Baltic International Bank

Annual report

2013

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CONDA

A text written with a calligraphy master's hand is more than an organised chain of letters and words – it is a masterpiece. Knowledge, experience, patience and the willingness to improve on each perfectly finished work are necessary to create it. A work of a good private banker can also be recognised by his methods – fine tuned solutions are a must for fine needs. With this attitude, actions speak louder than words.

Dear Ladies and Gentlemen,

2013 proved to be an eventful and very special year for the Bank. The most notable and memorable events of the year include the Bank's 20th anniversary and Latvia's preparation for the adoption of the euro on 1 January 2014.

The connection between the two events is highly meaningful: the presence of a clearly-defined goal and unerring progress towards achieving the goal. Having acceded to the European Union, Latvia has in fact committed to joining the euro area. Both political and economic efforts were needed to attain that goal. Now, we pride ourselves on having become a part of Europe's financial "bloodstream". This achievement will foster Latvia's financial stability, provide the country with new investment acquisition opportunities, and ensure safety for our clients.

Latvia moved consistently and single-mindedly towards joining the euro area. Since its formation in 1993, the Baltic International Bank has also practised consistency in achieving its own goal and has pursued its strategy. Twenty years ago, we decided to embark on something new in life that we'd never seen before in Latvia. We come up with the idea of establishing a bank able to provide a highly personalised service while maintaining the best traditions set in place by West European private banks. We're proud to say that we've succeeded in becoming the trendsetter. Currently, we're the most experienced Latvian bank that provides top-level bespoke banking to our high-net-worth clients to meet their personal and business needs.

The twenty-year milestone is a significant event, and it's worth looking back at our strides and achievements and setting new and even more ambitious goals. Once Latvia's achievements have been weighed against its overall potential, it is essential that Latvia, as a small country, continues to its strategic development to get closer to attaining its goal of turning itself into an international financial centre. Moreover, Baltic International Bank is already keeping a steady eye on its ambitious challenge of evolving on a pan-European scale.

As time goes by, things are becoming clear and it is apparent who has withstood the test of time and who has not. Only time makes it possible to best evaluate the importance of the purposeful and sustainable approach to our work. The approach has earned us the long-standing trust of our clients and business partners, has brought us the opportunity to help the clients attain ever-soaring heights, appreciate their successes, and contribute to societal well-being and to projects which stretch beyond the time.

We would like to express our sincerest gratitude for what we've accomplished over the twenty years. We're looking into the future with confidence! And this vision is underpinned by our core values such as trust, exclusiveness and professionalism.

Yours sincerely,

Valeri Belokon
Chairperson of the Council

Dear Ladies and Gentlemen,

In 2013, Baltic International Bank celebrated the twentieth anniversary of its founding. We're proud to be the first bank in Latvia to start providing a highly personalised service to both domestic and foreign clients. The bank remains committed to its business focus and goals, continuously broadens its range of services, and promotes the professionalism of the staff. We can pride ourselves on delivering a genuinely bespoke approach on a client-by-client basis and superb level of service. For our clients and their families, we've become an indispensable helper and a vital part of their life. We want to thank every client, our business partners and staff members for their trust and loyalty which we've seen over the past twenty years and for the results we've achieved while working in tandem.

Over the past two decades, the world has gone through several economic crises and is currently undergoing dramatic transformations. Humanity is moving towards a new world order. Drastic shifts have occurred, the rules of the game have changed remarkably, and the world has become more transparent. Developed economies are toughening the laws and regulations governing public disclosure of client information, and developing countries are supporting these initiatives. Inter-governmental agreements, the introduction of new information-sharing arrangements, and legislative and regulatory changes are global trend-like phenomena. For asset owners, mutually acceptable and far-sighted tax planning (which meets both the interests of the government and individual taxpayers) has become an increasingly necessary part of their daily routine.

As far as wealth management is concerned, a responsible and safe investment policy is becoming ever more relevant. Stock market trends are largely indicative of changing capital flow patterns. Adopting a well-balanced wealth management strategy is therefore much more important than ever before. That's why a professional asset manager plays a pivotal role and is expected to make accurate and realistic forecasts, choose responsible investing options and stay focused on details.

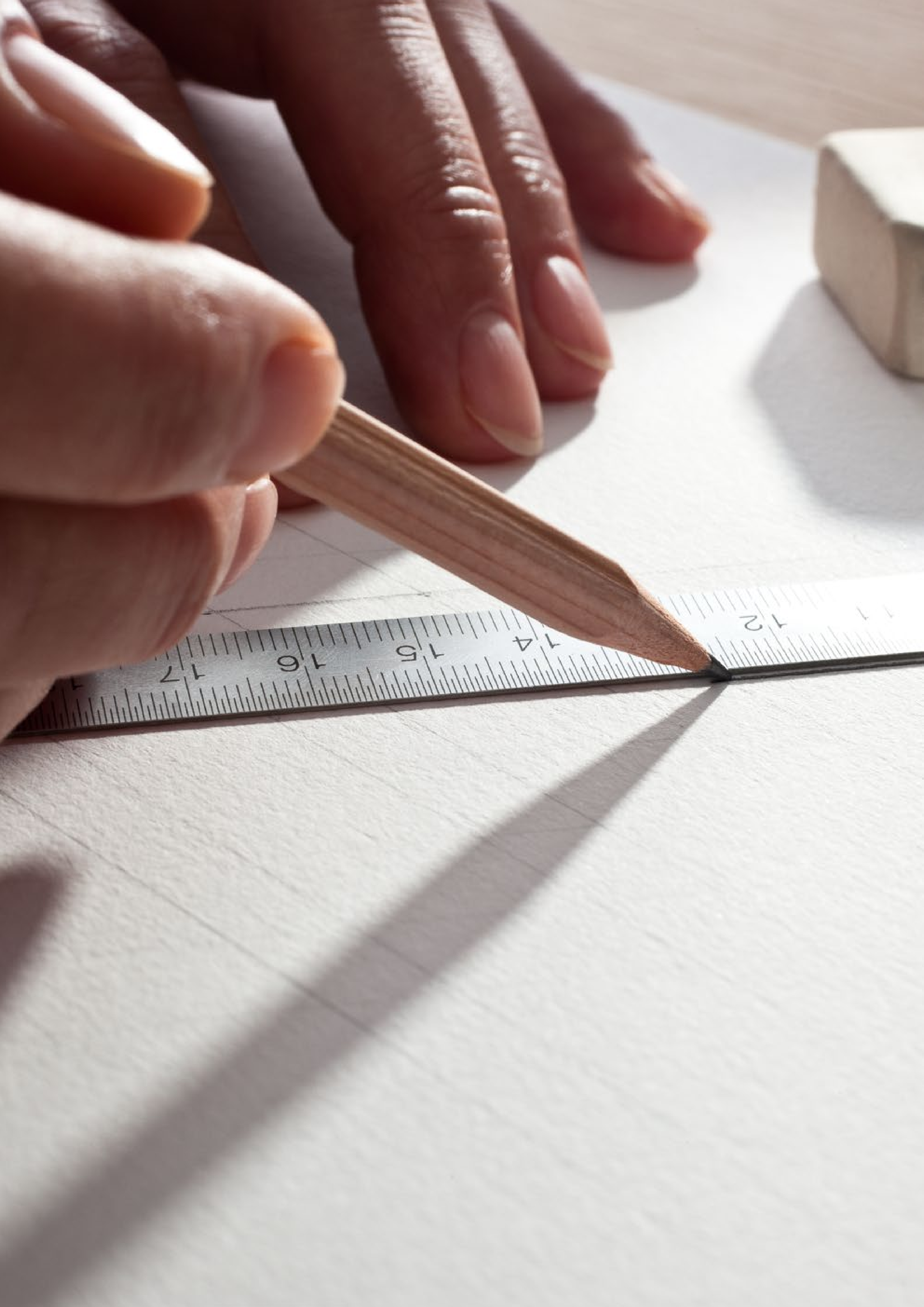
Guided by its commitment to work for the prosperity of our clients and to get prepared for the imminent global changes, Baltic International Bank assessed its activities and embarked on reorganising its business processes to be able to offer clients most appropriate tailor-made solutions and service. The Bank has invested in the improvement of customer service, information technologies, and enhancement of product-and-service assortment. Bank's successful completion of the euro changeover deserves a special mention. Thus, the Bank has laid a solid foundation for meeting the challenges of the new economic landscape and achieving sustainable future growth.

The customer-centric strategy has borne fruit. More clients than ever are taking advantage of Latvia's financial sector and regulatory landscape to avail themselves of services designed for their wealth and businesses. This is getting us closer to attaining our goal of turning Latvia into a global financial hub able to compete internationally, and serve clients from all over the world, and provide them with top-level bespoke banking.

We're stepping into a new stage of our activity. And we're well positioned to continue our growth efforts and turn our common goals and dreams into reality!

Yours sincerely,

Ilona Gulchak
Chairperson of the Board



Growth continues

The most notable events in Latvia's economy in 2013

"Latvia's economic indicators present a picture of sustainable growth witnessed by the country," emphasised the Governor of the Bank of Latvia Ilmars Rimsevics in his speech delivered at Latvia Business Forum 2013 co-organised by the Baltic International Bank. The country's government, international organisations, investors and financial institutions held a similar opinion on the development of Latvia's economy in 2013 and underlined Latvia's successful euro changeover activities and other significant events.

The most notable events in Latvia's economy in 2013

Latvia reported EU's highest economic growth in 2013

Over the past three years, Latvia's economy has grown rapidly to be among the EU's top performers. In addition, the country's economy proved to be far more sustainable and effective then previously experienced. Despite the tense situation in external markets, Latvia's GDP rose 4.1% in 2013. It should be emphasised that the increase in real GDP was driven more strongly than in previous years by the rise in consumer spending fostered by the increase in employment and hence growth of personal income. In the 4Q of 2013, consumer spending was 4.3% higher year-over-year.

As the EU economy is gradually stabilising, Latvia's opportunities for expanding exports to Western Europe are expected to increase in 2014. Consumer spending will get a boost from higher employment and hence higher pay. According to the Ministry of Economics of the Republic of Latvia, the country's GDP growth is likely to exceed 4% in 2014. And yet a cloud of uncertainty hangs over Latvia's economy due to concerns over the potential effects of the Ukraine crisis.

Latvia's GDP and GDP of the major economies, % (2011 to 2014)
Source: The World Economic Outlook October 2013, International Monetary Fund, Eurostat, f – forecast

	2011	2012	2013	2014f
World	3.9	3.2	3.0	3.7
USA	1.8	2.8	1.9	2.8
Japan	-0.6	2.0	1.7	1.7
China	9.3	7.7	7.7	7.5
EU	1.7	-0.3	0.0	1.3
Euro area	1.5	-0.6	-0.4	1.0
CIS	4.8	3.4	2.1	2.6
Latvia	5.3	5.2	4.1	4.0

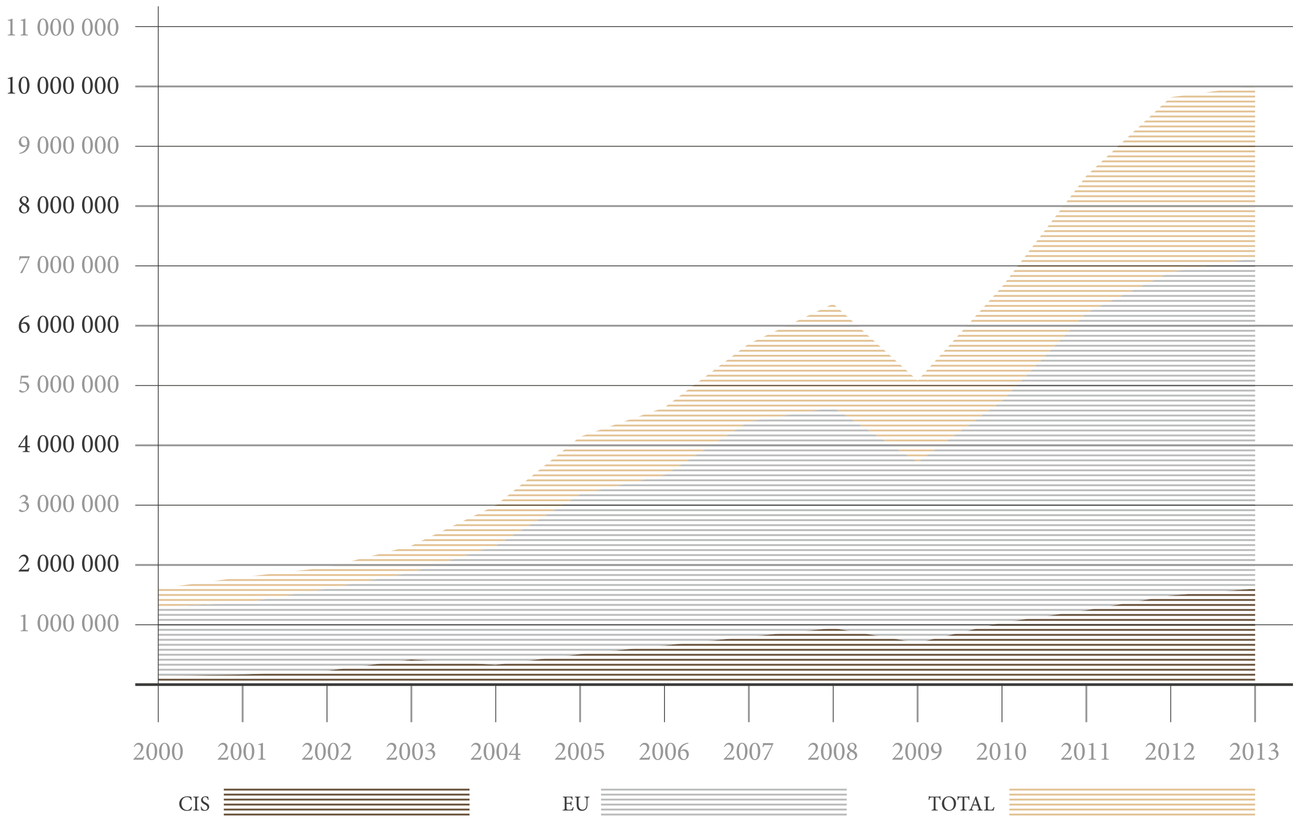
The most notable events in Latvia's economy in 2013

Exports hit a historic high

In 2013, Latvia's exports of goods and services continued to surge. Exports has become one of the major drivers of economic growth over the past few years having reached a historic high in 2013.Total exports exceeded the pre-crisis peak by almost 20%. The intense activities in the engineering, timber, agricultural and foodstuff sectors have positively affected export figures while the suspension of the operations of Liepājas Metalurgs (Latvian metal manufacturer) followed by the suspension of its business resulted in a decrease in metal exports. Exports increased by 4.2% to the CIS and by 5.5% to the EU during the eleven-month period.

According to the Ministry of Economics of the Republic of Latvia, the increase in productivity is one of the key prerequisites for maintaining higher growth rates and boosting exports. In the foreseeable future, the increase in productivity will be a great challenge and is expected to affect the dynamics of workforce pay. Future goals also include the development of high added-value sectors and high added-value products. The opportunity to develop high professional competence and niche products, while leaving cheap mass production to the world's major economies can only be enjoyed by small countries.

Latvia' exports to the major markets and total exports, EUR ths. (2000 to 2013)
Source: Central Statistical Bureau of Latvia



The most notable events in Latvia's economy in 2013

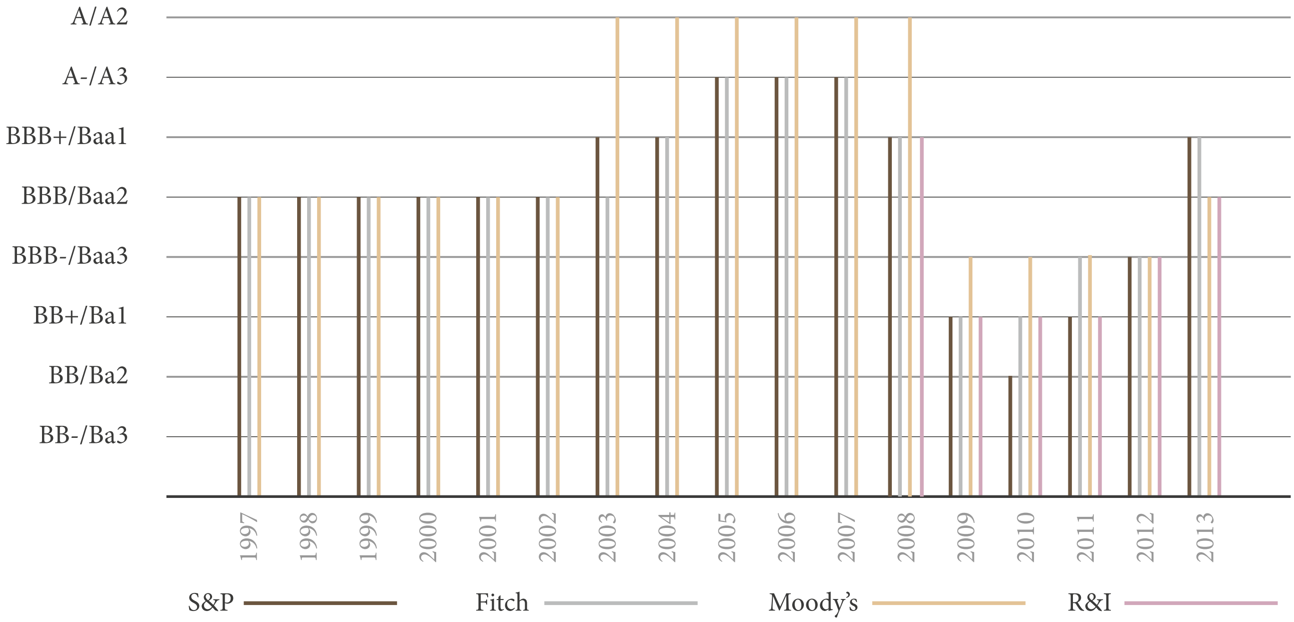
Credit rating upgrades for Latvia

Latvia's economic growth exceeds the expectations predicted by the world's leading economists. As a result, during 1Q of 2013 Moody's Investors Service upgraded Latvia's government bond rating by one notch to Baa2 from Baa3 with a positive outlook. In January 2014, Fitch Ratings affirmed Latvia's long-term foreign and local currency Issuer Default Ratings (IDRs) at 'BBB+'. The outlooks for the long-term IDRs are stable. In December 2013, Standard&Poor's upgraded Latvia's sovereign rating outlook to 'positive' from 'stable' and reaffirmed the rating at 'BBB+'. Japanese rating agency R&I affirmed Latvia's foreign currency issuer rating at 'BBB' with a stable outlook. Giving their rationale for the upgrades, the agencies cited the high growth of GDP, the falling unemployment rate, the growth in consumption, improvement of the financial situation in the country, and Latvia's stronger competitiveness compared to its EU neighbours.

Unemployment rate drops

According to the State Employment Agency, the registered unemployment rate in 2013 was 11.9% of the economically active population, down 3.1% on a year-over-year basis (15% on average). However, regardless of positive trends, there were significant problems that still needed to be addressed (youth unemployment, long-term job seekers, and illegal employment).

Latvia's sovereign rating (1997 to 2013)
Source: The Treasury of the Republic of Latvia



The most notable events in Latvia's economy in 2013

Stabilisation of prices

In Latvia, annual average consumer prices remained unchanged in 2013 compared to the previous year. In 2012, consumer prices (12-month average) grew by 2.3%. In December 2013, compared to November, consumer prices remained unchanged. However, prices fell by 0.4% during the one-year timeframe (in December 2013 on a year-over-year basis).

2013 Budget implementation better than anticipated

According to the Treasury of the Republic of Latvia, the 2013 consolidated fiscal deficit was LVL 90.2 million (EUR 128.4 million), LVL 22.4 million (EUR 31.9 million) less than previously forecasted by the Ministry of Finance of the Republic of Latvia. In 2013, current expenditures grew faster both in the government budget and municipal budgets (municipal spending tends to increase). There was a substantial increase in spending categories such as social assistance /allowances, social security benefits, contributions to the EU budget, and public transport subsidies. In the aggregate, the aforementioned spending categories have increased over the year to make up the largest functional expenditure category.

The Saeima (the Parliament of the Republic of Latvia) approved the 2014 budget with a deficit ceiling of 0.9% of GDP. According to the Parliament, measures aimed at reducing social inequality, combating the shadow economy and improving the demographic situation will be the top priorities for the 2014 budget. The 2013 budget deficit was set to shrink to 1.4%.

The introduction of the euro in Latvia's economy

In June, Latvia received the 2013 Convergence Report on Latvia published by the Directorate-General for Economic and Financial Affairs (ECFIN) of the European Commission. The Commission concluded that Latvia meets the euro convergence criteria (also known as the Maastricht inflation criteria) and was ready to become the 18th member of the euro area. Despite public discussions about the financial instability of the euro area, Latvia moved steadily and purposefully towards its goal of introducing the euro on 1 January 2014. Latvia learned lessons from Estonia's experience of adopting the euro and succeeded in making the transition to the euro a smooth affair.

To pave the way for euro adoption, Latvia acceded to the European Union on 1 May 2004. The 2003 Treaty of Accession obliged Latvia to adopt the euro as the sole legal tender. On 2 May 2005, Latvia joined the Exchange Rate Mechanism (ERM II) with the lat pegged to the euro at 1 EUR = 0.702804 LVL). In ERM II, the rate moves within the standard ±15% fluctuation margins around the central rate are allowed. However, Latvia made a unilateral commitment to ensure a band of ±1% thus maintaining the existing fluctuation band that has been accepted by the financial market and effective as of pegging the lats to SDR in 1994 and was kept when re-pegging the lats to the euro on 1 January 2005.

The Zolitude tragedy and The Prime Minister's resignation

At the end of 2013, Latvia was overwhelmed and shocked by a deadly supermarket roof collapse. The tragic event in the Zolitude neighbourhood of Riga left more than 50 people dead - the deadliest incident in Latvia since the country regained independence in 1991. The tragedy triggered discussions over poor quality of the construction and spurred the government to amend the national construction law and to adopt more stringent construction regulations. The changes to the building regulations regime seek to improve the quality control and enhance compliance with the required standards for constructed objects and structures.

Having taken political responsibility for the tragedy, Latvia's Prime Minister Valdis Dombrovskis decided to resign. Valdis Dombrovskis served as Prime Minister of Latvia from 2009 until 2013 and was an internationally most renowned and respected public figure. His name has become widely associated with the concepts such as "optimisation", "consolidation" and "Latvia's success story in tiding over the financial crisis".

The most notable events in Latvia's economy in 2013

Latvia climbed to 24th in WB's "ease of doing business" table

In Doing Business 2014, Latvia ranks 24th among the 189 economies surveyed for the ease of doing business. Published by the World Bank in October 2013, Doing Business 2014 is a World Bank Group flagship report and covers 189 economies. In Doing Business 2013, Latvia ranked 25th among the 185 economies covered by the report. Latvia ranks 9th among EU Member States.

According to Doing Business 2014, Latvia succeeded in making starting a business, dealing with construction permits, trading across borders and paying taxes easier, and also improved its credit reporting system (enhanced access to credit information).

There was a lull in investing activity at the beginning of the reporting year since previously initiated investment projects have been implemented. Investing activity recovered during the second half of the year, and during the three-quarter period Latvia's inflow of foreign investments has achieved the previous-year level and accounted for 21% of GDP. The investments went to sectors such as pharmaceutical, chemistry, production of electronic and optical facilities, and production of furniture. The country's construction sector has seen larger investments since 2011. During the first three quarters of 2013, the sector experienced 9.2% growth.

