. Except where indicated otherwise, the financial information presented in Latvian lats has been rounded to the nearest thousand.

(3) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following items which are carried at fair value: non-hedging derivative financial instruments, financial assets and liabilities designated at fair value through profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting principles used in the preparation of the Group's consolidated and Bank's separate the financial statements are consistent with those used in the preparation of the financial statements for the year ended 31 December 2012.

(1) Consolidation

Subsidiaries are entities controlled by the Group. Control exists when the Group has direct or indirect power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiary financial statements are included in consolidation as at the date when the control is obtained until the date it ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

The Group has established a number of special purpose entities (SPE's) for trading and investment purposes. The Group does not have any direct or indirect shareholdings in these entities. However, the SPE's are established under terms that impose strict limits on the decision-making powers of the SPE's management over the operations of the SPE. SPE's are consolidated by the Group.

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

Intra-Group balances and transactions, and any unrealized gains arising from intra-Group transactions, are eliminated in the preparation of these consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains except that they are only eliminated to the extent that there is no evidence of impairment.

(2) Goodwill

Goodwill represents the excess of the cost of a business combination over the Bank's interest in the fair value of the net identifiable assets and contingent liabilities of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of business combinations is included in intangible assets.

Goodwill is allocated to cash-generating units and is stated at cost less impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. Gains and losses on the disposal of an entity are determined after including the carrying amount of goodwill relating to the entity sold.

Negative goodwill arising on an acquisition is recognized immediately in the income statement.

(3) Foreign currency

Transactions in foreign currencies are translated into the respective functional currency of the Bank and its subsidiaries at the exchange rate set by the Bank of Latvia at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or a financial liability designated as the hedging instrument in a hedge of the net investment in a foreign operation or in a qualifying cash flow hedge, which are recognized directly in other comprehensive income.

The exchange rates for the most significant currencies as set by the Bank of Latvia at reporting date are as follows:

	31 December 2013	**31 December 2012**
EUR	0.7028	0.7028
USD	0.5150	0.5310

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into LVL at exchange rates set by the Bank of Latvia at the reporting date. The income and expenses of foreign operations are translated into LVL at spot exchange rates at the dates of the transactions.

Foreign currency differences are recognized in Other comprehensive income and accumulated in the translation reserve, except to the extent that the translation difference is allocated to non-controlling interests.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in Other comprehensive income and accumulated in the translation reserve.

(4) Financial instruments

a) Classification:

Financial instruments are classified into the following categories:

Financial instruments at fair value through profit or loss are held-for-trading financial instruments and financial assets and liabilities that the Group and the Bank initially defines as assets and liabilities designated at fair value through profit or loss.

A financial instrument is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

Derivatives are also categorized as held for trading unless they are designated as a hedging instrument for hedge accounting purposes.

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

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

Available-for-sale financial assets are financial assets classified at inception as available for sale or assets other than classified as financial assets at fair value through profit and loss or loans and receivables held to maturity. Available-for-sale instruments include short term investments and certain debt and equity securities. Generally, this category is assigned by the Group and the Bank to financial assets that are held for an indeterminate period of time and may be sold based on liquidity or interest rate needs, or as a result of changes in exchange rates and share prices.

Financial liabilities carried at amortized cost represent financial liabilities of the Group and the Bank other than financial instruments designated at fair value through profit or loss. This category includes due to credit institutions on term, customer deposits, issued bonds and other financial liabilities.

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

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

b) Recognition

The Group and the Bank initially recognizes loans and advances, deposits, debt securities issued and subordinated liabilities on the date at which they are originated. Regular way purchases and sales of financial assets are recognized on the settlement date at which the Group commits to purchase or sell the asset. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognized on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

c) Amortized cost measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

d) Measurement

A financial asset or financial liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue of the financial asset or liability.

Subsequent to initial measurement, all financial assets and liabilities designed at fair value through profit or loss and all available for sale financial assets are measured at fair value except those available for sale instruments which have no quoted market price in an active market or for which no reliable fair value measurement is possible. Such instruments are carried at cost less transaction costs and impairment.

All financial liabilities other than those measured at fair value through profit or loss, loans and receivables and held to maturity assets are measured at amortized cost using the effective interest rate method. All such instruments are subject to revaluation when impaired.

Profit or loss arising from changes in the fair value of financial instruments designated at fair value through profit or loss are recognized in the income statement. Profit or loss arising from changes in the fair value of available-for-sale financial instruments is recognized in equity through other comprehensive income (except for impairment losses and foreign exchange gains and losses on monetary assets) until the asset is derecognized, at which time the cumulative gain or loss previously recognized in equity is recognized in the income statement. Interest on an available-for-sale financial asset is recognized as earned in the profit or loss calculated using the effective interest method.

e) Derecognition

A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire or when the Group and the Bank transfer substantially all of the risks and rewards of ownership of the financial asset. Any interest in transferred financial assets that is created or retained by the Group and the Bank is recognized as a separate asset or liability.

The Group and the Bank derecognize a financial liability when its contractual obligations are discharged or cancelled or expire.

f) Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Group and the Bank have a legal right to set off the amounts and intend either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the trading activity.

(5) Identification and measurement of impairment of financial assets

Loans are stated at the amount of the principal outstanding, less any impairment allowances. Impairment losses and recoveries are recognized monthly based on regular loan reviews. Allowances during the period are recognized in the income statement.

At each reporting date the Bank assesses whether there is objective evidence that financial assets other than carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the impairment event has an impact on the future cash flows of the asset that can be estimated reliably.

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

The Bank considers evidence of impairment for loans and advances and held-to-maturity investment securities at the specific asset level. All loans and receivables from customers and held-to-maturity investment securities are assessed for specific impairment.

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

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

If, in a subsequent period, the fair value of an impaired available-for-sale bond increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit and loss, the impairment loss is reversed, with the amount of the reversal recognised in profit and loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is not reversed through the income statement and is recognized directly in other comprehensive income.

(6) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group and the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

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

Specific controls include:

- Verification of observable pricing;
- Re-performance of model valuations;
- A review and approval process for new models against observed market transactions;
- Analysis and investigation of significant daily valuation movements;
- Review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments compared to previous month.

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

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions with the same instrument or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognized in the income statement depending on the individual facts and circumstances of the transaction but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

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

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

Where third-party information, such as broker quotes or pricing services, are used to measure fair value, the Group and the Bank assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS. This includes:

- Verifying that equity broker or pricing service is approved by the Group for use in pricing the relevant type of financial instrument;
- Understanding how the fair value has been arrived at and the extent to which it represents actual market transactions;
- When prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement;

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

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

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

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

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

The Group and the Bank recognize transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. The Group and the Bank recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred. For further analysis of basis for fair value see Note 44.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Group and the Bank has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the provisions of the instrument. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties; to the extent that the Group and the Bank believes a third-party market participant would take them into account in pricing a transaction.

Due from other credit institutions

The fair value of placements on demand, overnight deposits and floating rate placements is their carrying amount. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

Loans to customers

The estimated fair value of loans represents the discounted amount of estimated future cash flows expected to be received. The interest rates used to discount estimated cash flows are based on the prevailing money-market interest rates curve plus an adequate credit spread.

Shares and other securities with non-fixed income

The fair value of shares and other securities with non-fixed income is determined by reference to their quoted bid price at the reporting date, if available. For a non-material amount of non-listed shares, where disposal is limited, the assumption was made that the reliable estimate of fair value is not possible.

The fair value of S.W.I.F.T shares was determined based on the “transfer amount”, approved for the respective year by the shareholders’ meeting, representing the price for new share allocation and the participants’ quit price.

Derivatives

The fair value of currency swaps is estimated by discounting the contractual cash flows to be received and to be paid in appropriate foreign currencies for the residual maturity, and translating the difference of the discounted cash flows into Latvian lats, applying the exchange rate set by the Bank of Latvia. EURIBOR and LIBOR interest rates are used for discounting purposes.

Liabilities to other credit institutions and customers

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand, as they are largely due on demand. The estimated fair value of overnight deposits is their carrying amount. The estimated fair value of fixed interest-bearing deposits not quoted in an active market is based on discounted cash flows using interest rates for new deposits with similar remaining maturities.

Derivatives

Derivatives include foreign currency swaps and forwards. As at 31 December 2013 and 2012 all derivates of the Group and the Bank were classified as financial instruments held for trading.

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

Notes to the Group Consolidated and Bank Separate Financial Statements

Changes in the fair value of derivatives are recognized immediately in profit and loss. Although the Group and the Bank trades in derivative instruments for risk hedging purposes, the Group and the Bank does not adopt hedge accounting.

(7) Repo transactions

Repo transactions are recognized as financing transactions. When the Group or the Bank is the seller of securities, securities continue to be recognized on the statement of financial position. Proceeds from the sale are recognized as a liability to the purchaser of the securities. When the Group or the Bank is the purchaser of securities, the purchased securities are not recognized on the statement of financial position. The amount paid for securities is recognized as a loan provided to the seller. The Group and the Bank are involved in two types of such transactions – classic *repo* and *buy/sellback* transactions. The result of *repo* and *buy/sellback* transactions is recognized in the income statement as interest income or expense according to the accrual principle.

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

(8) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both.

If the mode of use of the property is changed, investment properties are reclassified to property and equipment.

Investment property is initially measured at acquisition cost. Subsequently investment property is carried at its cost less any accumulated depreciation and any accumulated impairment losses. The useful life of investment property has been estimated at 20 years with the annual depreciation rate of 5%.

(9) Repossessed assets

As part of the normal course of business the Group and the Bank occasionally take title to property and other assets that originally were pledged as security for a loan. When the Group and the Bank acquires (i.e. gains a full title to) an asset in this way, the asset’s classification follows the nature of its intended use by the Group and the Bank. When the Group and the Bank is uncertain of its intentions with respect to property that it has repossessed, those properties are classified as investment property.

Repossessed property is valued at lower of cost and net realizable value.

Other repossessed collaterals are classified as other assets and are measured at lower of cost or net realizable value.

(10) Property and equipment

Items of property and equipment are measured at acquisition cost including direct costs, net of accumulated depreciation and impairment losses, if any. Depreciation is calculated on a straight-line basis. Based on the useful life and residual value of the respective item of property and equipment, the following annual depreciation rates are applied:

Furniture and equipment	20%
Computers	25%
Other	20%

Gains and losses on the disposal of property and equipment are recognized in the profit and loss in the period of disposal. Repair and maintenance costs are charged to the profit and loss as incurred. Capital repairs of property and equipment are added to property and equipment at cost, and useful life is extended.

Depreciation methods, useful lives and residual amounts are reviewed at each reporting date.

(11) Investments in associates

Associates are those entities in which the Group or the Bank has significant influence, but no control, over the financial and operating policies. The consolidated financial statements include the Group’s share of the total recognized gains and losses of associates on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the Group’s share of losses exceeds its interest in an associate, the Group’s carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate. Investments in associates are accounted using the equity method.

(12) Fund management

The Group and the Bank manages and administers assets held in unit trusts and other investment vehicles on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements except when the Group or the Bank controls the trust or investment vehicle.

(13) Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance (licenses, software that is separately identifiable from electronic devices and others) held for rendering of services or other purposes if it is expected that an economic benefit attributable to these assets will flow to the Group and the Bank. Intangible assets are recorded at acquisition cost less accumulated amortization and amortized to the profit or loss in equal amounts over the useful life of the intangible asset. The annual amortization rate for software is 20%

(14) Impairment of non financial assets

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

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

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

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

(15) Recognition of income and expenses

All significant income and expense categories, including interest income and expenses, are recognized on an accrual basis.

Interest income and expenses are recognized in the income statement based on the effective interest rate of the asset/liability. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group and the Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

Interest income and expenses include discount or premium amortization or other difference between the carrying amount of an interest bearing instrument and its value on the maturity date calculated based on the effective interest rate method.

Fees and commissions (excluding commissions for long-term loans issued) are accounted for when collected or incurred. Income and expenses that refer to the reporting period are reflected in the income statement regardless of the date of receipt or payment. Loan origination fees together with the related direct costs, are deferred and amortised to interest income over the estimated life of the financial instrument using the effective interest rate method.

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realized and unrealized fair value changes, interest, dividends and foreign exchange differences.

