Baltikums Bank

BALTIKUMS BANK AS

Group Consolidated and Bank Separate Financial Statements for the year ended 31 December 2014

www.baltikums.eu

Baltikums Bank

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Baltikums Bank

REPORT OF COUNCIL AND MANAGEMENT BOARD

Baltikums Bank AS shows stable growth

Last year, Baltikums Bank exhibited a stable increase in financial performance indicators across the board, once again confirming the effectiveness of the bank's commercial strategy and the accuracy of defining its long-term priorities.

Based on financial data, Baltikums Bank revenues in the reporting period reached EUR 32.66 mio. and net profit reached EUR 7.986 mio. The bank's key stability indicators remain strong: period-end liquidity — 82.31%; capital adequacy 20%; return on equity (ROE) — 14.79%; return on assets (ROA) — 1.5%. Thus, Baltikums Bank maintains its leadership as one of the most successful banks in Latvia.

Compared to the year before last, in 2014 the bank had positive growth dynamics in a number of other important areas. For instance, the amount of client assets under management increased 31% to exceed half a billion euros, the credit portfolio also grew by 48%. The bank attracted subordinated loans and bonds for a total of EUR 7.66 mil. In the past 12 months, closing the year with EUR 13.2 mil. in total subordinated capital (which translates to a year-on-year increase of 138%). By the end of the reporting period, the amount of bank assets (including assets under management) had grown to a total of EUR 655.86 mil.

“2014 was a year of intensifying geopolitical processes that had a profound effect on financial markets. Therefore, it is particularly important to note the bank's capacity for stable and successful growth. A wisely shaped strategy, conservative attitude to risk management and continual improvement of internal processes have enabled the bank to operate at such high efficiency,” Baltikums Bank Chairman of the Board Dmitrijs Latiševs comments.

During the reporting period, Baltikums Bank has solidified its positions in commercial lending, providing clients with diverse services such as trade finance, factoring and investment loans. Notably, more than 60% of total loans issued last year were invested in Latvian industry. This way, the bank stimulates the export of goods manufactured in Latvia and creation of new jobs in the country.

Particular attention in 2014 was devoted to developing new banking products and services. A new version of the Baltikums Internet Bank was developed and released, increasing convenience for clients who prefer to manage their assets remotely. The bank joined the VISA international payment network and expanded the line of bank cards with two high-status products, Visa Gold and Visa Gold Business. E-commerce services provided by the bank have expanded business development opportunities for a great many entrepreneurs. In the first few days of 2015, the bank also launched its investment gold service, purchasing and offering custody of physical gold to clients. The bank's reputation on the international market as a robust and trustworthy partner has enabled it to open a direct account with Euroclear, greatly enhancing the speed and efficiency of its settlement operations.

Baltikums Bank has put a lot of effort into modernising its internal business processes, enhancing security of its banking system, and improving client service. Further investment in improving IT solutions is planned for 2015, breaking new ground in online banking by introducing a mobile internet bank app, creating a “digital office” for clients and partners, and expanding options for remote management of the bank's products and services. To satisfy increasing demand, the bank will start to offer its clients in-depth advice on matters of tax planning, asset protection and structuring.

"Following a fundamentally new business model, during 2014 the bank moved to a higher level of service quality by entrusting customer service to Customer Relations Directors (CRDs) and their teams," explains Dmitrijs Latisevs, Chairman of the Board. “We continually expand our geographical presence. In 2014, we opened representative offices in Vilnius and Tallinn. We have more qualified professionals on our team: 31 people in Latvia and 14 at our representative offices. And we're always happy to see responsible, hardworking, talented people join us — in 2015, the bank will continue to attract other capable colleagues,” Dmitrijs Latiševs adds.

Baltikums Bank has planned major investment in preserving Riga's historic architectural heritage: this year, works will conclude on renovating the bank's building on Jēkaba iela in Old Riga, proceeding with ambitious reconstruction of its Smilšu iela building — a 1912 Art Nouveau design by German architect Wilhelm Ludwig Nikolai Bockslaff.

Baltikums Bank

REPORT OF COUNCIL AND MANAGEMENT BOARD

Robust corporate social responsibility is a factor that positively affects a company's financial performance, which is why the bank pays particular attention to its personnel policy, stimulating employees' professional growth, development and lifelong training. This contributes to personnel motivation and maintains an encouraging labour environment.

The bank's charity Baltikums Foundation launched its operations last year to support a number of different projects dedicated to improving the general social climate. The foundation's plans for 2015 are to focus on social welfare and child care, support youth education and physical fitness, and assist people and organisations that work to achieve socially important goals.

On behalf of the Bank's management,

Aleksandrs Peškovs
Chairman of the Council

Dmitrijs Latiševs
Chairman of the Board

13 March 2015

Baltikums Bank

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 2014

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 2014

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 behalf of the Bank's management,

Aleksandrs Peškovs
Chairman of the Council

Dmitrijs Latiševs
Chairman of the Board

13 March 2015

Baltikums Bank

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 72 are prepared in accordance with the source documents and present fairly the financial position of the Group as at 31 December 2014 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 2014 and the results of its operations and cash flows for the year ended 31 December 2014.

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

13 March 2015

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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 ("the Company"), which comprise the separate statement of financial position as at 31 December 2014, the separate statements of profit and loss and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 8 to 72. 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 2014, the consolidated statements of comprehensive income, statements of profit and loss and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 8 to 72.

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 Baltikums Bank AS as at 31 December 2014, 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 Baltikums Bank AS and its subsidiaries as at 31 December 2014, 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
13 March 2015

Valda Užāne
Sworn Auditor
Certificate No 4

GROUP CONSOLIDATED AND BANK SEPARATE STATEMENT OF PROFIT OR LOSS

	Note	2014		2013	
		Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Interest income		7,675	7,807	6,898	6,891
Interest expense		(1,417)	(1,417)	(1,393)	(1,393)
Net interest income	6	**6,258**	**6,390**	**5,505**	**5,498**
Fee and commission income		18,453	18,461	18,978	18,978
Fee and commission expense		(1,512)	(1,512)	(1,552)	(1,552)
Net fee and commission income	7	**16,941**	**16,949**	**17,426**	**17,426**
Net (loss) from financial assets and liabilities at fair value through profit or loss	8	(2,200)	(2,200)	(112)	(111)
Net foreign exchange income	9	8,088	8,089	6,262	6,264
Share of profit/loss of associated companies	21	218	–	(410)	53
Other operating income	10	439	504	462	282
Total operating income		**29,744**	**29,732**	**29,133**	**29,412**
Administrative expenses	11	(15,519)	(14,497)	(13,639)	(13,300)
Other operating expenses	12	(400)	(891)	(709)	(408)
Net impairment losses	13	(3,901)	(4,434)	(1,130)	(1,084)
Total operating expenses		**(19,820)**	**(19,822)**	**(15,478)**	**(14,792)**
Profit before taxation		**9,924**	**9,910**	**13,655**	**14,620**
Corporate income tax	14	(1,925)	(1,924)	(1,825)	(1,823)
Net profit for the year		**7,999**	**7,986**	**11,830**	**12,797**
Attributable to:					
Equity holders of the Bank		*8,157*	*7,986*	*11,932*	*12,797*
Non-controlling interest		*(158)*	*–*	*(102)*	*–*

The accompanying notes on pages 16 – 73 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 – 73 on 13 March 2015. 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

13 March 2015

GROUP CONSOLIDATED AND BANK SEPARATE STATEMENT OF OTHER COMPREHENSIVE INCOME

	Note	2014		2013	
		Group	Bank	Group	Bank
		EUR'000	EUR'000	EUR'000	EUR'000
Net profit for the year		**7,999**	**7,986**	**11,830**	**12,797**
Total comprehensive income for the reporting period		**7,999**	**7,986**	**11,830**	**12,797**
Attributable to:					
Equity holders of the Bank		*8,157*	*7,986*	*11,932*	*12,797*
Non-controlling interest		*(158)*	–	*(102)*	–

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Aleksandrs Peškovs
Chairman of the Council

Dmitrijs Latiševs
Chairman of the Board

13 March 2015

GROUP CONSOLIDATED AND BANK SEPARATE STATEMENT OF FINANCIAL POSITION

Assets	Note	2014		2013	
		Group	Bank	Group	Bank
		EUR'000	EUR'000	EUR'000	EUR'000
Cash and demand deposits with central banks	15	123,675	123,673	73,350	73,346
Loans and receivables from banks	16	315,269	315,226	295,419	295,395
Demand deposits with credit institutions		*161,924*	*161,881*	*141,172*	*141,148*
Term deposits with credit institutions		*121,051*	*121,051*	*142,089*	*142,089*
Loans issued to credit institutions		*32,294*	*32,294*	*12,158*	*12,158*
Financial assets at fair value through profit or loss		54,203	54,203	17,241	17,241
Fixed income securities	17	*51,945*	*51,945*	*16,742*	*16,742*
Derivatives	32	*2,258*	*2,258*	*499*	*499*
Financial assets available for sale	18	618	89	919	89
Fixed income securities		*529*	–	*830*	–
Non fixed income securities		*89*	*89*	*89*	*89*
Loans and receivables	19	65,498	65,498	38,369	44,379
Held-to-maturity financial assets	20	32,000	32,000	29,205	29,205
Investments in associates	21	2,836	1,565	3,135	1,565
Investments in subsidiary undertakings	21	–	15,541	–	8,931
Investment property	22	5,745	4,098	6,959	4,862
Property and equipment	23	16,037	1,058	11,612	246
Intangible assets	24	1,520	737	1,295	583
Prepayments and accrued income		161	161	131	124
Other assets	25	7,740	7,470	12,406	11,991
Total assets		**625,302**	**621,319**	**490,041**	**487,957**

The accompanying notes on pages 16 – 73 form an integral part of these financial statements.

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13 March 2015

Baltikums Bank

GROUP CONSOLIDATED AND BANK SEPARATE STATEMENT OF FINANCIAL POSITION

Liabilities and Equity	Note	2014 Group EUR'000	2014 Bank EUR'000	2013 Group EUR'000	2013 Bank EUR'000
Due to credit institutions on demand	26	2,759	2,759	2,231	2,231
Derivatives	32	591	591	100	100
Financial liabilities carried at amortized cost		564,455	565,090	431,258	431,413
Deposits and balances due to financial institutions	27	–	–	*141*	*141*
Deposits	28	*551,249*	*551,884*	*425,574*	*425,729*
Deposits (subordinated)	28	*3,922*	*3,922*	*2,345*	*2,345*
Debt securities (subordinated)	29	*9,284*	*9,284*	*3,198*	*3,198*
Deferred income and accrued expenses		342	342	300	300
Provisions	30	510	510	340	340
Current income tax liabilities		9	12	148	145
Other liabilities	31	442	396	316	295
Total liabilities		**569,108**	**569,700**	**434,693**	**434,824**
Capital and reserves					
Share capital	33	39,493	39,493	39,493	39,493
Reserves	33	24	24	24	24
Revaluation reserve – AFS financial assets		14	14	14	14
Other reserves	21	(2,400)	(2,400)	–	–
Retained earnings		14,217	14,488	13,135	13,602
Total equity attributable to equity holders of the Bank		**51,348**	**51,619**	**52,666**	**53,133**
Non-controlling interest	21	4,846	–	2,682	–
Total equity and reserves		**56,194**	**51,619**	**55,348**	**53,133**
Total capital and reserves and liabilities		**625,302**	**621,319**	**490,041**	**487,957**
Contingent liabilities and commitments	35	25,975	25,992	20,800	20,815

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Aleksandrs Peškovs
Chairman of the Council

Dmitrijs Latiševs
Chairman of the Board

13 March 2015

GROUP CONSOLIDATED STATEMENT OF CHANGES IN THE SHAREHOLDERS' EQUITY

	Note	Share capital	Reserves	Revaluation reserve – AFS financial assets	Other reserves	Retained earnings	Total equity attributable to equity holders of the parent	Non-controlling interest	Total equity
		EUR`000	EUR`000	EUR`000	EUR'000	EUR`000	EUR`000	EUR`000	EUR`000
Balance at 31 December 2012		**28,110**	**24**	**14**	–	**14,009**	**42,157**	**2,285**	**44,442**
Comprehensive income for the reporting period:									
Net profit/ loss for the reporting period		–	–	–	–	11,932	**11,932**	(102)	**11,830**
Total comprehensive income for the reporting period		–	–	–	–	**11,932**	**11,932**	**(102)**	**11,830**
Transactions with shareholders recorded directly in equity:									
Increase in share capital		11,383	–	–	–	–	**11 383**	–	**11 383**
Acquisition of non-controlling interest without change in control		–	–	–	–	–	**–**	499	**499**
Dividends paid		–	–	–	–	(12,806)	**(12,806)**	–	**(12,806)**
Balance at 31 December 2013		**39,493**	**24**	**14**	–	**13,135**	**52,666**	**2,682**	**55,348**
Comprehensive income for the reporting period:									
Net profit/ loss for the reporting period		–	–	–	–	8,157	**8,157**	(158)	**7,999**
Total comprehensive income for the reporting period		–	–	–	–	8,157	**8,157**	(158)	**7,999**
Transactions with shareholders recorded directly in equity:									
Adjustment of profit/ loss of previous years		–	–	–	–	25	**25**	(78)	**(53)**
Non-reciprocal capital contribution by parent into subsidiary	21	–	–	–	(2,400)	–	**(2,400)**	2,400	–
Dividends paid		–	–	–	–	(7,100)	**(7,100)**	–	**(7,100)**
Balance at 31 December 2014		**39,493**	**24**	**14**	**(2,400)**	**14,217**	**51,348**	**4,846**	**56,194**