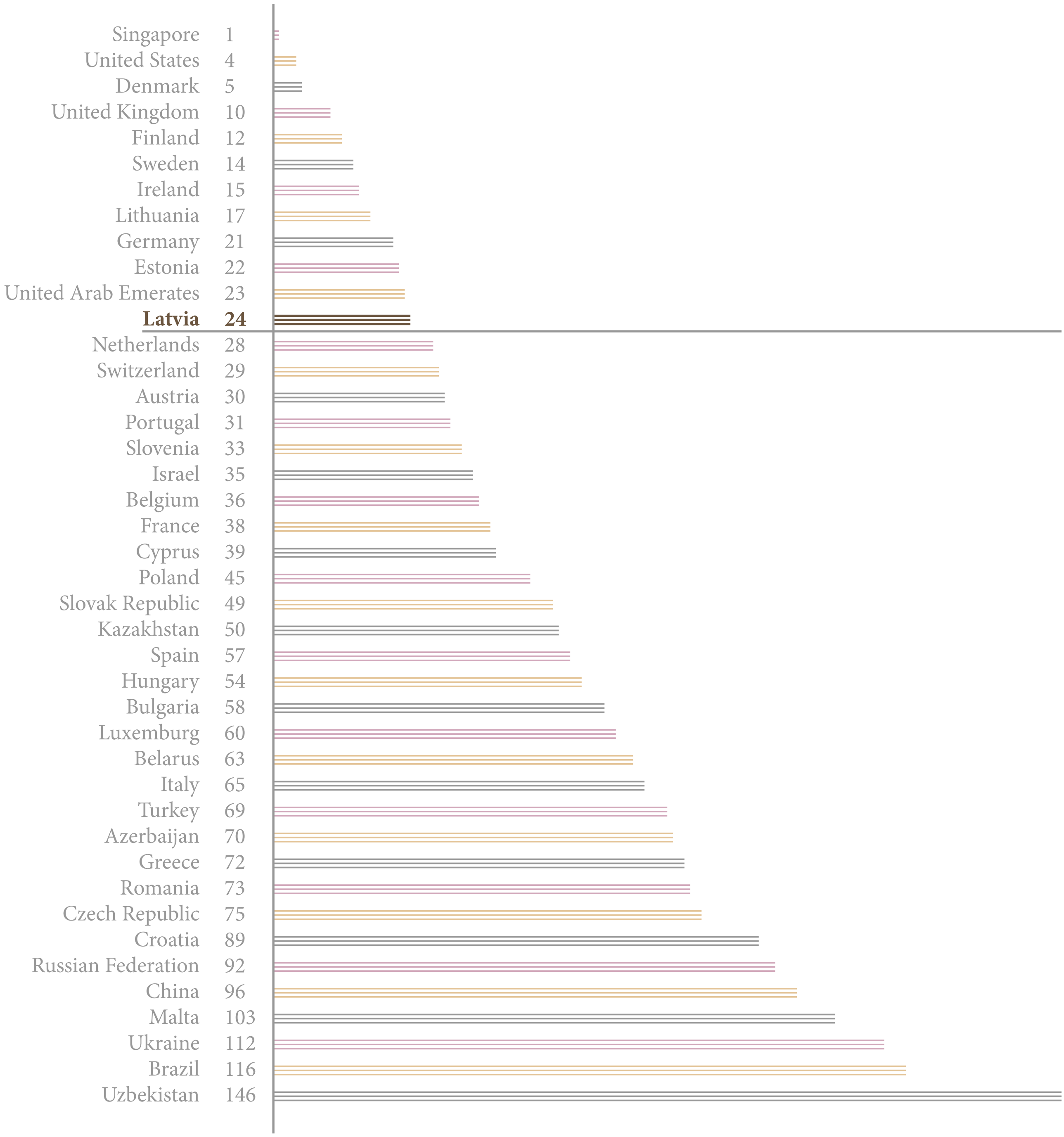
Upcoming events

In 2013, Latvia started implementing its national changeover plan to introduce the euro on 1 January 2014. Other key events in Latvia's economy, politics and culture are already on the horizon. Riga will bear the title of Europe's cultural capital in 2014, and Latvia will hold EU Presidency in the first half of 2015. In 2015, Latvia will liberalise its electricity market to enable foreign enterprises to sell energy in the open market both to legal entities and households. The government will continue to debate gas market liberalisation. Initially, Latvia unveiled its plan to liberalise its gas market in 2015. At present, liberalisation has been postponed until April 2017.

The most notable events in Latvia’s economy in 2013

Rankings of the ease of doing business 2014

Source: Doing Business 2014 report published by the World Bank Group



Balanced development

Latvia's banking sector in 2013

In 2013, Latvia's banking sector continued to earn profit and reported an aggregate profit of EUR 246.2 million. Other key performance indicators (KPIs) have also improved. The banking sector was highly capitalised and maintained robust liquidity, credit quality improved, and sector-wide loan portfolio decreased at a slower pace.

Latvia's banking sector in 2013

Financial sector set for profit

In 2013, 17 banks and nine foreign-bank branches operated in Latvia. Specifically, 15 banks and five foreign-bank branches, whose aggregate assets made up nearly 95% of total sector-wide assets, recorded positive profit figures for the year. In 2013, the upswing in profitability of the banks was primarily aided by a 10.4% increase in the net interest income, a 13.6% increase in the net fee and commission income, and a gradual improvement in the loan portfolio quality.

Deposits and loans surge

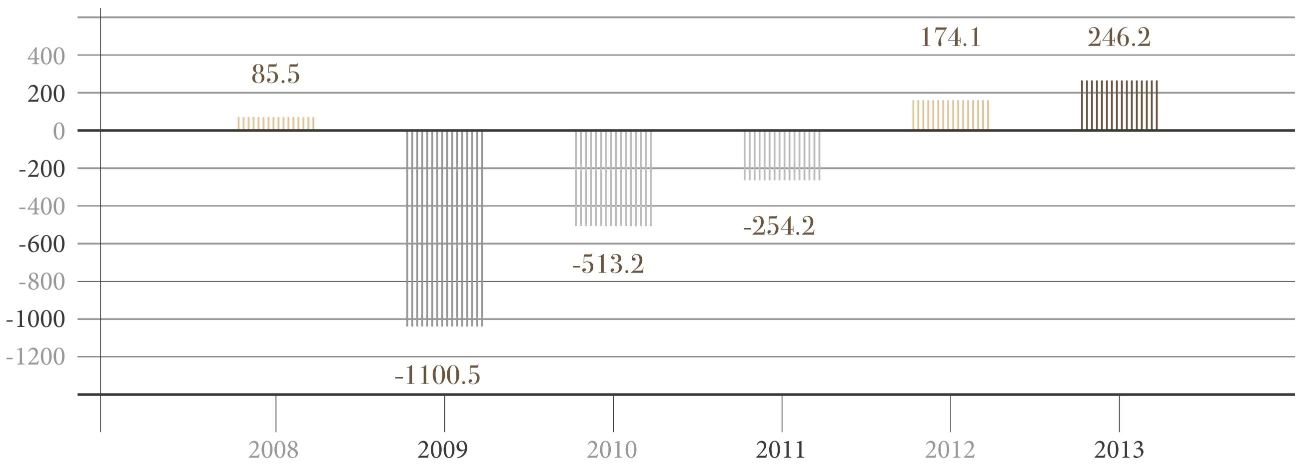
The changeover-related activities fostered a sharp increase in resident deposits (EUR 1.2 billion or 13.3%), while non-resident deposits increased by 6.3% (EUR 546 million). The aggregate sector-wide deposits amounted to EUR 19.5 billion by 2013-end.

Overall, the sector-wide loan portfolio continued to decline, albeit at a slower pace year-over-year. In 2013, loan portfolio decreased by 6.5%. However, a portion of the loan portfolio was represented by loan write-offs which during the crisis years were recorded on their balance sheets, and it took time to remove them (clean up the balance sheets). Therefore, the actual decline was estimated at 3.1%. At the same time, lending activity rose in 2013. Loans totalling EUR 28 billion were granted to non-financial enterprises (resident borrowers) and households, up 5% year over year.

Sector-wide average ROE and CAR higher than those of the eurozone

Although Latvia's financial sector (as a percentage of GDP) is nearly three times smaller than the euro area financial sector on average, its aggregate return on equity (ROE) and capital adequacy ratio (CAR) surpass the euro areas average ratios. According to Financial and Capital Market Commission of the Republic of Latvia, total assets of euro area MFIs (monetary financial institutions) accounted for 327% of GDP (Latvia: 122% of GDP). The euro area showed a 5.2% ROE (Latvia: 8.65%) and a 15% CAR (Latvia: 18.94%). Latvia's sector-wide CAR exceeds the minimum regulatory requirement by more than twofold. At the end of 2013, sector-wide liquidity reached 64.4% to stand above the regulatory threshold by more than twofold.

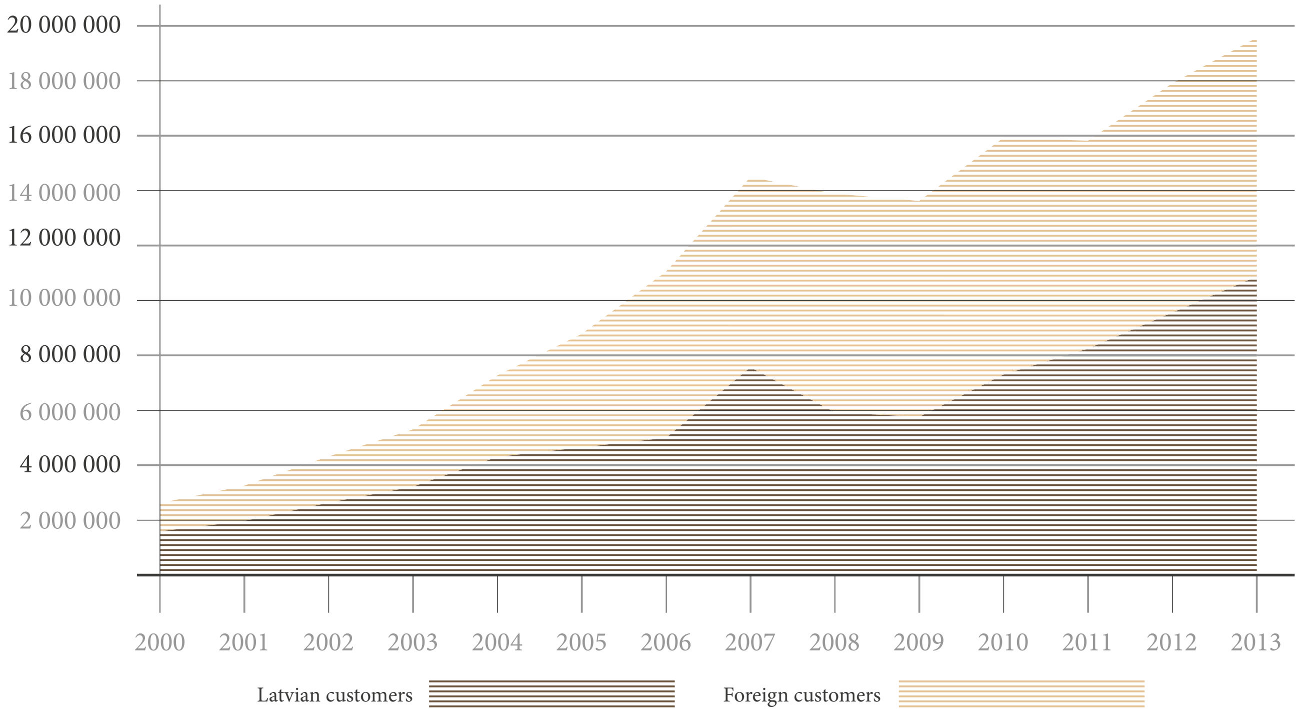
Aggregate profit of Latvia's banking sector, EUR mio. (2008 to 2013)
Source: Financial and Capital Market Commission of the Republic of Latvia



Latvia's banking sector in 2013

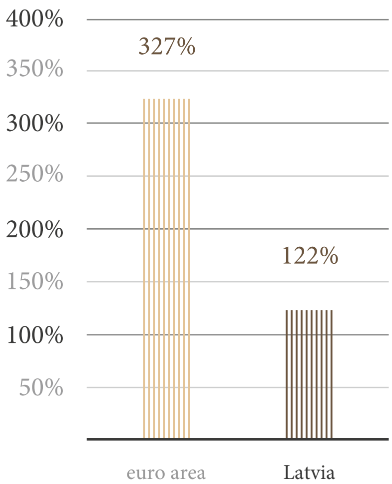
Deposits placed with Latvian banks, EUR mio. (2000 to 2013)

Source: Financial and Capital Market Commission of the Republic of Latvia



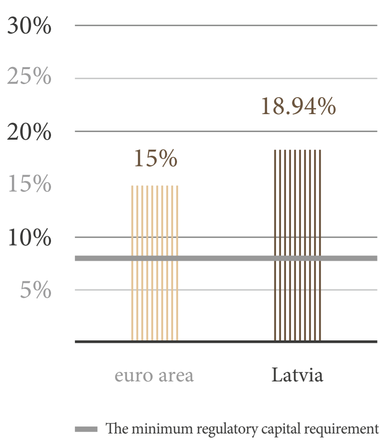
The 2013 total assets of monetary financial institutions, % of GDP

Source: Financial and Capital Market Commission of the Republic of Latvia



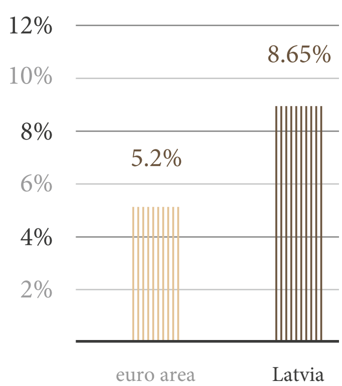
The 2013 sector-wide capital adequacy ratio (CAR), %

Source: Financial and Capital Market Commission of the Republic of Latvia



The 2013 sector-wide return on equity (ROE), %

Source: Financial and Capital Market Commission of the Republic of Latvia



Committed to a sustainable and responsible approach

Bank-implemented development projects in 2013

Welfare and wealth bring with them both opportunity and responsibility with respect to yourself, your business partners and family members, society, and the world. Cleverly thought-out investments are beneficial to investors. More importantly, investments can change the environment and leave their mark on history. To celebrate its milestone, Baltic International Bank focused on improving the modern business and economic environment, sponsored artworks that would remain in history as masterpieces of their era, and invested in enhancing customer service.The Bank continued to consistently adhere to core values that it has been striving to incorporate over already twenty years. Its core values are stability, trust, flexibility, exclusiveness and professionalism.

Bank-implemented development projects in 2013

Concerns over business environment

Baltic International Bank is the only Latvian commercial bank that has its representative office in the United Kingdom. Therefore, as its strategic objectives the Bank has identified the promotion of Latvia-UK economic relations, giving the audience an insight into business environment in Latvia and export success stories. To this end, in 2013 the Bank sponsored three nationally significant forums held in London. Bank participated in the LSE Baltic Forum 2013: Baltic States as a Regional Player in the EU – Steps, Opportunities and Challenges held on 22 February and jointly organised by London School of Economics (LSE) Student Union's Baltic Society and the embassies from Latvia, Lithuania and Estonia. The participating experts discussed a wide range of important issues such as energy security, the Baltic education system, and integration of the Baltic States into the EU Financial and Economic System. Baltic International Bank co-sponsored the 2nd International Forum on Responsible Banking and Finance organised by the International Business & Diplomatic Exchange (IBDE) on 24 June in London. The Forum promoted the need for more ethical and transparent business practice worldwide and brought together more than 200 participants, including UK-based and foreign regulators, senior industry practitioners, policy-makers, diplomats, academics, and economic and finance experts. In October, an annual Latvia Business Forum was held in London. That was the sixth consecutive year that the Baltic International Bank initiated and supported the forum. The event was aimed at discussing Latvia-UK cooperation in investment acquisition. The forum featured contributions from the Chairperson of the Board of Baltic International Bank Ilona Gulchak, the then-current Minister of Economics Daniels Pavluts, the Governor of the Bank of Latvia Ilmars Rimsevics, and other key speakers and participants. The attendees hailed Latvia's prominent role in promoting mutually beneficial relations between businesses operating in Western countries and the CIS and discussed the potential for future investments. Lord Green, UK Minister of State for Trade and Investment has mentioned ICT, energy, and regional-scale infrastructure development projects as the focus of investment in Latvia.

Because hi-technology is one of those niche product sectors thanks to which small countries, such as Latvia, can successfully compete in international markets and position themselves as strong economies, the Bank continues its long-standing tradition of regularly supporting the Technology Promotion and Commercialization Workshop (Commercialization Reactor) held in Riga. Each of the forums provides a platform bringing together scientists and businesspeople from EU member states and the CIS region, whose scientific ideas and tech innovations turn into profit-bearing ventures. Seven Commercialization Reactors have already been arranged. Altogether, 30 new enterprises have been established and raised EUR 2.8 million from investors.

In May, the Clients' Conference organised by the Bank was dedicated to the Bank's 20th anniversary. To mark the occasion, the Bank offered its clients as well as journalists to meet in Riga with Ian Goldin, Professor at the University of Oxford and the Director of the Oxford Research School, also known as the Oxford Martin School, advisor for the World Economic Forum in Davos, former Vice President of the World Bank, principal economist at the European Bank for Reconstruction and Development (EBRD) in London, advisor to President Nelson Mandela and the author of numerous books and publications. The purpose of the meeting was to discuss trends in the development of the world's economy and changes in the global-level economic policy which resulted in national budget deficits, cuts in government spending, social problems and the societal split.

In May, another notable event occurred. the Atlantic Council organized a Roundtable Conference "Kyrgyzstan since 2010: Progress, Problems and Opportunities" financially co-sponsored by Baltic International Bank. Held in Brussels, the Conference focused on Kyrgyzstan's problems and future choices after the Kyrgyz Revolution of 2010. The Conference gathered together opinion leaders including lecturers and professors from the USA and UK, Central Asia experts, representatives of EBRD, NATO, the Ministry for Foreign Affairs of Finland, and the Ministry for Foreign Affairs of Latvia.

Respect and support for art

Art has supremacy over time and space, art shapes history and is witness of the time. Moreover, artworks as an investment have a very important attribute, namely price appreciation. Baltic International Bank values art very highly and therefore considers art sponsorship as an integral part of its core business.

Bank-implemented development projects in 2013

In 2009, the Chairperson of the Council and the principal shareholder of Baltic International Bank Valeri Belokon laid down the fundamentals for a partnership with a famous Latvian artist Ilmars Blumbergs. At that time, the Bank sponsored a triumphant return of Verdi's epic Aida to the Latvian National Opera's repertoire, and Ilmars Blumbergs presented a splendid visual interpretation of the performance. In autumn 2013, the artist celebrated his 70th birthday. Baltic International Bank sponsored Blumberg's solo exhibition titled "I Won't Die", and the edition of the eponymously-named book about the artist's life and art. At Valeri Belokon's own initiative, Blumbergs' life-story was turned into a documentary film at the beginning of 2014.

In honour of its 20th anniversary, the Bank has issued a unique silver commemorative medal showing a Bowing Servant, an artwork created by I. Blumbergs. It is the first commemorative medal in the Bank's collection. With the medal, the Bank starts a new tradition of commemorating significant events in the Bank's life through the prism of artistic imagination and the works of world-renowned artists. The choice of the artwork came quite naturally. Ilmars Blumbergs created the figure of a Bowing Servant in 1993, the year when Baltic International Bank was established.

In 2013, the Bank sponsored a featured Latvian pianist Reinis Zarins who performed a solo concert in the Holywell Music Room (the City of Oxford's chamber music hall). The Holywell Music Room is the oldest purpose-built concert hall in Europe. The concert was held to celebrate the 150th birthday of a distinguished Latvian composer Jazeps Vitols. We're happy that Reinis Zarins won the Great Music Award, a prestigious musical industry award in Latvia, for extraordinary performances.

Bank's achievements, new services and investments in information technologies

In 2013, the Bank expanded its product-and-service portfolio, improved customer service and invested in information technologies. It also drastically improved its brokerage services including discretionary asset management. Also, the Bank focused on streamlining its internal control system. In the middle of the year, the Bank's Internet Banking clients were offered BIB DIGIPASS application accessible through the App Store software. BIB DIGIPASS is a state-of-the-art alternative to a standard handheld DIGIPASS identifier used to authenticate the user's identity when logging in to Internet Banking and to generate a unique 'signature' code that functions as your own electronic signature affixed to orders delivered to the Bank. The application received high scores from the jury of the "Gold Coin 2013" competition organised in Latvia.

During the reporting period, the Bank broadened its product offering. It improved its fiduciary services to enable clients to place deposits with foreign banks under a trust agreement. For its clients interested in long-term or mid-term investments, the Bank offered a new investment vehicle such as investment project financing (project-tied lending) whereby clients can invest in Bank-financed projects.

Deposit 33 is one of the important new products offered by the Bank. The Bank rolled out the new deposit in response to ever-growing customer demand for higher liquidity of their investments. Deposit 33 is a deposit of unlimited duration, and depositors may add money to the account as often as they like. Interest that the deposit earns is automatically added to the account at the end of each 3-month period. As capitalized interest increases their principal, this boosts income from their initial investments. A depositor may withdraw the full amount by giving the Bank a 33-day prior notice of the withdrawal.

In 2013, a debut bond issue worth EUR 20 million was the most pivotal event for the Bank. The Bank intends to sell the bonds by October 2014. Under the bond offering programme, Bank offers bonds maturing in 1 to 3 years, denominated in EUR, USD and GBP, paying a fixed or variable interest rate. The opening of the public subscription to the issue started on 15 October and ended on 12 November. The Bank succeeded in attaining its goal, and bonds worth EUR 5 million were sold through the initial offering. The Bank's customers primarily interested in 2-year maturity bonds (EUR-denominated, paying a variable interest rate).

In the beginning of December, the Bank was announced as the fourth-time nominee in the Best Private Bank in the CIS and Baltic States category for SPEAR'S Russia Wealth Management Awards. The high-profile awards are given to best-in-class banks in recognition of their outstanding performance and service excellence. The award is a token of a high level of trust from our customers and reflects their appreciation of the services rendered by the Bank.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Amidst the global trends

The Bank's development plans

Global changes signify the formation of the new world order, and the banking industry is especially susceptible to such processes. Amidst these changes, the protection and stability of customer assets is the main challenge undertaken by the Bank. Global changes in the legislative, economic and political landscape require an in-depth systematic analysis of the current situation in order to be able to adapt to shifting conditions and design and offer the customers most appropriate suitable and most current solutions to wealth management and tax planning. In 2014, the Bank will therefore focus its efforts on achieving this particular goal.

The Bank's development plans

Our challenges for 2014

Trends being witnessed in the wealth management industry indicate that an investment manager is playing an ever-increasing role. Key factors, such as professional manager, accurate and realistic forecasts, socially responsible investing options, and staying focused on details, acquire paramount importance in the new environment. As for asset owners, they exhibit a tendency to segregate wealth to be preserved and to be protected from wealth aimed at deriving profits. That's why the Bank intends to place greater emphasis on the geographic diversification of assets and reliable business partners in 2014. In addition, the Bank intends to actively develop products aimed at providing customers with broader asset-allocation and asset-accumulation opportunities and designed to satisfy each individual customer's needs.

We attach great importance to far-sighted and responsible tax planning and asset structuring which satisfies both the interests of the government and the individual customer. Therefore, the Bank is planning to gradually extend an assortment its services in this area.

In line with the global trends and taking into account the heightened interest from its customers, the Bank intends to continue improving e-commerce services customised to meet individual business needs.

In 2014, the Bank intends to continue to finance customers' business projects, real estate purchase transactions and real estate development, thus maintaining its balanced and safe loan portfolio.

The Bank also plans to enhance its cooperation with professional advisers and investment companies which are already using the services it provides for the benefit of their clients. The Bank also intends to develop special-purpose programmes individually tailor-made for the specific business needs of each partner.

This customer-centric strategy has borne fruit. More clients than ever are taking advantage of Latvia's financial sector and regulatory landscape to avail themselves of services designed for their wealth and businesses. We're striving to turn Latvia into a global financial hub able to compete internationally and serve customers from all over the world, and provide them with top-level bespoke banking.


The art
of managing
wealth

JSC “Baltic International Bank”
Group consolidated and separate bank financial statements for the year ended 31 december 2013

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Report of the Chairperson of the Supervisory Council and the Chairperson of the Management Board

Dear Ladies and Gentlemen,

In 2013, the Bank's activities were directed towards acquiring new customers, reorganising certain business processes associated with customer service, technology solutions, reinvention of product-and service offers, and the changeover to a single European currency.

By the end of the year, the first results were achieved, and the total customer assets held with the Bank (comprised of deposits, assets under management and brokerage portfolio) increased by 19.5 percent to reach LVL 339.75 million (EUR 483.4 million).

The Bank actively develops asset management services. The assets under management increased by 25 percent to stand at LVL 54.6 million (EUR 77.7 million). In addition to off-the-shelf portfolios, the Bank's customers were offered to invest in project-financing (also known as project-tied lending). This applies to both customer-chosen projects and projects where the Bank undertakes a pre-investment assessment and acts as the financer.