(16) Credit liabilities

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

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

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

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

(17) Taxation

Income tax expense comprises current and tax deferred tax. Income tax expense is recognized in the profit and loss except to the extent that it relates to the items recognized in other comprehensive income or directly in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years.

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(18) Dividends

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

(19) Cash and cash equivalents

Cash and cash equivalents in the statement of cash flows comprises cash, deposits with the Bank of Latvia and other credit institutions with a maturity of less than 3 months when purchased, less balances due to the Bank of Latvia and credit institutions with a maturity of less than 3 months. The balances under sale and repurchase agreements are not included in the cash and cash equivalents.

(20) Leases

Finance lease

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset to a lessee. Title may or may not eventually be transferred. When assets are leased out or under a finance lease, the net investment in the finance lease is recognized as a receivable. The net investment in the finance lease represents the difference between the gross receivable and the unearned finance income.

Operating lease

An operating lease is a lease other than a finance lease. Assets leased out under an operating lease, are presented within property and equipment in the statement of financial position, less accumulated depreciation. They are depreciated over their expected useful lives on a basis consistent with similar owned Property and equipment. Income is recognised on a straight-line basis over each lease term.

(21) Provisions

Provisions are recognized 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.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(22) Short-term employee benefits

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

(23) Assets under management

Assets managed by the Group and the Bank on behalf of customers are not treated as assets of the Group and the Bank. The Group and the Bank assumes no risk on the assets.

(24) New standards and interpretations

(a) Changes in accounting policies

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

The Group and the Bank have adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013.

(i) Fair value measurement

IFRS 13 establishes a single framework for measuring fair value and making disclosure about fair value measurements when such measurements are required or permitted by other IFRSs. It unifies the definition of the fair value as 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. It replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7. As a result, the Group and the Bank has included additional disclosures in this regards 44 (Fair value of financial instruments).

In accordance with the transitional provisions of IFRS 13, the Group and the Bank have applied the new fair value measurement guidance prospectively and have not provided any comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurements of the Group's and the Bank's assets and liabilities.

(ii) Other amendments to standards

The following amendments to standards with effective date of 1 January 2013 did not have any impact on these consolidated financial statements:

- Amendment to IFRS 7 – Offsetting of financial assets and liabilities
- Amendment to IAS 19 (2011) – Employee benefits
- Amendments to IAS 12 – Deferred tax: Recovery of Underlying Assets

(b) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group and the Bank are set out below. The Group and the Bank do not plan to adopt these standards early.

(i) IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities (2011)

IFRS 10 introduces a single control model to determine whether an investee should be consolidated. As a result, the Group and the Bank may need to change its consolidation conclusion in respect of its investees, which may lead to changes in the current accounting for these investees. The impact of the initial application of the amendment will depend on the specific facts and circumstances of the investees of the Group held at the date of initial application. Therefore, the Group is not able to prepare an analysis of the impact this will have on the financial statements until the date of initial application.

Under IFRS 11, the structure of the joint arrangement, although still an important consideration, is no longer the main factor in determining the type of joint arrangement and therefore the subsequent accounting.

- The Group's and the Bank's interest in a joint operation, which is an arrangement in which the parties have rights to the assets and obligations for the liabilities, will be accounted for on the basis of the Group's interest in those assets and liabilities.
- The Group's and the Bank's interest in a joint venture, which is an arrangement in which the parties have rights to the net assets, will be equity-accounted.

The Group and the Bank do not expect IFRS 11 to have material impact on the financial statements since it is not a party to any joint arrangements.

IFRS 12 brings together into a single standard all the disclosure requirements about an entity's interest in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Group and the Bank do not expect the new Standard will have a material impact on the financial statements.

These standards are effective for annual periods beginning on or after 1 January 2014 with early adoption permitted.

(ii) IAS 27 (2011) Separate Financial Statements (effective for annual periods beginning on or after 1 January 2014)

IAS 27 (2011) carries forward the existing accounting and disclosure requirements of IAS 27 (2008) for separate financial statements, with some minor clarifications. As well, the existing requirements of IAS 28 (2008) and IAS 31 for separate financial statements have been incorporated into IAS 27 (2011). The standard no longer addresses the principle of control and requirements relating to the presentation of consolidated financial statements, which have been incorporated into IFRS 10, *Consolidated Financial Statements*. The Bank does not expect IAS 27 (2011) to have a material impact on the financial statements, since it does not result in a change in the entity's accounting policy.

(iii) IAS 28 (2011) Investments in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2014)

There are limited amendments to IAS 28 (2008) which related to associates and joint ventures held for sale and changes in interest held in associates and joint ventures. The Group and the Bank do not expect the amendments to Standard to have material impact on the financial statements since it does not have any significant investments in associates or joint ventures that will be impacted by the amendments.

(iv) *Amendments to IAS 32 on Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014)*

Amendments to IAS 32 (effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively) clarify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The Group and the Bank do not expect the Amendments to have any impact on the financial statements since the financial assets and financial liabilities offsetting volumes of the Group and the Bank are not significant.

(v) *Amendments to IFRS 10, IFRS 12 and IAS 27 on Investment Entities (effective for annual periods beginning on or after 1 January 2014)*

The Amendments provide an exception to the consolidation requirements in IFRS 10 and require qualifying investment entities to measure their investments in controlled entities, as well as investments in associates and joint ventures at fair value through profit or loss, rather than consolidating them. The consolidation exemption is mandatory (i.e. not optional), with the only exception being that subsidiaries that are considered as an extension of the investment entity's investing activities, must still be consolidated. An entity qualifies as an investment entity if it meets all of the essential elements of the definition of an investment entity. The Group and the Bank do not expect the new standard to have any impact on the financial statements, since the Bank does not qualify as an investment entity.

(vi) *Amendments to IAS 36 on Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after 1 January 2014)*

The Amendments clarify that recoverable amount should be disclosed only for individual assets (including goodwill) or cash-generated units for which an impairment loss was recognised or reversed during the period. The Amendments also require additional disclosures related to fair value hierarchy when impairment for individual assets (including goodwill) or cash-generated units has been recognised or reversed in the period and recoverable amount is based on fair value less costs to disposal. The amendment does not have any impact on the financial statements, as the Group and the Bank do not have non-financial assets for which an impairment loss was recognised or reversed during the period.

(vii) *Amendments to IAS 39 on Novation of Derivatives and Continuation of Hedge Accounting (effective for annual periods beginning on or after 1 January 2014)*

The Amendments allows hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws and regulations, when certain criteria are met. The Group and the Bank do not expect the new standard to have any impact on the financial statements, since the Group and the Bank do not apply hedge accounting.

4. RISK MANAGEMENT

Within the framework of the internal control system, the Group and the Bank have developed and follow the risk management policy or fundamental principles approved by the Council, which are defined below:

1) general guidelines observed by the Group and the Bank in their activities aimed at decreasing all types of risks which may lead to losses;
2) description of risk transactions and other risks to which the Group and the Bank are exposed;
3) identification and management of the significant risks, including measurement, evaluation, control, and preparation of risk reports;
4) setting limits and restrictions for risk transactions together with regular control and development;
5) updating of normative documents regarding the risk management process according to market changes.

The risk management policy describes and determines the aggregate of measures to ensure that the possibility of suffering losses is minimized in the event the invested resources are not repaid in due time or the Bank or the Group suffers other losses.

The Bank's Board supervises the risk management system; the main decisions are made by the Investment Committee and Credit Committee according to their respective operational regulations. Risk management on a daily basis is ensured by independent risk management departments. The risk management system is monitored by the Internal Audit Service on a regular basis is being continuously developed pursuant to the development of the Group and the Bank and activities on financial markets.

(1) Credit risk

Credit risk is the risk of potential loss resulting from the non-fulfilment of contractual obligations by the Group and the Bank's debtor or counterparty.

Credit risk is managed in accordance with the Credit Risk Management Policy approved by the Council. This policy details the basic principles of credit risk management, identification, assessment, restriction and control.

The management of credit risks related to loans involves the assessment of a potential borrower's credit standing that is performed by the Financial Analysis and Risk Management Department. Decisions on granting loans are made by the Credit Committee based on the above analysis and evaluation of collateral. After granting a loan, the Financial Analysis and Risk Management Department performs a regular analysis of a borrower's financial position, which enables the Group and the Bank to take prompt action in the case of deterioration of the borrower's financial position.

Credit risk that is related to inter-bank operations (or operations with financial institutions), including the credit risk related to inter-bank settlements and Bank investments in debt securities, is controlled by the Bank's Investment Committee that sets limits for transactions with each counter party and issuer.

The Group and the Bank monitor the credit risk related to concentration of significant assets, liabilities, as well as contingent liabilities and commitments by geographical regions (i.e., countries, groups of countries, specific regions within the countries etc), customer groups (i.e., central governments, local authorities, state enterprises, private enterprises, private individuals, etc) and industries.

(2) Currency risk

Foreign exchange risk is the risk of potential loss as a result of the revaluation of assets, liabilities, as well as contingent liabilities and commitments denominated in foreign currencies due to change in exchange rates.

The Group and the Bank continuously monitor the open positions of foreign currencies and regularly assesses the structure of assets and liabilities by currency.

The foreign exchange rate is LVL/EUR is pegged as at 31 December 2013 and 31 December 2012

The Investment Committee sets limits for the open position in each currency providing an acceptable overall level of foreign currency risk.

An analysis of sensitivity of the Bank's net profit or loss and comprehensive income for the year to changes in foreign currency exchange rates based on positions existing as at 31 December 2013 and 2012 and a simplified scenario of a 5% change in USD to LVL exchange rates is as follows:

	2013		2012	
LVL '000	**Profit or loss**	**Shareholders' equity**	**Profit or loss**	**Shareholders' equity**
5% appreciation of USD against LVL	(83)	(83)	(19)	(19)
5% depreciation of USD against LVL	83	83	19	19

(3) Interest rate risk

Interest rate risk is the risk of potential loss the Group and the Bank may incur as a result of fluctuations of interest rates.

For the purpose of controlling the interest rate risk, the Investment Committee performs regular analyses of assets and liabilities by maturity and type of interest. A change of interest rates by 100 basis points would result in the following changes in profit or loss and capital and reserves:

	2013 LVL'000	**2012 LVL'000**
LVL	290	211
EUR	267	282
USD	977	505

The interest reprising analysis is disclosed in Note 42.

(4) Debt securities price risk

Debt securities price risk is the potential loss that may arise to the debt securities included in the trading portfolio due to the decline in market prices as a result of changes in market factors.

The Bank manages its debt securities price risk by setting limits on the total amount of the trading portfolio, as well as purchasing debt securities with relatively short maturities that are less sensitive to price risk.

(5) Liquidity risk

Liquidity risk is the risk of potential loss as a result of sales of assets or acquisition of resources at unfavourable prices in order for the Group and the Bank to fulfil its liabilities to creditors and depositors.

The Bank focuses on a conservative approach to liquidity management. The Bank allocates funds attracted mainly from deposits to the assets, ensuring that its asset structure is appropriate to support the Bank's operations (executing of clients' transactions) and comply with regulatory requirements on the liquidity ratio even in case of a significant outflow of client deposits or significant decrease in liquidity on the securities market.

Liquidity risk management procedures are described in the Liquidity Management Policy and consist of several components: liquidity risk indicator's system, balance sheet planning, stress testing, and limits for investments in assets with limited liquidity.

The purpose of liquidity risk indicators is to reflect the actual level of the Bank's liquidity risk and quickly identify any increase in liquidity risk. The Bank's Liquidity Risk Management Policy determines specific actions to improve the Bank's liquidity position when liquidity risk indicators reach certain levels.

Liquidity risk stress testing is aimed to measure the deficit or surplus of the Bank's liquid assets that may occur due to significant outflows of client deposits or a significant decrease in liquidity on the securities market. Based on the results of stress testing, the Bank's Investment Committee sets limits on investments in limited liquidity assets.

Details of the reported ratio of net liquid assets at the reporting date were as follows:

	2013	**2012**
As at December 31	78.90 %	78.00%

Net liquid assets include cash and cash equivalents, bonds and receivables from credit institutions net of current liabilities.

(6) Country risk

Country risk is the risk of potential losses arising from transactions with residents of foreign countries (or their securities) due to changes in the economic, political, and legal environment of the respective countries.

Before entering into transactions with residents of foreign countries, the Group and the Bank perform an assessment of the influence of economic, social, political and legal circumstances on the residents' ability to fulfil their obligations.