The accompanying notes on pages 16 – 73 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 – 73 on 13 March 2015. 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

13 March 2015

BANK SEPARATE STATEMENT OF CHANGES IN THE SHAREHOLDERS' EQUITY

	Note	Share capital	Reserves	Revaluation reserve – AFS financial assets	Other reserves	Retained earnings	Total capital and reserves
		EUR`000	EUR`000	EUR`000	EUR'000	EUR`000	EUR`000
Balance at 31 December 2012		**28,110**	**24**	**14**	**–**	**13,611**	**41,759**
Comprehensive income for the reporting period:							
Net profit for the reporting period		–	–	–	–	12,797	**12,797**
Total comprehensive income for the reporting period		–	–	–	–	**12,797**	**12,797**
Transactions with shareholders recorded directly in equity:							
Increase in share capital		11,383	–	–	–	–	**11,383**
Dividends paid		–	–	–	–	(12,806)	**(12,806)**
Balance at 31 December 2013		**39,493**	**24**	**14**	**–**	**13,602**	**53,133**
Comprehensive income for the reporting period:							
Net profit for the reporting period		–	–	–	–	7,986	**7,986**
Total comprehensive income for the reporting period		–	–	–	–	**7,986**	**7,986**
Transactions with shareholders recorded directly in equity:							
Non-reciprocal capital contribution by parent into subsidiary	21	–	–	–	(2,400)	–	**(2,400)**
Dividends paid		–	–	–	–	(7,100)	**(7,100)**
Balance at 31 December 2014		**39,493**	**24**	**14**	**(2,400)**	**14,488**	**51,619**

The accompanying notes on pages 16 – 73 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 – 73 on 13 March 2015. 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

13 March 2015

GROUP CONSOLIDATED AND BANK SEPARATE STATEMENT OF CASH FLOWS

	2014		2013	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Cash flow from operating activities				
Profit before taxation	9,924	9,910	13,655	14,620
Depreciation of intangible assets, fixed assets and investment property	200	112	315	298
Impairment of financial assets	3,901	4,434	781	1,091
Revaluation of investment property	1,207	757	–	–
Foreign exchange (gain)/loss	(7)	(7)	6	4
Other changes in assets	(2,629)	(2,400)	1,949	–
(Gain)/loss from disposal of subsidiaries	–	–	(71)	(1)
	12,596	**12,806**	**16,635**	**16,012**
(Increase)/decrease in loans and receivables	(30,063)	(30,207)	(12,217)	(11,369)
(Increase)/decrease in available-for-sale financial assets	301	-	(830)	-
Increase in financial assets at fair value through profit or loss	(36,962)	(36,962)	(2,587)	(2,587)
(Increase)/decrease in held-to-maturity financial assets	(9,007)	(9,007)	23,671	23,671
(Increase)/decrease in prepayments and accrued income	(30)	(38)	(36)	(27)
Increase /(decrease) in other assets	4,666	4,521	(2,719)	(2,844)
Increase in customer deposits	127,252	127,732	15,471	15,260
Increase/(decrease) in held-for-trading financial liabilities	491	491	(13)	(13)
Increase/(decrease) in other liabilities and current tax liabilities	279	263	(815)	(670)
Increase/(decrease) in deferred income and accrued expenses	42	42	(132)	(132)
Net cash from operating activities before tax	**69,565**	**69,641**	**36,428**	**37,301**
Corporate income tax paid	(2 049)	(2 049)	(1 677)	(1 677)
Net cash from/(used in) operating activities	**67,516**	**67,592**	**34,751**	**35,624**
Cash flow from investing activities				
Purchase of property and equipment and intangible assets	(1,325)	(1,317)	(673)	(612)
Disposal of fixed assets	248	246	95	92
Acquisition of subsidiaries, net of cash acquired	(1,856)	(1,956)	(21)	(1,102)
Sales of associated companies and subsidiaries	–	–	154	349
Dividends received	–	–	52	–
Net cash from/(used in) investing activities	**(2,933)**	**(3,027)**	**(393)**	**(1,273)**
Cash flows from financing activities				
Issued bonds	6,086	6,086	100	100
Cash flow from (decrease)/increase of share capital	–	–	11,383	11,383
Dividends paid	(7,100)	(7,100)	(12,806)	(12,806)
Net cash received from financing activities	**(1,014)**	**(1,014)**	**(1,323)**	**(1,323)**

GROUP CONSOLIDATED AND BANK SEPARATE STATEMENT OF CASH FLOWS

	2014		2013	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Net changes in cash and cash equivalents	**63,569**	**63,551**	**33,035**	**33,028**
Cash and cash equivalents at the beginning of reporting year	**347,129**	**347,102**	**314,100**	**314,078**
Effects of exchange rates fluctuations on cash held	7	7	(6)	(4)
Cash and cash equivalents at the end of the reporting year	**410,705**	**410,660**	**347,129**	**347,102**

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Aleksandrs Peškovs
Chairman of the Council

Dmitrijs Latiševs
Chairman of the Board

13 March 2015

NOTES TO THE GROUP CONSOLIDATED AND BANK SEPARATE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Baltikums Bank AS ("the Bank") is a Joint Stock Company registered with the Enterprise Register of Latvia on 22 June 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 Latvia and the European Union. The primary lines of business for the Bank are servicing corporate customers and high net worth 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 entities 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 31.12.2014, %	Holding 31.12.2013, %
SIA "Baltikums International"	Latvia	Financial services	100	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 collaterals overtaken by the bank	100	100
AS "Pils Pakalpojumi"	Latvia	Real estate development	61	61
"Foxtran Management Ltd"	Belize	Management of collaterals overtaken by the bank	100	100
"Enarlia International Inc."	Belize	Management of collaterals overtaken by the bank	100	100
"Baltikums Luxembourg S.A."	Luxembourg	Advisory services	100	100
SIA "BB Broker Systems"	Latvia	Insurance broker's services	100	100
SIA "Jēkaba 2"	Latvia	Real estate development	100	–

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

Company	Country of incorporation	Line of business	Holding 31.12.2014, %	Holding 31.12.2013, %
AAS "Baltikums"	Latvia	Insurance services	19.45	19.45
AS "Termo biznesa Centrs"	Latvia	Real estate development	26.15	26.15

NOTES TO THE GROUP CONSOLIDATED AND BANK SEPARATE FINANCIAL STATEMENTS

2. BASIS OF PREPARATION

(1) Statement of Compliance

The financial statements of the Bank and the Group ("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 ('FCMC') in force as at 31 December 2014.

The Group consolidated and Bank separate financial statements were authorized for issue by the Board on 27 February 2015. 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

On 1 January 2014 the Republic of Latvia joined the euro-zone and the Latvian lat was replaced by the euro. As a result, the Bank and the Group converted its financial accounting to euros as from 1 January 2014 and the financial statements are presented in euros. The comparative information was translated into euros using the official exchange rate of LVL 0.702804 to EUR 1.

These consolidated and separate financial statements are presented in thousands of euros ('000 EUR), unless stated otherwise.

(3) Basis of measurement

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

- financial instruments at fair value through profit or loss are stated at fair value;
- available-for-sale assets are stated at fair value;
- investment property which is stated at fair value.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting principles used in the preparation of the Group's consolidated and the Bank's separate financial statements have been consistently applied except for the changes in accounting policies described in Note 3.23(a).

(1) Basis for consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from is involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

(ii) Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(iii) Special purpose entities

The Group has established a number of special purpose entities (SPE's) for trading and investment purposes. 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 because the Group owns 100% capital of these SPE.

NOTES TO THE GROUP CONSOLIDATED AND BANK SEPARATE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(iv) Fund management

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

(v) Acquisitions from entities under common control

Acquisitions of controlling interests in entities that were under the control of the same controlling shareholder as the Group are accounted for that common was established. The assets and liabilities acquired are recognised at their book values as recognised in the individual financial statements of the acquiree at the moment of acquisition. Any transaction result is included as a separate reserve in equity.

(vi) Interest in equity-accounted investees

The Group's interests in equity accounted investees comprise interests in associates and a joint venture.

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Investments in associates and the joints venture are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI in equity-accounted investees, until the date on which significant influence or joint control ceases.

(vii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity-accounted investees are eliminated to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(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 Statement of Profit or Loss.

(3) Foreign currency

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

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period.

NOTES TO THE GROUP CONSOLIDATED AND BANK SEPARATE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 and loss, except for the 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 in other comprehensive income.

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

	31 December 2014	31 December 2013
EUR	–	0.7028
USD	1.2141	0.5150

Foreign subsidiaries

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into EUR at exchange rates set by the European Central Bank at the reporting date. The income and expenses of foreign operations are translated into the functional currency at the exchange rates of transaction dates.

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 interest.

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 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. Loans and receivables are accounted for at amortized cost using the effective interest method. Certain expenses, such as legal fees or sales commissions for employees acting as agents or other expenses that are incurred in securing a loan are treated as part of the cost of the transaction.

NOTES TO THE GROUP CONSOLIDATED AND BANK SEPARATE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 held to maturity loans and receivables. Available-for-sale instruments include short term investments and certain debt and equity securities. Generally, this category is assigned by the Bank and the Group 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 amortised 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 remeasured 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. Such deposits rank before shareholders' claims. Subordinated debts are repayable before maturity only in the event of termination of the Bank's operations, or the Bank's bankruptcy

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 and the Bank 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, minus any reduction for impairment.

Effective interest rate is method of calculating financial asset or liability amortized purchase value, which is based on interest income and expense recognition in specific period. Effective interest rate foresights that future payments or receivables must be precisely discounted in financial instruments prospective life or where necessary in shorter period until financial assets or liabilities net balance value. Calculating effective interest rate, management calculates cash flow based on financial instruments agreement details, not taking into account future losses. Calculation includes all payments which were made between contracting parties and is an integral part of the rate, deal transaction expenses, premiums or discounts.

d) Measurement

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

Subsequent to initial recognition, 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 profit or loss. 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 profit or loss. Interest on an available-for-sale financial asset is recognized in the income statement using the effective interest rate method.

NOTES TO THE GROUP CONSOLIDATED AND BANK SEPARATE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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 Group and the Bank assesses whether there is objective evidence that the 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 advance by the Group and the Bank on terms that the Group and 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 Group and Bank consider evidence of impairment for loans and advances and held-to-maturity investment securities at 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 the income statement 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 the profit or 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 debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in income statement, the impairment loss is reversed, with the amount of the reversal recognised in income statement. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 available, the Group and Bank measure the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if 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 determine 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 and Bank for use in pricing the relevant type of financial instrument;
- Understanding how the fair value has been arrived at and the extent to which it represents actual market transactions;
- When prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement.

NOTES TO THE GROUP CONSOLIDATED AND BANK SEPARATE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible:

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

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

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

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

The Group and the Bank recognizes transfers between levels of the fair value hierarchy 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 quoted 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 euro, applying the exchange rate set by the European Central Bank. 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.

NOTES TO THE GROUP CONSOLIDATED AND BANK SEPARATE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(7) Derivatives

Derivatives include foreign currency swaps and forwards. As at 31 December 2014 and 2013 all derivatives 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 remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

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

Although the Group and the Bank trades in derivative instruments for risk hedging purposes, the Group and the Bank does not apply hedge accounting.

(8) Repo transactions

Repo transactions are recognized as financing in transactions. When the Bank or the Group 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 Bank or the Group is the purchaser of securities, the purchased securities are not recognized in the statement of financial position. The amount paid for securities is recognized as a loan provided to the seller. The Group is involved in two types of such transactions – classic repo and buy/sellback transactions. The result of repo and buy/sellback transactions is recognized in profit or loss 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.

(9) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

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%.

(10) 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 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 Bank.

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.

(11) Property and equipment

Items of property and equipment are measured at acquisition cost, minus accumulated depreciation and losses from decrease in value, except buildings and land, which are shown in re-evaluated value, as described below.

(i) Revaluation

Land and buildings of the Group and the Bank are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the land and buildings being revalued. A revaluation increase on an item of land and building is recognised in other comprehensive income except to the extent that it reverses a previous revaluation decrease recognised in the profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

A revaluation decrease on an item of land or buildings is recognised in the profit or loss except to the extent that it reverses a previous revaluation increase recognised in equity, in which case it is recognised in other comprehensive income. When a disposal occurs any related amount included in the revaluation reserve is transferred to retained earnings.

(ii) Depreciation

Depreciation is recognised in profit and loss using straight-line method, based on useful life of asset. Depreciation is calculated starting from purchase date or when internally created assets – finished and ready for use. Depreciation is not calculated for land. The following annual depreciation rates are applied:

Furniture and equipment	20%
Computers	25%
Other	20%

Repair and maintenance costs are charged to the income statement 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.

(12) Intangible assets

Intangible assets, except nonmaterial value, 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%.

The Group's and the Bank's policy on goodwill is described in note 3.2.

(13) 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 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 profit or loss 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.

(14) Credit liabilities

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

NOTES TO THE GROUP CONSOLIDATED AND BANK SEPARATE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial guarantees are contracts that require the Group and 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.

(15) Taxation

Income tax expense comprises current and tax deferred tax. Income tax expense is recognized in the profit or 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 tax profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized 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.