The Bank's fiduciary placement programme was favoured by customers for the opportunity to diversify their investments, thus ensuring additional protection of their wealth.

To meet ever-increasing customer demand for liquid investments, the Bank rolled out a new banking product Deposit 33, a deposit of unlimited duration, offering quarterly-capitalised interest and the possibility to add money to the deposit account and hence increase the yield on the initial investments.

The Bank also actively continued to offer its customers legal and organisational support for obtaining temporary residence permits in Latvia. As a result, the country saw additional investments, and the Bank's subordinated debt increased by 3.67 million lats (EUR 5.22 million).

To some extent, the year 2013 was viewed as preparation for further expansion of business orientated towards servicing high net worth individuals as well as towards professional market participants, which provide certain financial services to the above mentioned category of customers. All that necessitated both significant expenses and significant investments, which in turn at that point affected the profit figure. This, however, has paved the way for further growth of the figure.

While developing the investing-and-saving direction, the Bank focuses, respectively, on the growth of fee and commission income as a percentage of the total income structure. In 2013, the net fee and commission income grew by 9.14 percent compared to 2012, which positively affected the overall result.

As at 31 December 2013, the Bank's assets reached 236.6 million lats (EUR 336.7 million), up 7 percent compared to 2012, with the investment structure remaining unchanged. The loan portfolio, which historically makes up nearly one-third of the total assets, reached 73 million lats by the end of the year.

The Bank's operating income totalled 9.4 million lats (EUR 13.4 million). A 2.64 percent decrease (compared to 2012) is primarily attributed to a decline in interest income from placements in the interbank market. The Bank's due from credit institutions still makes up a large percentage of the total assets (46 percent), of which placements with investment-grade banks account for 85.34 percent. Because of record-low interest rates such investments do not foster yield-gaining, however continue to ensure a high level of liquidity: at the end of 2013, the liquidity ratio was 71.53 percent.

The Bank continued to invest in securities. Traditionally, the securities accounted for a negligible share of the total assets (3.49 percent) and were largely represented by fixed-income instruments. The situation is expected to change already in 2014 due to the implementation of the Basel III regulatory framework in the European Union. Starting from 2015, the structure of the Bank's assets will undergo drastic changes: interbank placements will decrease, and investments in investment-grade securities will grow. The preparation for the changes is already underway, and the structure of the assets will change gradually.

In 4Q 2013, a debut bond issue was the most pivotal event for the Bank. The bonds worth EUR 5 million were sold through the initial offering.

Key areas to focus on in 2014:
- to actively develop services, which enhance customer-favoured opportunities for investing and saving, and the appropriate technology solutions; in that regard, the Bank devotes great attention to areas such as asset structuring and tax planning;
- to ensure customers with asset diversification and, accordingly, to expand partner network covering highly-demanded countries and regions both in terms of custody services and fiduciary placements;
- to launch programmes targeted towards professional partners (such as family offices and asset management companies) and to provide services to their customers;
- to develop e-commerce.

The Bank greatly focuses on supporting social and cultural projects. The most notable events in 2013 were as follows:

LSE Baltic Forum 2013: Baltic States as a Regional Player in the EU – Steps, Opportunities and Challenges.

The meeting with Ian Goldin, Professor at the University of Oxford and the Director of the Oxford Research School, also known as the Oxford Martin School, advisor for the World Economic Forum in Davos, former Vice President of the World Bank, EBRD economist, advisor to President Nelson Mandela and the author of numerous books and publications. The purpose of the meeting was to discuss tendencies in the development of the world's economy and changes in the global-level economic policy which resulted in national budget deficits, cuts in government spending, social problems and the societal split.

The continuance of the partnership with a famous Latvian artist Ilmars Blumberg: the opening of Blumberg's solo exhibition tiled "I Will Not Die" and the presentation of the eponymously-named book about the artist's life and art was held at the Arsenals Exhibition Hall (the Latvian National Museum of Art).

In honour of its 20-year anniversary, the Bank has issued a silver commemorative medal (released in limited edition) showing a Bowing Servant, an artwork created by I. Blumberg.

We wish to thank our customers and partners for the long-standing partnership and their confidence which the Bank has earned by adopting a prudent approach to risks and offering our customers individually tailored solutions.

I would like to heartily thank the Bank's shareholders for their continuing support of the chosen development strategy. A word of thanks is also due to our staff for their contribution in implementing the strategy.

27 March 2014

Valeri Belokon
Chairperson of the Council

Ilona Gulchak
Chairperson of the Board

Supervisory Council and Management Board

Supervisory Council (as of 31 December 2013)

Name	Position held	Appointed	Re-appointed
Valeri Belokon	Chairperson of the Council	15/09/2010	19/08/2011
Albert Reznik	Deputy Chairperson of the Council	15/09/2010	19/08/2011
	Member of the Council	09/08/2010	19/08/2011
Vlada Belokon	Member of the Council	19/08/2011	–

Management Board (as of 31 December 2013)

Name	Position held	Appointed	Re-appointed
Ilona Gulchak	Chairperson of the Board	25/01/2008	–
Natalya Tkachenko	Deputy Chairperson of the Board	26/02/2008	–
	Member of the Board	01/08/2007	01/08/2010
Alon Nodelman	Member of the Board	15/08/2003	01/08/2010
Janis Apelis	Member of the Board	15/08/2003	21/05/2010
Dinars Kolpakovs	Member of the Board	13/09/2005	21/05/2010
Inese Lazdovska	Nominee Member of the Board	02/04/2013	–

In the year ended 31 December 2013, no changes have been made in the Council membership.

During the year ended 31 December 2013 the following changes were made in the composition of JSC "Baltic International Bank" Management Board:

Ilze Lase (22.01.2013) and Bogdan Andrushchenko (04.02.20013) have withdrawn their membership in the Management Board of JSC "Baltic International Bank". According to the Council's resolution of 25 March 2013, Inese Lazdovska was elected as a nominee member of the Board.

There were no changes in the Supervisory Council or the Management Board of the Bank during the period from 1 January 2014 to the date of the approval of these financial statements.

Statement of Management's Responsibility

Riga, 27 March 2014

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

The Financial Statements on pages 35 to 117 are prepared in accordance with the source documents and present the financial position of the Group and Bank as at 31 December 2013 and the results of their performance and cash flows for the for the year ended 31 December 2013.

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

On behalf of the Management of the Bank and Group:

Valeri Belokon
Chairperson of the Council

Ilona Gulchak
Chairperson of the Board

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Vesetas iela 7
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Independent Auditors' Report
To the shareholders of AS Baltic International Bank

Report on the Separate and Consolidated Financial Statements

We have audited the accompanying separate financial statements of AS Baltic International Bank ("the Bank"), which comprise the separate statement of financial position as at 31 December 2013, the separate statements of comprehensive income, changes in shareholders' 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 35 to 117.

We have also audited the accompanying consolidated financial statements of AS Baltic International Bank and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2013, the consolidated statements of comprehensive income, changes in shareholders' 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 35 to 117.

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 separate and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these separate and consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether these separate and consolidated financial statements are free of material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate and consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of these separate and consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the Bank'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 Bank'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 Bank's and Group's management, as well as evaluating the overall presentation of the separate and consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

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

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

Report on Other Legal and Regulatory Requirements

In addition, our responsibility is to assess whether the accounting information included in the Consolidated Management Report, as set out on pages 29 to 30, 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
Riga, Latvia
27 March 2014

Ondrej Fikrle
Partner pp
KPMG Baltics SIA

Inga Lipšāne
Sworn Auditor
Certificate No 112

Group consolidated and bank separate statement of comprehensive income

for the year ended 31 December 2013

	Notes	Group 31.12.2013 LVL	Bank 31.12.2013 LVL	Group 31.12.2012 LVL	Bank 31.12.2012 LVL
Interest income	6	6 146 987	6 211 001	7 314 161	7 368 908
Interest expense	7	(1 525 068)	(1 525 068)	(2 536 736)	(2 530 466)
Net interest income		**4 621 919**	**4 685 933**	**4 777 425**	**4 838 442**
Fee and commission income	8	4 384 483	4 385 519	4 121 319	4 122 457
Fee and commission expense	9	(674 704)	(674 704)	(722 806)	(722 348)
Net fee and commission income		**3 709 779**	**3 710 815**	**3 398 513**	**3 400 109**
Dividend income		10 534	10 534	9 061	9 061
Net trading (loss)/ income	10	(24 700)	(24 700)	60 628	60 628
Net foreign exchange income	10	943 125	944 008	1 242 635	1 244 136
Other operating income		171 366	106 728	336 635	137 067
Total operating income		**9 432 023**	**9 433 318**	**9 824 897**	**9 689 443**
Administrative expenses	11	(8 780 886)	(8 704 995)	(8 049 407)	(7 944 941)
Other operating expenses		(211 025)	(142 222)	(205 469)	(189 195)
Net impairment loss	12	(658 618)	(503 037)	(1 177 406)	(1 056 650)
Gain on revaluation of investment property	24	55 935	12 090	221 297	63 771
(Loss)/profit before income tax		**(162 571)**	**95 154**	**613 912**	**562 428**
Income tax expense	13	(58 738)	(75 117)	(176 673)	(168 895)
(Loss)/profit for the period		**(221 309)**	**20 037**	**437 239**	**393 533**
Other comprehensive income		–	–	–	–
Total comprehensive (loss)/income for the period		**(221 309)**	**20 037**	**437 239**	**393 533**

The accompanying notes on pages 43 to 117 are an integral part of these Financial Statements.

The Financial Statements on pages 35 to 117 has been authorised for issue by the Council and the Board on 27 March 2014 and signed on their behalf by:

Valeri Belokon
Chairperson of the Council

Ilona Gulchak
Chairperson of the Board

Group consolidated and bank separate statement of financial position

as at 31 December 2013

	Notes	Group 31.12.2013 LVL	Bank 31.12.2013 LVL	Group 31.12.2012 LVL	Bank 31.12.2012 LVL
Assets					
Cash and due from central banks	14	22 100 069	22 099 112	27 205 835	27 205 135
Financial assets held-for-trading		2 203 545	2 203 545	2 186 456	2 186 456
Securities held-for-trading	*16*	*1 172 818*	*1 172 818*	*1 136 384*	*1 136 384*
Derivative financial instruments	*17*	*1 030 727*	*1 030 727*	*1 050 072*	*1 050 072*
Due from credit institutions	18	108 912 141	108 912 141	100 544 611	100 544 611
Loans	19	71 377 163	72 796 844	61 774 979	63 173 462
Available for sale instruments	20	3 079 878	3 079 878	1 572 679	1 572 679
Securities held-to-maturity	21	4 015 199	4 015 199	6 559 545	6 559 545
Investments in equity accounted investees	22	804 392	804 392	429 009	429 009
Investments in subsidiaries	23	–	1 365 600	–	1 365 600
Investment property	24	5 565 600	2 923 900	5 776 684	2 911 810
Property and equipment	25	12 301 263	12 300 968	9 941 290	9 940 922
Intangible assets	26	3 210 126	3 210 126	3 213 039	3 213 039
Current income tax assets		160 146	160 146	–	–
Deferred expenses and accrued income	27	1 589 926	1 589 333	1 224 001	1 227 934
Other assets	28	1 450 866	1 142 003	1 090 419	806 800
Total assets		**236 770 314**	**236 603 187**	**221 518 547**	**221 137 002**

The accompanying notes on pages 43 to 117 are an integral part of these Financial Statements.

The Financial Statements on pages 35 to 117 has been authorised for issue by the Council and the Board on 27 March 2014, and signed on their behalf by:

Valeri Belokon
Chairperson of the Council

Ilona Gulchak
Chairperson of the Board

Group consolidated and bank separate statement of financial position

as at 31 December 2013

	Notes	Group 31.12.2013 LVL	Bank 31.12.2013 LVL	Group 31.12.2012 LVL	Bank 31.12.2012 LVL
Liabilities					
Derivative financial instruments	17	437 619	437 619	521 857	521 857
Due to credit institutions	29	5 359 546	5 359 546	257 556	257 556
Deposits	30	193 468 255	193 473 936	190 665 050	190 666 482
Debt securities in issue	31	3 551 492	3 551 492	–	–
Accrued expenses, provisions and deferred income	32	821 777	819 891	808 318	806 432
Corporate income tax liabilities		–	–	71 892	71 892
Deferred tax liabilities	13	892 839	892 839	834 438	817 722
Other liabilities	33	1 188 958	836 795	762 893	458 623
Subordinated liabilities	34	7 802 275	7 802 275	4 127 681	4 127 681
Total liabilities		**213 522 761**	**213 174 393**	**198 049 685**	**197 728 245**
Shareholders' equity					
Share capital	35	20 772 105	20 772 105	20 772 105	20 772 105
Reserve capital	35	545 024	545 024	545 024	545 024
Property revaluation reserve	25	24 528	24 528	24 528	24 528
Retained earnings		1 905 896	2 087 137	2 127 205	2 067 100
Total shareholders' equity		**23 247 553**	**23 428 794**	**23 468 862**	**23 408 757**
Total liabilities and shareholders' equity		**236 770 314**	**236 603 187**	**221 518 547**	**221 137 002**
Commitments and contingencies					
Sureties (guarantees)	36	1 788 591	1 788 591	13 036 699	13 036 699
Commitments to customers	36	11 727 289	11 800 241	15 255 661	15 339 823
Total commitments and contingencies		**13 515 880**	**13 588 832**	**28 292 360**	**28 376 522**

The accompanying notes on pages 43 to 117 are an integral part of these Financial Statements.

The Financial Statements on pages 35 to 117 has been authorised for issue by the Council and the Board on 27 March 2014, and signed on their behalf by:

Valeri Belokon
Chairperson of the Council

Ilona Gulchak
Chairperson of the Board

Group consolidated statement of changes in shareholders' equity

for the year ended 31 December 2013

	Share capital LVL	Reserve capital LVL	Property revaluation reserve LVL	Retained earnings LVL	TOTAL LVL
Balance as of 31 December 2011	**20 772 105**	**545 024**	**24 528**	**1 689 966**	**23 031 623**
Total comprehensive income					
Net profit for the period	–	–	–	437 239	437 239
Total comprehensive income	**–**	**–**	**–**	**437 239**	**437 239**
Balance as of 31 December 2012	**20 772 105**	**545 024**	**24 528**	**2 127 205**	**23 468 862**
Total comprehensive loss					
Net loss for the period	–	–	–	(221 309)	(221 309)
Total comprehensive loss	**–**	**–**	**–**	**(221 309)**	**(221 309)**
Balance as of 31 December 2013	**20 772 105**	**545 024**	**24 528**	**1 905 896**	**23 247 553**

The accompanying notes on pages 43 to 117 are an integral part of these Financial Statements.

The Financial Statements on pages 35 to 117 has been authorised for issue by the Council and the Board on 27 March 2014, and signed on their behalf by:

Valeri Belokon
Chairperson of the Council

Ilona Gulchak
Chairperson of the Board

Bank separate statement of changes in shareholders' equity

for the year ended 31 December 2013

	Share capital LVL	Reserve capital LVL	Property revaluation reserve LVL	Retained earnings LVL	TOTAL LVL
Balance as of 31 December 2011	**20 772 105**	**545 024**	**24 528**	**1 673 567**	**23 015 224**
Total comprehensive income					
Net profit for the period	–	–	–	393 533	393 533
Total comprehensive income	**–**	**–**	**–**	**393 533**	**393 533**
Balance as of 31 December 2012	**20 772 105**	**545 024**	**24 528**	**2 067 100**	**23 408 757**
Total comprehensive income	–	–	–		
Net profit for the period	–	–	–	20 037	20 037
Total comprehensive income	**–**	**–**	**–**	**20 037**	**20 037**
Balance as of 31 December 2013	**20 772 105**	**545 024**	**24 528**	**2 087 137**	**23 428 794**

The accompanying notes on pages 43 to 117 are an integral part of these Financial Statements.

The Financial Statements on pages 35 to 117 has been authorised for issue by the Council and the Board on 27 March 2014, and signed on their behalf by:

Valeri Belokon
Chairperson of the Council

Ilona Gulchak
Chairperson of the Board

Group consolidated and bank separate statement of cash flows

for the year ended 31 December 2013

	Group 31.12.2013 LVL	Bank 31.12.2013 LVL	Group 31.12.2012 LVL	Bank 31.12.2012 LVL
Cash flows from operating activities				
(Loss)/profit before income tax	(162 571)	95 154	613 912	562 428
Amortisation and depreciation	783 987	783 776	749 624	749 398
Increase in impairment allowance	658 618	503 037	1 177 406	1 056 650
Unrealised profit on revaluation of investment property	(55 935)	(12 090)	(221 297)	(63 771)
Profit on disposal of property and equipment and investment property	64 582	–	4 710	32 456
Increase in cash and cash equivalents from operating activities before changes in assets and liabilities	**1 288 681**	**1 369 877**	**2 324 355**	**2 337 161**
Increase in loans	(10 129 970)	(10 151 168)	(4 839 269)	(4 473 038)
(Increase)/decrease in due from credit institutions	(5 994 415)	(5 994 415)	2 244 976	2 244 976
Increase in financial assets held-for-trading	(17 089)	(17 089)	(1 788 573)	(1 788 573)
Increase in deferred expenses and accrued income	(368 021)	(363 495)	(353 195)	(355 956)
(Increase)/decrease in other assets	(516 607)	(335 782)	915 809	1 031 819
Increase/(decrease) in due to credit institutions	57	57	(6 280 906)	(6 280 906)
Increase/(decrease) in deposits	2 803 205	2 807 454	(5 223 105)	(5 227 538)
(Decrease)/increase in derivative liabilities	(84 238)	(84 238)	500 810	500 810
Increase in accrued expenses, provisions and deferred income	13 459	13 459	160 981	160 339
Increase/(decrease) in other liabilities	426 065	378 172	28 369	(67 332)
Decrease in cash and cash equivalents resulting from operating activities	**(12 578 873)**	**(12 377 168)**	**(12 309 748)**	**(11 918 238)**

The accompanying notes on pages 43 to 117 are an integral part of these Financial Statements.

Group consolidated and bank separate statement of cash flows

for the year ended 31 December 2013

	Group 31.12.2013 LVL	Bank 31.12.2013 LVL	Group 31.12.2012 LVL	Bank 31.12.2012 LVL
Corporate income tax paid	(232 375)	(232 038)	22 433	22 641
Decrease in cash and cash equivalents from operating activities	**(12 811 248)**	**(12 609 206)**	**(12 287 315)**	**(11 895 597)**
Cash flow from investing activities				
Acquisition of property and equipment, intangible assets and investment property	(3 152 192)	(3 141 073)	(1 599 980)	(1 206 295)
Proceeds from sale of property and equipment and investment property	213 582	164	770 919	247 210
Proceeds from sale of non-current assets held for sale	–	–	261 794	–
Acquisition of shares in equity accounted investees	(375 383)	(375 383)	–	–
Purchase of available-for-sale instruments	(1 479 695)	(1 479 695)	(1 407 100)	(1 407 100)
Purchase of securities held-to-maturity	(1 673 750)	(1 673 750)	(1 474 415)	(1 474 415)
Redemption of held-to-maturity investments	4 218 096	4 218 096	1 961 256	1 961 256
Decrease in cash and cash equivalents as a result of investing activities	**(2 249 342)**	**(2 451 641)**	**(1 487 526)**	**(1 879 344)**

The accompanying notes on pages 43 to 117 are an integral part of these Financial Statements.

Group consolidated and bank separate statement of cash flows

for the year ended 31 December 2013

	Notes	Group 31.12.2013 LVL	Bank 31.12.2013 LVL	Group 31.12.2012 LVL	Bank 31.12.2012 LVL
Cash flows from financing activities					
Subordinated liabilities		3 674 594	3 674 594	1 784 821	1 784 821
Issuance of debt securities		3 551 492	3 551 492	–	–
Increase in cash and cash equivalents as a result of financing activities		**7 226 086**	**7 226 086**	**1 784 821**	**1 784 821**
Decrease in cash and cash equivalents		**(7 834 504)**	**(7 834 761)**	**(11 990 020)**	**(11 990 120)**
Cash and cash equivalents at the beginning of the period	15	125 553 958	125 553 258	137 543 978	137 543 378
Cash and cash equivalents at the end of the period	**15**	**117 719 454**	**117 718 497**	**125 553 958**	**125 553 258**

The accompanying notes on pages 43 to 117 are an integral part of these Financial Statements.

The Financial Statements on pages 35 to 117 has been authorised for issue by the Council and the Board on 27 March 2014, and signed on their behalf by:

Valeri Belokon
Chairperson of the Council

Ilona Gulchak
Chairperson of the Board

Notes to the Financial Statements for the year ended 31 December 2013

1 General information

These Consolidated Financial Statements comprise the financial statements of JSC „Baltic International Bank" (hereinafter together referred to as the "Bank") and its subsidiaries (hereinafter together referred to as the "Group"). The subsidiaries are as follows: real estate company "BIB Real Estate" SIA (acquired on 11 June 2009) that in turn owns several subsidiaries, and "BIB Consulting" SIA (registered on 9 September 2011) to provide legal advice, asset protection services and advice and guidance on taxation and tax planning.

JSC "Baltic International Bank" is a joint stock company registered in the Republic of Latvia. The registered office address is: Kalēju iela 43, Riga, LV-1050, Latvia. On 8 April 1993, the Bank of Latvia approved JSC "Baltic International Bank" as a credit institution and issued Banking Licence No. 103. The activities of the Bank are regulated by the Bank of Latvia and the Financial and Capital Market Commission of the Republic of Latvia ("FCMC").

Established to cater to the needs of both individuals and corporate customers, JSC "Baltic International Bank" provides a comprehensive range of financial services: personal and corporate loans, acceptance of money deposits and other funds, funds transfers, treasury and capital market services carried out according to customer instructions and for the Bank's own trading purposes.

2 Basis of preparation

Statement of Compliance

The Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and in accordance with the requirements of the Latvian Financial and Capital Market Commission in force as at the reporting date. The local accounting legislation requires the preparation of the Group consolidated and Bank separate financial statements in accordance with IFRS as adopted by the European Union.

The Financial Statements were authorised for issue by the Management Board on 27 March 2014. The financial statements may be amended by the shareholders and re-issue of the statements may be required.

The Financial Statements for the years ended 31 December 2013 and 31 December 2012 are available at the Bank's website (www.bib.eu).

Functional and Presentation Currency

The Financial Statements are presented in Latvian lats, unless indicated otherwise. The functional currency of the Bank and its subsidiaries is the Latvian lat.

Basis of measurement

The Financial Statements are prepared on the historical cost basis except for the following:
- financial instruments held-for-trading are stated at fair value;
- derivative instruments are stated at fair value;
- available-for-sale assets are stated at fair value, except for those whose fair value cannot be determined reliably and derivative instruments linked to such available-for sale assets;
- investment property is measured at fair value;
- part of property and equipment – motor vehicles – that is measured using a revaluation model.

Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires management to make judgements, 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, actual results ultimately may differ from those estimates.

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

Key sources of estimation uncertainty

The key sources of estimation uncertainty are as follows: allowances for credit losses, valuation and impairment of financial instruments, valuation of investment property, recognition of deferred tax asset.

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 accounting policy. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument (see Notes 16, 20, 48).

Allowances for credit losses

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and 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 judgements about a counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Risk Management, Statements and Analysis Department.

Impairment of other financial instruments

The Bank has investments in Available for sale equity instruments whose fair value cannot be assessed reasonably. The Bank management follows these exposures closely and assesses if there is any information indicating that fair value can be determined reliably or that there are any impairment indicators. Please refer to Note 12 for more detail.

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

Valuation of investment property

Investment property is stated at its fair value with all changes in fair value recorded to profit or loss. When measuring the fair value of the investment property, the management relies on external valuations and assesses the reliability of such valuation in light of the current market situation.

Recognition of deferred tax asset

A deferred tax asset from carry forward of tax losses and other temprorary differences is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Management has to make judgements about amounts of taxable profits in the future that will be available for asset utilization.

Measurement of fair values

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

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

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, by CFO.

Where third-party information, such as broker quotes or pricing services, are used to measure fair value, Finance Director assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS as adopted by EU. This includes:
- Verifying that the broker or pricing service is approved by the Group for use in pricing the relevant type of financial or non-financial instrument;
- Understanding how the fair value has been arrived at and the extent to which it represents actual market transactions;
- When prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement;

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

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

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

Further information about the assumptions made in measuring fair values see Notes 16, 17, 20, 24, 48.