(7) Operational risks

Operational risk is the risk of losses resulting from inadequate or improper internal processes, human and systems error, or external events, including legal risk but excluding strategic and reputational risk.

The Group and the Bank's organizational structure, precise job specifications, clear division of decision-making and operational control responsibilities, automation processes as well as control procedures allow the Group and the Bank to monitor operational risks. The Bank has also developed an action plan for various emergency situations. The Group and the Bank have set up an independent "Internal audit service" (IAS), whose primary function is to ensure that the Group's and the Bank's activities comply with existing legislation, approved plans, policies and other internal documents of the Group and the Bank, as well as to monitor activities of the Group's and the Bank's structural divisions for compliance with internal control procedures.

(8) Money laundering and terrorist financing risk and the Client policy

The Group and the Bank devote significant attention to ensuring compliance with international and LR legislative requirements in preventing money laundering and terrorist financing. To that end, the Bank has set up the client activity monitoring and compliance departments, its Customer Activity Compliance

Control Committee,, and an internal control system that helps monitor the transactions performed by the clients and their business partners, as well as execution of compliant policies and procedures.

The Bank's Client policy ensures compliance with the principle of "know your customer" at the Bank; and the primary goal of this policy is to specify guidelines for initiating cooperation with clients and matters of due diligence, requirements for identification of clients and their beneficial owners, analysis of their businesses and business partners.

In addition to client identification requirements, the Bank's Client policy includes the requirement of conducting interviews and filling out client questionnaires. Based on this information, a new client profile is established, constituting the most important component of the client's file; its main purpose is to understand the client's business and profile. All activities of the Group and the Bank are aimed at increasing the security of financial transactions. Such an attitude will allow the Group and the Bank to develop an optimum service for each client in the future while managing and mitigating the risk of unusual and suspicious transactions.

As the working relationship between the client and the Bank progresses, further research of the client's business continues. The client's profile is expands to contain detailed information on analysis of the client's business. Knowing the clients' business and monitoring their transactions and refraining from of suspicious financial transactions allows the Group and the Bank to prevent involvement of the Group and the Bank in potential money laundering or terrorist financing in accordance with international requirements and the applicable legislation of the Republic of Latvia.

(9) Capital management

The Bank's Capital Adequacy Management Policy requires maintenance of a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business as well as to ensure the Bank's capital at an adequate level for covering potential risks arising from current and future operations.

Capital requirements for the Bank are set and monitored by the Financial and Capital Market Commission (FCMC).

Under the capital requirements introduced by the FCMC, the Group must maintain a ratio of capital to risk weighted assets ("statutory capital ratio") above the prescribed minimum level. Although the minimum required level as at 31 December 2013 is 8%, in accordance with the special requirement of the FCMC, the Bank must ensure its minimum capital adequacy in excess of 13.4% for the period from 1 October 2013 to 30 September 2014 (requirement until 30 September 2013: 14.0%). As at 31 December 2013 the Group and the Bank were in compliance with the capital adequacy and the minimum capital requirement specified in the law On Credit Institutions and the rules of the FCMC, as well as in compliance with the higher ratio required by the FCMC. For the calculation of capital adequacy, refer to Note 43 – Capital Adequacy.

In addition to the capital adequacy ratio calculation, in accordance with the capital adequacy minimum requirements set by FCMC, the Bank regularly conducts its own internal capital adequacy assessment in order to ensure that it covers all the risks assumed by the Bank and whether they are covered by the capital.

5. USE OF ESTIMATES AND JUDGMENTS

Key sources of estimation uncertainty

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

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

Notes to the Group Consolidated and Bank Separate Financial Statements

Key sources of estimation uncertainty:

(i) Allowances for doubtful debts

Financial assets are evaluated individually for impairment and it is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about counterparty's financial situation and possible net realizable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are reviewed by the Credit Risk function.

(ii) Valuation of financial instruments

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

(iii) Impairment of financial instruments

The determination of impairment indication is based on a comparison of the financial instrument's carrying value and fair value. Due to periodic illiquidity in capital markets, the market price is not always a reliable source for impairment indication. The Bank uses valuation models based on quoted market prices of similar products.

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

(vi) Valuation of repossessed collateral

Depending on the classification, repossessed collaterals are valued at lower of cost and net realizable value or fair value. Accordingly, the management estimates the net realizable value of assets whenever there are indications that the carrying amount may have decreased below its cost. If this is the case, assets are written down to their net realizable value.

(vii) Fair value of assets and liabilities at acquisition

The fair value of assets acquired in a business combination is based on the discounted estimated cash flows from individual assets and/or external valuations.

6. NET INTEREST INCOME

	2013		**2012**	
Interest income	**Group LVL'000**	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Interest income on assets at amortized cost:	2 940	2 940	2 488	2 630
Deposits with credit institutions	*1 287*	*1 287*	*633*	*633*
Loans and receivables	*1 653*	*1 653*	*1 770*	*1 912*
Interest income from impaired assets	-	-	*85*	*85*
Interest income from securities at fair value through profit or loss	830	830	953	953
Interest income from available-for-sale financial assets	5	-	-	-
Interest income from held-to-maturity securities	1 073	1 073	1 336	1 336
Total interest income	**4 848**	**4 843**	**4 777**	**4 919**

Interest expense	2013 Group LVL'000	2013 Bank LVL'000	2012 Group LVL'000	2012 Bank LVL'000
Interest expenses from liabilities measured at amortized cost:	145	145	167	167
Deposits	*145*	*145*	*167*	*167*
Interest expenses on issued bonds	132	132	17	17
Payments to the deposit's guarantee fund	680	680	780	780
Other interest expenses	22	22	78	46
Total interest expenses	**979**	**979**	**1 042**	**1 010**
Net interest income	**3 869**	**3 864**	**3 735**	**3 909**

7. COMMISSION AND FEE INCOME

	2013 Group LVL'000	2013 Bank LVL'000	2012 Group LVL'000	2012 Bank LVL'000
Fee and commission income				
Payments	7 134	7 134	6 004	6 004
Corporate banking fee income	504	504	262	262
Securities transactions	1 466	1 466	1 669	1 669
Trust operations	1 963	1 963	1 349	1 349
Account servicing	1 188	1 188	852	853
Other	1 083	1 083	928	897
Total fee and commission income	**13 338**	**13 338**	**11 064**	**11 034**

Fee and commission expense

	2013 Group LVL'000	2013 Bank LVL'000	2012 Group LVL'000	2012 Bank LVL'000
Correspondent accounts	716	716	561	561
Cash transactions and payment card transaction	246	246	158	158
Securities transactions	129	129	303	303
Total fee and commission expense	**1 091**	**1 091**	**1 022**	**1 022**
Net fee and commission income	**12 247**	**12 247**	**10 042**	**10 012**

8. LOSS FROM FINANCIAL ASSETS AND LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2013 Group LVL'000	2013 Bank LVL'000	2012 Group LVL'000	2012 Bank LVL'000
Net profit/loss from trading with financial assets and liabilities held-for-trading	245	246	464	464
Net profit/(loss) from revaluation of financial assets and liabilities	(324)	(324)	794	794
Net profit/(loss) from financial assets and liabilities at fair value through profit or loss	**(79)**	**(78)**	**1 258**	**1 258**

Notes to the Group Consolidated and Bank Separate Financial Statements

9. PROCEEDS FROM TRADING AND REVALUATION OF FOREIGN EXCHANGE

	2013		2012	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Net profit from foreign exchange transactions	4 405	4 405	3 434	3 436
Net gain (loss) from revaluation of foreign exchange	(4)	(3)	29	30
Net foreign exchange gains	**4 401**	**4 402**	**3 463**	**3 466**

10. OTHER OPERATING INCOME

	2013		2012	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'00 0**
Fines received	38	38	16	16
Rental income from real estate	46	1	148	43
Profit from sale of subsidiary	50	1	193	1
Dividends received	7	7	19	19
Other	134	102	129	-
CIT refund from the budget	49	49	-	-
Recovery of written-off assets	1	1	15	15
Goodwill	-	-	2	-
Total other operating income	**325**	**199**	**522**	**94**

11. ADMINISTRATIVE EXPENSES

	2013		2012	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Salaries to the members of the Board and Council	307	305	233	228
Staff remuneration	4 250	4 089	3 472	3397
Compulsory state social security contributions	1 050	1 015	851	833
Other staff costs	272	265	299	293
Communications and transport	344	333	246	239
Professional services	1 338	1 330	1 117	1 101
Rent, utilities and maintenance	991	1 084	804	897
Depreciation and amortization costs	221	209	259	216
Computer network	196	196	193	193
Advertisement and marketing expenses	138	107	127	127
Other taxes	226	184	139	91
Insurance	25	24	21	20
Other	228	206	157	161
Total administrative expenses	**9 586**	**9 347**	**7 918**	**7 796**

The average number of employees in the Bank in 2013 was 235 (2012: 203).

Notes to the Group Consolidated and Bank Separate Financial Statements

12. OTHER OPERATING EXPENSES

	2013		2012	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Membership fees	76	76	56	56
Fees for real estate management	39	14	44	6
Fines paid	7	7	111	111
Other	376	190	386	262
Total other operating expenses	**498**	**287**	**597**	**435**

13. IMPAIRMENT OF FINANCIAL ASSETS

Impairment of assets for the Bank

	2013 LVL'000	**2012 LVL'000**
Total allowances as at the beginning of the reporting period	**3 038**	**1 846**
Increase in the impairment allowance for loans and other assets	*1 017*	*2 159*
Allowances for investments in subsidiaries	*(250)*	*250*
Release of previously recognized allowances for loans and held-to-maturity financial assets	*(5)*	*(8)*
Change for the year	**762**	**2 401**
Assets written off during the year	(2 958)	(1 136)
Change of previously recognized allowances due to currency fluctuations	(32)	(73)
Total allowance as at the end of the reporting period	**810**	**3 038**

Impairment of assets for the Group

	2013 LVL'000	**2012 LVL'000**
Total allowances as at the beginning of the reporting period	**3 006**	**1 846**
Increase in the impairment allowance for loans and other assets	*1 017*	*2 159*
Allowances for other assets	*(218)*	*218*
Release of previously recognized allowances for loans and held-to-maturity financial assets	*(5)*	*(8)*
Change for the year	**794**	**2 369**
Assets written off during the year	*(2 958)*	*(1 136)*
Change of previously recognized allowances due to currency fluctuations	*(32)*	*(73)*
Total allowance as at the end of the reporting period	**810**	**3 006**

14. CORPORATE INCOME TAX

	2013		2012	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Corporate tax expense	1 332	1 330	1 112	1 112
Prior year adjustment	(49)	(49)	(30)	(30)
Total current year tax expense	**1 283**	**1 281**	**1 082**	**1 082**

The table below shows the reconciliation between the current tax expense and the theoretically calculated tax amount using the basic tax rate, which was 15% in 2013 and 2012.

Notes to the Group Consolidated and Bank Separate Financial Statements

	2013		2012	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Profit before tax	9 597	10 275	8 187	8 198
Theoretically calculated tax at rate 15%	1 440	1 541	1 228	1 230
Non-deductible expenses and exempt income, net	(108)	(211)	(116)	(118)
Adjustment to the prior year CIT	(49)	(49)	(30)	(30)
Total income tax expense	**1 283**	**1 281**	**1 082**	**1 082**

Deferred tax assets and liabilities

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities as at 31 December 2013 and 2012.

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

	Assets		**Liabilities**		**Net**	
LVL '000	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Financial instruments at fair value through profit and loss	-	57	-	-	-	57
Property and equipment	-	-	(79)	(58)	(79)	(58)
Other liabilities	3	5	-	-	3	5
Total deferred tax asset/(liabilities)	**3**	**62**	**(79)**	**(58)**	**(76)**	**4**
Unrecognised deferred tax (asset)/liabilities	**-**	**-**	**-**	**-**	**76**	**(4)**

Deferred tax liability was not recognized in 2013 as the Group and the Bank suppose it is not significant. The rate of tax applicable for deferred tax was 15% (2012: 15%).