(16) Dividends

The Group and 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.

(17) Cash and its equivalents

Cash and its equivalents are cash in cash register, demands to Central bank of Latvia and demands against other credit institutions, which initial maturity date doesn't exceed 3 month, except demands against Central bank of Latvia and other credit institutions which initial maturity date does not exceed 3 month.

(18) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(19) Provisions

Provisions are recognized in the statement of financial position 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.

(20) 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.

(21) Assets under management

Assets managed by the Bank and the Group on behalf of customers are not treated as assets of the Bank and the Group. The Group and the Bank assume no risk in relation to these assets.

(22) 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 and separate 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 2014.

(i) IFRS 10 Consolidated Financial Statements (2011)

As a result of IFRS 10 (2011), the Group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates its investees. IFRS 10 (2011) introduces a new control model that focuses on whether the Group or Bank has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns.

In accordance with the transitional provisions of IFRS 10 (2011), the Group reassessed the control conclusion for its investees at 1 January 2014. The Group concluded that there are no changes in control assessment as a consequence of new rules introduced by IFRS 10 (2011).

(ii) IFRS 11 Joint Arrangements

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 interest is 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 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 is not a party to any joint arrangements.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(iii) IFRS 12: Disclosure of Interests in Other Entities

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.

As a result of IFRS 12, the Group and Bank has expanded its disclosures about its interests in subsidiaries (Notes 21.(a,b,c) and equity accounted investees (Note 21.(d)).

(iv) Other amendments to standards

The following amendments to standards with effective date of 1 January 2014 did not have any impact on these consolidated and separate financial statements:

- Amendments to IAS 32 on Offsetting Financial Assets and Financial Liabilities
- Amendments to IAS 36 on Recoverable Amount Disclosures for Non-Financial Assets
- Amendments to IAS 39 on Novation of Derivatives and Continuation of Hedge Accounting

(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 2014, and have not been applied in preparing these consolidated and separate financial statements. Those which may be relevant to the Group or the Bank are set out below. The Group and the Bank do not plan to adopt these standards early.

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

The amendments are relevant only to defined benefit plans that involve contributions from employees or third parties meeting certain criteria. When these criteria are met, a company is permitted (but not required) to recognise them as a reduction of the service cost in the period in which the related service is rendered.

The Group and Bank does not expect the amendment to have any impact on the consolidated and Banks separate financial statements since they does not have any defined benefit plans that involve contributions from employees or third parties.

(ii) IFRIC 21 Levies (effective for annual periods beginning on or after 17 June 2014)

The Interpretation provides guidance as to the identification of the obligating event giving rise to a liability, and to the timing of recognising a liability to pay a levy imposed by government. In accordance with the Interpretation, the obligating event is the activity that triggers the payment of that levy, as identified in the relevant legislation and as a consequence, the liability for paying the levy is recognised when this event occurs. The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time. If the obligating event is the reaching of a minimum activity threshold, the corresponding liability is recognised when that minimum activity threshold is reached. The Interpretation sets out that and entity cannot have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate in that future period.

It is expected that the Interpretation, when initially applied, will not have a material impact on the consolidated and separate financial statements, since it does not result in a change in the entity's accounting policy regarding levies imposed by governments.

(iii) Annual Improvements to IFRSs

The improvements introduce eleven amendments to nine standards and consequential amendments to other standards and interpretations. Most of these amendments are applicable to annual periods beginning on or after 1 February 2015, with earlier adoption permitted. Another four amendments to four standards are applicable to annual periods beginning on or after 1 January 2015, with earlier adoption permitted.

None of these amendments are expected to have a significant impact on the consolidated and separate financial statements of the Group and Bank.

NOTES TO THE GROUP CONSOLIDATED AND BANK SEPARATE FINANCIAL STATEMENTS

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. Risk management is executed in Group's and Bank's level.

(1) Credit risk

Credit risk is the risk of potential loss resulting from the non-fulfilment of contractual obligations by the Group's or 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, mitigation and control.

The management of risks related to ordinary loans involves the assessment of the 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. Subsequent to loan granting, the Financial Analysis and Risk Management Department performs a regular analysis of the borrower's financial position, which enables the Bank and the Group 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 the Bank's investments in debt securities, is controlled by the Bank's Investment Committee that sets limits for transactions with each counter party and issuer.

The Bank and the Group monitor the concentration of significant assets, liabilities, as well as contingent liabilities and commitments' credit risk 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 Bank and the Group continuously monitor the open positions of foreign currencies and regularly assesses the structure of assets and liabilities by currency.

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

NOTES TO THE GROUP CONSOLIDATED AND BANK SEPARATE FINANCIAL STATEMENTS

4. RISK MANAGEMENT (continued)

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 for the year and comprehensive income to changes in the foreign currency exchange rates based on positions existing as at 31 December 2014 and 2013 and a simplified scenario of a 20% change in USD to EUR exchange rates is as follows:

EUR'000	2014		2013	
	Profit or loss	Capital and reserves	Profit or loss	Capital and reserves
20% appreciation of USD against EUR	(216)	(216)	(472)	(472)
20% depreciation of USD against EUR	216	216	472	472

(3) Interest rate risk

Interest rate risk is related to potential losses incurred by the Group and the Bank due to movements in 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:

	2014	2013
	EUR'000	EUR'000
LVL	–	413
EUR	1,275	380
USD	1,641	1,390

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 debt securities price risk is managed by the Bank 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 assets in order to maintain an asset structure that is appropriate to support the Bank's operations (executing of clients' transactions) and comply with regulatory requirements concerning the liquidity ratio even in case of a significant outflow of client deposits or a 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 system, balance sheet planning, stress testing, and limits for investments in assets of 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.

The aim of liquidity risk stress testing is 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 assets of limited liquidity.

NOTES TO THE GROUP CONSOLIDATED AND BANK SEPARATE FINANCIAL STATEMENTS

4. RISK MANAGEMENT (continued)

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

	2014	2013
As at 31 December	82.31 %	78.90 %

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 risk

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 descriptions, 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 Bank and the Group have set up an independent "Internal Audit Service" (IAS) whose primary function is to ensure that the activities of the Bank and the Group comply with effective laws and regulations, approved plans, policies and other internal documents of the Bank and to review the conformity with the internal control procedures governing the functions of the Group's and the Bank's departments.

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

The Group and the Bank devote significant efforts to compliance with international and national laws and regulations on the prevention of money laundering and terrorism financing. To that end, the Bank has set up client activity monitoring and compliance departments, a 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 the 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 Client Policy requires to conduct interviews and fill out client questionnaires. This information is used as the basis for the new client profile which is the most important component of the client's file and its main purpose is to understand the client's business and profile. All activities of the Bank and the Group are aimed at increasing the security of financial transactions. This approach permits the Group and the Bank to develop an optimum service offering for each client in the future while managing and mitigating the risk of unusual and suspicious financial transactions.

As the relationship between the customer and the Bank progresses, further understanding of the customer's business deepens. The client's profile is supplemented and updated on a regular basis with the results of research of the client's business and transactions. Knowing the clients' business and monitoring their transactions and refraining from suspicious financial transactions allows the Group and the Bank to prevent involvement of the Group and the Bank in potential money laundering or terrorism financing in accordance with international requirements and effective laws and regulations of the Republic of Latvia compliance in relation to illegally acquired money laundering and terrorist financing.

4. RISK MANAGEMENT (continued)

(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.

Under the capital requirements introduced by Regulation (EU) No 575/2013 of the European Parliament and of the Council and the FCMC banks need to 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 2014 is 8%, in accordance with the special requirement of the FCMC the Bank needs to ensure the minimum capital adequacy of 12.9% during the period 1 October 2014 to 30 September 2015 (13.4% for the period 1 October 2013 to 30 September 2014). As at 31 December 2014 the Bank and the Group 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 calculation of the capital adequacy ratio 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.

Judgements:

These consolidated and separate financial statements include financial information of subsidiaries. The annual evaluation described in 3(1) (ii) of the Group structure and identification of entities in which the Group has control requires judgement to be made by the Group management.

Key sources of estimation uncertainty:

(i) Allowances for doubtful debts

Financial assets, which are recognised in depreciated prime cost, value of impairment is determined based on accounting procedure described in note 3.

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, note 3. 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. Bank uses evaluation modules which uses prices for similar products in the market.

To estimate amount of losses from decrease in value, Banks management calculates foreseeable losses in cash flow of certain financial instruments, based on financial analysis of eminent of financial instrument.

NOTES TO THE GROUP CONSOLIDATED AND BANK SEPARATE FINANCIAL STATEMENTS

5. USE OF ESTIMATES AND JUDGMENTS (continued)

(iii) Impairment of non-financial assets

The carrying amounts of the Group's and 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.

(iv) 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.

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.

NOTES TO THE GROUP CONSOLIDATED AND BANK SEPARATE FINANCIAL STATEMENTS

6. NET INTEREST INCOME

	2014		2013	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Interest income				
Interest income on assets at amortized cost:	4,669	4,807	4,183	4,183
Deposits with credit institutions	*1,306*	*1,306*	*1,831*	*1,831*
Loans and receivables	*3,363*	*3,501*	*2,352*	*2,352*
Interest income from securities at fair value through profit or loss	1,158	1,158	1,181	1,181
Interest income from available-for-sale financial assets	6	–	7	–
Interest income from held-to-maturity securities	1,842	1,842	1,527	1,527
Total interest income	**7,675**	**7,807**	**6,898**	**6,891**
Interest expense				
Interest expenses from liabilities measured at amortized cost:	240	240	206	206
Deposits	*240*	*240*	*206*	*206*
Interest expenses on issued bonds	212	212	188	188
Payments to the Deposit Guarantee Fund	870	870	968	968
Other interest expenses	95	95	31	31
Total interest expenses	**1,417**	**1,417**	**1,393**	**1,393**
Net interest income	**6,258**	**6,390**	**5,505**	**5,498**

7. NET COMMISSION AND FEE INCOME

	2014		2013	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Fee and commission income				
Payments	8,930	8,930	10,151	10,151
Corporate banking fee income	776	776	717	717
Securities transactions	2,994	2,994	2,086	2,086
Trust operations	2,330	2,330	2,793	2,793
Account servicing	1,761	1,769	1,690	1,690
Other	1,662	1,662	1,541	1,541
Total fee and commission income	**18,453**	**18 461**	**18,978**	**18,978**
Fee and commission expense				
Correspondent accounts	864	864	1,019	1,019
Cash transactions and payment card transaction	441	441	350	350
Securities transactions	207	207	183	183
Total fee and commission expense	**1,512**	**1,512**	**1,552**	**1,552**
Net fee and commission income	**16,941**	**16,949**	**17,426**	**17,426**

NOTES TO THE GROUP CONSOLIDATED AND BANK SEPARATE FINANCIAL STATEMENTS

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

	2014		2013	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Net profit/(loss) from trading with financial assets and liabilities held-for-trading	(7)	(7)	349	350
Net (loss) from revaluation of financial assets and liabilities	(2,193)	(2,193)	(461)	(461)
Net (loss) from financial assets and liabilities at fair value through profit or loss	**(2,200)**	**(2,200)**	**(112)**	**(111)**

9. PROCEEDS FROM TRADING AND REVALUATION OF FOREIGN EXCHANGE

	2014		2013	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Net profit from foreign exchange transactions	8,105	8,106	6,268	6,269
Net loss from revaluation of foreign exchange	(17)	(17)	(6)	(5)
Net foreign exchange gains	**8,088**	**8,089**	**6,262**	**6,264**

10. OTHER OPERATING INCOME

	2014		2013	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Fines received	49	49	54	54
Rental income from real estate	34	2	65	2
Profit from sale of subsidiary	–	–	71	1
Dividends received	7	7	10	10
Corporate Tax refund from the budget	80	80	69	69
Recovery of written-off assets	9	9	1	1
Other	260	357	192	145
Total other operating income	**439**	**504**	**462**	**282**

NOTES TO THE GROUP CONSOLIDATED AND BANK SEPARATE FINANCIAL STATEMENTS

11. ADMINISTRATIVE EXPENSES

	2014		2013	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Salaries to the members of the Board and Council	616	592	437	434
Staff remuneration	7,545	7,122	6,047	5,818
Compulsory state social security contributions	1,649	1,578	1,494	1,444
Other staff costs	365	350	387	377
Communications and transport	427	386	489	474
Professional services	1,481	1,459	1,904	1,893
Rent, public utilities and maintenance	1,637	1,625	1,409	1,542
Depreciation and amortization costs	316	227	315	298
Computer network	302	302	279	279
Advertisement and marketing expenses	230	230	196	152
Other taxes	350	301	322	262
Insurance	83	65	36	34
Other	518	260	324	293
Total administrative expenses	**15,519**	**14,497**	**13,639**	**13,300**

In 2014 the average number of employees in the Group was 284 (2013: 252) and in the Bank 266 (2013: 235).

Information on the remuneration by category of positions as at 31.12.2014

Group

	Fixed share		Floating share	
	EUR'000	Number of employees	EUR'000	Number of employees
Board, Council	543	10	72	6
Positions that have a material impact on the risk profile	1,489	35	213	35
Other employees	4,901	239	689	225
Total	**6,933**	**284**	**974**	**266**

Information on the remuneration by category of positions as at 31.12.2014.