3 Significant accounting policies

Changes in accounting policies

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

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

Fair value measurement

IFRS 13 establishes a single framework for measuring fair value and making disclosure about fair value measurements when such measurements are required or permitted by other IFRSs. It unifies the definition of the fair value as the price that would be received to sell an asset or pad to transfer a liability in an orderly transaction between market participants at the measurement date. It replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7. As a result, the Group has included additional disclosures in this regards (see Notes 24 (Property and equipment), 25 (Investment property), 48 (Fair value of financial instruments)).

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

Other amendments to standards

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

- Amendment to IFRS 7 – Offsetting of financial assets and liabilities
- Amendment to IAS 19 (2011) – Employee benefits
- Amendments to IAS 12 – Deferred tax: Recovery of Underlying Assets
- Amendments to IAS 1 – Presentation of Financial Statements: Other comprehensive income

New standards and interpretations not yet adopted

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

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

IFRS 10 introduces a single control model to determine whether an investee should be consolidated. As a result, the Group may need to change its consolidation conclusion in respect of its investees, which may lead to changes in the current accounting for these investees. The Group does not expect the new standard to have any impact on the financial statements, since the assessment of control over its current investees under the new standard is not expected to change previous conclusions regarding the Group's control over its investees.

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 does not expect IFRS 11 to have material impact on the financial statements since it is not a party to any joint arrangements.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Basis of Consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists where the Group has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. The financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

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 associates are eliminated to the extent of the Bank's interest in the enterprise. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

Related parties

Related parties represent both legal entities and private individuals related to the company in accordance with the following rules.

a) A person or a close member of that person's family is related to a reporting entity if that person:
   i. has control or joint control over the reporting entity;
   ii. has significant influence over the reporting entity; or
   iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
b) An entity is related to a reporting entity if any of the following conditions applies:
   i. the entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
   ii. one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
   iii. both entities are joint ventures of the same third party;

iv. one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
v. the entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity;
vi. the entity is controlled, or jointly controlled by a person identified in (a);
vii. a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Related party transaction – a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

Foreign currency translation

Transactions denominated in foreign currencies are translated into the functional currency (Latvian lats) at the Bank of Latvia's official exchange rate prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Latvian lats according to the Bank of Latvia's official exchange rate prevailing at the end of the period. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at cost and fair value are retranslated at the exchange rate at the date that the cost or fair value was determined. Foreign currency differences arising on retranslation are recognised in statement of comprehensive income, except for differences arising on the retranslation of available-for-sale equity instruments, which are recognised in other comprehensive income.

Currency name	LVL 31.12.2013	LVL 31.12.2012
1 BYR	0.0000543	0.0000619
1 EUR	0.7028040	0.7028040
1 GBP	0.8430000	0.8570000
1 RUB	0.0156000	0.0174000
1 USD	0.5150000	0.5310000

Income and expense recognition

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

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently. When calculating the effective interest rate, the Group and Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract, transaction costs and all other premiums or discounts that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

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

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

Dividend income is recognised in the profit or loss on the date that the dividend is declared.

Financial instruments

Securities acquired by the Bank are categorised into portfolios in accordance with the Bank's intent at the time of the acquisition of the securities and pursuant to the Bank's investment strategy. The Bank developed a security investment strategy and, reflecting the intent of the acquisition, allocated securities to "Securities held-to-maturity", "Financial assets at fair value through profit or loss" and "Securities available-for-sale".

All financial instruments held by the Bank are recognised at trade date and are initially measured at fair value plus for instruments not at fair value through profit or loss any directly attributable transaction cost.

Loans and receivables are recognised on drawdown. From the date of signing a contractual agreement till drawdown they are accounted for as loan commitments off balance sheet.

Loans, held-to-maturity investments, balances due from banks, deposits and balances due to banks are measured at amortised cost.

Financial instruments and liabilities at fair value through profit or loss

Fair value measurement principles

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

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

When there is no quoted price in an active market, the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that used only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price.

Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred. For further analysis of basis for fair value see Note 48.

Financial assets and liabilities at fair value through profit or loss include those that are classified as held-for-trading (including derivative financial instruments) and those that are originally designated in this category.

Held-for-trading instruments are securities and shares that the Bank principally holds for the purpose of reselling and generating a profit from short-term fluctuations in the prices of the instruments. Securities held-for-trading are subsequently re-measured to fair value based on market prices. Realised and unrealised gains or losses are recorded as net trading income or net trading loss, respectively.

Derivative financial instruments

Derivative financial instruments include swap, forward, futures, spot transactions and options in interest rate, foreign exchange, precious metals and stock markets, and any combinations of these instruments.

Derivatives are initially recognised 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 recognised immediately in the profit or loss.

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

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

Securities available-for-sale

Securities available-for-sale are acquired to be held for an indefinite period of time. Securities, whose quoted market value is not determined in an active market and whose fair value cannot be reliably measured, are carried at acquisition cost. All other securities available-for-sale are carried at fair value. Gains or losses resulting from the change in fair value of available-for-sale securities, except for impairment losses, are recognised in other comprehensive income until the financial asset is derecognised; thereafter, the cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss. Securities available-for-sale are initially measured at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

Securities held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity. Securities held-to-maturity include government securities and corporate bonds which after initial recognition at fair value plus transaction costs that are directly attributable to its acquisition, are recognised at amortised cost and are securities with respect to which the Bank has a positive intent and ability to hold to maturity. Securities held-to-maturity are accounted for using a trade date basis for purchases. Subsequently the effective interest rate method is applied for amortising discounts over the term to maturity.

Loans

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than (a) those that the Bank intends to sell immediately or in the short-term, (b) those that 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.

After initial recognition at fair value plus transaction costs that are directly attributable to its acquisition, loans are measured at amortised cost using the effective interest rate method.

When a loan is considered to be uncollectible it is written off against the related allowance for credit losses; subsequent recoveries are credited to the impairment loss expense in the profit or loss.

Impairment

Financial assets

At each reporting date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower or issuer, restructuring of a loan or advance by the Group and Bank on terms that the Group and 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.

All loans and receivables from customers and held-to-maturity and available-for-sale investment securities are assessed for specific impairment. Accordingly, the Bank does not set aside a collective impairment allowance on loans and receivables due from customers and held-to-maturity investment securities.

Loans and receivables are stated in the statement of financial position at amortised cost, less any allowances for credit losses. Impairment losses and recoveries are recognised monthly based on regular loan reviews. Allowances during the period are reflected in the profit or loss.

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

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

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised as other comprehensive income.

Non-financial assets

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

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

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

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

Due to credit institutions

Due to credit institutions comprise all liabilities resulting from transactions with domestic and foreign credit institutions as well as liabilities to the Bank of Latvia and other central banks, including vostro balances due to credit institutions, due to credit institutions for outstanding foreign exchange deals and interbank loans.

Due to credit institutions are initially measured at fair value and subsequently are carried at amortised cost using the effective interest rate method.

Deposits

Deposits are liabilities carried at amortised cost and include current accounts and deposits from customers and deposits and balances from credit institutions.

Fair value measurement of financial assets and financial liabilities

A number of the Bank's accounting policies and disclosures require the determination of fair value for financial assets and liabilities. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date. The methods described below have been used for the determination of fair values. When applicable, further information about the assumptions made in determining fair values is disclosed in the respective notes.

Due from 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.

Assumed collateral

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

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 non-listed shares, where disposal is limited, the assumption was made that the reliable estimate of fair value is not possible; such items are carried at cost less impairment.

Derivative financial instruments

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 lats, applying the exchange rate set by Bank of Latvia. EURIBOR and LIBOR interest rates are used as benchmark for risk-free interest rate for discounting purposes.

Due to 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. The estimated fair value of overnight deposits is their carrying amount. The estimated fair value of fixed interest-bearing deposits not quoted in the active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

Derecognition

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

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

Offsetting

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

Intangible assets

The Bank's intangible assets comprise software licences. The intangible assets are accounted for at their historical cost less amortisation and impairment, if any. The intangible asset's amortisation term of two to twenty years is determined by the Bank based on the intangible asset's useful life, if any; in the event that such a term is not stated, the Bank amortises the intangible asset over a period of 5 years. The Bank applies the straight-line method of amortisation of intangible assets.

Property and equipment

Property and equipment, exept for motor vehicles, are recorded in the Financial Statements at their historical cost less accumulated depreciation and impairment, if any.

Depreciation periods for individual categories of assets are as follows:

Buildings	50 years
Machinery	5 years
Motor vehicles	5 years
Other tangible fixed assets	10 years
Computers	5 years

Land and assets under construction are not depreciated. Costs relating to the maintenance and repair of the Group`s and Bank's property and equipment are included in the profit or loss when they arise. Whenever a complete repair and renovation prolong the asset's useful life (change the value of the asset), then the repair and renovation expenditure amount is added to the fixed asset's carrying amount.

Depreciation methods, useful lives and residual values are reviewed annually.

Items of property and equipment are carried at cost less accumulated depreciation and accumulated impairment losses, except for motor vehicles which are carried at revalued amounts as described below. Cost is the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire an asset at the time of its acquisition or construction. The cost includes expenditures that are directly attributable to the acquisition of the asset.

Motor vehicles are subject to revaluation on a regular basis, at least every 5 years. The frequency of revaluation depends upon the extent of the estimated movements in the fair values of the vehicles being revalued. A revaluation increase on a vehicle is recognised in other comprehensive income except to the extent that it reverses a previous revaluation decrease recognised in the income statement, in which case it is recognised in the income statement.

A revaluation decrease on a vehicle is recognised in the income statement except to the extent that it reverses a previous revaluation increase recognised in other comprehensive income, in which case it is recognised in other comprehensive income.

Fair value of vehicles is determined using the comparative method, which is based on recent market transactions with comparable vehicles. For valuation of selected vehicles, for which there are no observable data on recent market transactions, management relies on external valuations based on comparative valuation method and assesses the reliability of such valuation in light of the current market situation.

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 supply of services or for administrative purposes. Some investment property has been acquired through the enforcement of security over loans and advances.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclasiffication becomes its deemed cost for subsequent accounting.

Investment property is initially recognised in the statement of financial position at its acquisition cost. Subsequently, the investment property is revalued and accounted for at its fair value based on its market price. Fair market value for land plots, buildings and other real property items is determined on the basis of annual property appraisals from certified appraisers. Gain or loss from the change in the value is recorded in the profit or loss and reported under the item "Gain or loss on revaluation of investment property".

Non-current assets held for sale

Non-current assets that are expected to be recovered primarily through sale or distribution rather than through continuing use within the next 12 months are classified as held for sale. Immediately before classification as held for sale, a plan to sell must have been initiated, the assets or components of a disposal group are remeasured in accordance with Group's and Bank's accounting policies. Thereafter generally the assets, or disposal group, are measured at lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on pro rata basis, except that no loss is allocated to financial assets, deferred tax assets, employee benefit assets, investment property, which continue to be measured in accordance with the Group's and Bank's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognised in statement of comprehensive income. Gains are not recognised in excess of any cumulative impairment loss.

Once classified as held for sale, intangible assets and property, plant and equipment are no longer amortised and depreciated, and any equity-accounted investee is no longer equity accounted.

Interests in equity-accounted investees

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

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.

Interests in associates and the joint venture are accounted for using the equity method.

Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity-accounted investees, until the date on which significant influence or joint control ceases. When the Group's share of losses exceeds its interest in the equity accounted investees, that interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the equity accounted investees.

Repo operations (repos)

Securities sold under sale and repurchase ("repo") agreements are accounted for as secured financing transactions, with the securities retained in the statement of financial position and the counterparty liability included in amounts payable under repo transactions. The difference between the sale and repurchase price represents the interest expense and is recognised in the profit or loss over the term of the repo agreement using the effective interest rate method.

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

If assets purchased under agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

Cash and cash equivalents

Cash and cash equivalents comprises cash and deposits with the Bank of Latvia and other credit institutions with an original maturity of less than 3 months, less balances due to the Bank of Latvia and credit institutions with an original maturity of less than 3 months.

Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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

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

Provisions

A provision is recognised in the statement of financial position when the Group or Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Short-term employee benefits

Short-term employee benefits like salaries, social benefit payments, bonuses and vacation pay are measured on an undiscounted basis and are expensed as the related service is provided in accordance with accrual principle.

A provision is recognised for the amount expected to be paid under short-term cash bonus of profit sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The provision for employee holiday pay is calculated for each Group and Bank employee based on the total number of holidays earned but not taken, multiplied by the average daily remuneration expense for the preceding six months, to which the relevant social security expense is added.

Credit related commitments

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

Financial guarantees are contracts that require the 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.

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

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

Dividends

The ability of the Group to declare and pay dividends is subject to the rules and regulations of the Latvian legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

4 Risk management

All aspects of the Group's and Bank's risk management objectives and policies are consistent with that disclosed in the Financial Statements as at and for the year ended 31 December 2012.

The Bank's activities expose it to a variety of financial and non-financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risks is core to the financial business, and these risks are an inevitable consequence of being in business. The Bank's strategic aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effect on the Bank's financial performance.

The risk management system, being an integral part of internal control system of the Bank, is based on the principal requirements of effective supervision of banks by Financial and the Capital Market Commission and the Basel Committee on Banking Supervision.

The most important types of risk are compliance and reputational risk, credit risk, liquidity risk, interest rate risk, foreign exchange risk and operational risk. The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

Risk management in the Bank is centralised and is carried out by the Management Board under policies approved by Supervisory Council. Risk management polices are subject to yearly review. There are three committees in the Bank responsible for risk management - the Credit Committee, the Resources Supervision Committee and Customer Due Diligence Committee. In addition, internal audit is responsible for the independent review of risk management and control environment.

The Management Board of the Bank is responsible for monitoring and implementation of risk mitigation measures and making sure that the Bank operates within the established risk parameters. The Head of Risk Department of the Bank is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks.

The Bank's risk management policies are designed to identify, analyse and measure significant risks, to set appropriate risk limits and controls, and to monitor the risk and adherence to limits by means of reliable and up-to-date management information system. As of 31 December 2013 and 31 December 2012, the Bank has implemented the EU Directive 2006/48/EC relating to the taking up and pursuit of the business of credit institutions and the EU Directive 2006/49/EC on the capital adequacy of investment firms and credit institutions relating to the improvement of the internal control system and risk management, as well as implemented Basel II Accord requirements introduced by the Basel Committee on Banking Supervision.

Compliance and reputational risk

Banks are inherently at risk for potential money laundering and the financing of terrorism, and this factor poses a serious threat to corporate reputation, unless banks ensure an adequate level of due diligence to be able to identify, monitor and avoid reputational risk. The Bank therefore develops and consequently implements its internal policies and procedures in order to comply with the guidelines and requirements outlined in international and domestic regulatory documents:

1. The applicable laws of the Republic of Latvia
2. Regulatory recommendations from the Financial and Capital Market Commission;
3. Guidelines from the Association of Latvian Commercial Banks;
4. Global Anti-Money Laundering/Counter-Financing of Terrorism (AML/CFT) policies and regulations
5. International best practices.

The Bank's AML/CFT and Know Your Customer (KYC) policies and procedures provide guidelines for:
1. Performing customer due diligence (CDD) through identification and verification processes
2. On-going supervision and monitoring of customer's business activities
3. Carrying out customer's business process analysis (BPA)
4. Identifying suspicious and unusual financial transactions; filing suspicious activity reports (SARs) to investigative, law enforcement and judicial authorities
5. Retaining of the information concerning Bank's customers and their business and financial activity
6. Employee training sessions.

Credit risk

The Bank takes on exposures to credit risk, which is the risk that counterparty will cause a financial loss for the Bank by failing to discharge a contractual obligation. Credit risk is the most significant risk for the Bank's business and therefore exposures to credit risk are subject to careful management.

Sources of credit risk

Credit risk of the Bank arises principally from the placements with credit institutions as well as from lending and investment activities and transactions in derivative financial instruments. There is also credit risk in financial instruments such as letters of credit, guarantees and payment cards' overdraft commitments. There is a delivery risk in relation to foreign exchange transactions.

For the Bank as a payment bank, exposure to credit risk may interfere with liquidity management activities as the Bank should maintain sufficient funds on accounts with principal correspondents to provide necessary customers' payments, which sometimes causes significant concentrations with particular counterparties.

Management and control of credit exposures

The Bank manages, limits and controls concentrations of credit risk whenever they are identified, in particular, to individual counterparties and groups, and to industries and countries.

The Group and Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one counterparty, or group of counterparties, and to geographical and industry segments. Such limits are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary.

Exposures to credit risk are managed through regular analysis of the ability of the existing and potential borrowers and counterparties to meet interest and principal repayment obligations and by changing lending limits where appropriate. The financial analysis, the analysis of external ratings and analysis of business environment of borrowers and counterparties is taken into consideration for such decision-making.

The Group and Bank uses different credit risk management techniques for credit institutions and non-banks, but techniques are applied consistently to all financial instruments used, including sureties and commitments exposures with particular counterparty or group of related counterparties, as well as delivery risk in relation to foreign exchange transactions.

Limits on exposures to credit institutions are set by Resources Supervision Committee and approved by the Management Board. Limits on exposures to non-banks are considered by Credit Committee and approved by the Management Board or Supervisory Council according to the approval authorities.

Exposures to related groups of counterparties and counterparties related to the Group and Bank are also subject to regulatory requirements.

According to regulations, any credit risk exposure to a non-related counterparty may not exceed 25% of the Bank's equity. Regulation states though that some exposures, such as due from credit institutions with maturity up to 1 year, are not considered to be credit risk exposures for regulatory requirements noted above.

According to regulations the total credit risk exposures to parties related to Bank shall not exceed 15% of the Bank's equity.

Credit risk mitigation policies

The Bank employs a range of credit risk mitigation techniques. The most traditional of these is taking security for funds disbursements, which is common practice. The Bank implements guidelines on the criteria for specific classes of collateral taken.

The amount of collateral required may vary depending on the type of exposure but usually it is set at least to cover principal amount of the outstanding debt.

The Bank's exposures to credit institutions are usually unsecured.

Quantitative disclosures

Further quantitative disclosures in respect of credit risk are presented in Note 46.

Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in raising funds to meet its commitments. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions, including the Bank. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

Liquidity risk management process

The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due.

The Bank seeks to actively support a diversified and stable funding base comprising debt securities in issue, long-term and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The Bank's liquidity policy is reviewed and approved by the Management Board. The policy states that the Bank is obliged to hold sufficient liquid assets reserve to meet its financial commitments, however not less than 30% of the Bank's total current liabilities.

The Bank calculates the mandatory liquidity ratio on a daily basis in accordance with the requirements of the Financial and Capital Market Commission.

The Bank's liquidity ratio as at 31 December 2013 was 71.53%, compared to 71.49% as at 31 December 2012.

The liquidity management policy of the Bank requires:
- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources;
- managing the concentration and profile of debts;
- maintaining debt financing plans;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow;
- maintaining liquidity and funding contingency plans;
- monitoring statement of financial position liquidity ratios against regulatory requirements.

Monitoring and reporting take the form of cash flow measurement and projections for the next day and month respectively, as these are key periods for liquidity management. The starting point for these projections is an analysis of the contractual maturity of the financial liabilities and the expected collection data of the financial assets.

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

Daily projections are based on assets and liabilities contractual maturities monitoring and analysis of information concerning customers' incoming and outgoing payments. Monthly projections are based on assets and liabilities term structure analysis.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department. Under the normal market conditions, liquidity reports covering the liquidity position of the Bank are presented to senior management on a weekly basis. Decisions on the Bank's liquidity management are made by the Treasury Committee and implemented by the Treasury Department.

Quantitative disclosures

Further quantitative disclosures in respect of liquidity risk are presented in Notes 41 and 42.

Currency (foreign exchange) risk

Foreign exchange risk relates to the effects of fluctuations in the prevailing foreign currency exchange rates on the Bank's financial position and cash flows.

The Bank has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. For further information on the Bank's exposure to currency risk at year end refer to Note 43 and Note 44.

An analysis of sensitivity of the Bank's net income for the year and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2013 and 31 December 2012 and a simplified scenario of a 10% drop in the value of the Latvian lats versus other currencies is shown in Note 44.

Foreign exchange risk management process

Currency risk management policy determines and regulates risk control and regulatory principles related to the currency exchange transactions that help the Bank in controlling its foreign currency open positions.

Limits on open foreign currency positions in a single currency and aggregate open foreign currency position are set for both overnight and intra-day positions, which are monitored daily.

The Credit Institution Law states that the open position in each separate currency must not exceed 10% of the Bank's equity and the aggregate open position in all foreign currencies must not exceed 20% of the Bank's equity.

Quantitative disclosures

Further quantitative disclosures in respect of foreign exchange risk are presented in Note 43 and Note 44.

Interest rate risk

Interest rate risk represents the risk that there may be changes in the future cash flows connected with financial instruments (cash flow interest rate risk) or fair value of financial instruments (fair value interest rate risk) resulting from changes in the interest rates on the market. The period when interest rate of the financial instruments is constant determines how it is exposed to the interest rate risk.

Sources of interest rate risk

Interest rate risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period.

The Bank is exposed to the cash flow interest rate risk which represents the effect of changes in the interest rates on the Bank's net interest margin and the amount of net interest income due to an inadequate term structure of interest rate sensitive assets and liabilities. The Bank is not exposed to significant interest rate risk of the fair value of financial instruments.

Interest risk management process

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

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

Quantitative disclosures

An analysis of sensitivity of the net income for the year and equity as a result of changes in fair value of held-for-trading and financial assets available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2013 and 31 December 2012 and a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves is shown in Note 45.

Market risk

The Bank focuses a lot of attention on the monitoring and analysis of market risk. The Bank has adopted its Trading Portfolio Policy designed to define the structure of the Bank's trading portfolio and to set out the maximum effective open position transacted with an individual issuer and the limits by the maturity profile of the securities. The Resources Supervision Committee is charged with the responsibility of implementing the Trading Portfolio Policy. The Internal Audit Department is charged with a continuing control function.

Price risk

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

An analysis of sensitivity of the Bank's net income for the year and equity to changes in securities prices based on positions existing as at 31 December 2013 and 31 December 2012 and a simplified scenario of a 5% change in all securities prices is as follows:

	Net income 31.12.2013 LVL	Equity 31.12.2013 LVL	Net income 31.12.2012 LVL	Equity 31.12.2012 LVL
5% increase in securities prices	58 641	0.28%	56 819	0.27%
5% decrease in securities prices	(58 641)	-0.28%	(56 819)	-0.27%

The sensitivity analyses of the Group's and the Bank's net income for the year and equity to changes in securities prices do not vary significantly.

Operational risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events - various types of human (staff members) or technical (software and hardware failures) errors, contingencies, fire and other factors of this sort. To prevent losses caused by operational risk, the Bank has adopted internal guidance documents, such as the internal by-law, fire safety regulations, technical system and facility safety regulations, information classification rules and other rules, regulations and directives. The Bank's Board has appointed a task force whose task is to ensure the implementation of the regulatory requirements set forth in the aforesaid internal guidance documents.

5 Capital management

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

The Bank defines as capital those items defined by statutory regulation as capital. Under the current capital requirements set by Financial and Capital Market Commission, banks have to maintain a ratio of capital to risk weighted assets ("statutory capital ratio") above the prescribed minimum level of 8%.

The Bank's risk based capital adequacy ratio, as at 31 December 2013, was 14.24% (31 December 2012: 16.45%).

According to the specific requirement of the FCMC, the Bank should maintain a capital adequacy ratio above minimum level – 13% for the period starting from 30 October 2013 to 30 September 2014 (from 30 October 2012 to 30 September 2013: 14.5%). As at 31 December 2013, the Bank and the Group were in compliance with the requirements of the FCMC for capital adequacy and minimum equity, as well as satisfied the higher ratio as requested by the FCMC.

The Bank's objectives when managing capital, which is a broader concept than the "equity" on the face of statement of financial position, are:
• to comply with the capital regulatory requirements;
• to safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders;
• to maintain the strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee and the European Community directives, as implemented by the Financial and Capital Market Commission. The required information is filed with the Financial and Capital Market Commission on a monthly basis.

The Credit Institution Law and regulations developed by the Financial and Capital Market Commission for the application of the norms of this law, require Latvian banks to maintain a capital adequacy ratio of 8%, i.e., the Bank's capital ratio against the risk weighted assets and memorandum items and the sum of notional risk weighted assets and memorandum items. The sum of notional risk weighted assets and memorandum items is determined as the sum of capital requirements of market risks, multiplied by 12.5.