15. CASH AND DUE FROM THE CENTRAL BANK

	2013		2012	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Cash	481	479	539	539
Balance with the Bank of Latvia (including the minimum reserve deposit)	51 070	51 069	34 151	34 151
Total	**51 551**	**51 548**	**34 690**	**34 690**

According to the regulations of the Financial and Capital Markets Commission, the total amount of funds on the account with the Central Bank should not be less than the amount of the obligatory reserves calculated from the average amount of customer deposits during the month. As at 31 December 2013, the determined amount of obligatory reserves was LVL 12,474 thousand (2012: LVL 11,198 thousand).

16. DEPOSITS WITH CREDIT INSTITUTIONS

	2013		2012	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Demand deposits with credit institutions				
Credit institutions registered in Latvia	8 284	8 284	2 534	2 534
Credit institutions registered in OECD countries	73 939	73 939	112 015	112 015
Credit institutions of other countries	17 575	17 558	19 456	19 440
Impairment allowance	(582)	(582)	(592)	(592)
Total demand deposits with credit institutions	**99 216**	**99 199**	**133 413**	**133 397**
Loans issued to credit institutions	**8 545**	**8 545**	**9 536**	**9 536**
Term deposits with credit institutions	**99 861**	**99 861**	**58 038**	**58 038**
Total deposits with credit institutions	**207 622**	**207 605**	**200 987**	**200 971**

As at 31 December 2013, the Bank had correspondent accounts with 46 banks (2012: 45). The largest account balances were with NORDEA BANK FINLAND PLC – LVL 14,860 thousand (2012: LVL 21,213 thousand), DEUTSCHE BANK TRUST COMPANY AMERICAS – LVL 12,380 thousand (2012: LVL 8,642 thousand).

As at 31 December 2013 the Bank had no amounts due banks and other financial institutions (2012: 2 banks tolling LVL 41,451 thousand), which exceeded 10% of total due from credit institutions.

On 31 December 2013 LVL 871 thousand was pledged as collateral under an OTC currency future. As at 31 December 2012, no bank account balance was pledged as collateral for over-the-counter currency futures.

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2013		2012	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Fixed income securities:				
Eurobonds issued by companies and credit institutions of OECD countries	1 300	1 300	599	599
Eurobonds issued by companies and credit institutions of non-OECD countries	10 466	10 466	9 481	9 481
Total	**11 766**	**11 766**	**10 080**	**10 080**
Shares and other securities with non-fixed income:				
Bonds issued by companies and credit institutions of OECD countries	-	-	78	78
Shares issued by companies and credit institutions of non-OECD countries	-	-	140	140
Investment fund certificates			-	-
Total	**-**	**-**	**218**	**218**

Notes to the Group Consolidated and Bank Separate Financial Statements

An analysis of the credit quality of financial instruments at fair value through profit or loss, based on rating agency ratings where applicable, is as follows:

	2013 LVL ’000	2012 LVL ’000
Fixed and non-fixed income securities		
- Government and municipal bonds		
Rated from AAA to A-	556	-
Rated from BB+ to BB		599
Rated below BB-	1 685	-
Total Government and municipal bonds	**2 241**	**599**
-Corporate bonds and securities of credit institutions		
Rated from BBB+ to BBB-	-	2 067
Rated from BB- to BB+	3 341	1 635
Rated below BB-	5 558	5 779
Not rated	626	218
Total corporate bonds and securities of credit institutions	**9 525**	**9 699**
Total fixed and non-fixed income securities	**11 766**	**10 298**

Information on derivative financial assets is disclosed in Note 32.

18. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2013		2012	
	Group LVL’000	Bank LVL’000	Group LVL’000	Bank LVL’000
Fixed income securities				
Corporate bonds of Latvian financial institutions	583	-	-	-
Total	**583**	**-**	**-**	**-**
Shares and other securities with non-fixed income				
SWIFT shares	63	63	63	63
Total	**63**	**63**	**63**	**63**
Total financial assets available for sale	**646**	**63**	**63**	**63**

19. LOANS AND RECEIVABLES

a) Loans

	2013		2012	
	Group LVL’000	Bank LVL’000	Group LVL’000	Bank LVL’000
Financial institutions	545	545	-	-
Corporates	22 944	27 168	20 624	24 852
Individuals	3 491	3 491	1 341	1 341
Total loans and receivables	**26 980**	**31 204**	**21 965**	**26 193**
Impairment allowance	(14)	(14)	(2 189)	(2 189)
Net loans and receivables	**26 966**	**31 190**	**19 776**	**24 004**

Notes to the Group Consolidated and Bank Separate Financial Statements

b) Analysis of loans by type

	2013		2012	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Loan portfolio				
Corporate loans	8 893	13 117	7 676	11 904
Industrial loans	2 149	2 149	5 389	5 389
Payment card loans	354	354	202	202
Mortgage loans	7 505	7 505	5 200	5 200
Finance lease	1 604	1 604	-	-
Factoring	-	-	1 276	1 276
Other loans	1 300	1 300	247	247
Total loan portfolio	**21 805**	**26 029**	**19 990**	**24 218**
Securities-backed loans				
Reverse repo	5 175	5 175	1 975	1 975
Total securities-backed loans	**5 175**	**5 175**	**1 975**	**1 975**
Total loans and receivables	**26 980**	**31 204**	**21 965**	**26 193**
Impairment allowance	(14)	(14)	(2 189)	(2 189)
Net loans and receivables	**26 966**	**31 190**	**19 776**	**24 004**

c) Geographical segmentation of loans

	2013		2012	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Loans to residents of Latvia	13 061	17 285	9 239	13 467
Loans to residents of OECD countries	3 132	3 132	1 214	1 214
Loans to residents of non-OECD countries	10 787	10 787	11 512	11 512
Total loans and receivables	**26 980**	**31 204**	**21 965**	**26 193**
Impairment allowance	(14)	(14)	(2 189)	(2 189)
Net loans and receivables	**26 966**	**31 190**	**19 776**	**24 004**

d) Ageing structure of the loan portfolio

Bank	**Total LVL'000**	**Of which not past due on the reporting date**	**Of which past due by the following terms**				**Net carrying value of overdue loans**
At 31 December 2013			**Less than 30 days**	**31-90 days**	**91-180 days**	**More than 180 days**	
Net carrying value	**31 190**	31 157	-	-	-	33	33
Out of which impaired	**33**	-	-	-	-	33	33
At 31 December 2012							
Net carrying value	**24 004**	23 210	67	-	-	727	794
Out of which impaired	**969**	247	-	-	-	722	722

The Group's ageing structure is not materially different from that of the Bank.

Notes to the Group Consolidated and Bank Separate Financial Statements

e) Impaired loans

	2013 LVL '000 Group	2013 LVL '000 Bank	2012 LVL '000 Group	2012 LVL '000 Bank
Impaired loans, gross	47	47	3 158	3 158
Impairment allowance	(14)	(14)	(2 189)	(2 189)
Net loans and receivables	**33**	**33**	**969**	**969**

f) Movements in the impairment allowance

Movements in the loan impairment allowance for the year ended 31 December 2012 and 2013 are as follows:

	2013 Group LVL'000	2013 Bank LVL'000	2012 Group LVL'000	2012 Bank LVL'000
Opening balance	**2 189**	**2 189**	**1 235**	**1 235**
Increase in the impairment allowance for loans and receivables	804	804	2 159	2 159
Reversal of impairment loss	(1)	(1)	(5)	(5)
Loans written off	(2 956)	(2 956)	(1 136)	(1 136)
Effect of foreign currency translation	(22)	(22)	(64)	(64)
Closing balance	**14**	**14**	**2 189**	**2 189**

g) Industry analysis of the loan portfolio of the Bank

	2013 LVL '000	2012 LVL '000
Water transport	913	2 141
Financial services	5 016	1 825
Wholesale	5 532	4 761
Real estate	5 778	4 224
Leisure, recreation, sports	1 029	1 018
Other services	12 922	10 035
Net loans and receivables	**31 190**	**24 004**

h) Analysis of loans by type of collateral (Bank)

LVL'000	31 December 2013	% of loan portfolio	31 December 2012	% of loan portfolio
Commercial buildings	10 654	34	11 748	49
Real estate – first mortgage	5 150	16	2 359	10
Commercial assets pledge	3 114	10	3 115	13
Commercial assets: water transport	913	3	1 961	8
Traded securities	5 176	17	1 975	8
Other	6 183	20	2 846	12
Net loans and receivables	**31 190**	**100**	**24 004**	**100**

The amounts shown in the table above refer to the carrying value of the related loans, and do not necessarily represent the fair value of the collateral. The fair value of collaterals is not lower than the carrying amount of the loans.

Notes to the Group Consolidated and Bank Separate Financial Statements

i) Restructured loans

As at 31 December 2013 and December 2012, the loans restructured by the Bank possessed the following signs of restructuring:

LVL'000	**2013** **LVL '000**	**2012** **LVL '000**
Reduced interest rate	-	328
Loan holidays	1 029	-
Total restructured loans	**1 029**	**328**

j) Repossessed assets

In 2011, the Bank took over collaterals (movable property) of LVL 1,798 thousand and in 2012 – of LVL 2,900 thousand (see Note 25). No collaterals were overtaken by the Bank in 2013.

k) Significant credit exposures

As at 31 December 2013 the Bank had one borrower or group of related borrowers whose loan balances exceeded 10% of loans and receivables from customers and the balance represented LVL 4,228 thousand.

As at 31 December 2012 the Bank had one borrower or group of related borrowers whose loan balances exceeded 10% of loans and receivables from customers. The borrower's loan balance amounted to LVL 4,826 thousand.

According to regulatory requirements, the Bank is not allowed to have a credit exposure to one client or group of related clients of more than 25% of Bank's equity. As at 31 December 2013 and 2012 the Bank was in compliance with this requirement.

20. HELD-TO-MATURITY FINANCIAL ASSETS

	2013		**2012**	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Debt securities and other securities with fixed income				
Eurobonds issued by Latvian credit institutions	704	704	-	-
Eurobonds issued by companies and credit institutions of other countries	19 824	19 824	37 995	37 995
Total debt securities	**20 528**	**20 528**	**37 995**	**37 995**
Impairment allowance	(3)	(3)	(7)	(7)
Debt securities, net	**20 525**	**20 525**	**37 988**	**37 988**

Notes to the Group Consolidated and Bank Separate Financial Statements

Quality analysis of held-to-maturity financial assets, based on rating agency ratings, is as follows:

	2013 LVL '000	2012 LVL '000
Debt securities and other securities with fixed income		
- Government and municipal bonds		
Rated from AAA to A-	-	3 487
Rated from BBB+ to BBB-	-	4 557
Total Government and municipal bonds	**-**	**8 044**
- Corporate bonds		
Rated from AAA to A-	-	2 904
Rated from BBB+ to BBB-	7 886	14 489
Rated from BB- to BB+	6 064	10 440
Rated below BB-	5 518	2 111
Not rated	1 057	
Total corporate bonds	**20 525**	**29 944**
Debt securities and other securities with fixed income	**20 525**	**37 988**

Analysis of movements in the impairment allowance

	2013 LVL '000	2012 LVL '000
Opening balance	7	10
Adjustment of previously recognized allowances	(4)	(3)
Closing balance	**3**	**7**

Reclassification out of held-for-trading financial instruments

Pursuant to the amendments to IAS 39 and IFRS 7, in 2008 the Bank reclassified certain trading assets to financial assets held to maturity.