Bank

	Fixed share		Floating share	
	EUR'000	Number of employees	EUR'000	Number of employees
Board, Council	519	6	72	6
Positions that have a material impact on the risk profile	1,489	35	213	35
Other employees	4,510	225	689	225
Total	**6,518**	**266**	**974**	**266**

NOTES TO THE GROUP CONSOLIDATED AND BANK SEPARATE FINANCIAL STATEMENTS

12. OTHER OPERATING EXPENSES

	2014		2013	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Membership fees	131	130	108	108
Fees for real estate management	46	15	56	20
Fines	–	–	10	10
Other	223	746	535	270
Total other operating expenses	**400**	**891**	**709**	**408**

13. IMPAIRMENT OF FINANCIAL ASSETS

Impairment of assets for the Bank

	2014	2013
	EUR'000	EUR'000
Total allowances as at the beginning of the reporting period	**1,152**	**4,323**
Increase in the impairment allowance for loans and other assets	2,063	1,447
Allowances for investment properties	757	
Allowances for held-to-maturity financial assets	119	–
Allowances for investments in subsidiaries	1,500	(356)
Release of previously recognized allowances for loans and held-to-maturity financial assets	(5)	(7)
Change for the year	**4,434**	**1,084**
Assets written off during the year	(1,518)	(4,209)
Change of previously recognized allowances due to currency fluctuations	2	(46)
Total allowance as at the end of the reporting period	**4,070**	**1,152**

Impairment of assets for the Group

	2014	2013
	EUR'000	EUR'000
Total allowances as at the beginning of the reporting period	**1,152**	**4,277**
Increase in the impairment allowance for loans and other assets	2,063	1,447
Allowances for investment properties	1,207	–
Allowances for held-to-maturity financial assets	119	–
Allowances for investments in associates	517	–
Allowances for other assets	–	(310)
Release of previously recognized allowances for loans and held-to-maturity financial assets	(5)	(7)
Change for the year	**3,901**	**1,130**
Assets written off during the year	(1,518)	(4,209)
Change of previously recognized allowances due to currency fluctuations	2	(46)
Total allowance as at the end of the reporting period	**3,537**	**1,152**

NOTES TO THE GROUP CONSOLIDATED AND BANK SEPARATE FINANCIAL STATEMENTS

14. CORPORATE INCOME TAX

	2014		2013	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Corporate income tax	2,005	2,004	1,894	1,892
Prior year adjustment	(80)	(80)	(69)	(69)
Total current year tax expense	**1,925**	**1,924**	**1,825**	**1,823**

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 2014 and 2013.

	2014		2013	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Profit before tax	9,924	9,910	13,655	14,620
Theoretically calculated tax at rate 15%	1,489	1,487	2,048	2,193
Non-deductible expenses and exempt income, net	513	514	(262)	(409)
Changes in unrecognized deferred tax	3	3	108	108
Adjustment to the prior year CIT	(80)	(80)	(69)	(69)
Total income tax expense	**1,925**	**1,924**	**1,825**	**1,823**

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 of 31 December 2014 and 2013.

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

EUR '000	Assets		Liabilities		Net	
	2014	2013	2014	2013	2014	2013
Financial instruments at fair value through profit and loss	–	–	–	–		–
Property and equipment		–	(136)	(112)	(136)	(112)
Other liabilities	25	4	–	–	25	4
Total deferred tax asset/(liabilities)	**25**	**4**	**(136)**	**(112)**	**(111)**	**(108)**
Unrecognised deferred tax (asset)/liability	**–**	**–**	**–**	**–**	**111**	**108**

Deferred tax liability was not recognized in 2014 as the Group and the Bank consider it is not significant.

The rate of tax applicable for deferred tax was 15% (2013: 15%).

15. CASH AND DUE FROM THE CENTRAL BANK

	2014		2013	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Cash	712	710	684	682
Balance with the Bank of Latvia (including the minimum reserve deposit)	122,963	122,963	72,666	72,664
Total	**123,675**	**123,673**	**73,350**	**73,346**

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 2014, the amount of obligatory reserves was specified to be EUR 4,699 thousand (2013: EUR 17,749 thousand).

NOTES TO THE GROUP CONSOLIDATED AND BANK SEPARATE FINANCIAL STATEMENTS

16. DEPOSITS WITH CREDIT INSTITUTIONS

	2014		2013	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Demand deposits with credit institutions				
Credit institutions registered in Latvia	5,892	5,892	11,787	11,787
Credit institutions registered in OECD countries	121,030	121,015	105,206	105,206
Credit institutions of other countries	35,002	34,974	25,007	24,983
Impairment allowance	–	–	(828)	(828)
Total demand deposits with credit institutions	**161,924**	**161,881**	**141,172**	**141,148**
Loans issued to credit institutions	**32,294**	**32,294**	**12,158**	**12,158**
Term deposits with credit institutions	**121,051**	**121,051**	**142,089**	**142,089**
Total deposits with credit institutions	**315,269**	**315,226**	**295,419**	**295,395**

As at 31 December 2014, the Bank had correspondent accounts with 38 banks (2013: 46). The largest account balances were with COMMERZBANK AG – EUR 35,267 thousand (2013: EUR 16,598 thousand), DEUTSCHE BANK TRUST COMPANY AMERICAS – EUR 31,506 thousand (2013: EUR 17,615 thousand), DNB BANKA - EUR 16,500 thousand (2013: EUR 15 000 thousand).

As at 31 December 2014 the Bank had a deposit with COMMERZBANK AG with the total amount exceeding 10% of total deposits with credit institutions, which amounted to EUR 35,267 thousand.

As at 31 December 2013 the Bank had no amounts due from credit institutions and other financial institutions which exceeded 10% of total deposits with credit institutions.

As at 31 December 2014, EUR 512 thousand was pledged as collateral for a letter of credit.

As at 31 December 2013 EUR EUR 75 thousand was pledged as collateral under an OTC currency future deal, EUR 512 thousand was pledged as collateral for a letter of credit, and EUR 652 thousand was pledged as collateral in Latvian Bank for euro delivery.

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2014		2013	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Fixed income securities:				
US notes	31,488	31,488	–	–
Eurobonds issued by companies and credit institutions of OECD countries	5,704	5,704	1,850	1,850
Eurobonds issued by companies and credit institutions of non-OECD countries	14,753	14,753	14,892	14,892
Total	**51,945**	**51,945**	**16,742**	**16,742**

NOTES TO THE GROUP CONSOLIDATED AND BANK SEPARATE FINANCIAL STATEMENTS

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

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:

	2014	2013
	EUR'000	EUR'000
Fixed income securities		
– Government and municipal bonds		
Rated from AAA to A-	31,488	791
Rated from BB+ to BB	–	–
Rated below BB-	1,736	2,398
Total Government and municipal bonds	**33,224**	**3,189**
– Corporate bonds and securities of credit institutions		
Rated from AAA to A-	4,997	–
Rated from BBB+ to BBB-	3,261	–
Rated from BB- to BB+	4,678	4,754
Rated below BB-	5,191	7,908
Not rated	594	891
Total corporate bonds and securities of credit institutions	**18,721**	**13,553**
Total fixed income securities	**51,945**	**16,742**

Information on derivative financial assets is disclosed in Note 32.

18. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2014		2013	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Fixed income securities				
Corporate bonds of Latvian-based companies	529	–	830	–
Total	**529**	**–**	**830**	**–**
Shares and other securities with non-fixed income				
SWIFT shares	89	89	89	89
Total	**89**	**89**	**89**	**89**
Total financial assets available for sale	**618**	**89**	**919**	**89**

19. LOANS AND RECEIVABLES

(a) Loans

	2014		2013	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Financial institutions	8,664	8,664	775	775
Corporates	52,900	52,900	32,647	38,657
Individuals	3,994	3,994	4,967	4,967
Total loans and receivables	**65,558**	**65,558**	**38,389**	**44,399**
Impairment allowance	(60)	(60)	(20)	(20)
Net loans and receivables	**65,498**	**65,498**	**38,369**	**44,379**

NOTES TO THE GROUP CONSOLIDATED AND BANK SEPARATE FINANCIAL STATEMENTS

19. LOANS AND RECEIVABLES (continued)

(b) Analysis of loans by type

	2014		2013	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Loan portfolio				
Corporate loans	26,424	26,424	12,654	18,664
Industrial loans	22,795	22,795	3,058	3,058
Payment card loans	632	632	503	503
Mortgage loans	4,071	4,071	10,679	10,679
Finance lease	2,169	2,169	2,282	2 282
Factoring	636	636	–	–
Other loans	1,481	1,481	1,850	1,850
Total loan portfolio	**58,208**	**58,208**	**31,026**	**37,036**
Securities-backed loans				
Reverse repo	7,350	7,350	7,363	7,363
Total securities-backed loans	**7,350**	**7,350**	**7,363**	**7,363**
Total loans and receivables	**65,558**	**65,558**	**38,389**	**44,399**
Impairment allowance	(60)	(60)	(20)	(20)
Net loans and receivables	**65,498**	**65,498**	**38,369**	**44,379**

(c) Geographical segmentation of the loans

	2014		2013	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Loans to residents of Latvia	40,289	40,289	18,584	24,594
Loans to residents of OECD countries	1,756	1,756	4,456	4,456
Loans to residents of non-OECD countries	23,513	23,513	15,349	15,349
Total loans and receivables	**65,558**	**65,558**	**38,389**	**44,399**
Impairment allowance	(60)	(60)	(20)	(20)
Net loans and receivables	**65,498**	**65,498**	**38,369**	**44,379**

(d) Ageing structure of the loan portfolio

Bank	Total	Of which not past due on the reporting date	Of which past due by the following terms				Net carrying amount of overdue loans
	EUR'000		Less than 30 days	31-90 days	91-180 days	More than 180 days	
31 December 2014							
Net carrying amount	**65,498**	61,928	219	3,215	–	136	3,570
Out of which impaired	**127**	–	–	–	–	127	127
31 December 2013							
Net carrying amount	**44,379**	44,332	–	–	–	47	47
Out of which impaired	**47**	–	–	–	–	47	47

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

19. LOANS AND RECEIVABLES (continued)

(e) Impaired loans

	2014		2013	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Impaired loans, gross	187	187	67	67
Impairment allowance	(60)	(60)	(20)	(20)
Net loans and receivables	**127**	**127**	**47**	**47**

(f) Movements in the impairment allowance

Movements in the impairment allowance as at 31 December 2014 and 2013 are as follows:

	2014		2013	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Opening balance	**20**	**20**	**3,115**	**3,115**
Increase in the impairment allowance for loans and receivables	159	159	1,143	1,143
Reversal of impairment loss	(1)	(1)	(1)	(1)
Loans written off	(120)	(120)	(4,206)	(4,206)
Effect of foreign currency translation	2	2	(31)	(31)
Closing balance	**60**	**60**	**20**	**20**

(g) Industry analysis of the loan portfolio of the Bank

	2014	2013
	EUR'000	EUR'000
Water transport	1,745	1,299
Financial services	10,806	7,137
Wholesale	6,376	7,871
Real estate	2,712	8,221
Leisure, recreation, sports	1,439	1,464
Overdraft	8,971	1,979
Metallurgy	18,323	2,892
Transport and storage	3,153	6,784
Private customer – mortgage loan and consumer loan	3,510	4,622
Manufacture of food products	4,313	-
Other services	4,150	2,110
Net loans and receivables	**65,498**	**44,379**

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

EUR'000	31 December 2014	% of loan portfolio	31 December 2013	% of loan portfolio
Commercial buildings	10,381	16	15,159	34
Real estate – first mortgage	21,455	33	7,328	16
Commercial assets pledge	3,987	6	4,431	10
Commercial assets: Water transport	1,745	3	1,299	3
Trading securities	7,350	11	7,365	17
Guarantee	8,108	12	-	-
No collateral	12,472	19	8,797	20
Net loans and receivables	**65,498**	**100**	**44,379**	**100**

19. LOANS AND RECEIVABLES (continued)

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 collateral. Impaired or overdue loans with a gross value of EUR 3 089 thousand are secured by collateral with a fair value of EUR 2 637 thousand. For the remaining impaired loans of EUR 481 thousand there is no collateral or it is impracticable to determine fair value of collateral.

(j) Restructured loans

As at 31 December 2014 and 2013, the loans restructured by the Bank possessed the following signs of restructuring:

EUR'000	2014	2013
	EUR'000	EUR'000
Reduced interest rate	1,439	–
Loan holidays	1,664	1,464
Total restructured loans	**3,103**	**1,464**

(k) Repossessed assets

In 2011, the Bank took over collaterals (movable property) of EUR 2,558 thousand and in 2012 – of EUR 4,127 thousand (see Note 25). No collaterals were overtaken during 2014.

(l) Significant credit exposures

As at 31 December 2014 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 EUR 10,386 thousand.

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 EUR 6,016 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 the Bank's equity. As at 31 December 2014 and 2013 the Bank was in compliance with this requirement.