The guidelines of the Financial and Capital Market Commission for calculation of capital adequacy basically agree with the recommendations under the Basle Capital Accord and amendments thereto. According to the Basle Capital Accord, the capital adequacy ratio should be at least 8%.

Quantitative disclosures

Further quantitative disclosures in respect of capital management are presented in Note 40.

6 Interest income

	Group 31.12.2013 LVL	Bank 31.12.2013 LVL	Group 31.12.2012 LVL	Bank 31.12.2012 LVL
Loans	5 349 308	5 413 322	5 440 902	5 495 649
Loans,	*5 320 969*	*5 384 983*	*5 408 407*	*5 463 154*
including interest incomes on impaired loans	*79 173*	*79 173*	*7 282*	*7 282*
Payment cards	*28 339*	*28 339*	*32 495*	*32 495*
Securities held-to-maturity	414 531	414 531	564 878	564 878
Due from credit institutions	296 632	296 632	1 282 012	1 282 012
Securities held-for-trading	82 953	82 953	10 729	10 729
Due from Bank of Latvia	3 563	3 563	15 640	15 640
	6 146 987	**6 211 001**	**7 314 161**	**7 368 908**

7 Interest expense

	Group 31.12.2013 LVL	Bank 31.12.2013 LVL	Group 31.12.2012 LVL	Bank 31.12.2012 LVL
Liabilities at amortised cost	1 115 772	1 115 772	1 933 465	1 933 471
Deposits	*831 857*	*831 857*	*1 314 358*	*1 314 364*
Subordinated liabilities	*271 253*	*271 253*	*204 714*	*204 714*
Debt securities	*11 507*	*11 507*	–	–
Due to credit institutions	1 155	1 155	414 393	414 393
Contributions to Deposit Guarantee Fund	389 326	389 326	577 641	577 641
Other interest expense	19 970	19 970	25 630	19 354
	1 525 068	**1 525 068**	**2 536 736**	**2 530 466**

8 Fee and commission income

	Group 31.12.2013 LVL	Bank 31.12.2013 LVL	Group 31.12.2013 LVL	Bank 31.12.2013 LVL
Servicing of transactions	2 252 104	2 253 140	2 251 739	2 252 877
Forex transactions	674 781	674 781	701 745	701 745
Trust operations	547 438	547 438	370 405	370 405
Payment cards	307 616	307 616	286 607	286 607
Letters of credit	213 025	213 025	150 794	150 794
Securities accounts administration charges	203 558	203 558	160 914	160 914
Fees and commissions from banks	138 527	138 527	173 049	173 049
Transactions in precious metals	30 056	30 056	9 942	9 942
Cash operations	11 393	11 393	12 254	12 254
Other	5 985	5 985	3 870	3 870
	4 384 483	**4 385 519**	**4 121 319**	**4 122 457**

9 Fee and commission expense

	Group 31.12.2013 LVL	Bank 31.12.2013 LVL	Group 31.12.2013 LVL	Bank 31.12.20113 LVL
Payment cards	282 056	282 056	284 999	284 999
Services of correspondent banks	272 218	272 218	307 534	307 534
Securities-based transactions	72 269	72 269	53 258	53 258
Services of agents and brokers	39 494	39 494	72 192	72 192
Foreign exchange operations	32	32	47	47
Other	8 635	8 635	4 776	4 318
	674 704	**674 704**	**722 806**	**722 348**

10 Net trading income

	Group 31.12.2013 LVL	Bank 31.12.2013 LVL	Group 31.12.2012 LVL	Bank 31.12.2012 LVL
Loss on foreign exchange operations	(1 692 769)	(1 691 886)	(518 295)	(516 794)
Gain on revaluation of positions in foreign currency	2 635 894	2 635 894	1 760 930	1 760 930
	943 125	**944 008**	**1 242 635**	**1 244 136**
(Loss)/gain on trading in financial instruments	(191 215)	(191 215)	(28 410)	(28 410)
Gain/(loss) on revaluation of financial instruments	166 515	166 515	89 038	89 038
	(24 700)	**(24 700)**	**60 628**	**60 628**
	918 425	**919 308**	**1 303 263**	**1 304 764**

11 Administrative expenses

	Group 31.12.2013 LVL	Bank 31.12.2013 LVL	Group 31.12.2012 LVL	Bank 31.12.2012 LVL
Staff salaries	3 347 584	3 303 732	2 982 424	2 931 010
Amortisation and depreciation (Notes 25, 26)	783 987	783 776	749 624	749 398
Social insurance payments	773 674	763 109	686 667	674 281
Representation expenses	761 681	761 681	685 836	685 836
Professional services	630 935	623 580	511 016	495 815
Lease, renovation and maintenance of property and equipment	343 767	340 382	271 768	267 911
Non-deductible input VAT	305 783	305 783	234 428	218 787
Charity and sponsorship	255 543	255 543	339 193	339 193
Business trips	225 638	225 638	160 810	160 810
Communication	133 533	133 156	133 169	132 521
Motor vehicles	85 372	81 734	73 915	70 734
Event organisation	86 037	86 037	75 706	75 706
Advertising and publicity	80 248	80 248	46 905	46 905
Security	56 364	56 364	108 590	108 590
Stationary goods and household equipment	56 477	56 477	57 991	57 991
Real estate tax	43 419	37 655	40 802	39 882
Taxes paid overseas	26 545	26 545	122 746	122 746
Insurance	8 268	7 760	9 420	8 613
Other	776 031	775 795	758 397	758 212
	8 780 886	**8 704 995**	**8 049 407**	**7 944 941**

12 Analysis of changes in impairment loss allowance for asset exposures

Group

	Allowances for claims on the credit institutions LVL	Allowances for securities available-for-sale LVL	Allowances for loans LVL	Allowances for accrued income LVL	Allowances for other assets LVL	Total LVL
Allowances as of 31 December 2011	**20**	**27 696**	**2 588 508**	**30 515**	**140 376**	**2 787 115**
Increase in allowances	4 638 957*	–	1 457 157	1 958	8 482	**6 106 554**
Reversal of allowances	–	–	(289 909)	(282)	–	**(290 191)**
Net impairment loss for the period	**4 638 957**	**-**	**1 167 248**	**1 676**	**8 482**	**5 816 363**
Amounts written-off	–	–	(36 095)	(30 581)	(48 115)	**(114 791)**
Difference due to fluctuations in foreign currency exchange rates	(332 512)	240	(27 107)	291	509	**(358 579)**
Allowances as of 31 December 2012	**4 306 465**	**27 936**	**3 692 554**	**1 901**	**101 252**	**8 130 108**
Increase in allowances	–	–	643 228	2 176	156 160	**801 564**
Reversal of allowances	(4 192 904)*	(27 504)	(115 442)	–	–	**(4 335 850)**
Net impairment loss for the period	**(4 192 904)**	**(27 504)**	**527 786**	**2 176**	**156 160**	**(3534 286)**
Amounts written-off	–	–	(245 460)	–	(377)	**(245 837)**
Difference due to fluctuations in foreign currency exchange rates	(113 543)	(432)	(46 380)	(140)	–	**(160 495)**
Allowances as of 31 December 2013	**18**	**-**	**3 928 500**	**3 937**	**257 035**	**4 189 490**

Bank

	Allowances for claims on the credit institutions LVL	Allowances for securities available-for-sale LVL	Allowances for loans LVL	Allowances for accrued income LVL	Allowances for other assets LVL	Total LVL
Allowances as of 31 December 2011	**20**	**27 696**	**2 987 742**	**30 515**	**140 376**	**3 186 349**
Increase in allowances	4 638 957 *	–	1 336 401	1 958	8 482	**5 985 798**
Reversal of allowances	–	–	(289 909)	(282)	–	**(290 191)**
Net impairment loss for the period	**4 638 957**	**-**	**1 046 492**	**1 676**	**8 482**	**5 695 607**
Amounts written-off	–	–	(36 095)	(30 581)	(48 115)	**(114 791)**
Difference due to fluctuations in foreign currency exchange rates	(332 512)*	240	(27 107)	291	509	**(358 579)**
Allowances as of 31 December 2012	**4 306 465**	**27 936**	**3 971 032**	**1 901**	**101 252**	**8 408 586**
Increase in allowances	–	–	643 228	2 176	579	**645 983**
Reversal of allowances	(4 192 904)	(27 504)	(115 442)	–	–	**(4 335 850)**
Net impairment loss for the period	**(4 192 904)**	**(27 504)**	**527 786**	**2 176**	**579**	**(3 689 867)**
Amounts written-off	–	–	(245 460)	–	(377)	**(245 837)**
Difference due to fluctuations in foreign currency exchange rates	(113 543)	(432)	(46 380)	(140)	–	**(160 495)**
Allowances as of 31 December 2013	**18**	**-**	**4 206 978**	**3 937**	**101 454**	**4 312 387**

* During 2012, the Bank made an impairment allowance totalling LVL 4 638 957 for due from credit institutions. The allowance was made in respect of the amounts – whose recovery was assessed as doubtful – previously blocked with the Bank's counterparty. According to the relevant deposit agreement, the Bank's client has reimbursed (from client's funds placed with the Bank) the Bank for the losses incurred. Therefore, the Bank's operating results were not directly affected by the impairment allowance.
Reversal of allowances during 2013 has not directly affected the Bank's operating results because the Bank has paid back the Client his money used to compensate the loss incurred by the Bank through making impairment allowances since the Bank's counterparty released the funds previously blocked.

13 Corporate income tax

(a) Income tax charge

	Group 31.12.2013 LVL	Bank 31.12.2013 LVL	Group 31.12.2012 LVL	Bank 31.12.2012 LVL
Corporate income tax expense	337	–	125 905	125 697
Deferred income tax expense	58 401	75 117	50 768	43 198
	58 738	**75 117**	**176 673**	**168 895**

The Group's and the Bank's applicable tax rate is 15% (2012: 15%).

(b) Reconciliation between tax expense and accounting profit

	Group 31.12.2013 LVL	Bank 31.12.2013 LVL	Group 31.12.2012 LVL	Bank 31.12.2012 LVL
Profit before income tax	(162 571)	95 154	613 912	562 428
Theoretically calculated tax at tax rate of 15%	(24 386)	14 273	92 087	84 364
Non-deductible expenses	83 124	60 844	84 586	84 531
	58 738	**75 117**	**176 673**	**168 895**

(c) Deferred taxes

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

Group

	Assets 31.12.2013 LVL	Assets 31.12.2012 LVL	Liabilities 31.12.2013 LVL	Liabilities 31.12.2012 LVL	**Deferred tax assets/ (liabilities) 31.12.2013 LVL**	**Deferred tax assets/ (liabilities) 31.12.2012 LVL**
Financial instruments at fair value through profit or loss	8 735	37 891	–	–	**8 735**	**37 891**
Property and equipment	–	–	(953 130)	(828 335)	**(953 130)**	**(828 335)**
Investment property	–	–	(71 814)	(71 323)	**(71 814)**	**(71 323)**
Other assets	19 394	–	–	(681)	**19 394**	**(681)**
Other liabilities	25 974	24 444	–	–	**25 974**	**24 444**
Tax loss carry-forwards	78 002	3 566	–	–	**78 002**	**3 566**
Recognised net deferred tax assets/ (liabilities)	**132 105**	**65 901**	**(1 024 944)**	**(900 339)**	**(892 839)**	**(834 438)**

Bank

	Assets 31.12.2013 LVL	Assets 31.12.2012 LVL	Liabilities 31.12.2013 LVL	Liabilities 31.12.2012 LVL	**Deferred tax assets/ (liabilities) 31.12.2013 LVL**	**Deferred tax assets/ (liabilities) 31.12.2012 LVL**
Financial instruments at fair value through profit or loss	8 735	37 891	–	–	**8 735**	**37 891**
Property and equipment	–	–	(953 130)	(828 335)	**(953 130)**	**(828 335)**
Investment property	–	–	(71 814)	(54 607)	**(71 814)**	**(54 607)**
Other assets	19 394	–	–	(681)	**19 394**	**(681)**
Other liabilities	25 974	24 444	–	–	**25 974**	**24 444**
Tax loss carry-forwards	78 002	3 566	–	–	**78 002**	**3 566**
Recognised net deferred tax assets/ (liabilities)	**132 105**	**65 901**	**(1 024 944)**	**(883 623)**	**(892 839)**	**(817 722)**

(d) Movement in temporary differences

Group

	Carrying amount 31.12.2012 LVL	Recognised in income statement 2013 LVL	Carrying amount 31.12.2013 LVL
Financial instruments at fair value through profit or loss	37 891	(29 156)	8 735
Property and equipment	(828 335)	(124 795)	(953 130)
Investment property	(71 323)	(491)	(71 814)
Other assets	(681)	20 075	19 394
Other liabilities	24 444	1 530	25 974
Tax loss carry-forwards	3 566	74 436	78 002
	(834 438)	**(58 401)**	**(892 839)**

Bank

	Carrying amount 31.12.2012 LVL	Recognised in income statement 2013 LVL	Carrying amount 31.12.2013 LVL
Financial instruments at fair value through profit or loss	37 891	(29 156)	8 735
Property and equipment	(828 335)	(124 795)	(953 130)
Investment property	(54 607)	(17 207)	(71 814)
Other assets	(681)	20 075	19 394
Other liabilities	24 444	1 530	25 974
Tax loss carry-forwards	3 566	74 436	78 002
	(817 722)	**(75 117)**	**(892 839)**

14 Cash and balances with bank of Latvia

	Group 31.12.2013 LVL	Bank 31.12.2013 LVL	Group 31.12.2012 LVL	Bank 31.12.2012 LVL
Cash	1 106 764	1 105 807	5 961 981	5 961 281
Balance with the Bank of Latvia	20 993 305	20 993 305	21 243 774	21 243 774
Accrued income on balance with Bank of Latvia	–	–	80	80
	22 100 069	**22 099 112**	**27 205 835**	**27 205 135**

The Bank is required to ensure that the monthly average balance (in lats) with the Bank of Latvia exceeds the statutory reserve requirement ratio for commercial banks. During 2013 and 2012 the Bank complied with the reserve requirements of the Bank of Latvia.

15 Cash and cash equivalents

	Group 31.12.2013 LVL	Bank 31.12.2013 LVL	Group 31.12.2012 LVL	Bank 31.12.2012 LVL
Cash	1 106 764	1 105 807	5 961 981	5 961 281
Balance with the Bank of Latvia	20 993 305	20 993 305	21 243 774	21 243 774
	22 100 069	**22 099 112**	**27 205 755**	**27 205 055**
Due from other credit institutions with up to 3 months original maturity	100 978 874	100 978 874	98 605 759	98 605 759
Due to other credit institutions with up to 3 months original maturity	(5 359 489)	(5 359 489)	(257 556)	(257 556)
	117 719 454	**117 718 497**	**125 553 958**	**125 553 258**

16 securities-held-for trading

	Group and Bank 31.12.20113 LVL	Group and Bank 31.12.2012 LVL
Debt securities		
Bonds of other issuers and other fixed-income securities rated Caa	*718 250*	*749 519*
Shares and other variable income securities	454 568	386 865
	1 172 818	**1 136 384**

The table below shows the securities recorded by issuer profile:

	Group and Bank 31.12.2013 LVL	Group andBank 31.12.2012 LVL
Debt securities of credit institutions	718 250	749 519
Total debt securities	**718 250**	**749 519**
Shares of credit institutions	191 426	155 395
State-owned companies enterprises	237 057	109 451
Shares of private enterprises	26 085	122 019
Total shares	**454 568**	**386 865**
	1 172 818	**1 136 384**

The table below shows the geographical concentration of securities:

	Group and Bank 31.12.2013 LVL	Group andBank 31.12.2012 LVL
Entity-issued debt securities exposed to country risk (Ukraine)	718 250	749 519
Total debt securities	**718 250**	**749 519**
Shares of entities registered in the Republic of Latvia	1 611	2 502
Shares of entities registered in other EU countries	–	10 726
Shares of entities registered in OECD countries	21 178	34 574
Shares of entities registered in CIS countries	431 779	339 063
Total shares	**454 568**	**386 865**
	1 172 818	**1 136 384**

As of 31 December 2013 and 31 December 2012, the Bank did not possess any debt securities serving as collateral for repo loans.

17 Derivative financial instruments

The table below summarises the contractual amounts of the Group's and the Bank's forward foreign exchange contracts outstanding at 31 December 2013 and 31 December 2012. The foreign currency amounts presented below are translated at rates ruling at the reporting date. The resultant unrealised gains and losses on these unmatured contracts, along with the amounts payable and receivable on the matured but unsettled contracts, have been recognised in the profit or loss. All of the amounts presented below were fully paid and received under the contracts during the period 1 January 2014 to the date of signing of these financial statements.

	31.12.2013 Assets LVL	Group and Bank 31.12.2013 Liabilities LVL	31.12.2012 Assets LVL	Group and Bank 31.12.2012 Liabilities LVL
Notional amount				
Currency SWAPS	163 180 274	162 519 441	293 457 460	292 930 093
Foreign currency FORWARD contracts	15 091 322	15 174 990	186 839 859	186 845 585
FUTURES contracts (gold)	431 072	–	177 970	–
	178 702 668	**177 694 431**	**480 475 289**	**479 775 678**
Fair value				
Currency SWAPS	1 001 316	340 483	832 925	305 559
Foreign currency FORWARD contracts	13 468	97 136	210 573	216 298
FUTURES contracts (gold)	15 943	–	6 574	–
	1 030 727	**437 619**	**1 050 072**	**521 857**

The table below shows the concentration of foreign currency exchange SWAP transactions by counterparty domiciles:

	31.12.2013 Assets LVL	Group and Bank 31.12.2013 Liabilities LVL	31.12.2012 Assets LVL	Group and Bank 31.12.2012 Liabilities LVL
Notional amount				
Currency SWAPS with Latvia incorporated credit institutions	28 430 395	28 240 500	28 017 790	28 112 160
Currency SWAPS with other EU countries incorporated credit institutions	87 676 901	86 865 480	37 526 946	37 539 494
Currency SWAPS with non-OECD incorporated credit institutions	47 072 978	47 413 461	227 912 724	227 278 439
including currency SWAPS with Ukraine incorporated credit institutions	*47 072 978*	*47 413 461*	*16 713 967*	*16 876 182*
	163 180 274	**162 519 441**	**293 457 460**	**292 930 093**

The table below shows the concentration of foreign exchange FORWARD transactions by counterparty domiciles:

	31.12.2013 Assets LVL	Group and Bank 31.12.2013 Liabilities LVL	31.12.2012 Assets LVL	Group and Bank 31.12.2012 Liabilities LVL
Notional amount				
Foreign currency exchange FORWARD transactions with Ukraine incorporated credit institutions	708 846	702 804	87 394 548	87 208 055
Foreign currency exchange FORWARD transactions with Latvian customers	735 685	739 190	–	–
Foreign currency exchange FORWARD transactions with other countries customers	13 646 791	13 732 996	99 445 311	99 637 530
	15 091 322	**15 174 990**	**186 839 859**	**186 845 585**

18 Due from credit institutions

	Group and Bank 31.12.2013 LVL	Group and Bank 31.12.2012 LVL
Repayable on demand	96 963 489	95 837 732
Other deposits	11 948 670	9 013 344
	108 912 159	**104 851 076**
Allowances (Note 12)	(18)	(4 306 465)
	108 912 141	**100 544 611**

The table below shows the geographical concentration of dues from credit institutions:

	Group and Bank 31.12.2013 LVL	Group and Bank 31.12.2012 LVL
Due from credit institutions incorporated in the Republic of Latvia	1 724 401	1 887 174
Due from credit institutions incorporated in other EU countries	40 094 869	93 309 345
Due from credit institutions incorporated in other OECD countries	54 983 146	3 344 235
Due from credit institutions incorporated in Ukraine	10 422 877	5 513 545
Due from credit institutions incorporated in other countries	1 686 866	796 777
	108 912 159	**104 851 076**
Allowances (Note 12)	(18)	(4 306 465)
	108 912 141	**100 544 611**

Concentration of placements with banks and other financial institutions

As at 31 December 2013 and 31 December 2012, the Group and the Bank had three banks and financial institutions, whose balances exceeded 10% of total placements with banks and other financial institutions. The gross value of these balances as of 31 December 2013 and 31 December 2012 were LVL 88 216 546 and LVL 93 335 042, respectively.

19 Loans

(a) Loans by type

	Group 31.12.2013 LVL	Bank 31.12.2013 LVL	Group 31.12.2012 LVL	Bank 31.12.2012 LVL
Commercial loans	33 037 085	33 178 980	26 247 322	26 380 484
Mortgage loans	20 448 229	21 959 506	16 825 537	18 336 814
Trade finance	9 935 525	9 935 525	11 532 162	11 532 162
Overdrafts	3 355 116	3 400 103	3 616 483	3 649 005
Industrial loans	695 008	695 008	2 679 481	2 679 481
Consumer loans	176 372	176 372	367 544	367 544
Payment cards	157 678	157 678	181 733	181 733
Other	4 133 592	4 133 592	917 061	917 061
	71 938 605	**73 636 764**	**62 367 323**	**64 044 284**
Reverse repos	3 367 058	3 367 058	3 100 210	3 100 210
	75 305 663	**77 003 822**	**65 467 533**	**67 144 494**
Allowances (Note 12)	(3 928 500)	(4 206 978)	(3 692 554)	(3 971 032)
	71 377 163	**72 796 844**	**61 774 979**	**63 173 462**

(b) Loan profile by geographic location

Group

	Gross loans 31.12.2013 LVL	Allowances 31.12.2013 LVL	Group Net loans 31.12.2013 LVL
Residents of the Republic of Latvia	37 006 559	(2 916 280)	34 090 279
including exposed to country risk (Ukraine)	*2 460 225*	*(355 275)*	*2 104 950*
Residents of other EU countries	23 548 918	(609 892)	22 939 026
Residents of non-EU OECD countries	1 255 051	(120 342)	1 134 709
Residents of CIS countries	4 673 884	(90 842)	4 583 042
including Ukraine residents	*615 263*	*(90 842)*	*524 421*
Residents of other countries	8 821 251	(191 144)	8 630 107
	75 305 663	**(3 928 500)**	**71 377 163**

Bank

	Gross loans 31.12.2013 LVL	Allowances 31.12.2013 LVL	Group Net loans 31.12.2013 LVL
Residents of the Republic of Latvia	38 704 718	(3 194 758)	35 509 960
including exposed to country risk (Ukraine)	*2 460 225*	*(355 275)*	*2 104 950*
Residents of other EU countries	23 548 918	(609 892)	22 939 026
Residents of non-EU OECD countries	1 255 051	(120 342)	1 134 709
Residents of CIS countries	4 673 884	(90 842)	4 583 042
including Ukraine residents	*615 263*	*(90 842)*	*524 421*
Residents of other countries	8 821 251	(191 144)	8 630 107
	77 003 822	**(4 206 978)**	**72 796 844**

Group

	Gross loans 31.12.2012 LVL	Allowances 31.12.2012 LVL	Group Net loans 31.12.2012 LVL
Residents of the Republic of Latvia	26 094 484	(2 696 593)	23 397 891
including exposed to country risk (Ukraine)	*9 637 983*	*(366 312)*	*9 271 671*
Residents of other EU countries	20 705 760	(427 524)	20 278 236
Residents of non-EU OECD countries	5 891 040	(259 539)	5 631 501
Residents of CIS countries	3 079 902	(117 754)	2 962 148
including Ukraine residents	*772 711*	*(117 708)*	*655 003*
Residents of other countries	9 696 347	(191 144)	9 505 203
	65 467 533	**(3 692 554)**	**61 774 979**

Bank

	Gross loans 31.12.2012 LVL	Allowances 31.12.2012 LVL	Group Net loans 31.12.2012 LVL
Residents of the Republic of Latvia	27 771 445	(2 975 071)	24 796 374
including exposed to country risk (Ukraine)	*9 637 983*	*(366 312)*	*9 271 671*
Residents of other EU countries	20 705 760	(427 524)	20 278 236
Residents of non-EU OECD countries	5 891 040	(259 539)	5 631 501
Residents of CIS countries	3 079 902	(117 754)	2 962 148
including Ukraine residents	*772 711*	*(117 708)*	*655 003*
Residents of other countries	9 696 347	(191 144)	9 505 203
	67 144 494	**(3 971 032)**	**63 173 462**