Under the amendments to IAS 39 the reclassifications were made effective from 1 July 2008 at fair value at that date. The table below sets out the financial assets reclassified and their carrying and fair values:

	1 July 2008		31 December 2013	
LVL '000	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Held-for-trading assets reclassified to held-to-maturity financial assets	5 755	5 755	751	774
	5 755	**5 755**	**751**	**774**

The table below sets out the amounts actually recognized in profit or loss and equity during 2013 in respect of financial assets reclassified out of trading assets:

LVL '000	**Net income**	**Shareholders' equity**
Period before reclassification		
Net loss on financial instruments at fair value through profit or loss reclassified to held-to-maturity financial assets	-	-
Period after reclassification		
Financial instruments reclassified to held-to-maturity financial assets		
Interest income	(1)	-
Coupon income	98	-
Net gain on appreciation of the value	4	-

Notes to the Group Consolidated and Bank Separate Financial Statements

The table below sets out the amounts that would have been recognized in the period following reclassification during 2013 if the reclassifications had not been made:

LVL'000	**Profit or loss**
Net profit on financial instruments at fair value through profit or loss reclassified to held-to-maturity financial assets	23

Reclassification according to IAS 39 was performed on 9 September 2011 at the value of that date. The table below sets out the financial assets reclassified and their carrying and fair values:

	9 September 2011		**31 December 2013**	
LVL '000	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Held-for-trading assets reclassified to held-to-maturity financial assets	5 475	5 475	2 169	2 203
	5 475	**5 475**	**2 169**	**2 203**

The table below sets out the amounts actually recognized in profit or loss and equity during 2013 in respect of financial assets reclassified out of trading assets:

LVL '000	**Net income**	**Shareholders' equity**
Period before reclassification		
Net loss on financial instruments at fair value through profit or loss reclassified to held-to-maturity financial assets	-	-
Period after reclassification		
Financial instruments reclassified to held-to-maturity financial assets		
Interest income	(30)	-
Coupon income	255	-
Net losses from appreciation of value	-	-

The table below sets out the amounts that would have been recognized in the period following reclassification during 2013 if the reclassifications had not been made:

LVL '000	**Profit or loss**
Net profit on financial instruments at fair value through profit or loss reclassified to held-to-maturity financial assets	34

21. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

(a) Investments in subsidiaries (Bank)

Company	Capital contribution	Carrying amount 31.12.2013 LVL'000	Carrying amount 31.12.2012 LVL'000
SIA Baltikums International	100%	2 106	1 930
IPAS Baltikums Asset Management	100%	-	136
SIA Zapdvina Development	100%	694	690
SIA CityCap Service	100%	384	380
Rostman Ltd.	100%	-	703
Rostman Ltd. *(impairment)*		-	(250)
UAB Kamaly Development		2	2
SIA Pils pakalpojumi	61%	3 049	2 500
BB Broker Systems SIA	100%	20	-
Baltikums Luxembourg S.A.	100%	22	-
		6 277	**6 091**

In March 2013, the Bank increased the share capital of its subsidiary, SIA Pils pakalpojumi, by 5,490 shares with nominal value of LVL 100.00 for a total of LVL 549,000.

In April 2013 the Bank acquired 15,500 or 100% shares of the subsidiary Baltikums Luxembourg S.A. with par value of EUR 2 for a total of EUR 31,000 or LVL 21,787 (at the exchange rate of 0.702804 set by the Bank of Latvia).

In May 2013, the Bank increased the share capital of its subsidiary, SIA Zapdvina Development, by 400 shares with nominal value of LVL 10.00 for a total of LVL 4,000.

In May 2013 the Bank established the subsidiary BB Broker Systems SIA. The share capital of BB Broker Systems SIA consists of 200 shares with par value of LVL 100.00 and amounts to LVL 20,000.

In June 2013, the Bank increased the share capital of its subsidiary, SIA Baltikums International, by 1,400 shares with nominal value of LVL 100.00 for a total of LVL 140,000.

In October 2013, the Bank increased the share capital of its subsidiary, SIA CityCap Service, by 400 shares with nominal value of LVL 10.00 for a total of LVL 4,000.

In December 2013, the Bank increased the share capital of its subsidiary, SIA Baltikums International, by 352 shares with nominal value of LVL 100.00 for a total of LVL 35,200.

(b) Investments in subsidiaries (Group)

Company	Capital contribution	Cost as at 31.12.2013 LVL'000	Cost as at 31.12.2012 LVL'000
KamalyDevelopment EOOD	100%	486	486
Foxtran Management Ltd (Belize) – special purpose entity	100%	114	26.5
Enarlia International Inc (Belize) – special purpose entity	100%	114	26.5
		714	**539**

In June 2013 SIA "Baltikums International" increased share capital of its subsidiaries "Foxtran Management Ltd" and "Enarlia International Inc" by 132,170 shares with nominal value USD 1 for total amount USD 132,170 or LVL 70 thousand (according to the exchange rate of the Bank of Latvia 0.539) for each subsidiary.

In December 2013 SIA "Baltikums International" increased share capital of its subsidiaries "Foxtran Management Ltd" and "Enarlia International Inc" for 34,117 shares with nominal value USD 1 for total

Notes to the Group Consolidated and Bank Separate Financial Statements

amount USD 34,117 or LVL 17.5 thousand (according to the exchange rate of the Bank of Latvia 0.515). After the increase share capital of each subsidiary "Foxtran Management Ltd" and "Enarlia International Inc" consists of 221,592 shares with nominal value USD 1 for the total amount of USD 221,592 or LVL 114 thousand (according to the exchange rate of the Bank of Latvia 0.515).

(c) Investments in associates (Group and Bank)

Company	Capital contribution	Carrying amount 31.12.2013 LVL'000		Carrying amount 31.12.2012 LVL'000	
		Group	Bank	Group	Bank
AAS Baltikums	19.45%	904	1 100	1 229	1 100
AS Termo biznesa Centrs	26.15 %	1 299	-	1 299	-
Total		**2 203**	**1 100**	**2 528**	**1 100**

Despite holding 19.45% of the shares of AAS Baltikums, the Bank exercises significant influence through work on the council of the associated company.

	AS Termo biznesa Centrs	AAS Baltikums	Total
Value as at 31 December 2011	**1 299**	**1 269**	**2 568**
Dividends received	**-**	(91)	**(91)**
Share in net profit of associated companies	**-**	51	**51**
Value as at 31 December 2012	**1 299**	**1 229**	**2 528**
Dividends received	**-**	(37)	**(37)**
Share in net losses of associated companies	**-**	(288)	**(288)**
Value as at 31 December 2013	**1 299**	**904**	**2 203**

(d) ***Acquisition of subsidiaries in 2013***

Acquisition of shares in 2013:	Shareholding acquired	Fair value of net assets at the acquisition date LVL'000	Consideration paid LVL'000	Goodwill LVL'000
BB Broker Systems SIA	100%	20	20	**-**
Baltikums Luxembourg S.A	100%	15	22	**7**
Total		**35**	**42**	**7**

The Bank's management has reviewed the recoverable amounts of assets at the acquisition date and believes that the recoverable amount is not materially different from the carrying amount.

	Pre-acquisition carrying amounts						
	Current assets						
	Cash LVL'000	Receivables LVL'000	Current liabilities LVL'000	Net identifiable assets LVL'000	Goodwill on acquisition LVL'000	Acquisition cost LVL'000	Net cash paid LVL'000
BB Broker Systems SIA	20	-	-	20	-	20	-
Baltikums Luxembourg S.A.	7	10	(2)	15	7	22	15
Total	**27**	**10**	**(2)**	**35**	**7**	**42**	**15**

Notes to the Group Consolidated and Bank Separate Financial Statements

(e) Liquidation and sale of subsidiaries in 2013

In November 2013, the Bank liquidated of 100% investment in the subsidiary SIA Asset Management. As a result of liquidation of subsidiary the losses of the Group amounted to LVL 1 thousand.

Liquidation of subsidiaries in 2013	Liquidated investment	Net assets at the date of the deal LVL'000	Goodwill LVL'000	Consideration received LVL'000	Profit from liquidation of subsidiaries LVL'000
SIA Baltikums Asset Management	100%	(137)	-	136	(1)
		(137)	**-**	**136**	**(1)**

In December 2013, the Bank disposed 100% holding in the subsidiary Rostman Ltd.

As a result of the sale of the subsidiary, the Bank generated profit of LVL 51 thousand.

Sale of subsidiaries in 2013	Share in equity sold	Net assets at the date of the deal LVL'000	Released allowances for other assets LVL'000	Consideration received LVL'000	Profit from sale of subsidiaries LVL'000
Rostman Ltd.	100%	(434)	(218)	703	51
		(434)	**(218)**	**703**	**51**

22. INVESTMENT PROPERTY

The investment property of the Group consists of the following property items:

	2013 Group LVL'000	2013 Bank LVL'000	2012 Group LVL'000	2012 Bank LVL'000
Real estate in Latvia	2 472	1 364	2 472	1 364
Real estate in Estonia	80	80	86	86
Real estate in Lithuania	1 973	1 973	1 973	1 973
Real estate in Bulgaria	366	-	366	-
	4 891	**3 417**	**4 897**	**3 423**

	Group LVL'000	Bank LVL'000
As at 31 December 2011	**8 049**	**3 435**
Disposals (property in Latvia)	(3 140)	-
Depreciation of buildings	(5)	(5)
Value adjustment (property in Lithuania)	(7)	(7)
As at 31 December 2012	**4 897**	**3 423**
Depreciation of buildings	(6)	(6)
As at 31 December 2013	**4 891**	**3 417**

Investment property is recognized at cost. Investment property consists of land and commercial properties.

Management has assessed the fair value of investment property as at 31 December 2013 and 2012 using market data and where applicable – the discounted cash flow method. Management has concluded that the fair value of investment property is not lower than its net carrying amount as at 31 December 2013 and 2012. The fair value of the Bank's investment property in 2013 was assessed in the range from 5,532 to 5,598 thousand LVL (2012: from 6,319 to 6,629 thousand LVL)

Income from renting out investment properties of the Group and the Bank in 2013 amounted LVL 45,630; maintenance expenses LVL 107,244 and LVL 132,730 respectively.

Income from renting out investment properties of the Group and the Bank in 2012 amounted LVL 2,974; maintenance expenses LVL 98,143 and LVL 127,771 respectively.

Notes to the Group Consolidated and Bank Separate Financial Statements

23. PROPERTY AND EQUIPMENT

	Land and buildings LVL'000		Leasehold improvement LVL '000		Vehicles LVL '000		Office equipment LVL'000		Total LVL'000	
	Group	Bank	Group	Bank	Group	Bank	Group	Bank	Group	Bank
Cost										
As at 31 December 2011	**7 933**	**-**	**169**	**169**	**58**	**58**	**685**	**661**	**8 845**	**888**
Additions	-	-	-	-	-	-	108	76	108	76
Disposals	-	-	(169)	(169)	-	-	(35)	(27)	(204)	(196)
As at 31 December 2012	**7 933**	**-**	**-**	**-**	**58**	**58**	**758**	**710**	**8 749**	**768**
Additions	-	-	-	-	-	-	103	70	103	70
Disposals	-	-	-	-	(19)	(19)	(138)	(138)	(157)	(157)
As at 31 December 2013	**7 933**	**-**	**-**	**-**	**39**	**39**	**723**	**642**	**8 695**	**681**
Amortization										
As at 31 December 2011	**-**	**-**	**169**	**169**	**15**	**15**	**417**	**410**	**601**	**594**
Amortization	-	-	-	-	9	9	126	118	**135**	**127**
Disposals	-	-	(169)	(169)	-	-	(21)	(21)	**(190)**	**(190)**
As at 31 December 2012	**-**	**-**	**-**	**-**	**24**	**24**	**522**	**507**	**546**	**531**
Amortization	-	-	-	-	5	5	111	100	**116**	**105**
Amortization of Cyprus branch	-	-	-	-	3	3	7	7	**10**	**10**
Disposals	-	-	-	-	(7)	(7)	(131)	(131)	**(138)**	**(138)**
As at 31 December 2013	**-**	**-**	**-**	**-**	**25**	**25**	**509**	**483**	**534**	**508**
Net carrying amount										
As at 31 December 2011	**7 933**	**-**	**-**	**-**	**43**	**43**	**268**	**251**	**8 244**	**294**
As at 31 December 2012	**7 933**	**-**	**-**	**-**	**34**	**34**	**236**	**203**	**8 203**	**237**
As at 31 December 2013	**7 933**	**-**	**-**	**-**	**14**	**14**	**214**	**159**	**8 161**	**173**

Notes to the Group Consolidated and Bank Separate Financial Statements

24. INTANGIBLE ASSETS

Group	Goodwill LVL'000	Software LVL'000	Total LVL'000
Acquisition cost			
As at 31 December 2011	**499**	**551**	**1 050**
Acquired in the reporting period	-	69	69
Disposed in the reporting period	(13)	(18)	(31)
As at 31 December 2012	**486**	**602**	**1 088**
Acquired in the reporting period	7	367	374
Disposed in the reporting period	-	(155)	(155)
As at 31 December 2013	**493**	**814**	**1 307**
Amortization for the period			
As at 31 December 2011	**-**	**342**	**342**
Amortization for the period	-	84	84
Amortization of assets disposed in the reporting period	-	(9)	(9)
As at 31 December 2012	**-**	**417**	**417**
Amortization for the period	-	67	67
Amortization of the reporting period of Cyprus branch	-	22	22
Amortization of assets disposed in the reporting period in Cyprus branch	-	(109)	(109)
As at 31 December 2013	**-**	**397**	**397**
Net carrying value			
As at 31 December 2011	**499**	**209**	**708**
As at 31 December 2012	**486**	**185**	**671**
As at 31 December 2013	**493**	**417**	**910**