20. HELD-TO-MATURITY FINANCIAL ASSETS

	2014		2013	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Debt securities and other securities with fixed income				
Eurobonds issued by Latvian credit institutions	3,102	3,102	1,002	1,002
Eurobonds issued by companies and credit institutions of other countries	29,017	29,017	28,207	28,207
Total debt securities	**32,119**	**32,119**	**29,209**	**29,209**
Impairment allowance	(119)	(119)	(4)	(4)
Debt securities, net	**32,000**	**32,000**	**29,205**	**29,205**

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

	2014	2013
	EUR'000	EUR'000
Debt securities and other securities with fixed income		
– Corporate bonds		
Rated from BBB+ to BBB-	9,165	11,221
Rated from BB- to BB+	14,166	8,628
Rated below BB-	4,059	7,852
Not rated	4,610	1,504
Total corporate bonds	**32,000**	**29,205**
Debt securities and other securities with fixed income	**32,000**	**29,205**

NOTES TO THE GROUP CONSOLIDATED AND BANK SEPARATE FINANCIAL STATEMENTS

20. HELD-TO-MATURITY FINANCIAL ASSETS (continued)

Analysis of movements in the impairment allowance

	2014 EUR'000	2013 EUR'000
Opening balance	4	10
Adjustment of previously recognized allowances	(4)	(6)
Current reporting period impairment allowance	119	–
Closing balance	**119**	**4**

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 as at that date. The table below sets out the financial assets reclassified and their carrying and fair values:

EUR '000	1 July 2008		31 December 2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Held-for-trading assets reclassified to held-to-maturity financial assets	8,189	8,189	1,201	1,085
	8,189	**8,189**	**1,201**	**1,085**

The table below sets out the amounts actually recognized in profit or loss and equity during 2014 in respect of financial assets reclassified out of trading asset:

EUR '000	Net income	Capital and reserves
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	–	–
Coupon income	105	–
Net gain on appreciation of the value	–	–

The table below sets out the amounts that would have been recognized in the period following reclassification during 2014 if the reclassifications had not been made:

EUR '000	Profit or (loss)
Net loss on financial instruments at fair value through profit or loss reclassified to held-to-maturity financial assets	(116)

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

EUR '000	9 September 2011		31 December 2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Held-for-trading assets reclassified to held-to-maturity financial assets	7,790	7,790	614	608
	7,790	**7,790**	**614**	**608**

NOTES TO THE GROUP CONSOLIDATED AND BANK SEPARATE FINANCIAL STATEMENTS

20. HELD-TO-MATURITY FINANCIAL ASSETS (continued)

The table below sets out the amounts actually recognized in profit or loss and equity during 2014 in respect of financial assets reclassified out of trading assets:

EUR '000	Net income	Capital and reserves
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	26	–
Coupon income	102	–
Net losses from appreciation of value	–	–

The table below sets out the amounts that would have been recognized in the period following reclassification during 2014 if the reclassifications had not been made:

EUR '000	Profit or (loss)
Net loss from financial assets and liabilities at fair value through profit or loss reclassified to held-to-maturity financial assets	(7)

21. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

(a) Investments in subsidiaries (Group)

Company	Capital contribution	Carrying amount 31.12.2014	Carrying amount 31.12.2013
		EUR'000	EUR'000
SIA "Baltikums International"	100%	3,274	2,997
Impairment allowance		*(1,050)*	–
SIA "Zapdvina Development"	100%	1,003	988
Impairment allowance		*(450)*	–
SIA "CityCap Service"	100%	546	546
UAB "Kamaly Development"	100%	3	3
AS "Pils Pakalpojumi"	61%	10,492	4,338
Non-reciprocal capital contribution by parent into subsidiary		*(2,400)*	–
SIA "BB Broker Systems"	100%	43	28
"Baltikums Luxembourg S.A."	100%	31	31
SIA "Jēkaba 2"	100%	4,049	–
		15,541	**8,931**

In December 2014, the Bank's subsidiary SIA "Pils pakalpojumi" changed its legal status to AS "Pils pakalpojumi" and increased its share capital by 200 shares. After this increase, the share capital of AS" Pils pakalpojumi" consisted of 2,628,052 shares with nominal value of EUR 1, amounting to EUR 2,628,052. In December 2014, AS "Pils Pakalpojumi" issued 200 new shares of stock by capitalising a loan and accrued interests received from Baltikums Bank AS. The price of issued shares of stock with nominal value 1 EUR and share emission mark up. One share emission mark-up is 30,766 EUR, overall for 200 shares mark-up is 6,153,504 EUR. This issue of new shares is considered as non-reciprocal capital contribution by Baltikums Bank AS and is accounted as a capital transaction. Since non-controlling interests (NCI) own 39% of shares in AS "Pils Pakalpojumi", than, according to IFRS 10, 39% of the capital contribution is allocated to NCI, amounting to EUR 2 400 thousands in consolidated financial statements. The result of this transaction is recognised in other reserves.

NOTES TO THE GROUP CONSOLIDATED AND BANK SEPARATE FINANCIAL STATEMENTS

21. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES (continued)

In September 2014, the Bank increased the share capital of its subsidiary, SIA "BB Broker Systems", by EUR 14,994. After this increase, the share capital of SIA BB Broker Systems consisted of 306 shares with nominal value of EUR 142 amounting to EUR 43,452.

In April and December 2014, the Bank increased the share capital of its subsidiary, SIA "Zapdvina Development", by EUR 15,012. After this increase, the share capital of SIA "Zapdvina Development" consisted of 476,018 shares with nominal value of EUR 1 amounting to EUR 476,018.

In 2014 the Bank has recognised impairment allowance for investment in subsidiary SIA "Zapdvina Development" for total amount of EUR 450 thousands, due to impairment loss of company's assets. SIA "Zapdvina Development" owns a land plot in Daugavpils, which books value was of EUR 1 007 thousands. The assessment of fair value of property was based on the comparison method where similar deals were reviewed, and it was concluded that fair value is EUR 557 thousands and additional provisions in amount of EUR 450 thousands were recognised.

In April and September 2014, the Bank increased the share capital of its subsidiary, SIA "Baltikums International", by 1,955 shares with nominal value of EUR 142 for a total of EUR 277,610. After this increase, the share capital of SIA "Baltikums International" consisted of 22,899 shares with nominal value of EUR 142 amounting to EUR 3,251,658.

In 2014 the Bank has recognised impairment allowance for investment in subsidiary SIA „Baltikums International" for total amount of EUR 1,050 thousands due to impairment loss in its subsidiaries. SIA „Baltikums International" has three subsidiaries and one associate. Two of these companies, "Foxtran Management Ltd" and "Enarlia International Inc.", are special purpose entities. "Foxtran Management Ltd" does not generate any income and has negative equity, and therefore impairment loss was recognized for full amount of the investment amounted to EUR 309 thousands. "Enarlia International Inc." has positive equity, however investment by SIA „Baltikums International" exceeds net assets of "Enarlia International Inc.". Impairment loss was recognized for difference between net assets of the subsidiary and investment amounted to EUR 224 thousands.

Two remaining companies, "KamalyDevelopment EOOD" and AS "Termo biznesa Centrs", own investment properties which were tested for impairment loss, using discounted cash flow and comparison method. The assessment of fair value of property owned by "KamalyDevelopment EOOD" was based on two methods - comparison method, by reviewing similar offers, and income method using capitalisation rate of 5%. Based on assessment impairment loss was not identified. The assessment of fair value of property owned by AS "Termo biznesa Centrs" was based on discounted cash flow using weighted average coefficient of 9.14%. Based on the assessment additional impairment loss of EUR 517 thousands was recognised.

The Bank does not identify any other impairment losses' signs for the remaining subsidiaries.

(b) Purchased subsidiaries in 2014

Share purchase in 2014:	Controlling interest	True value of assets at purchase	Paid amount	Goodwill value
		EUR'000	EUR'000	EUR'000
Jēkaba 2 SIA	100%	4,047	4,049	2
Total		**4,047**	**4,049**	**2**

21. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES (continued)

Banks management has reviewed asset retrievable value and holds view that retrievable value doesn't differ from asset accounting value.

	Book value before purchase						
	Short term assets	Long term investments	Short term liabilities	Net identifiable assets	Goodwill value	Purchase core value	Net used money
	Cash EUR'000	Real estate EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Jēkaba 2 SIA	243	3,806	(2)	4,047	2	4,049	3,806
Total	**243**	**3,806**	**(2)**	**4,047**	**2**	**4,049**	**3,806**

In September 2014 Bank bought 100% of SIA "Jēkaba 2". From this transaction goodwill of 2 thousand EUR was established.

Bought entity is owner of building in Jēkaba iela 2 and Bank plans to use this building for commercial purposes. Currently Bank is renovating this building.

(c) Investments in subsidiaries (subsidiaries of the Group)

Company	Capital contribution	Carrying amount 31.12.2014	Carrying amount 31.12.2013
		EUR'000	EUR'000
"KamalyDevelopment EOOD"	100%	692	692
"Foxtran Management Ltd" (Belize) – special purpose entity	100%	309	162
Impairment allowance		*(309)*	–
"Enarlia International Inc." (Belize) - special purpose entity	100%	293	162
Impairment allowance		*(224)*	–
		761	**1,016**

In April and September 2014, SIA "Baltikums International" increased the share capital of its subsidiary "Foxtran Management Ltd" by EUR 146,910. After this increase, the share capital of "Foxtran Management Ltd" consists of 375,506 shares with the nominal value USD 1 amounting to USD 375,506 or EUR 309 thousand (according to the European Central bank rate of 1.2141).

In April and September 2014, SIA "Baltikums International" increased the share capital of its subsidiary "Enarlia International Inc." by EUR 130,700. After this increase, the share capital of "Enarlia International Inc." consists of 355,825 shares with the nominal value USD 1 amounting to USD 355,825 or EUR 293 thousand (according to the European Central bank rate of 1.2141).

Investment in "Foxtran Management Ltd" and "Enarlia International Inc." were tested for impairment losses, the result of which is described in 21(a).

(d) Investments in associates (Bank and Group)

Company	Capital contribution	Carrying amount 31.12.2014		Carrying amount 31.12.2013	
		EUR'000		EUR'000	
		Group	Bank	Group	Bank
AAS "Baltikums"	19.45%	1,505	1,565	1,287	1,565
AS "Termo biznesa Centrs"	26.15 %	1,848	–	1,848	–
Impairment allowance		*(517)*	–	–	–
Total		**2,836**	**1,565**	**3,135**	**1,565**

NOTES TO THE GROUP CONSOLIDATED AND BANK SEPARATE FINANCIAL STATEMENTS

21. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES (continued)

Group

	AS "Termo biznesa Centrs"	AAS "Baltikums"	Total
As at 31 December 2012	**1,848**	**1,749**	**3,597**
Dividends received	-	(52)	**(52)**
Share in net loss of associated companies	-	(410)	**(410)**
As at 31 December 2013	**1,848**	**1,287**	**3,135**
Impairment allowance	(517)	-	(517)
Share in net profit of associated companies	-	218	**218**
As at 31 December 2014	**1,331**	**1,505**	**2,836**

Investment in AS "Termo biznesa Centrs" were tested for impairment losses, the result of which is described in 21(a).

Financial information of associated company:

	Current assets	Long-term invest-ments	Total assets	Current liabili-ties	Non-current liabili-ties	Total liabili-ties	Net assets	Income	Expen-ses	Net profit/ loss	Group's share of net assets	Group's share of profit/ loss
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
31 December 2013												
AAS „Baltikums"	5,666	16,716	22,382	(2,269)	(14,111)	(16,380)	6,002	585	(2,692)	(2,107)	1,167	(410)
31 December 2014												
AAS „Baltikums"	**5,275**	**17,880**	**23,155**	**(2,270)**	**(13,674)**	**(15,944)**	**7,211**	**1,963**	**(840)**	**1,123**	**1,403**	**218**
31 December 2013												
AS „Termo biznesa Centrs"	66	354	420	(18)	(28)	(46)	374	219	(214)	5	98	–
31 December 2014												
AS „Termo biznesa Centrs"	**69**	**350**	**419**	**(18)**	**(24)**	**(42)**	**308**	**200**	**(197)**	**3**	**99**	**–**

(e) Uncontrolled interest in subsidiaries

Table shows information about Groups subsidiary AS "Pils pakalpojumi" where Group holds significant uncontrolled interest 39% before inter-group deal extraction:

	Current asset	Long-term invest-ment	Total assets	Current liabili-ties	Non-current liabili-ties	Total liabili-ties	Net assets	Income	Expen-ses	Net loss	Uncon-trolled interest recog-nition amount	Loss recog-nised in uncon-trolled interest
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
31 December 2013												
AS „Pils pa-kalpojumi"	478	12,442	12,920	(26)	(6,016)	(6,042)	6,878	252	(513)	(261)	2,682	(102)
31 December 2014												
AS „Pils pa-kalpojumi"	**716**	**11,932**	**12,648**	**(223)**	**–**	**(223)**	**12,425**	**314**	**(718)**	**(404)**	**4 846**	**(158)**

22. INVESTMENT PROPERTY

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

	2014		2013	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Real estate in Latvia	3,517	1,941	3,517	1,941
Real estate in Estonia	107	107	114	114
Real estate in Lithuania	2,807	2,807	2,807	2,807
Real estate in Bulgaria	521	–	521	–
Impairment allowance (property in Lithuania and Latvia)	(1,207)	(757)	–	–
	5,745	**4,098**	**6,959**	**4,862**

	Group	Bank
	EUR'000	EUR'000
As at 31 December 2011	**11,453**	**4,888**
Disposals (property in Latvia)	(4,468)	–
Depreciation of buildings	(7)	(7)
Value adjustment (property in Lithuania)	(10)	(10)
31 December 2012	**6,968**	**4,871**
Depreciation of buildings	(9)	(9)
31 December 2013	**6,959**	**4,862**
Depreciation of buildings	(7)	(7)
Impairment allowance (property in Lithuania and Latvia)	(1,207)	(757)
31 December 2014	**5,745**	**4,098**

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

Management has assessed the fair value of investment property as at 31 December 2014 and 2013 using market data and where applicable – the discounted cash flow method.