(c) Loans by customer profile

	Group 31.12.2013 LVL	Bank 31.12.2013 LVL	Group 31.12.2012 LVL	Bank 31.12.2012 LVL
Loans to corporate clients	56 506 255	58 204 414	49 817 955	51 494 916
Loans to financial institutions	5 399 602	5 399 602	5 492 951	5 492 951
Loans to non-profit institutions serving households	88	88	24	24
Loans to individuals	12 498 488	12 498 488	9 133 676	9 133 676
Loans to senior management and staff members of the Bank	901 230	901 230	1 022 927	1 022 927
	75 305 663	**77 003 822**	**65 467 533**	**67 144 494**
Allowances (Note 12)	(3 928 500)	(4 206 978)	(3 692 554)	(3 971 032)
	71 377 163	**72 796 844**	**61 774 979**	**63 173 462**

(d) Industry analysis of the loan portfolio

Group

	Gross loans 31.12.2013 LVL	Allowances 31.12.2013 LVL	Net loans 31.12.2013 LVL
Trade	23 394 520	(944 799)	22 449 721
Real estate	15 782 504	(2 409 736)	13 372 768
Finance	15 150 645	(219 682)	14 930 963
Manufacturing	1 422 122	–	1 422 122
Energy	1 180 831	–	1 180 831
Information and communication services	748 716	(27)	748 689
Other services	2 395 622	(14 214)	2 381 408
Agriculture, forestry and timber	12 267	(2 443)	9 824
Other	1 818 718	(46 758)	1 771 960
Loans to individuals	13 399 718	(290 841)	13 108 877
	75 305 663	**(3 928 500)**	**71 377 163**

Bank

	Gross loans 31.12.2013 LVL	Allowances 31.12.2013 LVL	Net loans 31.12.2013 LVL
Trade	23 394 520	(944 799)	22 449 721
Real estate	17 480 663	(2 688 214)	14 792 449
Finance	15 150 645	(219 682)	14 930 963
Manufacturing	1 422 122	–	1 422 122
Energy	1 180 831	–	1 180 831
Information and communication services	748 716	(27)	748 689
Other services	2 395 622	(14 214)	2 381 408
Agriculture, forestry and timber	12 267	(2 443)	9 824
Other	1 818 718	(46 758)	1 771 960
Loans to individuals	13 399 718	(290 841)	13 108 877
	77 003 822	**(4 206 978)**	**72 796 844**

Group

	Gross loans 31.12.2012 LVL	Allowances 31.12.2012 LVL	Net loans 31.12.2012 LVL
Trade	25 509 740	(922 893)	24 586 847
Real estate	14 208 409	(1 937 758)	12 270 651
Finance	9 291 516	(274 190)	9 017 326
Manufacturing	1 747 661	–	1 747 661
Information and communication services	1 593 029	–	1 593 029
Energy	1 061 468	–	1 061 468
Other services	622 502	(30 060)	592 442
Agriculture, forestry and timber	2 673	(2 662)	11
Other	1 273 932	(46 758)	1 227 174
Loans to individuals	10 156 603	(478 233)	9 678 370
	65 467 533	**(3 692 554)**	**61 774 979**

Bank

	Gross loans 31.12.2012 LVL	Allowances 31.12.2012 LVL	Net loans 31.12.2012 LVL
Trade	25 509 740	(922 893)	24 586 847
Real estate	15 885 370	(2 216 236)	13 669 134
Finance	9 291 516	(274 190)	9 017 326
Manufacturing	1 747 661	–	1 747 661
Information and communication services	1 593 029	–	1 593 029
Energy	1 061 468	–	1 061 468
Agriculture, forestry and timber	2 673	(2 662)	11
Other services	622 502	(30 060)	592 442
Other	1 273 932	(46 758)	1 227 174
Loans to individuals	10 156 603	(478 233)	9 678 370
	67 144 494	**(3 971 032)**	**63 173 462**

(e) Breakdown of loans by groups of delayed payments and non-delinquent loans

The following table provides information on the credit quality of the loan portfolio:

Group

	Gross loans 31.12.2013 LVL	Allowances 31.12.2013 LVL	Net loans 31.12.2013 LVL
Non-delinquent loans	55 744 693	(1 492 214)	54 252 479
Up to 1 month (inclusive)	1 181 926	–	1 181 926
1 to 3 months	7 870 577	–	7 870 577
3 to 6 months	559	(254)	305
More than 6 months	10 507 908	(2 436 032)	8 071 876
	75 305 663	**(3 928 500)**	**71 377 163**

Bank

	Gross loans 31.12.2013 LVL	Allowances 31.12.2013 LVL	Net loans 31.12.2013 LVL
Non-delinquent loans	57 442 852	(1 770 692)	55 672 160
Up to 1 month (inclusive)	1 181 926	–	1 181 926
1 to 3 months	7 870 577	–	7 870 577
3 to 6 months	559	(254)	305
More than 6 months	10 507 908	(2 436 032)	8 071 876
	77 003 822	**(4 206 978)**	**72 796 844**

Group

	Gross loans 31.12.2012 LVL	Allowances 31.12.2012 LVL	Net loans 31.12.2012 LVL
Non-delinquent loans	50 507 832	(1 116 772)	49 391 060
Up to 1 month (inclusive)	3 462 237	(277 443)	3 184 794
1 to 3 months	277 347	(2 478)	274 869
3 to 6 months	5 488 298	(80 300)	5 407 998
More than 6 months	5 731 819	(2 215 561)	3 516 258
	65 467 533	**(3 692 554)**	**61 774 979**

Bank

	Gross loans 31.12.2012 LVL	Allowances 31.12.2012 LVL	Net loans 31.12.2012 LVL
Non-delinquent loans	52 184 793	(1 395 250)	50 789 543
Up to 1 month (inclusive)	3 462 237	(277 443)	3 184 794
1 to 3 months	277 347	(2 478)	274 869
3 to 6 months	5 488 298	(80 300)	5 407 998
More than 6 months	5 731 819	(2 215 561)	3 516 258
	67 144 494	**(3 971 032)**	**63 173 462**

Movements in the loan impairment allowance for the years ended 31 December 2013 and 31 December 2012 are disclosed in Note 12.

(f) Restructured loans:

During the year ended 31 December 2013, the Bank restructured loans by changing the terms of the loan agreement as follows:

	Group 31.12.2013 LVL	Bank 31.12.2013 LVL	Group 31.12.2012 LVL	Bank 31.12.2012 LVL
Appointment of the substitute borrower (to act instead of the original one) or engagement of the guarantor	164 789	164 789	–	–
Principal grace	3 271	3 271	2 277 837	2 277 837
Extension of the loan maturity date	–	–	5 763 385	5 763 385
Interest rate change	–	–	1 518 399	1 518 399
Other changes	–	–	19 941	19 941
	168 060	**168 060**	**9 579 562**	**9 579 562**

(g) Analysis of collateral

The following table provides the analysis by collateral type of the loan portfolio:

	Net loans 31.12.2013 LVL	Group % of loan portfolio 31.12.2013	Net loans 31.12.2013 LVL	Bank % of loan portfolio 31.12.2013
Real estate	47 828 239	67.00%	49 247 920	67.65%
Commercial pledge	10 699 709	15.00%	10 699 709	14.70%
Traded securities	3 563 004	5.00%	3 563 004	4.89%
Deposits	1 376 524	1.90%	1 376 524	1.89%
Other collateral	4 015 874	5.60%	4 015 874	5.52%
No collateral	3 893 813	5.50%	3 893 813	5.35%
	71 377 163	**100%**	**72 796 844**	**100%**

	Net loans 31.12.2012 LVL	Group % of loan portfolio 31.12.2012	Net loans 31.12.2012 LVL	Bank % of loan portfolio 31.12.2012
Real estate	38 011 565	61.60%	39 410 048	62.38%
Commercial pledge	8 658 482	14.00%	8 658 482	13.71%
Traded securities	3 302 244	5.30%	3 302 244	5.23%
Deposits	851 643	1.40%	851 643	1.35%
Motor vehicles	2 192	0.00%	2 192	0.00%
Other collateral	5 391 355	8.70%	5 391 355	8.53%
No collateral	5 557 498	9.00%	5 557 498	8.80%
	61 774 979	**100%**	**63 173 462**	**100%**

The amounts shown in the table above represent the carrying value of the loans, and do not necessarily represent the fair value of the collateral.

Mortgage loans are secured by underlying housing real estate. Payment cards overdrafts are secured by deposits and guarantees. Consumer loans are secured by other types of collateral.

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees.

During the year ended 31 December 2013, the Group and Bank have not obtained ownership of assets through acquiring control over the property serving as collateral for commercial loans (2012: nil).

(h) Significant credit exposures

As at 31 December 2013 and 31 December 2012 the Bank had no borrowers, including related parties whose outstanding loan balances exceed 10% of loans to customers.

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

20 Available for sale instruments

	Group and Bank 31.12.2013 LVL	Group and Bank 31.12.2012 LVL
Debt securities of credit institutions domiciled in Iceland	27 504	27 936
Shares and other variable income securities	3 052 374	1 572 679
Capital, JSC	*127 111*	*127 111*
S.W.I.F.T., SCRL	*38 468*	*38 468*
Imprimatur Capital Technology Venture Fund, LP	*125 807*	*78 750*
Tamar Energy, Ltd	*2 760 988*	*1 328 350*
	3 079 878	**1 600 615**
Allowances (Note 12)	–	(27 936)
	3 079 878	**1 572 679**

Investment in Capital is measured at cost less impairment as the Bank believes there is no readily available active market to detemine the fair value.

The fair value of S.W.I.F.T. SCRL is reported according to a certain withdrawal price as of 31 December 2013 and 31 December 2012.

Imprimatur Capital Technology Venture Fund makes seed investments in SMEs which become its portfolio companies. The Fund's purpose is to invest in technology-related SMEs, develop their business potential and then sell its ownership interests in such SMEs at a profit and for the benefit of the Fund and its Investors.

Tamar Energy is a renewable energy business focusing entirely on anaerobic digestion. Investment Tamar Energy is measured at cost as there is no readily available active market to detemine the fair value. The entity is still in its start up phase and is expanding operations as per its operational plans. Management has assessed the investment and no impairment was identified.

Bank has contractual obligations in respect of investments in Tamar Energy. Bank should buy 1 724 806 shares of Tamar Energy for the total amount of LVL 1 454 011.

21 Securities held-to-maturity

	Group and Bank 31.12.2013 LVL	Group and Bank 31.12.2012 LVL
Government bonds	525 337	541 850
Bonds and other fixed-income securities	3 489 862	6 017 695
	4 015 199	**6 559 545**

The following table shows the distribution of securities held-to-maturity by issuer profile:

	Group and Bank 31.12.2013 LVL	Group and Bank 31.12.2012 LVL
Debt securities of credit institutions (Moody's ratings)	1 618 758	2 714 897
Debt securities of credit institutions rated Baa	*52 862*	*54 709*
Debt securities of credit institutions rated Ba	*274 823*	*1 344 117*
Debt securities of credit institutions rated B	–	*1 316 071*
Debt securities of credit institutions rated Caa	*1 291 073*	–
Debt securities of private enterprises (Moody's ratings)	1 442 303	1 372 152
Debt securities of private enterprises rated Baa	*763 055*	–
Debt securities of private enterprises rated Ba	*551 582*	*1 372 152*
Debt securities of private enterprises rated BB	*127 666*	–
Public non-financial Corporations (Moody's ratings)	428 801	1 930 646
Public non-financial Corporations rated Baa	*428 801*	*1 667 529*
Public non-financial Corporations rated Ba	–	*263 117*
Debt securities of central governments (Moody's ratings)	525 337	541 850
Debt securities of central governments rated Baa	*525 337*	*541 850*
	4 015 199	**6 559 545**

According to the amendments to IAS 39 and IFRS 7, the Bank has sold Ukraine held-to-maturity assets during the period between 1 January 2014 and the date the financial statements were signed. The Bank had the intention and ability to hold that assets for the foreseeable future or to maturity. In respect of assets earmarked for selling in the category „held-to-maturity", the Bank has arrived to the conclusion that an one-time event (which is beyond the Bank's control, which does not fall within recurring events and which the Bank could not reasonably have foreseen) has given rise to extraordinary circumstances that enable the Bank to partially sell held-to-maturity financial instruments. The Bank has determined that the aforesaid event makes it necessary to sell held-to-maturity financial instruments, and that the sale does not constitutes "tainting" under IAS 39.9.

22 Investments in equity accounted investees

	Ownership %	Country of incorporation	Purpose	Group and Bank 31.12.2013 LVL	Group and Bank 31.12.2012 LVL
LLC "Komunikācijas un projekti"	50	Latvia	Investments	804 392	429 009
				804 392	**429 009**

In 2013, the Bank increased its investment in equities of SIA "Komunikācijas un projekti", thus increasing its stake to 50%. As at 31 December 2013, SIA "Komunikacijas un projekti" assets amounted to LVL 23 929, liabilities amounted to LVL 48 960, and losses for 2013 comprised LVL 6 513. The management assessed future cash flows to be generated by the investee and as a result of this assessment concluded that there is no objective evidence of impairment of the investment.

23 Subsidiary

The subsidiaries of the Bank are as follows:

Name	Country of incorporation	Principal Activities	Carrying amount of investment LVL	Ownership	Ownership
"BIB Real Estate" LLC	Latvia	Real estate	1 363 600	100	100
"Gaujas Īpašumi" LLC	Latvia	Real estate	–	100	100
"Global Investments" LLC	Latvia	Real estate	–	100	100
"BIB Consulting" LLC	Latvia	Legal advice, asset protection services and advice and guidance on taxation and tax planning	2 000	100	100
Investments in subsidiaries			**1 365 600**		

24 Investment property

For investment property, the Bank applies a fair-value-based accounting model. The fair value of the investment property item is based on the appraisal from an independent appraiser who holds a recognised and relevant professional qualification and has recent experience in appraising similar property.

Investment property	Group LVL	Bank LVL
As of 31 December 2011	**6 006 796**	**3 125 133**
Additions	393 685	–
Revaluation	221 297	63 771
Sale	(845 094)	(277 094)
As of 31 December 2012	**5 776 684**	**2 911 810**
Additions	10 981	–
Revaluation	55 935	12 090
Sale	(278 000)	–
As of 31 December 2013	**5 565 600**	**2 923 900**

Loss on investment property sold during 2013 was LVL 64 582 in the Group.

Amounts recognised in the profit or loss (apart from revaluation result):	Group LVL	Bank LVL
Rental income earned on investment property	37 811	37 811
Direct operating expenses (including repairs and maintenance costs) incurred in connection with the investment property which has earned a rental income during the reporting year	(7 528)	(7 528)
Direct operating expenses (including repairs and maintenance costs) incurred in connection with the investment property which has not earned a rental income during the reporting year	(19 004)	(13 033)

The fair value of investment property was determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The independent valuers provide the fair value of the Group's investment property portfolio every year.

The investment property has been categorised as a Level 3 in the fair value hierarchy. The following table shows the valuation technique used in measuring the fair value of investment property, as well as the significant unobservable inputs used:

Type	LVL	Valuation technique	Significant unobservable inputs		Inter-relation between significant unobservable inputs and fair value measurement
Construction objects and related land plots in Latvia	802 000	Comparable transaction method	Sales price varies from LVL to LVL per m^2	92-287	The estimated fair value would increase (decrease) if:
		Discounted cash flows technique: the model is based on discounted cash flows from rental income.	Rental income per m^2 of LVL	0.38-6.19	• Sales price per m^2 was higher (lower)
			Discount rate of %	6.63-9.75	• Rental income per m^2 was higher (lower)
			Occupancy rate of %	90	• The discount rate was lower (higher)
					• The occupancy rate was lower
Land plots in Latvia	2 649 000	Comparable transaction method	Sales price varies from LVL to LVL per m^2	7-61	The estimated fair value would increase (decrease) if:
		Discounted cash flows technique: the model is based on discounted cash flows from rental income.	Discount rate of %	11.75-12.25	• Sales price per m^2 was higher (lower)
			Construction costs LVL per m^2	480	• The discount rate was lower (higher)
			The final sale price LVL per m^2	552	• Construction costs per m^2 would be less (greater)
					• The final sale price per m^2 was higher (lower)
Premises in Latvia	308 000	Comparable transaction method	Sales price varies from LVL to LVL per m^2	1477-1478	The estimated fair value would increase (decrease) if:
		Discounted cash flows technique: the model is based on discounted cash flows from rental income.	Rental income per m^2 of LVL	2.81	• Sales price per m^2 was higher (lower)
			Discount rate of %	12.75	• Rental income per m^2 was higher (lower)
			Occupancy rate of %	50	• The discount rate was lower (higher)
					• The occupancy rate was higher (lower)
Construction objects and related land plots in Latvia	475 500	Comparable transaction method	Sales price varies from LVL to LVL per m^2	61-468	The estimated fair value would increase (decrease) if:
					• Sales price per m^2 was higher (lower)
Land plot in Riga	313 700	Comparable transaction method	Sales price varies from LVL to LVL per m^2	987	The estimated fair value would increase (decrease) if:
					• Sales price per m^2 was higher (lower)
Land plots in Jurmala	381 500	Comparable transaction method	Sales price varies from LVL to LVL per m^2	27-47	The estimated fair value would increase (decrease) if:
					• Sales price per m^2 was higher (lower)
Apartments in Latvia	189 000	Comparable transaction method	Sales price varies from LVL to LVL per m^2	2188-3254	The estimated fair value would increase (decrease) if:
					• Sales price per m^2 was higher (lower)
Construction objects and related land plots in Belarus	226 203	Comparable transaction method	Sales price varies from LVL to LVL per m^2	618-909	The estimated fair value would increase (decrease) if:
		Discounted cash flows technique: the model is based on discounted cash flows from rental income.	Rental income per m^2 of LVL	0.18	• Sales price per m^2 was higher (lower)
			Occupancy rate of %	100	• Rental income per m^2 was higher (lower)
					• The occupancy rate was higher (lower)
Premises in Belarus	220 697	Comparable transaction method	Sales price varies from LVL to LVL per m^2	813	The estimated fair value would increase (decrease) if:
		Discounted cash flows technique: the model is based on discounted cash flows from rental income.	Rental income per m^2 of LVL	0.18	• Sales price per m^2 was higher (lower)
			Occupancy rate of %	100	• Rental income per m^2 was higher (lower)
					• The occupancy rate was higher (lower)
Investment property	**5 565 600**				

25 Property and equipment

Group

	Buildings and land (own use) LVL	Motor vehicles LVL	Office equipment LVL	Construction in progress LVL	**Total LVL**
Acquisition cost					
As of 31 December 2011	**9 042 608**	**188 690**	**2 289 870**	**113 111**	**11 634 279**
Additions	–	43 323	269 423	359 381	**672 127**
Disposals	–	(54 015)	(67 781)	–	**(121 796)**
As of 31 December 2012	**9 042 608**	**177 998**	**2 491 512**	**472 492**	**12 184 610**
Additions	1 872 329	–	548 766	467 992	**2 889 087**
Disposals	–	(41 946)	(587 664)	–	**(629 610)**
Reclassification	809 492	–	–	(809 492)	**-**
As of 31 December 2013	**11 724 429**	**136 052**	**2 452 614**	**130 992**	**14 444 087**
Depreciation					
As of 31 December 2011	**(615 766)**	**(105 588)**	**(1 074 519)**	**-**	**(1 795 873)**
Depreciation	(158 684)	(35 820)	(372 167)	–	**(566 671)**
Disposals	–	51 658	67 566	–	**119 224**
As of 31 December 2012	**(774 450)**	**(89 750)**	**(1 379 120)**	**-**	**(2 243 320)**
Depreciation	(158 684)	(29 209)	(333 216)	–	**(521 109)**
Disposals	–	34 105	587 500	–	**621 605**
As of 31 December 2013	**(933 134)**	**(84 854)**	**(1 124 836)**	**-**	**(2 142 824)**
Net book value					
As of 31 December 2011	**8 426 842**	**83 102**	**1 215 351**	**113 111**	**9 838 406**
As of 31 December 2012	**8 268 158**	**88 248**	**1 112 392**	**472 492**	**9 941 290**
As of 31 December 2013	**10 791 295**	**51 198**	**1 327 778**	**130 992**	**12 301 263**

Bank

	Buildings and land (own use) LVL	Motor vehicles LVL	Office equipment LVL	Construction in progress LVL	**Total LVL**
Acquisition cost					
As of 31 December 2011	**9 042 608**	**188 690**	**2 287 542**	**113 111**	**11 631 951**
Additions	–	43 323	269 423	359 381	**672 127**
Disposals	–	(54 015)	(67 781)	–	**(121 796)**
As of 31 December 2012	**9 042 608**	**177 998**	**2 489 184**	**472 492**	**12 182 282**
Additions	1 872 329	–	548 628	467 992	**2 888 949**
Disposals	–	(41 946)	(587 664)	–	**(629 610)**
Reclassification	809 492	–	–	(809 492)	**-**
As of 31 December 2013	**11 724 429**	**136 052**	**2 450 148**	**130 992**	**14 441 621**
Depreciation					
As of 31 December 2011	**(615 766)**	**(105 588)**	**(1 072 785)**	**-**	**(1 794 139)**
Depreciation	(158 684)	(35 820)	(371 941)	–	**(566 445)**
Disposals	–	51 658	67 566	–	**119 224**
As of 31 December 2012	**(774 450)**	**(89 750)**	**(1 377 160)**	**-**	**(2 241 360)**
Depreciation	(158 684)	(29 209)	(333 005)	–	**(520 898)**
Disposals	–	34 105	587 500	–	**621 605**
As of 31 December 2013	**(933 134)**	**(84 854)**	**(1 122 665)**	**-**	**(2 140 653)**
Net book value					
As of 31 December 2011	**8 426 842**	**83 102**	**1 214 757**	**113 111**	**9 837 812**
As of 31 December 2012	**8 268 158**	**88 248**	**1 112 024**	**472 492**	**9 940 922**
As of 31 December 2013	**10 791 295**	**51 198**	**1 327 483**	**130 992**	**12 300 968**

The fair value of motor vehicles was determined by an independent appraiser by using the comparable transaction method based on recent market transactions with similar vehicles between independent parties. The evaluation of motor vehicles was carried out as at 7 September 2011.

The fair value of motor vehicles, taking into account their evaluation carried out in 2011 and the accumulated depreciation, is not significantly different from the carrying amount. The revaluated property and equipment fall within Level 3 of the fair value hierarchy.

26 Intangible assets

	Group Software LVL	Bank Software LVL
Acquisition cost		
As of 31 December 2011	**3 223 635**	**3 223 171**
Additions	534 168	534 168
Disposals	(8 277)	(8 277)
As of 31 December 2012	**3 749 526**	**3 749 062**
Additions	259 965	259 965
Disposals	(25 092)	(25 092)
As of 31 December 2013	**3 984 399**	**3 983 935**
Amortisation		
As of 31 December 2011	**(361 811)**	**(361 347)**
Amortisation	(182 953)	(182 953)
Disposals	8 277	8 277
As of 31 December 2012	**(536 487)**	**(536 023)**
Amortisation	(262 878)	(262 878)
Disposals	25 092	25 092
As of 31 December 2013	**(774 273)**	**(773 809)**
Net book value		
As of 31 December 2011	**2 861 824**	**2 861 824**
As of 31 December 2012	**3 213 039**	**3 213 039**
As of 31 December 2013	**3 210 126**	**3 210 126**

27 Deferred expenses and accrued income

	Group 31.12.2013 LVL	Bank 31.12.2013 LVL	Group 31.12.2012 LVL	Bank 31.12.2012 LVL
Deferred expenses	941 180	940 587	608 168	607 701
Other accrued income	652 683	652 683	617 734	622 134
	1 593 863	**1 593 270**	**1 225 902**	**1 229 835**
Allowances (Note 12)	(3 937)	(3 937)	(1 901)	(1 901)
	1 589 926	**1 589 333**	**1 224 001**	**1 227 934**

28 Other assets

	Group 31.12.2013 LVL	Bank 31.12.2013 LVL	Group 31.12.2012 LVL	Bank 31.12.2012 LVL
Accounts receivable	631 734	178 756	418 655	192 167
Precious metals	499 293	499 293	259 717	259 717
Prepayments	226 800	215 973	129 889	110 156
Money in transit (replenishment of a correspondent account)	110 143	110 143	110 012	110 012
Unsettled spot forex transactions	99 854	99 854	156 498	156 498
Funds placed in guarantee funds	85 666	85 666	13 317	13 317
Prepaid taxes	52 842	52 203	97 911	60 513
Others	1 569	1 569	5 672	5 672
	1 707 901	**1 243 457**	**1 191 671**	**908 052**
Allowances (Note 12)	(257 035)	(101 454)	(101 252)	(101 252)
	1 450 866	**1 142 003**	**1 090 419**	**806 800**

The impairment allowance was made for accounts receivable.