Bank	Software LVL'000
Acquisition cost	
As at 31 December 2011	**545**
Disposed in the reporting period	(15)
Acquired in the reporting period	68
As at 31 December 2012	**598**
Disposed in the reporting period	(155)
Acquired in the reporting period	360
As at 31 December 2013	**803**
Amortization of intangible assets	
As at 31 December 2011	**339**
Amortization for the period	84
Amortization of assets disposed in the reporting period	(9)
As at 31 December 2012	**414**
Amortization for the period	66
Amortization of the reporting period of Cyprus branch	22
Amortization of assets disposed in the reporting period in Cyprus branch	(109)
As at 31 December 2013	**393**
Net carrying value	
As at 31 December 2011	**206**
As at 31 December 2012	**184**
As at 31 December 2013	**410**

Notes to the Group Consolidated and Bank Separate Financial Statements

25. OTHER ASSETS

	2013		2012	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Financial other assets				
Assumed collaterals – movable property	4 698	4 698	4 698	4 698
Unfinished security deals	1 600	1 600	-	-
Security deposit (MasterCard Europe, VISA Card)	1 046	1 046	898	898
Receivables in transactions with MasterCard Europe	354	354	36	36
Receivables from SPOT deals	1	1	13	13
Receivable for disposal of subsidiary	611	611	-	-
Prepayment to increase the share capital of a subsidiary	-	-	200	200
Other receivables	578	317	1 102	159
Non-financial other assets				
VAT overpayment	36	11	42	42
Stock	6	-	-	-
Total other assets	**8 930**	**8 638**	**6 989**	**6 046**
Allowances for other assets	(211)	(211)	(218)	-
Other assets, net	**8 719**	**8 427**	**6 771**	**6 046**

Assumed collaterals consist of two yachts. Assumed collaterals are recognized at cost.

Management has assessed the fair value of assumed collaterals as at 31 December 2013 and 2012 using market data. Management has concluded that the fair value of assumed collaterals is not lower than its net carrying amount as at 31 December 2013 and 2012. The fair value of the Group's and the Bank's assumed collaterals in 2013 was assessed at the amount of LVL 7,042 thousand (2012: LVL 7,042 thousand)

26. DUE TO CREDIT INSTITUTIONS ON DEMAND

	2013		2012	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Credit institutions registered in Latvia	815	815	399	399
Credit institutions registered in OECD countries	48	48	265	265
Credit institutions registered in other countries (non-OECD)	705	705	1 547	1 547
	1 568	**1 568**	**2 211**	**2 211**

As at 31 December 2013 the Bank had four banks or credit institutions whose individual account balances exceeded 10% of total deposits on demand with other credit institutions. Total balances of these credit institutions as at 31 December 2013 amounted to LVL 1,230 thousand.

As at 31 December 2012 the Bank had four banks or credit institutions whose individual account balances exceeded 10% of total deposits on demand with other credit institutions. Total balances of these credit institutions as at 31 December 2012 amounted to LVL 1,754 thousand.

27. DUE TO CREDIT INSTITUTIONS

	2013		2012	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Credit institutions registered in other countries (non-OECD)	99	99	-	-
	99	**99**	**-**	**-**

28. FINANCIAL LIABILITIES CARRIED AT AMORTIZED COST: DEPOSITS

	2013		2012	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Current accounts:				
Financial institutions	2 068	2 120	5 398	5 398
Corporate entities	253 214	253 271	248 763	249 020
Individuals	37 179	37 179	25 733	25 733
	292 461	**292 570**	**279 894**	**280 151**
Term deposits:				
Credit institutions	-	-	-	-
Subordinated liabilities	1 648	1 648	1 464	1 464
Other financial institutions	2 799	2 799	4 625	4 625
Corporate entities	3 166	3 166	2 474	2 474
Individuals	669	669	1 413	1 413
	8 282	**8 282**	**9 976**	**9 976**
Total deposits	**300 743**	**300 852**	**289 870**	**290 127**

As at 31 December 2013, the Bank maintained customer deposit balances of LVL 1 896 thousand which were blocked by the Bank as collateral for loans and other credit instruments granted by the Bank (as at 31 December 2012: LVL 2,029 thousand).

As at 31 December 2013 the Bank had no customers/customer groups with deposits exceeding 10% of the total customer deposits (as at 31 December 2012: none).

29. FINANCIAL LIABILITIES CARRIED AT AMORTIZED COST: SUBORDINATED DEBT SECURITIES

In November 2012 the Bank conducted the fifth issue of bonds. The planned amount of issue – EUR 10 million (LVL 7,028 thousand) and USD 10 million (LVL 5,310 thousand). Coupon rate 6%.

In 2013 EUR 100 thousands were sold at nominal value (LVL 70 thousand)

In 2012 EUR 3 million were sold at nominal value (LVL 2,109 thousand) and USD 100 thousands. (LVL 53 thousand) at nominal value.

The maturity date of the bonds is 12 November 2019.

This issue is offered to a limited number of investors and it does not represent a public offer in the understanding of the Financial Instruments Market Law of Latvia.

	2013		2012	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Issued subordinated bonds	2 232	2 232	2 162	2 162
Accrued interest payments	18	18	17	17
Rate difference	(2)	(2)	-	-
Total	**2 248**	**2 248**	**2 179**	**2 179**

Notes to the Group Consolidated and Bank Separate Financial Statements

30. PROVISIONS

	Group LVL'000	Bank LVL'000
As at 31 December 2011	**183**	**180**
Increase of provisions	37	36
As at 31 December 2012	**220**	**216**
Increase of provisions	19	23
As at 31 December 2013	**239**	**239**

Provisions consist of provisions for unused vacations of employees.

31. OTHER LIABILITIES

	2013		2012	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Other financial liabilities				
Payments with credit cards	-	-	16	16
Repo deals	57	57	-	-
Funds in transit	12	12	-	-
Other liabilities, closed customers' account balances	119	119	66	66
Other non-financial liabilities				
Operating and other liabilities	18	18	193	159
Tax settlements	1	1	61	18
Other liabilities	15	-	67	-
	222	**207**	**403**	**259**

32. DERIVATIVE ASSETS AND LIABILITIES

Group and Bank

	2013 LVL'000		2012 LVL'000	
	Carrying amount	Nominal value	Carrying amount	Nominal value
Assets				
Future contracts	351	80 589	1	38 523
Total derivative financial assets	**351**	**80 589**	**1**	**38 523**
Liabilities				
Future contracts	70	80 309	79	38 601
Total derivative liabilities	**70**	**80 309**	**79**	**38 601**

As at 31 December 2013 the Bank had 38 foreign exchange forward contracts outstanding, including 2 with related parties (in 2012 – 20 contracts).

As at 31 December 2013 the fair value of derivatives of related parties is LVL 0,133 thousand (in 2012 - there were no such derivatives).

33. SHARE CAPITAL AND RESERVES

In May 2013 share capital was increased issuing new shares in the amount of LVL 8 million with the nominal value of LVL 1.

Notes to the Group Consolidated and Bank Separate Financial Statements

As at 31 December 2031 the authorized share capital comprised 27,756,200 ordinary shares (2012: 19,756,200). The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at shareholders' meetings. All shares rank equally with regard to the Bank's residual assets.

	2013		**2012**	
	Quantity	**LVL'000**	**Quantity**	**LVL'000**
Share capital				
Ordinary shares with voting rights	27 756 200	27 756	19 756 200	19 756
	27 756 200	**27 756**	**19 756 200**	**19 756**

Reserve capital amounting to LVL 17 thousand (2012: LVL 17 thousand) represents a historically-established reserve in accordance with the legislation of the Republic of Latvia. The reserve capital is not subject to any restrictions and can be distributed to the shareholders on the appropriate decision.

Dividends

Dividends payable are restricted to the maximum retained earnings of the Bank, which are determined according to the legislation of Latvia. In accordance with the legislation of Latvia, at the end of reporting period, reserves available for distribution amount to LVL 9,559 thousand (2012: LVL 9,565 thousand). On 10 May 2013 dividends in the amount of LVL 9 million were paid out.

34. CASH AND CASH EQUIVALENTS

	2013		**2012**	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Cash and balances due from central banks	51 551	51 548	34 690	34 690
Due from credit institutions on demand and within 3 months	194 080	194 063	188 272	188 256
Due to credit institutions on demand and within 3 months	(1 667)	(1 667)	(2 211)	(2 211)
Total cash and cash equivalents	**243 964**	**243 944**	**220 751**	**220 735**

35. CONTINGENT LIABILITIES

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

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

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

	2013		**2012**	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Letters of credit	360	360	-	-
Unutilized loan facilities	10 913	10 913	5 923	5 923
Unutilized credit card facilities	780	791	906	906
Guarantees	2 565	2 565	542	542
	14 618	**14 629**	**7 371**	**7 371**

Total contractual and above amounts of commitments to extend loans may not be equal to the cash flow required in the future as such commitments may expire before they are used.

36. LITIGATION

Management is unaware of any significant actual, pending or likely claims against the Group and Bank.

37. ASSETS UNDER MANAGEMENT

	2013		2012	
	Group	**Bank**	**Group**	**Bank**
Assets under management	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**
Due from credit institutions registered in Latvia	7 400	7 400	6 623	6 623
Due from foreign credit institutions	8 273	8 273	8 641	8 641
Loans to customers	232	232	1 026	1 026
Non fixed-income securities	17 460	17 460	9 120	9 120
Fixed-income securities,	70 861	70 861	47 842	47 842
Of which: pledged under repo transactions	*106*	*106*	*249*	*249*
Other assets	4 555	4 555	5 864	5 864
Total assets under management	**108 781**	**108 781**	**79 116**	**79 116**
Liabilities under management				
Non-resident trust liabilities	107 492	107 492	77 578	77 578
Resident trust liabilities	1 289	1 289	1 538	1 538
Total liabilities under management	**108 781**	**108 781**	**79 116**	**79 116**

As at 31 December 2013 there are assets under management from related parties in the amount of LVL 250 thousand (as at 31 December 2012: LVL 283 thousand).

38. TRANSACTIONS WITH RELATED PARTIES

Related parties are defined as shareholders who have a significant influence over the Bank, companies in which they have a controlling interest, members of the Council and the Board, key management personnel, their close relatives and companies in which they have a controlling interest, as well as associated companies. All transactions with related parties have been carried out at an arm's length. Loans, deposits and other claims and liabilities to related parties include the following:

	2013		2012	
	Group	**Bank**	**Group**	**Bank**
	LVL'000	**LVL'000**	**LVL'000**	**LVL'000**
Loans to related companies				
incl. the parent company	*481*	*481*	-	-
incl. subsidiaries	-	*4 228*	-	*4 228*
incl. members of the Council and Board	*13*	*13*	*5*	*5*
incl. other	*314*	*314*	*180*	*180*
Derivatives	-	-	-	-
Total loans and other claims	**808**	**5 036**	**185**	**4 413**
Term and demand deposits and loans				
incl. from the parent company	*5*	*5*	*1 076*	*1 076*
incl. from subsidiaries of the parent company	*193*	*193*	*10*	*10*
incl. from subsidiaries	-	*110*	-	*260*
incl. from associated companies	*1 151*	*1 151*	*3 770*	*3 770*
incl. from members of the Council and Board	*142*	*142*	*227*	*227*
incl. from others	*299*	*299*	*249*	*249*
Total deposits and liabilities	**1 790**	**1 900**	**5 332**	**5 592**
Contingent liabilities and commitments	**500**	**511**	**403**	**403**

Notes to the Group Consolidated and Bank Separate Financial Statements

	2013		2012	
	Group Interest rate %	Bank Interest rate %	Group Interest rate %	Bank Interest rate %
Loans to related parties	0.45	0.45	3.68	3.68
Term and demand deposits	0.10	0.10	0.44	0.44

Remuneration to the members of the Council and the Board in 2013 was LVL 305 thousand (2012: LVL 228 thousand).