In 2014, the Bank has recognised impairment losses for investment property in Lithuania of EUR 757 thousand. The assessment of impairment loss for property in Lithuania was based on comparison method by determining an average price for 1 m2 which was 2 EUR.

In 2014, the Group has recognised impairment losses for investment property in Lithuania and Latvia amounted to EUR 1 207 thousand. The assessment of impairment loss for property in Lithuania was based on comparison method by determining an average price for 1 m2 which was 2 EUR. The assessment of fair value of property in Latvia was based on the comparison method, where similar deals were reviewed it was concluded that fair value is EUR 557 thousands and additional provisions in amount of EUR 450 thousands were recognised.

Management has concluded that the fair value of investment property is not lower than its net carrying amount as at 31 December 2014 and 2013.

The fair value of the Bank's investment property in 2014 was assessed in the range from EUR 5 632 till 5 894 thousand (2013: from EUR 7 871 to 7 965 thousand).

Income from renting out investment properties of the Group in 2014 amounted EUR 33 483; maintenance expenses amounted to EUR 131 987.

Income from renting out investment properties of the Group in 2013 amounted EUR 64 926; maintenance expenses amounted to EUR 188 858.

The fair value of the investment property of EUR 5 745 is categorized within Level 2 of the Fair Value Hierarchy.

NOTES TO THE GROUP CONSOLIDATED AND BANK SEPARATE FINANCIAL STATEMENTS

22. INVESTMENT PROPERTY (continued)

The table describes the valuation method used to arrive at the fair value of property, and the significant unobservable inputs:

Type	Fair value, '000 EUR	Valuation method	Significant unobservable inputs	Difference between significant unobservable inputs and fair value measurement
Land, Sporta street, Rīga, Latvia	1,785	Comparison method	Price per m^2 from EUR 72 to EUR 450	Fair value would increase (reduce) if the price per m^2 was higher (lower).
Land, Kungu street, Liepāja, Latvia	60	Comparison method	Price per m^2 from EUR 12 to EUR 35	Fair value would increase (reduce) if the price per m^2 was higher (lower).
Buildings and land, Jurģu street, Jūrmala, Latvia	96	Comparison method	Price per m^2 from EUR 60 to EUR 66,3	Fair value would increase (reduce) if the price per m^2 was higher (lower).
Building, Narvas street, Tallina, Estonia	107	Comparison method	Price per m^2 from EUR 851 to EUR 1,258.7	Fair value would increase (reduce) if the price per m^2 was higher (lower).
Land, Klaipēda, Lithuania	2,050	Comparison method	Price per m^2 EUR 2	Fair value would increase (reduce) if the price per m^2 was higher (lower).
Building, Bulgaria	521	Comparison method	Price per m^2 EUR 1 915	Fair value would increase (reduce) if the price per m^2 was higher (lower).
Land, Mūku purvu, Latvia	569	Comparison method	Price per m^2 from EUR 27.8 to EUR 127.8	Fair value would increase (reduce) if the price per m^2 was higher (lower).
Land, Akācijas street, Daugavpils, Latvia	557	Comparison method	Price per m^2 from EUR 7 to EUR 10	Fair value would increase (reduce) if the price per m^2 was higher (lower).
Total	**5,745**			

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23. PROPERTY AND EQUIPMENT

	Land and buildings EUR'000		Leasehold improvements EUR'000		Vehicles EUR'000		Office equipment EUR'000		Total EUR'000	
	Group	Bank	Group	Bank	Group	Bank	Group	Bank	Group	Bank
Cost										
31 December 2012	**11,288**	**-**	**-**	**-**	**82**	**82**	**1,079**	**1,010**	**12,449**	**1,092**
Additions	-	-	-	-	-	-	146	99	146	99
Disposals	-	-	-	-	(27)	(27)	(196)	(196)	(223)	(223)
31 December 2013	**11,288**	**-**	**-**	**-**	**55**	**55**	**1,029**	**913**	**12,372**	**968**
Additions	3,800	-	779	779	67	67	96	90	4,742	936
Correction	(107)	-	-	-	-	-	-	-	(107)	-
Disposals	-	-	-	-	-	-	(95)	(93)	(95)	(93)
31 December 2014	**14,981**	**-**	**779**	**779**	**122**	**122**	**1,030**	**910**	**16,912**	**1,811**
Depreciation										
31 December 2012	**-**	**-**	**-**	**-**	**34**	**34**	**743**	**721**	**777**	**755**
Depreciation	-	-	-	-	7	7	158	142	165	149
Depreciation, Cyprus branch	-	-	-	-	4	4	10	10	14	14
Disposals	-	-	-	-	(10)	(10)	(186)	(186)	(196)	(196)
31 December 2013	**-**	**-**	**-**	**-**	**35**	**35**	**725**	**687**	**760**	**722**
Depreciation	52	-	-	-	8	8	148	116	208	124
Disposals	-	-	-	-	-	-	(93)	(93)	(93)	(93)
31 December 2014	**52**	**-**	**-**	**-**	**43**	**43**	**780**	**710**	**875**	**753**
Net carrying amount										
31 December 2012	**11,288**	**-**	**-**	**-**	**48**	**48**	**336**	**289**	**11,672**	**337**
31 December 2013	**11,288**	**-**	**-**	**-**	**20**	**20**	**304**	**226**	**11,612**	**246**
31 December 2014	**14,929**	**-**	**779**	**779**	**79**	**79**	**250**	**200**	**16,037**	**1,058**

The table describes the valuation method of balance position "Land and buildings" used to arrive at the fair value of property, and the significant unobservable inputs:

Type	Fair value, '000 EUR	Valuation method	Significant unobservable inputs	Difference between significant unobservable inputs and fair value measurement
Smilšu street, Riga, Latvia	11,181	Comparison method	Price per m^2 from EUR 2,070	Fair value would increase (reduce) if the price per m^2 was higher (lower).
Jēkaba street, Riga, Latvia	3,748	Comparison method	Price per m^2 from EUR 1,900	Fair value would increase (reduce) if the price per m^2 was higher (lower).
Total	**14,929**			

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24. INTANGIBLE ASSETS

Group	Goodwill EUR'000	Software EUR'000	Total EUR'000
Acquisition cost			
31 December 2012	**691**	**857**	**1,548**
Acquired in the reporting period	10	522	532
Disposed in the reporting period	–	(220)	(220)
31 December 2013	**701**	**1,159**	**1,860**
Acquired in the reporting period	67	390	457
Disposed in the reporting period	–	(153)	(153)
31 December 2014	**768**	**1,396**	**2,164**
Amortization for the period			
31 December 2012	**–**	**594**	**594**
Amortization for the reporting period	–	95	95
Amortization for the reporting period, Cyprus branch	–	31	31
Amortization of assets disposed in the reporting period, Cyprus branch	–	(155)	(155)
31 December 2013	**–**	**565**	**565**
Amortization for the reporting period	–	101	101
Amortization of assets disposed in the reporting period	–	(22)	(22)
31 December 2014	**–**	**644**	**644**
Net carrying amount			
31 December 2012	**691**	**263**	**954**
31 December 2013	**701**	**594**	**1,295**
31 December 2014	**768**	**752**	**1,520**

After annual impairment testing the Bank did not find any events or changes in circumstances, that would indicate that goodwill might have be impaired.

24. INTANGIBLE ASSETS (continued)

Bank	Software EUR'000
Acquisition cost	
31 December 2012	**851**
Disposed in the reporting period	(221)
Acquired in the reporting period	512
31 December 2013	**1,142**
Disposed in the reporting period	(153)
Acquired in the reporting period	381
31 December 2014	**1,370**
Amortization	
31 December 2012	**589**
Amortization for the reporting period	94
Amortization for the reporting period, Cyprus branch	31
Amortization of assets disposed in the reporting period, Cyprus branch	(155)
31 December 2013	**559**
Amortization for the reporting period	**96**
Amortization of assets disposed in the reporting period	(22)
31 December 2014	**633**
Net carrying amount	
31 December 2012	**262**
31 December 2013	**583**
31 December 2014	**737**

25. OTHER ASSETS

	2014		2013	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Other financial assets				
Unfinished securities transactions	–	–	2,277	2,277
Security deposit (MasterCard Europe, VISA Card)	1,568	1,568	1,488	1,488
Receivables in transactions with MasterCard Europe	265	265	504	504
Receivables under SPOT transactions	186	186	1	1
Receivable for disposal of a subsidiary	–	–	869	869
Other receivables	618	377	822	451
Other non-financial assets				
Assumed collaterals – movable property	6,685	6,685	6,685	6,685
VAT overpayment	52	23	51	16
Stock	–	–	9	–
Total other assets	**9,374**	**9,104**	**12,706**	**12,291**
Allowances for other assets – movable property	(1,634)	(1,634)	(300)	(300)
Other assets, net	**7,740**	**7,470**	**12,406**	**11,991**

25. OTHER ASSETS (continued)

In 2014, security deposits of EUR 1,568 thousand (2013: EUR 1,488 thousand) were reserved for potential transactions connected with MasterCard Europe and VISA Card systems.

Assumed collaterals include two yachts. Assumed collaterals are recognized at cost less impairment allowance.

Management has assessed the fair value of assumed collaterals as at 31 December 2014 and 2013 using market data.

The fair value of the Group's and the Bank's assumed collaterals, of the total value 6 685 EUR, in 2014 was estimated to be EUR 5,051 thousand (2013: EUR 10,020 thousand).

In 2014 the Group and the Bank has recognised impairment losses for two yachts for total amount of EUR 1,634 thousand. The assessment of impairment loss was based on the comparison method. As a result of the assessment impairment loss of EUR 1 634 thousands was recognised.

The fair value of other non-financial assets of EUR 5,051 thousand is categorized within Level 2 of the Fair Value Hierarchy.

The table describes the valuation method used to arrive at the fair value of other assets, and the significant unobservable inputs:

Type	Book value less impairment, '000 EUR	Valuation method	Significant unobservable inputs, '000 EUR	Difference between significant unobservable inputs and fair value measurement
Movable asset Golf course inventories Lithuania	51	Comparison method	Price per unit 51	Fair value would increase (reduce) if the price per item was higher (lower)
Movable asset White Rose yacht	2,500	Comparison method	Price per unit 2,500	Fair value would increase (reduce) if the price per item was higher (lower)
Movable asset Silver Rose yacht	2,500	Comparison method	Price per unit 2,500	Fair value would increase (reduce) if the price per item was higher (lower)
Total	**5,051**			

26. DUE TO CREDIT INSTITUTIONS ON DEMAND

	2014		2013	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Credit institutions registered in Latvia	1,150	1,150	1,160	1,160
Credit institutions registered in OECD countries	949	949	68	68
Credit institutions registered in other countries (non-OECD)	660	660	1,003	1,003
	2,759	**2,759**	**2,231**	**2,231**

As at 31 December 2014 the Bank had two credit institutions whose account balances each exceeded 10% of total deposits on demand with other credit institutions. Total balances of these credit institutions as at 31 December 2014 amounted to EUR 2,019 thousand.

As at 31 December 2013 the Bank had four credit institutions whose account balances each exceeded 10% of total deposits on demand with other credit institutions. Total balances of these credit institutions as at 31 December 2013 amounted to EUR 1,750 thousand.

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27. DUE TO CREDIT INSTITUTIONS

	2014		2013	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Credit institutions registered in other countries (non-OECD)	–	–	141	141
	–	**–**	**141**	**141**

28. FINANCIAL LIABILITIES CARRIED AT AMORTIZED COST: DEPOSITS

	2014		2013	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Current accounts:				
Financial institutions	19,464	19,541	2,942	3,016
Corporate entities	432,704	433,262	360,291	360,372
Individuals	58,581	58,581	52,901	52,901
	510,749	**511,384**	**416,134**	**416,289**
Term deposits:				
Subordinated liabilities	3,922	3,922	2,345	2,345
Other financial institutions	1,203	1,203	3,983	3,983
Corporate entities	36,364	36,364	4,505	4,505
Individuals	2,933	2,933	952	952
	44,422	**44,422**	**11,785**	**11,785**
Total deposits	**555,171**	**555,806**	**427,919**	**428,074**

As at 31 December 2014, the Bank maintained customer deposit balances of EUR 5,795 thousand which were blocked by the Bank as collateral for loans and other credit instruments granted by the Bank (as at 31 December 2013: EUR 2,698 thousand).

As at 31 December 2014 the Bank had no customers/customer groups with deposits exceeding 10% of the total customer deposits (as at 31 December 2013: none).

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

During 2014, the Bank sold securities at nominal value of EUR 5.4 million and USD 780 thousand (EUR 642 thousand).

During 2013, securities of EUR 100 thousand were sold at the nominal value.

During 2012, the Bank sold securities at nominal value of EUR 3 million and USD 100 thousand (EUR 75 thousand).

In November 2012 the Bank conducted the fifth issue of bonds. The planned amount of issue – EUR 10 million and USD 10 million (EUR 7,555 thousand). Coupon rate 6%.

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.