29 Due to credit institutions

	Group and Bank 31.12.2013 LVL	Group and Bank 31.12.2012 LVL
Repayable on demand	5 359 546	257 556
Term balances	–	–
	5 359 546	**257 556**

The table below shows geographical concentration:

	Group and Bank 31.12.2013 LVL	Group and Bank 31.12.2012 LVL
Credit institutions incorporated in the Republic of Latvia	7 059	52 310
Credit institutions incorporated in other non-OECD countries	5 352 487	205 246
	5 359 546	**257 556**

As at 31 December 2013 and 31 December 2012 due to credit institutions did not include any deposits serving as collateral for the outstanding loans.

Concentration of due to credit institutions

As at 31 December 2013 and 31 December 2012, the Group and Bank had balances with one and two credit institutions, which exceeded 10% of total placements by credit institutions. The gross values of these balances as of 31 December 2013 and 31 December 2012 were lvl 5 150 000 and lvl 257 492, respectively.

30 Deposits

	Group 31.12.2013 LVL	Bank 31.12.2013 LVL	Group 31.12.2012 LVL	Bank 31.12.2012 LVL
Repayable on demand				
Corporate customers	133 195 132	133 200 813	110 227 108	110 228 540
Financial institutions	1 641 230	1 641 230	7 497 242	7 497 242
Public organisations	68 637	68 637	110 935	110 935
State-owned companies	5 195	5 195	29 927	29 927
Central governments	1 538	1 538	130	130
Municipalities	–	–	1 861 331	1 861 331
Individuals	15 012 110	15 012 110	16 435 481	16 435 481
	149 923 842	**149 929 523**	**136 162 154**	**136 163 586**
Term deposits				
Corporate customers	27 813 024	27 813 024	20 411 869	20 411 869
Financial institutions	243 646	243 646	4 540 574	4 540 574
Municipalities	–	–	10 850 014	10 850 014
Individuals	15 487 743	15 487 743	18 700 439	18 700 439
	43 544 413	**43 544 413**	**54 502 896**	**54 502 896**
Total deposits	**193 468 255**	**193 473 936**	**190 665 050**	**190 666 482**

The Bank pays interest on current accounts, provided that the accounts maintain the pre-determined minimum balance.

Blocked accounts

As at 31 December 2013, the Bank maintained customer deposit balances of LVL 8 609 133 (as at 31 December 2012: LVL 22 891 561) which were blocked by the Bank as collateral for loans and commitments and sureties granted by the Bank.

Concentrations of current accounts and customer deposits

As of 31 December 2013 and 31 December 2012, the Bank had no clients whose account balance exceeded 10% of the total of all customer account balances.

31 Debt securities in issue

	Group and Bank 31.12.2013 LVL	Group and Bank 31.12.2012 LVL
Bond issue	3 551 492	–
	3 551 492	**–**

During the year ended 31 December 2013, an average annual interest rate of 2.92% was applied to the debt securities in issue. The issued securities are not publicly traded.

Notional amount	Coupon Rate	Maturity Date	Book value, LVL
EUR 205 000	2.40%	21.11.2014	144 459
EUR 3 000 000	2.97%	21.11.2015	2 115 370
USD 2 500 000	2.91%	21.11.2015	1 291 663

32 Accrued expenses, provisions and deferred income

	Group 31.12.2013 LVL	Bank 31.12.2013 LVL	Group 31.12.2012 LVL	Bank 31.12.2012 LVL
Provision for unused vacation	173 162	173 162	162 961	162 961
Accrued payable to the Deposit Guarantee Scheme (DGS)	96 218	96 218	148 362	148 362
Accruals for other payments	377 894	377 894	396 401	394 515
Other accrued expense	23 060	21 174	24 829	24 829
Deferred income	151 443	151 443	75 765	75 765
	821 777	**819 891**	**808 318**	**806 432**

33 Other liabilities

	Group 31.12.2013 LVL	Bank 31.12.2013 LVL	Group 31.12.2012 LVL	Bank 31.12.2012 LVL
Unsettled spot forex transactions	435 598	435 598	92 644	92 644
Money in transit	116 868	116 868	228 248	228 248
Staff salaries	101 228	101 228	77 984	77 984
Collateral securing the obligations	77 148	77 148	–	–
Other accounts payable	458 116	105 953	364 017	59 747
	1 188 958	**836 795**	**762 893**	**458 623**

34 Subordinated liabilities

Subordinated deposits have a fixed term of five years at their origination, and are repayable before maturity only on winding up or bankruptcy of the Bank and rank before shareholders' claims.

As at 31 December 2013, the Bank had one customer whose deposit exceeded 10% of the total volume of subordinated deposits.

Group and Bank

Depositor	Currency	Amount in currency	Interest rate	The date of conclusion of the loan agreement	Repayment date	Amount 31.12.2013 LVL
Diana Belokon	GBP	2 500 478	7.00%	31.12.2013	31.12.2019	2 107 910
Total						**2 107 910**

	Group and Bank 31.12.2013 LVL	Group and Bank 31.12.2012 LVL
Residents of the Republic of Latvia		
Corporate customers	*13 405*	*13 405*
Individuals	*3 627 765*	*1 168 383*
Residents of other countries		
Individuals	*4 161 105*	*2 945 893*
	7 802 275	**4 127 681**

35 Shareholders' equity

The total authorised and paid-in share capital remained unchanged from 2012. The Bank's share capital totals LVL 20 772 105 and is divided into 4 154 421 ordinary shares carrying identical voting rights (2012: 20 772 105 and 4 154 421, respectively).

All shares are registered. Each share carries the right to one vote at the meetings of shareholders, a right to receive dividends as declared from time to time and a right to residual assets. Each share has a par value of LVL 5 (five lats). Of the Bank's 93 shareholders, 28 are legal entities and 65 are individuals.

Reserve capital in the amount of LVL 545 thousand (31 December 2012: LVL 545) is formed from the contributions made by the Bank's shareholders. The Bank's General Meeting of Shareholders makes the decision concerning further usage of reserve capital. Reserve capital can be used to:

- cover losses;
- increase the share capital;
- pay dividends.

	Quantity	Amount LVL
Total paid-in share capital 31 December 2011	**4 154 421**	**20 772 105**
Total paid-in share capital 31 December 2012	**4 154 421**	**20 772 105**
Total paid-in share capital 31 December 2013	**4 154 421**	**20 772 105**

Listed below are the shareholders who control more than 10 percent of the shares in the shareholders' equity:

	31.12.2013	31.12.2012
Valeri Belokon	69.89%	69.89%
Vilori Belokon	30.01%	30.01%

36 Sureties and commitments

Sureties and guarantees, which represent irrevocable assurances and promise that the Bank will make payments to the beneficiary (third party) in the event that the obligor (customer) fails to honor his/her obligations to third parties, carry the same credit risk as loans.

Commitments to extend credit and liabilities for credit cards represent unused portions of authorisations to extend credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to the total unused commitments.

	Group 31.12.2013 LVL	Bank 31.12.2013 LVL	Group 31.12.2012 LVL	Bank 31.12.2012 LVL
Sureties and guarantees	**1 788 591**	**1 788 591**	**13 036 699**	**13 036 699**
Commitments to customers	**11 727 289**	**11 800 241**	**15 255 661**	**15 339 823**
Commitments to extend credit	5 379 341	5 452 293	9 353 528	9 437 690
Unused creditcard limits	523 061	523 061	563 233	563 233
Other commitments	5 824 887	5 824 887	5 338 900	5 338 900
	13 515 880	**13 588 832**	**28 292 360**	**28 376 522**

37 Trust agreements

The Bank enters into trust agreements with individuals and legal entities, residents and non-residents of the Republic of Latvia. The Bank accepts no risk for its trust operations; all risks are retained by its clients. As of 31 December 2013, assets administered by the Bank totaled LVL 54 615 452. As of 31 December 2012, the Bank's administered assets stood at LVL 43 689 723.

38 Litigation

In the ordinary course of business, the Group and the Bank are exposed to litigation risks. The management believes that the ultimate loss, if any, arising in connection with such litigation or complaints will not have a materially adverse effect on the Bank's financial position or results of future operations. No provisions were recognized as at 31 December 2013 and 31 December 2012.

39 Related party transactions

The outstanding balances as of 31 December 2013 and related income statement amounts of transactions for the year ended 31 December 2013 with other related parties are as follows:

Group and Bank

As of 31 December 2013	Subsidiary LVL	Associate LVL	Shareholders, Members of the Supervisory Council and Management Board LVL	Other senior executives LVL	Other LVL	**Total LVL**
Due from credit institutions						
At the beginning of the period	–	–	–	–	42	**42**
Difference due to fluctuations in foreign currency exchange rates	–	–	–	–	(1)	**(1)**
At the end of the period	–	–	–	–	41	**41**
Loans						
At the beginning of the period	1 398 483	17 954	432 476	–	2 304 233	**4 153 146**
Gross Loans	*1 676 961*	*17 954*	*432 476*	–	*2 304 233*	***4 431 624***
Allowances	*(278 478)*	–	–	–	–	***(278 478)***
Issued during the period	610 159	54 937	298 938	-	205 269	**1 169 303**
Repaid during the period	(588 961)	(40 601)	(471 038)	–	(884 909)	**(1 985 509)**
Difference due to fluctuations in foreign currency exchange rates	–	–	(43)	–	(6 086)	**(6 129)**
Changes in the group of Bank-related parties	–	–	(17 327)	–	–	**(17 327)**
At the end of the period	1 419 681	32 290	243 006	–	1 618 507	**3 313 484**
Gross Loans	*1 698 159*	*32 290*	*243 006*	–	*1 618 507*	***3 591 962***
Allowances	*(278 478)*	–	–	–	–	***(278 478)***
Interest income	64 014	1 724	15 405	-	173 324	**254 467**
Other assets						
At the beginning of the period	126	–	–	–	–	**126**
Issued during the period	7 968	–	–	–	–	**7 968**
Repayment during the period	(17)	–	–	–	(109)	**(126)**
At the end of the period	8 077	–	–	–	(109)	**7 968**

As of 31 December 2013	Subsidiary LVL	Associate LVL	Shareholders, Members of the Supervisory Council and Management Board LVL	Other senior executives LVL	Other LVL	**Total LVL**
Sureties (guarantees)						
At the beginning of the period	–	–	–	–	–	**-**
Issued during the period	–	–	–	–	288 676	**288 676**
Redeemed during the period	–	–	–	–	(263 031)	**(263 031)**
At the end of the period	–	–	–	–	25 645	**25 645**
Due to credit institutions						
At the beginning of the period	–	–	–	–	153 126	**153 126**
Difference due to fluctuations in foreign currency exchange rates	–	–	–	–	(1 243)	**(1 243)**
At the end of the period	–	–	–	–	151 883	**151 883**
Deposits						
At the beginning of the period	1 432	-	571 977	49 531	783 552	**1 406 492**
Increase in balances during the period	798 415	89 515	6 639 093	429 526	39 780 641	**47 737 190**
Decline in balances during the period	(794 166)	(86 807)	(6 951 287)	(331 696)	(40 181 716)	**(48 345 672)**
Difference due to fluctuations in foreign currency exchange rates	–	–	(32)	–	(2 491)	**(2 523)**
Changes in the group of Bank-related parties	–	–	(27 611)	–	124 180	**96 569**
At the end of the period	5 681	2 708	232 140	147 361	504 166	**892 056**
Interest expense	–	–	14 681	1 510	53 987	**70 178**
Subordinated liabilities						
At the beginning of the period	–	–	7 073	–	716 345	**723 418**
Increase in balances during the period	–	–	–	–	703 283	**703 283**
Decline in balances during the period	–	–	–	–	(351 402)	**(351 402)**
Changes in the group of Bank-related parties	–	–	–	–	2 107 910	**2 107 910**
At the end of the period	–	–	7 073	–	3 176 136	**3 183 209**
Interest expense	–	–	557	–	163 852	**164 409**

All related party transactions are at arm's length.

Group and Bank

As of 31 December 2012	Subsidiary LVL	Associate LVL	Shareholders, Members of the Supervisory Council and Management Board LVL	Other senior executives LVL	Other LVL	**Total LVL**
Due from credit institutions						
At the beginning of the period	–	–	–	–	43	**43**
At the end of the period	–	–	–	–	42	**42**
Loans						
At the beginning of the period	1 643 959	16 230	468 564	–	358 612	**2 487 365**
Gross Loans	*2 043 193*	*16 230*	*468 564*	–	*358 612*	***2 886 599***
Allowances	*(399 234)*	–	–	–	–	***(399 234)***
Issued during the period	675 720	1 724	253 409	–	37 093	**967 946**
Repaid during the period	(537 009)	–	(289 597)	–	(390 259)	**(1 216 865)**
Difference due to fluctuations in foreign currency exchange rates	–	–	100	–	(5 002)	**(4 902)**
Changes in the group of Bank-related parties	(384 187)	–	–	–	2 303 789	**1 919 602**
At the end of the period	1 398 483	17 954	432 476	–	2 304 233	**4 153 146**
Gross Loans	*1 676 961*	*17 954*	*432 476*	–	*2 304 233*	***4 431 624***
Allowances	*(278 478)*	–	–	–	–	***(278 478)***
Interest income	54 747	1 724	15 405	–	182 591	**254 467**
Other assets						
At the beginning of the period	37 474	–	–	–	–	**37 474**
Issued during the period	126	–	–	–	–	**126**
Repayment during the period	(37 474)	–	–	–	–	**(37 474)**
At the end of the period	126	–	–	–	–	**126**
Sureties (guarantees)						
At the beginning of the period	–	–	–	–	10 591	**10 591**
Redeemed during the period	–	–	–	–	(10 591)	**(10 591)**
At the end of the period	–	–	–	–	–	**-**
Due to credit institutions						
At the beginning of the period	–	–	–	–	154 078	**154 078**
Difference due to fluctuations in foreign currency exchange rates	–	–	–	–	(952)	**(952)**
At the end of the period	–	–	–	–	153 126	**153 126**

As of 31 December 2012	Subsidiary LVL	Associate LVL	Shareholders, Members of the Supervisory Council and Management Board LVL	Other senior executives LVL	Other LVL	**Total LVL**
Deposits						
At the beginning of the period	5 865	–	521 599	94 111	1 193 431	**1 815 006**
Increase in balances during the period	986 244	–	13 820 791	632 440	30 998 219	**46 437 694**
Decline in balances during the period	(990 410)	–	(13 770 428)	(677 020)	(31 387 371)	**(46 825 229)**
Difference due to fluctuations in foreign currency exchange rates	–	–	15	–	10 091	**10 106**
Changes in the group of Bank-related parties	(267)	–	–	–	(30 818)	**(31 085)**
At the end of the period	1 432	-	571 977	49 531	783 552	**1 406 492**
Interest expense	6	-	21 954	3 730	16 460	**42 150**
Subordinated liabilities						
At the beginning of the period	–	–	7 028	–	13 142	**20 170**
Increase in balances during the period	–	–	45	–	703 203	**703 248**
At the end of the period	–	–	7 073	–	716 345	**723 418**
Interest expense	–	–	365	–	26 278	**26 643**

All related party transactions are at arm's length.

40 Capital adequacy calculation

The Financial and Capital Market Commission sets forth capital requirements for the Bank as a whole and supervises the adherence to the requirements.

According to the specific requirement of the FCMC, the Bank should maintain a capital adequacy ratio above minimum level – 13% for the period starting from 30 October 2013 till 30 September 2014 (from 30 October 2012 till 30 September 2013: 14.5%). As at 31 December 2013, the Bank and the Group were in compliance with the requirements of the FCMC for capital adequacy and minimum equity, as well as satisfied the higher ratio as requested by the FCMC.

The Bank also monitors its capital adequacy levels calculated in accordance with the requirements of the New Basel Capital Accord, commonly known as Basel II.

The following table shows the composition of the Bank's capital position calculated in accordance with the requirements of the Basle Accord, as at 31 December 2013:

Total equity capital	Group LVL	Bank LVL
Paid-in share capital	20 772 105	20 772 105
Reserve capital and other reserves	545 024	545 024
Retained earnings	2 127 205	2 067 100
Profit for the current year	(221 309)	20 037
Intangible assets	(3 210 126)	(3 210 126)
Specific decline in Tier 1 capital, as stipulated by the applicable law	(888 058)	(888 058)
Less revaluation of investment property	(563 297)	(320 019)
Tier 1 Core Capital	**18 561 544**	**18 986 063**
Subordinated liabilities	5 499 170	5 499 170
Specific decline in Tier 2 capital, as stipulated by the applicable law	(888 058)	(888 058)
Tier 2 Supplementary Capital	**4 611 112**	**4 611 112**
TOTAL CAPITAL	**23 172 656**	**23 597 175**
Capital charge for credit risk inherent in the Bank's book, including the breakdown of exposures by categories:	11 644 902	11 634 525
Central governments or central banks	*21 014*	*21 014*
Public entities	*2 340 365*	*2 340 365*
Commercial companies	*5 883 886*	*6 000 378*
*Overdue (delinquent) exposures **	*864 914*	*864 914*
High-risk exposures	*40 594*	*40 594*
Other items	*2 494 129*	*2 367 260*
The total capital charge for market risks	245 790	245 790
Capital charge for operational risk	1 386 195	1 375 570
Total capital charge	**13 276 887**	**13 255 885**
CAPITAL ADEQUACY RATIOS		
31 December 2013	**13.96%**	**14.24%**
CAPITAL ADEQUACY RATIOS		
31 December 2012	**16.20%**	**16.45%**

* past due exposures: exposures that are 90 days or more past due.

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

The Bank is subject to minimum capital adequacy requirements calculated in accordance with the Basle Accord established by covenants under liabilities incurred by the Bank. The Bank has complied with all externally imposed capital requirements during the years ended 31 December 2013 and 31 December 2012.

To calculate the required capital charge in accordance with the minimum regulatory capital requirements, Bank applies the following approaches:

- capital charge for credit risk – the Standardised Approach;
- capital charge for market risk –the Standardised Approach;
- capital charge for operational risk – the Basic Indicator Approach.

Application of credit risk mitigation technique to the non-trading book

	Central governments or central banks LVL	Public entities LVL	Commercial entities LVL	Past due exposures LVL	High-risk exposures LVL	Other items LVL
Total risk-weighted exposure amount (on- and-off-balance sheet items) before applying risk mitigation technique	22 454 354	113 016 553	69 988 946	8 116 107	338 285	31 982 617
Total exposure after netting	–	–	210 021	–	–	618 319
Total exposure hedged by eligible financial collateral	935 562	–	2 266 016	215 467	–	–
Total risk-weighted exposure amount after applying risk mitigation technique	21 518 792	113 016 553	67 512 909	7 900 640	338 285	31 364 298

41 Term structure of assets and liabilities

The following tables are based on regulatory instructions of the Financial and Capital Market Commission and show the term structure of assets and liabilities. This term structure will not necessarily coincide with discounted cash flows.

Group

As of 31 December 2013	Demand LVL	Less than 1 month LVL	1 to 3 months LVL	3 to 6 months LVL	6 to 12 months LVL	1 to 5 years LVL	5 years and more LVL	With no stat-ed maturity or pledged as collateral LVL	**TOTAL LVL**
ASSETS									
Cash and due from central banks	21 152 366	–	–	–	–	–	–	947 703	**22 100 069**
Due from credit institutions	93 535 023	2 669 519	10 921	–	1 545 000	–	41	11 151 637	**108 912 141**
Financial assets held-for-trading	446 368	1 014 784	15 943	–	718 250	–	8 200	–	**2 203 545**
Securities held-for-trading	*446 368*	–	–	–	*718 250*	–	*8 200*	–	***1 172 818***
Derivative financial instruments	–	*1 014 784*	*15 943*	–	–	–	–	–	***1 030 727***
Available for sale instruments	27 504	–	–	–	–	–	3 052 374	–	**3 079 878**
Securities held-to-maturity	–	16 155	31 921	12 147	1 096 711	2 602 161	256 104	–	**4 015 199**
Loans	8 421 126	6 779 802	3 235 199	9 422 035	25 746 133	14 328 666	2 014 247	1 429 955	**71 377 163**
Non-financial assets	880 138	291 406	294 855	116 263	675 142	23 078	-	22 801 437	**25 082 319**
Total assets	**124 462 525**	**10 771 666**	**3 588 839**	**9 550 445**	**29 781 236**	**16 953 905**	**5 330 966**	**36 330 732**	**236 770 314**
LIABILITIES									
Due to credit institutions	5 359 546	–	–	–	–	–	–	–	**5 359 546**
Deposits	145 750 055	3 880 775	19 252 199	7 137 268	8 169 174	2 536 478	229 876	6 512 430	**193 468 255**
Debt securities in issue	–	–	–	11 505	144 075	3 395 912	–	–	**3 551 492**
Derivative financial instruments	–	432 273	5 346	–	–	–	–	–	**437 619**
Subordinated liabilities	–	6 050	12 404	12 852	123	4 257 738	3 513 108	–	**7 802 275**
Non-financial liabilities	2 415 128	353 529	189	12 021	21 748	94 580	6 379	–	**2 903 574**
Shareholders' equity	–	–	–	–	–	–	–	23 247 553	**23 247 553**
Total liabilities and shareholders' equity	**153 524 729**	**4 672 627**	**19 270 138**	**7 173 646**	**8 335 120**	**10 284 708**	**3 749 363**	**29 759 983**	**236 770 314**
Sureties and commitments *	8 229 766	–	–	–	–	–	–	3 295 975	**11 525 741**
Maturity gap	**(37 291 970)**	**6 099 039**	**(15 681 299)**	**2 376 799**	**21 446 116**	**6 669 197**	**1 581 603**	**x**	**x**

* Sureties and commitments are diminished by the amount of the issued guarantees and loans secured by the deposits placed with the Bank and totaling LVL 1 475 361. The value of the gold totals LVL 514 778.

As of 31 December 2012									
Assets	130 501 774	14 168 747	6 554 727	6 083 065	17 245 326	14 190 323	3 340 713	29 433 872	**221 518 547**
Liabilities	138 632 815	24 689 527	10 156 065	2 721 029	12 644 402	5 762 182	3 426 949	23 485 578	**221 518 547**
Sureties and commitments *	14 219 512	–	–	–	–	–	–	–	**14 219 512**
Maturity gap	**(22 350 553)**	**(10 520 780)**	**(3 601 338)**	**3 362 036**	**4 600 924**	**8 428 141**	**(86 236)**	**x**	**x**

* Sureties and commitments are diminished by the amount of the issued guarantees and loans secured by the deposits placed with the Bank and totaling LVL 12 404 433. The value of the gold totals LVL 1 668 415.