	2013		2012	
Income from related party transactions	**Group LVL'000**	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Commission income	9	11	7	8
Interest income	4	4	101	243
Dividends	-	37	-	90
Other income	-	-	-	2
Expenses from related party transactions				
Interest expenses	1	1	5	5
Other expenses	90	233	37	352
Rent payments	385	534	305	452

39. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (BANK)

The table below reflects the maturity analysis of financial assets and liabilities based on the term from the reporting date until the maturity dates of the respective assets and liabilities. The remaining period to maturity of financial assets and liabilities as at 31 December 2013 was as follows:

2013 LVL'000	Up to 1 month including	From 1 months to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	5 years and over, or no maturity	Total LVL'000
Financial assets							
Cash and demand deposits with central banks	51 548	-	-	-	-	-	**51 548**
Deposits with credit institutions	185 914	8 149	3 606	8 262	1 674	-	**207 605**
Financial assets at fair value through profit or loss	11 766	14	-	337	-	-	**12 117**
Financial assets available for sale	-	-	-	-	-	63	**63**
Loans and receivables	7 816	1 306	3 373	4 531	8 519	5 645	**31 190**
Held-to-maturity financial assets	3 704	6 638	3 679	770	5 734	-	**20 525**
Other financial assets	3 929	-	-	-	-	4 698	**8 627**
Total financial assets	**264 677**	**16 107**	**10 658**	**13 900**	**15 927**	**10 406**	**331 675**
Financial liabilities							
Due to credit institutions on demand	1 568	-	-	-	-	-	**1 568**
Derivatives	70	-	-	-	-	-	**70**
Financial liabilities carried at amortized cost	295 735	697	1 481	432	2 419	2 435	**303 199**
Other financial liabilities	188	-	-	-	-	-	**188**
Total financial liabilities	**297 561**	**697**	**1 481**	**432**	**2 419**	**2 435**	**305 025**
Maturity gap	**(32 884)**	**15 410**	**9 177**	**13 468**	**13 508**	**7 971**	**26 650**
Contingent liabilities and commitments	**12 216**	**535**	**1 405**	**380**	**93**	**-**	**14 629**

The maturity analysis of the Group is not significantly different from that of the Bank disclosed above.

39. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (BANK) (continued)

The table below reflects the maturity analysis of financial assets and liabilities based on the term from the reporting date until the maturity dates of the respective assets and liabilities. The remaining period to maturity of assets and liabilities as at 31 December 2012 was as follows:

2012 LVL'000	**Up to 1 month including**	**From 1 months to 3 months**	**From 3 months to 6 months**	**From 6 months to 1 year**	**From 1 year to 5 years**	**5 years and over, or no maturity**	**Total LVL'000**
Financial assets							
Cash and demand deposits with central banks	34 690	-	-	-	-	-	**34 690**
Deposits with credit institutions	185 748	2 558	1 573	11 065	27	-	**200 971**
Financial assets at fair value through profit or loss	9 096	-	24	1 179	-	-	**10 299**
Financial assets available for sale	-	-	-	-	-	63	**63**
Loans and receivables	2 912	3 529	181	2 246	9 591	5545	**24 004**
Held-to-maturity financial assets	3 588	6 548	14 533	8 554	4 765	-	**37 988**
Other financial assets	1 306	-	-	-	-	4 698	**6 004**
Total financial assets	**237 340**	**12 585**	**16 361**	**23 044**	**14 383**	**10 306**	**314 019**
Financial liabilities							
Due to credit institutions on demand	2 211	-	-	-	-	-	**2 211**
Derivatives	72	-	-	7	-	-	**79**
Financial liabilities carried at amortized cost	284 757	773	664	285	2 530	3 297	**292 306**
Other financial liabilities	82	-	-	-	-	-	**82**
Total financial liabilities	**287 122**	**773**	**664**	**292**	**2 530**	**3 297**	**294 678**
Maturity gap	**(49 782)**	**11 812**	**15 697**	**22 752**	**11 853**	**7 009**	**19 341**
Contingent liabilities and commitments	**313**	**79**	**11**	**30**	**79**	**6 859**	**7 371**

The maturity analysis of the Group is not significantly different from that of the Bank disclosed above.

40. FINANCIAL RISK MANAGEMENT

Liquidity risk (Bank)

Residual contractual maturities of financial liabilities of the Bank are presented below. The Group's residual contractual maturities of financial liabilities have not been presented as the difference to the Bank's analysis is insignificant.

LVL'000

31 December 2013	**Carrying amount**	**Gross nominal inflow / (outflow)**	**Less than 1 month**	**1-3 months**	**3 months to 1 year**	**1-5 years and more**
Non-derivative liabilities						
Due to credit institutions on demand	1 568	(1 568)	(1 568)	-	-	-
Financial liabilities carried at amortized cost	303 199	(303 683)	(295 735)	(697)	(2 030)	(5 221)
Total non-derivative liabilities	**304 767**	**(305 251)**	**(297 303)**	**(697)**	**(2 030)**	**(5 221)**
Derivative liabilities						
Trading: outflow	10 347	(10 347)	(10 347)	-	-	-
Trading: inflow	(10 277)	10 277	10 277	-	-	-
Total derivative liabilities	**70**	**(70)**	**(70)**	**-**	**-**	**-**
Contingent liabilities and commitments	14 629	(14 629)	(12 216)	(535)	(1 785)	(93)
Total liabilities	**319 466**	**(319 950)**	**(309 589)**	**(1 232)**	**(3 815)**	**(5 314)**

40. FINANCIAL RISK MANAGEMENT (continued)

LVL'000

31 December 2012	Carrying amount	Gross nominal inflow / (outflow)	Less than 1 month	1-3 months	3 months to 1 year	1-5 years and more
Non-derivative liabilities						
Due to credit institutions on demand	2 211	(2 211)	(2 211)	-	-	-
Financial liabilities carried at amortized cost	292 306	(292 832)	(284 757)	(773)	(1 105)	(6 197)
Total non-derivative liabilities	**294 517**	**(295 043)**	**(286 968)**	**(773)**	**(1 105)**	**(6 197)**
Derivative liabilities						
Trading: outflow	38 118	(38 118)	(37 641)	-	(477)	-
Trading: inflow	(38 039)	38 039	37 569	-	470	-
Total derivative liabilities	**79**	**(79)**	**(72)**	**-**	**(7)**	**-**
Contingent liabilities and commitments	7 371	(7 371)	(7 172)	(79)	(41)	(79)
Total liabilities	**301 967**	**(302 493)**	**(294 212)**	**(852)**	**(1 153)**	**(6 276)**

41. CURRENCY ANALYSIS OF ASSETS AND LIABILITIES (BANK)

The Latvian banking legislation requires that open positions in each foreign currency may not exceed 10% of the Bank's equity and that the total foreign currency open position may not exceed 20% of the equity.

The LVL equivalent of assets and liabilities as at 31 December 2013 by the currencies in which they are denominated is as follows:

2013 LVL'000	LVL LVL'000	USD LVL'000	EUR LVL'000	Other currencies LVL'000	Total LVL'000
Financial assets					
Cash and demand deposits with central banks	28 765	66	22 694	23	**51 548**
Loans from banks	11	83 600	115 693	8 301	**207 605**
Financial assets at fair value through profit or loss	-	10 801	1 316	-	**12 117**
Financial assets available for sale	-	-	63	-	**63**
Loans and receivables	2 609	17 075	11 506	-	**31 190**
Held-to-maturity financial assets	-	17 994	2 531	-	**20 525**
Other financial assets	8 627				**8 627**
Total financial assets	**40 012**	**129 536**	**153 803**	**8 324**	**331 675**
Financial liabilities					
Due to credit institutions on demand	-	1 318	236	14	**1 568**
Derivatives	-	-	12	58	**70**
Financial liabilities carried at amortized cost	2 334	188 896	97 594	14 375	**303 199**
Other financial liabilities	188	-	-	-	**188**
Total financial liabilities	**2 522**	**190 214**	**97 842**	**14 447**	**305 025**
Assets (liabilities) arising from currency exchange					
Spot and forward transaction receivables	-	68 841	6 359	10 462	**85 662**
Spot and forward transaction liabilities	-	(9 829)	(71 281)	(4 271)	**(85 381)**
Net long/short currency position	**37 490**	**(1 666)**	**(8 961)**	**68**	**26 931**

The currency analysis of the Group is not significantly different from that of the Bank disclosed above.

Notes to the Group Consolidated and Bank Separate Financial Statements

41. CURRENCY ANALYSIS OF ASSETS AND LIABILITIES (BANK) (continued)

The Latvian banking legislation requires that open positions in each foreign currency may not exceed 10% of the Bank's equity and that the total foreign currency open position may not exceed 20% of the equity.

The LVL equivalent of assets and liabilities as at 31 December 2012 by the currencies in which they are denominated is as follows:

2012 LVL'000	LVL LVL'000	USD LVL'000	EUR LVL'000	Other currencies LVL'000	Total LVL'000
Financial assets					
Cash and demand deposits with central banks	22 518	144	11 999	29	**34 690**
Loans from banks	12	87 974	103 681	9 304	**200 971**
Financial assets at fair value through profit or loss	1	10 211	29	58	**10 299**
Financial assets available for sale	-	-	63	-	**63**
Loans and receivables	1 346	13 915	8 731	12	**24 004**
Held-to-maturity financial assets	-	27 040	10 948	-	**37 988**
Other financial assets	6 004	-	-	-	**6 004**
Total financial assets	**29 881**	**139 284**	**135 451**	**9 403**	**314 019**
Financial liabilities					
Due to credit institutions on demand	-	1 966	229	16	**2 211**
Derivatives	79	-	-	-	**79**
Financial liabilities carried at amortized cost	2 105	171 505	108 361	10 335	**292 306**
Other financial liabilities	82	-	-	-	**82**
Total financial liabilities	**2 266**	**173 471**	**108 590**	**10 351**	**294 678**
Assets (liabilities) arising from currency exchange					
Spot and forward transaction receivables	-	37 670	4 731	1462	**43 863**
Spot and forward transaction liabilities	(1 047)	(3 865)	(38 700)	(317)	**(43 929)**
Net long/short currency position	**26 568**	**(382)**	**(7 108)**	**197**	**19 275**

The currency analysis of the Group is not significantly different from that of the Bank disclosed above.

42. REPRICING MATURITY ANALYSIS (BANK)

Interest rate risk relates to the changes in the value of the financial instrument as a result of changes in the market rates. As at 31 December 2013, interest rate re-pricing categories were:

2013 LVL'000	Up to 1 month including	From 1 months to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	Over 5 years	Non interest bearing	Total LVL'000
ASSETS								
Cash and demand deposits with central banks	51 069	-	-	-	-	-	479	**51 548**
Loans from banks	86 685	8 342	2 956	7 881	1 674	-	100 067	**207 605**
Financial assets at fair value through profit or loss	346	4	-	-	10 351	1 216	200	**12 117**
Financial assets available for sale	-	-	-	-	-	-	63	**63**
Loans and receivables	10 438	1 247	3 228	4 266	6 393	5 569	49	**31 190**
Held-to-maturity financial assets	3 582	6 512	3 633	759	5 642	-	397	**20 525**
Investments in associates	-	-	-	-	-	-	1 100	**1 100**
Investments in subsidiary undertakings							6 277	**6 277**
Investment property	-	-	-	-	-	-	3 417	**3 417**
Property and equipment	-	-	-	-	-	-	173	**173**
Intangible assets	-	-	-	-	-	-	410	**410**
Prepayments and accrued income	-	-	-	-	-	-	86	**86**
Other assets	-	-	-	-	-	-	8 427	**8 427**
Total assets	**152 120**	**16 105**	**9 817**	**12 906**	**24 060**	**6 785**	**121 145**	**342 938**

42. REPRICING MATURITY ANALYSIS (continued)

2013 LVL'000	**Up to 1 month including**	**From 1 months to 3 months**	**From 3 months to 6 months**	**From 6 months to 1 year**	**From 1 year to 5 years**	**Over 5 years**	**Non interest bearing**	**Total LVL'000**
TOTAL LIABILITIES AND EQUITY								
Due to credit institutions on demand	-	-	-	-	-	-	(1 568)	**(1 568)**
Derivatives	(70)	-	-	-	-	-	-	**(70)**
Financial liabilities carried at amortized cost	(8 910)	(144)	(24)	(61)	(615)	-	(293 445)	**(303 199)**
Deferred income and accrued expenses	-	-	-	-	-	-	(211)	**(211)**
Provisions	-	-	-	-	-	-	(239)	**(239)**
Current tax liabilities	-	-	-	-	-	-	(102)	**(102)**
Other liabilities	-	-	-	-	-	-	(207)	**(207)**
Capital and reserves	-	-	-	-	-	-	(37 342)	**(37 342)**
Total shareholders' equity and liabilities	**(8 980)**	**(144)**	**(24)**	**(61)**	**(615)**	**-**	**(333 114)**	**(342 938)**
Interest rate risk net position	**143 140**	**15 961**	**9 793**	**12 845**	**23 445**	**6 785**	**(211 969)**	**-**
Interest rate risk gross (cumulative) position	**143 140**	**159 101**	**168 894**	**181 739**	**205 184**	**211 969**	**-**	**-**

The reprising maturity analysis of the Group is not significantly different from that of the Bank disclosed above.