NOTES TO THE GROUP CONSOLIDATED AND BANK SEPARATE FINANCIAL STATEMENTS

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

	2014		2013	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Issued subordinated bonds	9,224	9,224	3,176	3,176
Accrued interest payments	60	60	26	26
Rate difference	–	–	(4)	(4)
Total	**9,284**	**9,284**	**3,198**	**3,198**

30. PROVISIONS

	Group	Bank
	EUR'000	EUR'000
31 December 2012	**313**	**307**
Increase of provisions	27	33
31 December 2013	**340**	**340**
Increase of provisions	170	170
31 December 2014	**510**	**510**

Provisions consist of provisions for unused vacations of employees.

31. OTHER LIABILITIES

	2014		2013	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Other financial liabilities				
Credit card payments	80	80	–	–
Repo deals	3	3	81	81
Funds in transit	–	–	17	17
Other liabilities, balances of closed customers' accounts	182	182	169	169
Other non-financial liabilities				
Operating and other liabilities	85	85	26	26
Tax settlements	10	10	2	2
VAT payable	36	36	–	–
Other liabilities	46	–	21	–
	442	**396**	**316**	**295**

NOTES TO THE GROUP CONSOLIDATED AND BANK SEPARATE FINANCIAL STATEMENTS

32. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

Group and Bank	2014 EUR'000		2013 EUR'000	
	Carrying amount	Nominal value	Carrying amount	Nominal value
Assets				
Future contracts	2,258	100,025	499	114,668
Total derivative financial assets	**2,258**	**100,025**	**499**	**114,668**
Liabilities				
Future contracts	591	98,358	100	114,269
Total derivative liabilities	**591**	**98,358**	**100**	**114,668**

As at 31 December 2014 the Bank had 36 foreign exchange forward contracts outstanding and none with related parties (in 2013 – 38 contracts, including 2 with related parties).

As at 31 December 2014 there were no derivative transactions with related parties. As at 31 December 2013 the fair value of derivatives of related parties was EUR 0,189 thousand.

33. SHARE CAPITAL AND RESERVES

In 31 December 2014 Banks share capital was 28,209,653 of common shares (In 2013 there were 28,209,653 common shares). As of 1 January 2014 share capital consists 28,209,653 shares with total value of 39,493,514.20. The nominal value of one share is EUR 1.40. The structure of shareholders holding ordinary shares did not change. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at the shareholders' meetings. All shares rank equally with regard to the Bank's residual assets.

	2014		2013	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Share capital				
Ordinary shares with voting rights	28,209,653	39,493	28,209,653	39,493
	28,209,653	**39,493**	**28,209,653**	**39,493**

Reserve includes a historically-established reserve amounting to EUR 24 thousand (2013: EUR 24 thousand) accumulated from retained earnings in accordance with the legislation of the Republic of Latvia.

The reserve capital amounting to EUR 24 thousand is not subject to any restrictions and can be distributed to the shareholders following an appropriate decision.

As at 31 December 2014 the Bank and the Group have recognised reserves from non-reciprocal capital contribution by parent into subsidiary in the amount of EUR 2,400 thousand. For transaction description please refer to Note 21 (a).

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 the reporting period, retained earnings available for distribution amount to EUR 14,488 thousand (2013: EUR 13,602 thousand).

During 2014, dividends of EUR 7.1 million were distributed (2013: EUR 12.8 million).

NOTES TO THE GROUP CONSOLIDATED AND BANK SEPARATE FINANCIAL STATEMENTS

34. CASH AND CASH EQUIVALENTS

	2014		2013	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Cash and balances due from central banks	123,675	123,673	73,350	73,346
Due from credit institutions on demand and within 3 months	289,789	289,746	276,151	276,128
Due to credit institutions on demand and within 3 months	(2,759)	(2,759)	(2,372)	(2,372)
Total cash and cash equivalents	**410,705**	**410,660**	**347,129**	**347,102**

35. CONTINGENT LIABILITIES

At any time the Bank has outstanding commitments to extend credit. These commitments take the form of approved loans and 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.

	2014		2013	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Letters of credit	1,444	1,444	512	512
Unused loan facilities	22,735	22,735	15,528	15,528
Unused credit card facilities	1,427	1,444	1,110	1,125
Guarantees	369	369	3,650	3,650
	25,975	**25,992**	**20,800**	**20,815**

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. All letters of credit in 2014 and 2013 were secured with clients' deposits.

36. LITIGATION

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

37. ASSETS UNDER MANAGEMENT

	2014		2013	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Assets under management				
Due from credit institutions registered in Latvia	662	662	10,529	10,529
Balances due from foreign credit institutions	9,029	9,029	11,772	11,772
Loans to customers	156	156	330	330
Non fixed income securities	772	772	24,843	24,843
Fixed income securities	23,405	23,405	100,826	100,826
of which: pledged under repo transactions	–	–	*151*	*151*
Other assets	513	513	6,481	6,481
Total assets under management	**34,537**	**34,537**	**154,781**	**154,781**
Liabilities under management				
Non-resident trust liabilities	32,619	32,619	152,947	152,947
Resident trust liabilities	1,918	1,918	1,834	1,834
Total liabilities under management	**34,537**	**34,537**	**154,781**	**154,781**

As at 31 December 2014 there are no assets under management from related parties (as at 31 December 2013: EUR 356 thousand).

Significant decrease in assets under management is because in the context of uncertainty in the financial instruments market, majority of customers decided to halt investments in these instruments.

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:

	2014		2013	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Loans to related parties				
incl. the parent company	6,436	6,436	684	684
incl. subsidiaries	–	–	–	6,016
incl. members of the Council and the Board	182	182	19	19
incl. other	265	265	447	447
Derivatives			–	–
Total loans and other claims	**6,883**	**6,883**	**1,150**	**7,166**

NOTES TO THE GROUP CONSOLIDATED AND BANK SEPARATE FINANCIAL STATEMENTS

38. TRANSACTIONS WITH RELATED PARTIES (continued)

	2014		2013	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Term and demand deposits and loans				
incl. from the parent company	–	–	7	7
incl. from subsidiaries of the parent company	16	16	275	275
incl. from subsidiaries	–	635	–	156
incl. from associated companies	1,437	1,437	1,638	1,638
incl. from members of the Council and the Board	260	260	202	202
incl. from others	183	183	425	425
Total deposits and liabilities	**1,896**	**2,531**	**2,547**	**2,703**
Contingent liabilities and commitments	**476**	**493**	**711**	**727**
	Interest rate %	**Interest rate %**	**Interest rate %**	**Interest rate %**
Loans to related parties	2.04	2.04	0.45	0.45
Term and demand deposits	0.07	0.07	0.10	0.10

Remuneration to the members of the Council and the Board in 2014 was EUR 592 thousand (2013: EUR 434 thousand).

	2014		2013	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Income from related party transactions				
Commission income	45	53	13	16
Interest income	43	181	6	6
Dividends	–	–	–	53
Other income	–	160	–	–
Expenses from related party transactions				
Interest expenses	2	2	1	1
Other expenses	66	600	128	332
Rent payments	481	766	548	760

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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 2014 was as follows:

2014 EUR'000	Up to 1 month including	From 1 month 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, EUR'000
Financial assets							
Cash and demand deposits with central banks	123,673	–	–	–	–	–	**123,673**
Deposits with credit institutions	270,305	19,761	11,573	12,557	1,030	–	**315,226**
Financial assets at fair value through profit or loss	47,935	79	59	6,130	–	–	**54,203**
Available-for-sale financial assets	–	–	–	–	–	89	**89**
Loans and receivables	12,680	6,042	4,623	12,481	27,657	2,015	**65,498**
Held-to-maturity financial assets	7,364	2,966	1,266	7,244	12,660	500	**32,000**
Other financial assets	186	–	–	–	–	2,210	**2,396**
Total financial assets	**462,143**	**28,848**	**17,521**	**38,412**	**41,347**	**4,814**	**593,085**
Financial liabilities							
Due to credit institutions on demand	2,759	–	–	–	–	–	**2,759**
Derivatives	591	–	–	–	–	–	**591**
Financial liabilities carried at amortized cost	514,265	614	17,974	7,112	19,172	5,953	**565,090**
Other financial liabilities	265	–	–	–	–	–	**265**
Total financial liabilities	**517,880**	**614**	**17,974**	**7,112**	**19,172**	**5,953**	**568,705**
Maturity gap	**(55,737)**	**28,234**	**(453)**	**31,300**	**22,175**	**(1,139)**	**24,380**
Contingent liabilities and commitments	**24,236**	**50**	**629**	**977**	**100**	–	**25,992**

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 financial assets and liabilities as at 31 December 2013 was as follows:

2013 EUR'000	Up to 1 month including	From 1 month 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 EUR'000
Financial assets							
Cash and demand deposits with central banks	73,346	–	–	–	–	–	**73,346**
Deposits with credit institutions	264,531	11,595	5,131	11,756	2,382	–	**295,395**
Financial assets at fair value through profit or loss	16,741	20	–	480	–	–	**17,241**
Financial assets available for sale	–	–	–	–	–	89	**89**
Loans and receivables	11,122	1,858	4,799	6,447	12,121	8,032	**44,379**
Held–to–maturity financial assets	5,270	9,445	5,235	1,096	8,159	–	**29,205**
Other financial assets	5,590	–	–	–	–	–	**5,590**
Total financial assets	**376,600**	**22,918**	**15,165**	**19,779**	**22,662**	**8,121**	**465,245**
Financial liabilities							
Due to credit institutions on demand	2,231	–	–	–	–	–	**2,231**
Derivatives	100	–	–	–	–	–	**100**
Financial liabilities carried at amortized cost	420,792	992	2,107	615	3,442	3,465	**431,413**
Other financial liabilities	267	–	–	–	–	–	**267**
Total financial liabilities	**423,390**	**992**	**2,107**	**615**	**3,442**	**3,465**	**434,011**
Maturity gap	**(46,790)**	**21,926**	**13,058**	**19,164**	**19,220**	**4,656**	**31,234**
Contingent liabilities and commitments	**17,382**	**761**	**1,999**	**541**	**132**	**–**	**20,815**

The maturity 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

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.

EUR'000 31 December 2014	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	2,759	(2,759)	(2,759)	–	–	–
Financial liabilities carried at amortized cost	565,090	(566,206)	(514,303)	(690)	(25,456)	(25,757)
Total non–derivative liabilities	**567,849**	**(568,965)**	**(517,062)**	**(690)**	**(25,456)**	**(25,757)**
Derivative liabilities						
Trading: outflow	11,925	(11,925)	(11,925)	–	–	–
Trading: inflow	(11,334)	11,334	11,334	–	–	–
Total derivative liabilities	**591**	**(591)**	**(591)**	**–**	**–**	**–**
Contingent liabilities and commitments	25,992	(25,992)	(24,236)	(50)	(1,606)	(100)
Total liabilities	**594,432**	**(595,548)**	**(541,889)**	**(740)**	**(27,062)**	**(25,857)**

EUR'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	2,231	(2,231)	(2,231)	–	–	–
Financial liabilities carried at amortized cost	431,413	(432,102)	(420,793)	(992)	(2,888)	(7,429)
Total non–derivative liabilities	**433,644**	**(434,333)**	**(423,024)**	**(992)**	**(2,888)**	**(7,429)**
Derivative liabilities						
Trading: outflow	14,722	(14,722)	(14,722)	–	–	–
Trading: inflow	(14,622)	14,622	14,622	–	–	–
Total derivative liabilities	**100**	**(100)**	**(100)**	**–**	**–**	**–**
Contingent liabilities and commitments	20,815	(20,815)	(17,382)	(761)	(2,540)	(132)
Total liabilities	**454,559**	**(455,248)**	**(440,506)**	**(1,753)**	**(5,428)**	**(7,561)**

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 EUR equivalent of monetary assets and liabilities as at 31 December 2014 by the currencies in which they are denominated is as follows:

2014	EUR	USD	Other currencies	Total
EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Financial assets				
Cash and demand deposits with central banks	123,481	184	8	**123,673**
Loans and receivables from banks	133,880	167,465	13,881	**315,226**
Financial assets at fair value through profit or loss	6,868	47,335	–	**54,203**
Financial assets available for sale	89	–	–	**89**
Loans and receivables	37,754	27,730	14	**65,498**
Held–to–maturity financial assets	7,947	24,053	–	**32,000**
Other financial assets	1,640	728	28	**2,396**
Total financial assets	**311,659**	**267,495**	**13,931**	**593,085**
Financial liabilities				
Due to credit institutions on demand	341	2,409	9	**2,759**
Derivatives	535	–	56	**591**
Financial liabilities carried at amortized cost	199,121	352,784	13,185	**565,090**
Other financial liabilities	70	177	18	**265**
Total financial liabilities	**200,067**	**355,370**	**13,268**	**568,705**
Assets (liabilities) arising from currency exchange				
Spot and forward transaction receivables	10,025	102,382	2,809	**115,216**
Spot and forward transaction liabilities	(96,207)	(13,428)	(3,728)	**(113,363)**
Net long/short currency position	**25,410**	**1,079**	**(256)**	**26,233**

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 open position may not exceed 20% of the equity.