Interest rate risk relates to the changes in the value of the financial instrument as a result of changes in the market rates. As at 31 December 2012, interest rate re-pricing categories were:

2012 LVL'000	**Up to 1 month including**	**From 1 months to 3 months**	**From 3 months to 6 months**	**From 6 months to 1 year**	**From 1 year to 5 years**	**Over 5 years**	**Non interest bearing**	**Total LVL'000**
ASSETS								
Cash and demand deposits with central banks	34 110	-	-	-	-	-	580	**34 690**
Loans from banks	52 297	2 549	1 573	11 010	27	-	133 515	**200 971**
Financial assets at fair value through profit or loss	1	-	1 870	260	3 937	3 847	384	**10 299**
Financial assets available for sale	-	-	-	-	-	-	63	**63**
Loans and receivables	4 648	3 474	129	2 296	8 036	5 388	33	**24 004**
Held-to-maturity financial assets	3 348	6 333	14 409	8 300	4 687	-	911	**37 988**
Investments in associates	-	-	-	-	-	-	1 100	**1 100**
Investments in subsidiary undertakings							6 091	**6 091**
Investment property	-	-	-	-	-	-	3 423	**3 423**
Property and equipment	-	-	-	-	-	-	237	**237**
Intangible assets	-	-	-	-	-	-	184	**184**
Prepayments and accrued income	-	-	-	-	-	-	67	**67**
Other assets	-	-	-	-	-	-	6 046	**6 046**
Total assets	**94 404**	**12 356**	**17 981**	**21 866**	**16 687**	**9 235**	**152 634**	**325 163**

42. REPRICING MATURITY ANALYSIS (continued)

2012 LVL'000	Up to 1 month including	From 1 months to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	Over 5 years	Non interest bearing	Total LVL'000
TOTAL LIABILITIES AND EQUITY								
Due to credit institutions on demand	-	-	-	-	-	-	(2 211)	**(2 211)**
Derivatives	(72)	-	-	(7)	-	-	-	**(79)**
Financial liabilities carried at amortized cost	(12 264)	(669)	(642)	(275)	(1 054)	-	(277 402)	**(292 306)**
Deferred income and accrued expenses	-	-	-	-	-	-	(304)	**(304)**
Provisions	-	-	-	-	-	-	(216)	**(216)**
Current tax liabilities	-	-	-	-	-	-	(441)	**(441)**
Other liabilities	-	-	-	-	-	-	(259)	**(259)**
Capital and reserves	-	-	-	-	-	-	(29 347)	**(29 347)**
Total shareholders' equity and liabilities	**(12 336)**	**(669)**	**(642)**	**(282)**	**(1 054)**	**-**	**(310 180)**	**(325 163)**
Interest rate risk net position	**82 068**	**11 687**	**17 339**	**21 584**	**15 633**	**9 235**	**(157 546)**	**-**
Interest rate risk gross (cumulative) position	**82 068**	**93 755**	**111 094**	**132 678**	**148 311**	**157 546**	**-**	**-**

The reprising maturity analysis of the Group is not significantly different from that of the Bank disclosed above.

43. CAPITAL ADEQUACY CALCULATION (BANK)

	2013 LVL'000	**2012 LVL '000**
Tier 1		
Share capital	27 756	19 756
Reserves	17	17
Retained earnings for the previous periods	565	2 448
Profit for the reporting period	8 994	7 116
Intangible assets	(410)	(184)
Other deductions	(14)	-
Total Tier 1	**36 908**	**29 153**
Tier 2 capital	**3 068**	**3 134**
Reduction of Tier 1 capital and Tier 2 capital	(1 104)	(734)
Shareholders' equity	**38 872**	**31 553**
Risk-weighted value		
Bank s portfolio	135 803	124 048
Trading portfolio	16 885	13 725
Operating risk	24 601	18 641
Total risk weighted assets	**177 289**	**156 414**
Total capital as percentage of risk weighted assets (total capital ratio)	**22%**	**20%**
Total tier 1 capital expressed as a percentage of risk-weighted assets ("tier 1 capital ratio")	**21%**	**19%**

As at 31 December 2013, the Bank's capital adequacy ratio was 22% (2012: 20%) which is above the minimum required ratio of 13.4% set in the Basel Capital Accord and the regulations of the Financial and Capital Market Commission of Latvia.

Notes to the Group Consolidated and Bank Separate Financial Statements

44. FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Financial instruments measured at fair value

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

Group

As at 31 December 2013	Published price quotations (1)	Valuation techniques based on market observable inputs (2)	Valuation techniques based on unobservable inputs (3)	Total
Financial assets				
Financial assets at fair value through profit or loss:				
Fixed income securities	11 766	-	-	**11 766**
Non fixed-income securities	-	-	-	**-**
Derivatives	-	351	-	**351**
Assets available for sale				
Non fixed-income securities	-	63	583	**646**
	11 766	**414**	**583**	**12 763**
Financial liabilities				
Derivatives	-	70	-	**70**
	-	**70**	-	**70**

As at 31 December 2012	Published price quotations (1)	Valuation techniques based on market observable inputs (2)	Total
Financial assets			
Financial assets at fair value through profit or loss:			
Fixed income securities	10 080	-	**10 080**
Non fixed-income securities	218	-	**218**
Derivatives	-	1	**1**
Assets available for sale			
Non fixed-income securities	-	63	**63**
	10 298	**64**	**10 362**
Financial liabilities			
Derivatives	-	79	**79**
	-	**79**	**79**

Bank

As at 31 December 2013	Published price quotations (1)	Valuation techniques based on market observable inputs (2)	Total
Financial assets			
Financial assets at fair value through profit or loss:			
Fixed income securities	11 766	-	**11 766**
Non fixed-income securities	-	-	**-**
Derivatives	-	351	**351**
Assets available for sale			
Non fixed-income securities	-	63	**63**
	11 766	**414**	**12 180**
Financial liabilities			
Derivatives	-	70	**70**
	-	**70**	**70**

44. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Bank

As at 31 December 2012	Published price quotations (1)	Valuation techniques based on market observable inputs (2)	Total
Financial assets			
Financial assets at fair value through profit or loss:			
Fixed income securities	10 080	-	**10 080**
Non fixed-income securities	218	-	**218**
Derivatives	-	1	**1**
Assets available for sale			
Non fixed-income securities	-	63	**63**
	10 298	**64**	**10 362**
Financial liabilities			
Derivatives	-	79	**79**
	-	**79**	**79**

Fair values of over-the-counter derivatives of Level 2 are based on the information provided by brokers. These prices are verified for validity by discounting the expected future cash flows using a market interest rate of similar instruments on the valuation date. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group and the counterparty, where appropriate.

The Group and the Bank recognize the transfer between different levels of fair value hierarchy at the end of the reporting period when the transfer was carried out. During the reporting period ended on 31 December 2013 there were no transfers between different levels of fair value hierarchy.

There have been no purchases of financial instruments of Level 3 in 2013.

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

LVL'000	Financial assets at fair value through profit or loss	Available for sale instruments	Financial liabilities at fair value through profit or loss	Total
Total gains and losses included in profit or loss:				
Net gain/(loss) on financial instruments at fair value through profit or loss	(8)	-	(70)	(78)
Net realised gain/(loss) on available-for-sale instruments	-	-	-	-
Total gains and losses recognised in other comprehensive income				
Available-for-sale financial assets – net change in fair value	-	-	-	-

44. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

Type	Valuation technique	Significant unobservable inputs	Inter-relation between significant unobservable inputs and fair value measurement
Assets at fair value through profit or loss (forward exchange contracts and interest rate swaps)	The fair values are based on broker quotes. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments.	Not applicable	Not applicable
Assets at fair value through profit or loss (equity securities)	The valuation model is based on market multiples derived from quoted prices of companies comparable to the investee and the expected EBITDA of the investee. The estimate is adjusted for the effect of the non-marketability of the equity securities.	Forecasted annual growth rate (2013: 2-6%) Forecast EBITDA margin (2013: 4%) Adjusted market multiple (2013: 4-6)	The estimated fair value would increase (decrease) if: - The annual revenue growth rate was higher (lower) - The EBITDA margin was higher (lower) - The adjusted market multiple were higher (lower). Generally, a change in the annual revenue growth rate is accompanied by a directionally similar change in EBITDA margin.
Available for sale assets	The valuation model is based on market multiples derived from quoted prices of companies comparable to the investee and the expected EBITDA of the investee. The estimate is adjusted for the effect of the non-marketability of the equity securities.	Forecasted annual growth rate (2013: 2-6%) Forecast EBITDA margin (2013: 4%) Adjusted market multiple (2013: 4-6)	The estimated fair value would increase (decrease) if: - The annual revenue growth rate was higher (lower) - The EBITDA margin was higher (lower) - The adjusted market multiple was higher (lower). Generally, a change in the annual revenue growth rate is accompanied by a directionally similar change in EBITDA margin.

For the fair values of equity securities under available for sale category, reasonably possible change at the reporting date to one of the significant unobservable inputs, holding other inputs constant, would have the following effects:

LVL ’000	Effect on profit or loss		Effect on other comprehensive income	
As at 31 December 2013	**Increase**	**(Decrease)**	**Increase**	**(Decrease)**
Annual revenue growth rate (0.5% movement)		-		-
EBITDA margin (0.2% movement)		-		-
Adjusted market multiple (5% movement)		-		-

Notes to the Group Consolidated and Bank Separate Financial Statements

44. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(b) Financial instruments not measured at fair value

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

31 December 2013 **LVL'000**	**Level 1**	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
Financial assets					
Cash and due from central banks	-	51 548	-	51 548	51 548
Loans and advances due from financial institutions	-	200 987	-	200 987	200 987
Loans and advances due from customers	-	31 190	-	31 190	31 190
Held to maturity instruments	20 588			20 588	20 525
Other financial assets	-	19 890	-	19 890	19 890
Financial liabilities					
Deposits and balances due to financial institutions	-	1 568	-	1 568	1 568
Deposits and balances due to customers	-	303 199	-	303 199	303 199
Other financial liabilities		759		759	759
31 December 2012					
LVL'000					
Financial assets					
Cash and due from central banks	-	34 690	-	34 690	34 690
Loans and advances due from financial institutions	-	200 971	-	200 971	200 971
Loans and advances due from customers	-	24 004	-	24 004	24 004
Held to maturity instruments	38 498	-		38 498	37 988
Other financial assets	-	17 148	-	17 148	17 148
Financial liabilities					
Deposits and balances due to financial institutions	-	2 211	-	2 211	2 211
Deposits and balances due to customers	-	292 306	-	292 306	292 306
Other financial liabilities	-	1 220	-	1 220	1 220

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

Type	**Valuation technique**
Loans and advances due from financial institutions	Discounted cash flows
Loans and advances due from customers	Discounted cash flows
Deposits and balances due to financial institutions	Discounted cash flows
Deposits and balances due to customers	Discounted cash flows

45. SUBSEQUENT EVENTS

On 1 January 2014 the Republic of Latvia joined the euro-zone and the Latvian Lat was replaced by the euro.

As a result, Baltikums Bank AS converted its financial accounting to euros as from 1 January 2014 and the financial statements for subsequent years will be prepared and presented in euros.

Future comparative information will be translated into euros using the official exchange rate of LVL 0.702804 to EUR 1.