Assets and liabilities as at 31 December 2013 by the currencies in which they are denominated is as follows:

2013	LVL	EUR	USD	Other currencies	Total
EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Financial assets					
Cash and demand deposits with central banks	40,929	94	32,291	33	**73,347**
Loans and receivables from banks	16	118,952	164,616	11 811	**295,395**
Financial assets at fair value through profit or loss	–	15,368	1,873	–	**17,241**
Financial assets available for sale	–	–	89	–	**89**
Loans and receivables	3,711	24,296	16,372	–	**44,379**
Held–to–maturity financial assets	–	25,603	3,602	–	**29,205**
Other financial assets	5,590	–	–	–	**5,590**
Total financial assets	**50,246**	**184,313**	**218,843**	**11,844**	**465,246**
Financial liabilities					
Due to credit institutions on demand	–	1,875	336	20	**2,231**
Derivatives	–	–	17	83	**100**
Financial liabilities carried at amortized cost	3,320	268,775	138,864	20,454	**431,413**
Other financial liabilities	267	–	–	–	**267**
Total financial liabilities	**3,587**	**270,650**	**139,217**	**20,557**	**434,011**
Assets (liabilities) arising from currency exchange					
Spot and forward transaction receivables	–	97,952	9,048	14,886	**121,886**
Spot and forward transaction liabilities	–	(13,986)	(101,424)	(6,077)	**(121,487)**
Net long/short currency position	**46,659**	**(2,371)**	**(12,750)**	**96**	**31,634**

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

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 2014, interest rate re-pricing categories were:

2014 EUR'000	Up to 1 month including	From 1 month 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, EUR'000
ASSETS								
Cash and demand deposits with central banks	122,963	–	–	–	–	–	710	**123,673**
Loans and receivables from banks	108,376	13,570	11,555	12,030	1,030	–	168,665	**315,226**
Financial assets at fair value through profit or loss	4,914	5	33,821	2,485	8,766	3,916	296	**54,203**
Financial assets available for sale	–	–	–	–	–	–	89	**89**
Loans and receivables	26,628	1,481	3,827	10,857	20,791	1,824	90	**65,498**
Held–to–maturity financial assets	7,508	2,897	1,245	7,105	12,144	500	601	**32,000**
Investments in associates	–	–	–	–	–	–	1,565	**1,565**
Investments in subsidiary undertakings							15,541	**15,541**
Investment property	–	–	–	–	–	–	4,098	**4,098**
Property and equipment	–	–	–	–	–	–	1,058	**1,058**
Intangible assets	–	–	–	–	–	–	737	**737**
Prepayments and accrued income	–	–	–	–	–	–	161	**161**
Other assets	–	–	–	–	–	–	7,470	**7,470**
Total assets	**270,389**	**17,953**	**50,448**	**32,477**	**42,731**	**6,240**	**201,081**	**621,319**
TOTAL LIABILITIES AND EQUITY								
Due to credit institutions on demand	–	–	–	–	–	–	(2,759)	**(2,759)**
Derivatives	(591)	–	–	–	–	–	–	**(591)**
Financial liabilities carried at amortized cost	(8,858)	(551)	(17,365)	(6,184)	(11,132)	–	(521,000)	**(565,090)**
Deferred income and accrued expenses	–	–	–	–	–	–	(342)	**(342)**
Provisions	–	–	–	–	–	–	(510)	**(510)**
Current tax liabilities	–	–	–	–	–	–	(12)	**(12)**
Other liabilities	–	–	–	–	–	–	(396)	**(396)**
Capital and reserves	–	–	–	–	–	–	(51,619)	**(51,619)**
Total shareholders' equity and liabilities	**(9,449)**	**(551)**	**(17,365)**	**(6,184)**	**(11,132)**	**–**	**(576,638)**	**(621,319)**
Interest rate risk net position	**260,940**	**17,402**	**33,083**	**26,293**	**31,599**	**6,240**	**(375,557)**	**–**
Interest rate risk gross (cumulative) position	**260,940**	**278,342**	**311,425**	**337,718**	**369,317**	**375,557**	**–**	

The reprising maturity 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

42. REPRICING MATURITY ANALYSIS (BANK) (continued)

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 EUR'000	Up to 1 month including	From 1 month 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, EUR'000
ASSETS								
Cash and demand deposits with central banks	72,665	–	–	–	–	–	682	**73,347**
Loans and receivables from banks	123,341	11,870	4,206	11,214	2,382	–	142,382	**295,395**
Financial assets at fair value through profit or loss	492	6	–	–	14,728	1,730	285	**17,241**
Financial assets available for sale	–	–	–	–	–	–	89	**89**
Loans and receivables	14,852	1,774	4,593	6,070	9,096	7,924	70	**44,379**
Held-to-maturity financial assets	5,097	9,266	5,169	1,080	8,028	–	565	**29,205**
Investments in associates	–	–	–	–	–	–	1,565	**1,565**
Investments in subsidiary undertakings	–	–	–	–	–	–	8,931	**8,931**
Investment property	–	–	–	–	–	–	4,862	**4,862**
Property and equipment	–	–	–	–	–	–	246	**246**
Intangible assets	–	–	–	–	–	–	583	**583**
Prepayments and accrued income	–	–	–	–	–	–	124	**124**
Other assets	–	–	–	–	–	–	11,991	**11,991**
Total assets	**216,447**	**22,916**	**13,968**	**18,364**	**34,234**	**9,654**	**172,375**	**487,958**
TOTAL LIABILITIES AND EQUITY								
Due to credit institutions on demand	–	–	–	–	–	–	(2,231)	**(2,231)**
Derivatives	(100)	–	–	–	–	–	–	**(100)**
Financial liabilities carried at amortized cost	(12,677)	(205)	(34)	(87)	(875)	–	(417,535)	**(431,413)**
Deferred income and accrued expenses	–	–	–	–	–	–	(300)	**(300)**
Provisions	–	–	–	–	–	–	(340)	**(340)**
Current tax liabilities	–	–	–	–	–	–	(145)	**(145)**
Other liabilities	–	–	–	–	–	–	(295)	**(295)**
Capital and reserves	–	–	–	–	–	–	(53,133)	**(53,133)**
Total shareholders' equity and liabilities	**(12,777)**	**(205)**	**(34)**	**(87)**	**(875)**	**–**	**(473,979)**	**(487,957)**
Interest rate risk net position	**203,670**	**22,711**	**13,934**	**18,277**	**33,359**	**9,654**	**(301,604)**	**–**
Interest rate risk gross (cumulative) position	**203,670**	**226,381**	**240,315**	**258,592**	**291,951**	**301,605**	**–**	**–**

The reprising maturity 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

43. CAPITAL ADEQUACY CALCULATION (BANK)

	Group EUR'000	Bank EUR'000
Tier 1		
Share capital	**39,493**	**39,493**
Reserves	24	24
Retained earnings for the previous periods	**6,502**	**805**
Profit for the reporting period	7,986	12,797
Reserve for revaluation – long term financial investment	(2,400)	
Intangible assets	(737)	(583)
Other deductions	(636)	(20)
Total Tier 1	**50,232**	**52,516**
Tier 2 capital	**11,322**	**4,365**
Reduction of Tier 1 capital and Tier 2 capital (Pillar 2 adjustments)	**(999)**	**(1,571)**
Shareholders' equity	**60,555**	**55,310**
Risk-weighted value		
Banking portfolio	243,771	193,231
Trading portfolio	20,274	24,025
Operating risk	45,478	35,004
Total risk weighted assets	**309,523**	**252,260**
Total capital as percentage of risk weighted assets (total capital ratio)	**20%**	**22%**
Total tier 1 capital expressed as a percentage of risk-weighted assets ("tier 1 capital ratio")	**16%**	**21%**

As at 31 December 2014, the Bank's capital adequacy ratio was 20% (2013: 22%) which is above the minimum required ratio of 12.9% set in the Basel Capital Accord and the regulations of the Financial and Capital Market Commission of Latvia.

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

31 December 2014	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	46,481	467	4,997	**51,945**
Derivatives	–	2,258	–	**2,258**
Available-for-sale assets				
Non fixed income securities	–	89	529	**618**
	46,481	**2,814**	**5,526**	**54,821**
Financial liabilities				
Derivatives	–	591	–	**591**
	–	**591**	**–**	**591**

NOTES TO THE GROUP CONSOLIDATED AND BANK SEPARATE FINANCIAL STATEMENTS

44. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Group

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	16,742	–	–	**16,742**
Derivatives	–	499	–	**499**
Available-for-sale assets				
Non fixed income securities	–	89	830	**919**
	16,742	**588**	**830**	**18,160**
Financial liabilities				
Derivatives	–	100	–	**100**
	–	**100**	**–**	**100**

Bank

31 December 2014	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	46,481	467	4 997	**51,945**
Derivatives	–	2,258	–	**2,258**
Available-for-sale assets				
Non fixed income securities	–	89	–	**89**
	46,481	**2,814**	**4,997**	**54,292**
Financial liabilities				
Derivatives	–	591	–	**591**
	–	**591**	**–**	**591**

NOTES TO THE GROUP CONSOLIDATED AND BANK SEPARATE FINANCIAL STATEMENTS

44. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Bank

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	16,742	–	**16,742**
Derivatives	–	499	**499**
Available-for-sale assets			
Non-fixed income securities	–	89	**89**
	16,742	**588**	**17,330**
Financial liabilities			
Derivatives	–	100	**100**
	–	**100**	**100**

Included in category "Published price quotations" (Level 1) are financial assets and liabilities that are measured by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. Main asset classes included in this category are financial assets for which the fair value is obtained via pricing vendors or binding broker quotes and assets for which the fair value is determined by reference to indices.

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.

Not based upon market observable (Level 3) input means that fair values are determined in whole or in part using a valuation technique (model) base on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. Main asset classes in this category are securities of private entities.

During the current year, due to changes in market conditions for certain investments securities, quoted prices in active markets were no longer available for these securities. However, there was sufficient information available to measure fair values of these securities, were transferred from Level 1 to Level 2 in the fair value hierarchy.

During 2014 the Group and the Bank has purchase financial instruments classified as Level 3.

44. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Bank

Total gains or loss in the statement of comprehensive income for the reporting year are disclosed as follows:

EUR'000	Financial assets at fair value through profit or loss	Available-for-sale financial instruments	Financial liabilities at fair value through profit or loss	Total
Total gain or loss recognised in profit or loss comprises:				
Net gain/(loss) on financial instruments at fair value through profit or loss	(2,200)	–	–	(2,200)

Total gains or loss in the statement of comprehensive income for 2013 are disclosed as follows:

EUR'000	Financial assets at fair value through profit or loss	Available-for-sale financial instruments	Financial liabilities at fair value through profit or loss	Total
Total gain or loss recognised in profit or loss comprises:				
Net gain/(loss) on financial instruments at fair value through profit or loss	(111)	–	–	(111)

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)	Market comparison technique: 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)	Valuation is based on assessment of financial indicators of the company including assessment of discounted cash flow	Net Asset value	The estimated fair value would increase (decrease) if: Net asset value increase (decrease)
Available for sale assets	Quotes from brokers	Quotes from brokers Adjusted market multiple (2014.: 4-6)	The estimated fair value would increase (decrease) if: Bid price quote increases

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 2014	Level 1:	Level 2:	Level 3:	Total fair value	Total carrying amount
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Financial assets					
Cash and due from central banks	–	123,673	–	123,673	123,673
Loans and advances due from financial institutions	–	315,226	–	315,226	315,226
Loans and advances due from customers	–	–	65,498	65,498	65,498
Held to maturity financial instruments	–	24,585	5,000	29,585	32,000
Other financial assets	–	–	2,396	2,396	2,396
Financial liabilities					
Deposits and balances due to financial institutions	–	2,759	–	2,759	2,759
Deposits and balances due to customers	–	–	565,090	565,090	565,090
Other liabilities	–	–	265	265	265

31 December 2013	Level 1:	Level 2:	Level 3:	Total fair value	Total carrying amount
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Financial assets					
Cash and due from central banks	–	73,346	–	73,346	73,346
Loans and advances due from financial institutions	–	295,395	–	295,395	295,395
Loans to customers	–	44,379	–	44,379	44,379
HTM financial instruments	–	29,205		29,205	29,205
Other financial assets	–	5,590	–	5,590	5,590
Financial liabilities					
Deposits and balances due to financial institutions	–	2,231	–	2,231	2,231
Deposits	–	431,413	–	431,413	431,413
Other liabilities		267		267	267

To determine the fair value of the financial instruments not measure at fair value the Bank uses quoted prices in an active market for that instrument, or determine fair value using a valuation technique. The Bank uses quoted prices for held-to-maturity financial instruments which were lower than amortised cost as at 31 December 2014 due to a worsening economic situation in the financial sector.

However, the Bank assesses impairment losses for each held-to-maturity financial instruments individually. Objective evidence that financial assets (including equity securities) are impaired can include restructuring on terms that the Bank would not otherwise consider, indications that an issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data. As at 31 December 2014 and till the date of signing the financial statements the Bank has not identified any observable data, therefore no additional impairment loss is recognised.

During the reporting year, due to changes in market conditions for certain financial instruments not measure at fair value, inputs became less reliable, and some unobservable inputs have appeared; thus management had to apply judgment on how to interpret the inputs received. However, there was sufficient information available to measure fair values of financial instruments, based on received inputs these financial instruments were transferred from Level 2 to Level 3 in the fair value hierarchy.

NOTES TO THE GROUP CONSOLIDATED AND BANK SEPARATE FINANCIAL STATEMENTS

44. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The table describes the valuation method used to arrive at the Level 2 and 3 fair value, and the significant unobservable inputs:

Type	Valuation method
Loans and advances due from financial institutions	Discounted cash flows
Loans to customers	Discounted cash flows
Due to financial institutions	Discounted cash flows
Deposits	Discounted cash flows

45. SUBSEQUENT EVENTS

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