Bank

As of 31 December 2013	Demand LVL	Less than 1 month LVL	1 to 3 months LVL	3 to 6 months LVL	6 to 12 months LVL	1 to 5 years LVL	5 years and more LVL	With no stated maturity or pledged as collateral LVL	TOTAL LVL
ASSETS									
Cash and due from central banks	21 151 409	–	–	–	–	–	–	947 703	**22 099 112**
Due from credit institutions	93 535 023	2 669 519	10 921	–	1 545 000	–	41	11 151 637	**108 912 141**
Financial assets held-for-trading	446 368	1 014 784	15 943	–	718 250	–	8 200	–	**2 203 545**
Securities held-for-trading	*446 368*	–	–	–	*718 250*	-	*8 200*	–	***1 172 818***
Derivative financial instruments	–	*1 014 784*	*15 943*	–	–	–	–	–	***1 030 727***
Available for sale instruments	27 504	–	–	–	–	–	3 052 374	–	**3 079 878**
Securities held-to-maturity	–	16 155	31 921	12 147	1 096 711	2 602 161	256 104	–	**4 015 199**
Loans	8 421 126	7 287 134	3 235 199	9 804 037	26 276 480	14 328 666	2 014 247	1 429 955	**72 796 844**
Non-financial assets	632 841	291 406	244 632	104 962	674 516	23 078	–	21 525 033	**23 496 468**
Total assets	**124 214 271**	**11 278 998**	**3 538 616**	**9 921 146**	**30 310 957**	**16 953 905**	**5 330 966**	**35 054 328**	**236 603 187**
LIABILITIES									
Due to credit institutions	5 359 546	–	–	–	–	–	–	–	**5 359 546**
Deposits	145 755 736	3 880 775	19 252 199	7 137 268	8 169 174	2 536 478	229 876	6 512 430	**193 473 936**
Debt securities in issue	–	–	–	11 505	144 075	3 395 912	–	–	**3 551 492**
Derivative financial instruments	–	432 273	5 346	–	–	–	–	–	**437 619**
Subordinated liabilities	–	6 050	12 404	12 852	123	4 257 738	3 513 108	–	**7 802 275**
Non-financial liabilities	2 062 965	351 643	189	12 021	21 748	94 580	6 379	–	**2 549 525**
Shareholders' equity	–	–	–	–	–	–	–	23 428 794	**23 428 794**
Total liabilities and shareholders' equity	**153 178 247**	**4 670 741**	**19 270 138**	**7 173 646**	**8 335 120**	**10 284 708**	**3 749 363**	**29 941 224**	**236 603 187**
Sureties and commitments *	8 302 718	–	–	–	–	–	–	3 295 975	**11 598 693**
Maturity gap	**(37 266 694)**	**6 608 257**	**(15 731 522)**	**2 747 500**	**21 975 837**	**6 669 197**	**1 581 603**	**x**	**x**

* Sureties and commitments are diminished by the amount of the issued guarantees and loans secured by the deposits placed with the Bank and totaling LVL 1 475 361. The value of the gold totals LVL 514 778.

As of 31 December 2012									
Assets	130 290 617	14 676 078	6 554 727	6 407 527	17 693 980	14 239 130	3 340 713	27 934 230	**221 137 002**
Liabilities	138 329 977	24 687 641	10 156 065	2 721 029	12 644 402	5 762 182	3 426 949	23 408 757	**221 137 002**
Sureties and commitments *	14 303 674	–	–	–	–	–	–	–	**14 303 674**
Maturity gap	**(22 343 034)**	**(10 011 563)**	**(3 601 338)**	**3 686 498**	**5 049 578**	**8 476 948**	**(86 236)**	**x**	**x**

* Sureties and commitments are diminished by the amount of the issued guarantees and loans secured by the deposits placed with the Bank and totaling LVL 12 404 433. The value of the gold totals LVL 1 668 415.

42 Contractual cash flows

Analysis of the Bank's financial liabilities' contractual undiscounted cash flows:

As of 31 December 2013	Demand and less than 1 month LVL	1 to 3 months LVL	3 to 6 months LVL	6 to 12 months LVL	More than 1 year LVL	Total gross amount out-flow/ (inflow) LVL	**Carrying amount LVL**
Non-derivative liabilities							
Deposits and balances due to financial institutions	5 359 546	–	–	–	–	5 359 546	**5 359 546**
Current accounts and deposits due to customers	156 150 913	19 271 803	7 190 708	8 326 582	2 988 818	193 928 824	**193 473 936**
Other borrowed funds	6 050	12 404	24 357	147 281	13 222 185	13 412 277	**11 353 767**
Derivative liabilities							
- Inflow	(178 271 596)	–	–	–	–	(178 271 596)	**(593 108)**
- Outflow	177 694 431	–	–	–	–	177 694 431	**-**
Total	**160 939 344**	**19 284 207**	**7 215 065**	**8 473 863**	**16 211 003**	**212 123 482**	**209 594 141**
Credit related commitments	13 588 832	–	–	–	–	–	**-**

As of 31 December 2012	Demand and less than 1 month LVL	1 to 3 months LVL	3 to 6 months LVL	6 to 12 months LVL	More than 1 year LVL	Total gross amount out-flow/ (inflow) LVL	**Carrying amount LVL**
Non-derivative liabilities							
Deposits and balances due to financial institutions	257 556	–	–	–	–	257 556	**257 556**
Current accounts and deposits due to customers	160 278 913	10 088 368	2 730 592	12 967 625	6 369 169	192 434 667	**190 666 482**
Other borrowed funds	4 022	12 396	9 637	127	5 118 572	5 144 754	**4 127 681**
Derivative liabilities							
- Inflow	(161 505 845)	–	–	–	–	(161 505 845)	**-**
- Outflow	162 027 702	–	–	–	–	162 027 702	**521 857**
Total	**161 062 348**	**10 100 764**	**2 740 229**	**12 967 752**	**11 487 741**	**198 358 834**	**195 573 576**
Credit related commitments	28 376 522	–	–	–	–	–	–

The analyses of contractual undiscounted cash flows on the Group's and the Bank's financial liabilties do not vary significantly.

43 Analysis of assets and liabilities by currency profile

Group

As of 31 December 2013	LVL	EUR	USD	RUB	GBP	Other currencies	TOTAL LVL
ASSETS							
Cash and due from central banks	4 519 378	17 010 194	528 011	–	28 207	14 279	**22 100 069**
Due from credit institutions	–	4 984 688	100 850 291	128 117	704 843	2 244 202	**108 912 141**
Financial assets held-for-trading	1 032 339	–	1 099 126	72 080	–	–	**2 203 545**
Securities held-for-trading	*1 612*	–	*1 099 126*	*72 080*	–	–	***1 172 818***
Derivative financial instruments	*1 030 727*	–	–	–	–	–	***1 030 727***
Available for sale instruments	127 111	164 275	–	–	2 760 988	27 504	**3 079 878**
Securities held-to-maturity	–	–	4 015 199	–	–	–	**4 015 199**
Loans	112 027	38 246 746	26 907 128	3 469	6 107 793	–	**71 377 163**
Non-financial assets	22 232 090	1 277 680	874 455	21 154	178 031	498 909	**25 082 319**
Total assets	**28 022 945**	**61 683 583**	**134 274 210**	**224 820**	**9 779 862**	**2 784 894**	**236 770 314**
LIABILITIES							
Due to credit institutions	125	111 009	5 246 701	–	1 711	–	**5 359 546**
Deposits	1 630 660	43 219 768	137 315 522	106 059	8 875 538	2 320 708	**193 468 255**
Debt securities in issue	–	2 259 829	1 291 663	–	–	–	**3 551 492**
Derivative financial instruments	437 619	–	–	–	–	–	**437 619**
Subordinated liabilities	–	3 129 376	2 564 989	–	2 107 910	–	**7 802 275**
Non-financial liabilities	2 102 363	324 610	386 633	18 145	53 539	18 284	**2 903 574**
Shareholders' equity	23 247 553	–	–	–	–	–	**23 247 553**
Total liabilities and shareholders' equity	**27 418 320**	**49 044 592**	**146 805 508**	**124 204**	**11 038 698**	**2 338 992**	**236 770 314**
GROSS POSITION	**604 625**	**12 638 991**	**(12 531 298)**	**100 616**	**(1 258 836)**	**445 902**	
Unsettled spot forex contracts	–	43 433 287	(43 882 694)	–	–	113 663	
Forward contracts	–	(57 505 194)	56 819 659	–	1 262 700	–	
NET POSITION	**604 625**	**(1 432 916)**	**405 667**	**100 616**	**3 864**	**559 565**	
Ratio to the shareholders' equity (%)*		-6.18%	1.75%	0.43%	0.02%		
As of 31 December 2012							
Assets	38 154 075	88 693 489	88 006 017	202 060	4 635 207	1 827 699	**221 518 547**
Liabilities	38 795 190	50 339 328	115 680 756	184 683	13 620 356	2 898 234	**221 518 547**
Gross position	**(641 115)**	**38 354 161**	**(27 674 739)**	**17 377**	**(8 985 149)**	**(1 070 535)**	
Net position	**(378 205)**	**39 592**	**808 022**	**17 377**	**(155 907)**	**254 616**	

* Equity (net worth) totalling LVL 23 172 656 as of 31 December 2013 (as of 31 December 2012: 22 160 932).

Bank

As of 31 December 2013	LVL	EUR	USD	RUB	GBP	Other currencies	TOTAL LVL
ASSETS							
Cash and due from central banks	4 518 421	17 010 194	528 011	–	28 207	14 279	**22 099 112**
Due from credit institutions	–	4 984 688	100 850 291	128 117	704 843	2 244 202	**108 912 141**
Financial assets held-for-trading	1 032 339	–	1 099 126	72 080	–	–	**2 203 545**
Securities held-for-trading	*1 612*	–	*1 099 126*	*72 080*	–	–	***1 172 818***
Derivative financial instruments	*1 030 727*	–	–	–	–	–	***1 030 727***
Available for sale instruments	127 111	164 275	–	–	2 760 988	27 504	**3 079 878**
Securities held-to-maturity	–	–	4 015 199	–	–	–	**4 015 199**
Loans	112 027	39 666 427	26 907 128	3 469	6 107 793	–	**72 796 844**
Non-financial assets	20 646 239	1 277 680	874 455	21 154	178 031	498 909	**23 496 468**
Total assets	**26 436 137**	**63 103 264**	**134 274 210**	**224 820**	**9 779 862**	**2 784 894**	**236 603 187**
LIABILITIES							
Due to credit institutions	125	111 009	5 246 701	–	1 711	–	**5 359 546**
Deposits	1 630 869	43 225 240	137 315 522	106 059	8 875 538	2 320 708	**193 473 936**
Debt securities in issue	–	2 259 829	1 291 663	–	–	–	**3 551 492**
Derivative financial instruments	437 619	–	–	–	–	–	**437 619**
Subordinated liabilities	–	3 129 376	2 564 989	–	2 107 910	–	**7 802 275**
Non-financial liabilities	2 032 105	152 908	274 544	18 145	53 539	18 284	**2 549 525**
Shareholders' equity	23 428 794	–	–	–	–	–	**23 428 794**
Total liabilities and shareholders' equity	**27 529 512**	**48 878 362**	**146 693 419**	**124 204**	**11 038 698**	**2 338 992**	**236 603 187**
GROSS POSITION	**(1 093 375)**	**14 224 902**	**(12 419 209)**	**100 616**	**(1 258 836)**	**445 902**	
Unsettled spot forex contracts	–	43 433 287	(43 882 694)	–	–	113 663	
Forward contracts	–	(57 505 194)	56 819 659	–	1 262 700	–	
NET POSITION	**(1 093 375)**	**152 995**	**517 756**	**100 616**	**3 864**	**559 565**	
Ratio to the shareholders' equity (%)*		0.65%	2.19%	0.43%	0.02%		
As of 31 December 2012							
Assets	36 402 169	90 063 852	88 006 017	202 060	4 635 207	1 827 697	**221 137 002**
Liabilities	38 408 841	50 344 125	115 680 756	184 683	13 620 356	2 898 241	**221 137 002**
Gross position	**(2 006 672)**	**39 719 727**	**(27 674 739)**	**17 377**	**(8 985 149)**	**(1 070 544)**	
Net position	**(1 743 762)**	**1 405 158**	**808 022**	**17 377**	**(155 907)**	**254 607**	

* Equity (net worth) totalling LVL 23 597 175 as of 31 December 2013 (as of 31 December 2012: 22 441 903).

44 Sensitivities analysis

Currency (foreign exchange) risk

The sum of overall foreign exchange exposure and the net position in gold stood at 1.57% of the Group's equity as of 31 December 2013 (as of 31 December 2012: 4.34%).

Figures show that a 10 percent strengthening of the Latvian Lats against other currencies may have the following impact on the Group's profit (in LVL):

	31.12.2013 CHF	31.12.2013 USD	31.12.2013 RUB	31.12.2012 USD	31.12.2012 GBP
rate valid	0.573	0.515	0.0156	0.531	0.857
foreign currency position (in LVL)	116 881	405 667	100 616	808 022	(155 907)
(loss)/profit (in LVL)	(11 688)	40 567	10 062	(42 825)	13 408

The sum of overall foreign exchange exposure and the net position in gold stood at 5.65% of the Bank's equity as of 31 December 2013 (as of 31 December 2012: 10.38%).

Figures show that a 10 percent strengthening of the Latvian Lats against other currencies may have the following impact on the Bank's profit (in LVL):

	31.12.2013 CHF	31.12.2013 USD	31.12.2013 RUB	31.12.2012 USD	31.12.2012 GBP
rate valid	0.573	0.515	0.0156	0.531	0.857
foreign currency position (in LVL)	116 881	517 756	100 616	808 022	(155 907)
profit/(loss) (in LVL)	11 688	51 776	10 062	(42 825)	13 408

45 Repricing maturities of assets and liabilities

The following table shows the earlier of the interest rate contracted re-pricing dates or contractual maturity of financial assets and liabilities.

Group

As of 31 December 2013	Up to 1 month (inclusive) LVL	1 to 3 months LVL	3 to 6 months LVL	6 to 12 months LVL	One year and more LVL	Non interest bearing LVL	TOTAL LVL
ASSETS							
Cash and due from central banks	4 116 435	–	–	–	–	17 983 634	**22 100 069**
Due from credit institutions	96 720 068	–	–	1 927 779	1 265 047	8 999 247	**108 912 141**
Financial assets held-for-trading	–	–	–	718 029	–	1 485 516	**2 203 545**
Securities held-for-trading	–	–	–	*718 029*	–	*454 789*	***1 172 818***
Derivative financial instruments	–	–	–	–	–	*1 030 727*	***1 030 727***
Available for sale instruments	–	–	–	–	–	3 079 878	**3 079 878**
Securities held-to-maturity	–	–	–	1 096 711	2 858 264	60 224	**4 015 199**
Loans	6 739 572	3 036 793	10 078 925	25 494 107	15 632 334	10 395 432	**71 377 163**
Non-financial assets	–	–	–	–	–	25 082 319	**25 082 319**
Total assets	**107 576 075**	**3 036 793**	**10 078 925**	**29 236 626**	**19 755 645**	**67 086 250**	**236 770 314**
LIABILITIES							
Due to credit institutions	5 150 000	–	–	–	–	209 546	**5 359 546**
Deposits	111 672 363	19 247 325	7 122 876	8 149 822	3 967 330	43 308 539	**193 468 255**
Debt securities in issue	–	–	3 395 912	144 075	–	11 505	**3 551 492**
Derivative financial instruments	–	–	–	–	–	437 619	**437 619**
Subordinated liabilities	–	–	–	–	7 770 846	31 429	**7 802 275**
Non-financial liabilities	–	–	–	–	–	2 903 574	**2 903 574**
Shareholders' equity	–	–	–	–	–	23 247 553	**23 247 553**
Total liabilities and shareholders' equity	**116 822 363**	**19 247 325**	**10 518 788**	**8 293 897**	**11 738 176**	**70 149 765**	**236 770 314**
Net position sensitive to interest rate risk	**(9 246 288)**	**(16 210 532)**	**(439 863)**	**20 942 729**	**8 017 469**	**(3 063 515)**	

A 100 basis point decrease/increase in interest rates is likely to have effect (decrease/increase) on the Group's annual net interest income to the amount of 174 090 LVL (as of 31 December 2012: LVL 49 131).

As of 31 December 2012	Up to 1 month (inclusive) LVL	1 to 3 months LVL	3 to 6 months LVL	6 to 12 months LVL	One year and more LVL	Non interest bearing LVL	TOTAL LVL
Assets	120 693 945	6 497 091	6 199 509	18 566 173	16 012 195	53 549 634	**221 518 547**
Liabilities	126 601 763	10 009 326	2 698 074	12 617 587	9 133 617	60 458 180	**221 518 547**
Net position sensitive to interest rate risk	**(5 907 818)**	**(3 512 235)**	**3 501 435**	**5 948 586**	**6 878 578**	**(6 908 546)**	

Bank

As of 31 December 2013	Up to 1 month (inclusive) LVL	1 to 3 months LVL	3 to 6 months LVL	6 to 12 months LVL	One year and more LVL	Non interest bearing LVL	TOTAL LVL
ASSETS							
Cash and due from central banks	4 116 435	–	–	–	–	17 982 677	**22 099 112**
Due from credit institutions	96 720 068	–	–	1 927 779	1 265 047	8 999 247	**108 912 141**
Financial assets held-for-trading	–	–	–	718 029	–	1 485 516	**2 203 545**
Securities held-for-trading	–	–	–	*718 029*	–	*454 789*	***1 172 818***
Derivative financial instruments	–	–	–	–	–	*1 030 727*	***1 030 727***
Available for sale instruments	–	–	–	–	–	3 079 878	**3 079 878**
Securities held-to-maturity	–	–	–	1 096 711	2 858 264	60 224	**4 015 199**
Loans	7 246 746	3 036 793	10 460 927	26 024 454	15 632 334	10 395 590	**72 796 844**
Non-financial assets	–	–	–	–	–	23 496 468	**23 496 468**
Total assets	**108 083 249**	**3 036 793**	**10 460 927**	**29 766 973**	**19 755 645**	**65 499 600**	**236 603 187**
LIABILITIES							
Due to credit institutions	5 150 000	–	–	–	–	209 546	**5 359 546**
Deposits	111 672 363	19 247 325	7 122 876	8 149 823	3 967 330	43 314 219	**193 473 936**
Debt securities in issue	–	–	3 395 912	144 075	–	11 505	**3 551 492**
Derivative financial instruments	–	–	–	–	–	437 619	**437 619**
Subordinated liabilities	–	–	–	–	7 770 846	31 429	**7 802 275**
Non-financial liabilities	–	–	–	–	–	2 549 525	**2 549 525**
Shareholders' equity	–	–	–	–	–	23 428 794	**23 428 794**
Total liabilities and shareholders' equity	**116 822 363**	**19 247 325**	**10 518 788**	**8 293 898**	**11 738 176**	**69 982 637**	**236 603 187**
Net position sensitive to interest rate risk	**(8 739 114)**	**(16 210 532)**	**(57 861)**	**21 473 075**	**8 017 469**	**(4 483 037)**	

A 100 basis point decrease/increase in interest rates is likely to have effect (decrease/increase) on the Bank's annual net interest income to the amount of 165 517 LVL (as of 31 December 2012: LVL 40 717).

As of 31 December 2012	Up to 1 month (inclusive) LVL	1 to 3 months LVL	3 to 6 months LVL	6 to 12 months LVL	One year and more LVL	Non interest bearing LVL	TOTAL LVL
Assets	121 233 641	6 497 091	6 523 971	19 051 534	16 061 002	51 769 763	**221 137 002**
Liabilities	126 601 763	10 009 326	2 698 074	12 617 587	9 133 617	60 076 635	**221 137 002**
Net position sensitive to interest rate risk	**(5 368 122)**	**(3 512 235)**	**3 825 897**	**6 433 947**	**6 927 385**	**(8 306 872)**	

46 Credit risk

The table below shows the Bank's maximum exposure to credit risk for the components of the statement of financial position, including derivatives. Exposures are based on net carrying amounts as reported in the statement of financial position.

The maximum credit exposures are shown both gross, i.e. without taking into account any collateral and other credit enhancement, and net, i.e. after taking into account any collateral and other credit enhancement. The details on the type and amounts of collateral held are disclosed in the respective notes.

Bank

	Gross maximum credit risk exposure 31.12.2013 LVL	Net maximum credit risk exposure 31.12.2013 LVL	Gross maximum credit risk exposure 31.12.2012 LVL	Net maximum credit risk exposure 31.12.2012 LVL
Cash and due from central banks	22 099 112	22 099 112	27 205 135	27 205 135
Due from credit institutions	108 912 159	108 912 141	104 851 076	100 544 611
Financial assets held-for-trading	2 203 545	2 203 545	2 186 456	2 186 456
Securities held-for-trading	*1 172 818*	*1 172 818*	*1 136 384*	*1 136 384*
Derivative financial instruments	*1 030 727*	*1 030 727*	*1 050 072*	*1 050 072*
Available for sale instruments	3 079 878	3 079 878	1 600 615	1 572 679
Securities held-to-maturity	4 015 199	4 015 199	6 559 545	6 559 545
Loans	77 003 822	323 435	67 144 494	63 190 060
Total financial assets	**217 313 715**	**140 633 310**	**209 547 321**	**201 258 486**
Sureties (guarantees)	1 788 591	1 479 357	13 036 699	1 726 276
Commitments to customers	11 800 241	9 643 385	15 339 823	14 283 643
Total commitments and contingencies	**13 588 832**	**11 122 742**	**28 376 522**	**16 009 919**
Total maximum credit risk exposure	**230 902 547**	**151 756 052**	**237 923 843**	**217 268 405**

The maximum exposures to credit risks for the components at the statement of financial position of the Group and the Bank do not vary significantly.

47 Classification of financial assets and liabilities and comparison with fair value

The estimated fair values of financial instruments at fair value through profit or loss, quoted available-for-sale assets, held-to-maturity investments and other borrowed funds are based on quoted market prices at the reporting date without any deduction for transaction costs.

The estimated fair values of all other financial assets and liabilities, except as described below, are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the reporting date.

The estimated fair value of the Bank's financial assets and liabilities are as follows:

As of 31 December 2013	Financial assets/ liabilities at amortised cost LVL	Financial assets/ liabilities at fair value through profit and loss LVL	Financial assets available-for-sale LVL	Total LVL	Fair value LVL
ASSETS					
Cash and due from central banks	22 099 112	–	–	**22 099 112**	**22 099 112**
Due from credit institutions	108 912 141	–	–	**108 912 141**	**108 860 870**
Financial assets held-for-trading	–	2 203 545	–	**2 203 545**	**2 203 545**
Securities held-for-trading	–	*1 172 818*	–	***1 172 818***	***1 172 818***
Derivative financial instruments	–	*1 030 727*	–	***1 030 727***	***1 030 727***
Available for sale instruments	–	–	3 079 878	**3 079 878**	**3 079 878**
Securities held-to-maturity	4 015 199	–	–	**4 015 199**	**4 096 252**
Loans	72 796 844	–	–	**72 796 844**	**73 275 870**
Total assets	**207 823 296**	**2 203 545**	**3 079 878**	**213 106 719**	**213 615 527**
Due to credit institutions	5 359 546	–	–	**5 359 546**	**5 359 546**
Deposits	193 473 936	–	–	**193 473 936**	**193 894 531**
Debt securities in issue	3 551 492	–	–	**3 551 492**	**3 551 492**
Derivative financial instruments	–	437 619	–	**437 619**	**437 619**
Subordinated liabilities	7 802 275	–	–	**7 802 275**	**8 985 688**
Total liabilities	**210 187 249**	**437 619**	**-**	**210 624 868**	**212 228 876**

As of 31 December 2012	Financial assets/ liabilities at amortised cost LVL	Financial assets/ liabilities at fair value through profit and loss LVL	Financial assets available-for-sale LVL	Total LVL	Fair value LVL
ASSETS					
Cash and due from central banks	27 205 135	–	–	**27 205 135**	**27 205 135**
Due from credit institutions	100 544 611	–	–	**100 544 611**	**100 545 529**
Financial assets held-for-trading	–	2 186 456	–	**2 186 456**	**2 186 456**
Securities held-for-trading	–	*1 136 384*	–	***1 136 384***	***1 136 384***
Derivative financial instruments	–	*1 050 072*	–	***1 050 072***	***1 050 072***
Available for sale instruments	–	–	1 572 679	**1 572 679**	**1 572 679**
Securities held-to-maturity	6 559 545	–	–	**6 559 545**	**6 553 751**
Loans	63 173 462	–	–	**63 173 462**	**63 933 730**
Total assets	**197 482 753**	**2 186 456**	**1 572 679**	**201 241 888**	**201 997 280**
Liabilities					
Due to credit institutions	257 556	–	–	**257 556**	**257 556**
Deposits	190 666 482	–	–	**190 666 482**	**191 731 385**
Derivative financial instruments	–	521 857	–	**521 857**	**521 857**
Subordinated liabilities	4 127 681	–	–	**4 127 681**	**4 678 858**
Total liabilities	**195 051 719**	**521 857**	**-**	**195 573 576**	**197 189 656**

48 Fair value hierarchy

(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.

As of 31 December 2013	Published price quotations (Level 1) LVL	Valuation techniques based on market observable inputs (Level 2) LVL	Valuation techniques not based on market observable inputs (Level 3) LVL	Total LVL
Financial assets				
Available for sale instruments	–	38 468	153 311	**191 779**
Financial assets at fair value through profit or loss	454 360	718 458	–	**1 172 818**
Derivatives	15 943	1 014 784	–	**1 030 727**
	470 303	**1 771 710**	**153 311**	**2 395 324**
Financial liabilities				
Derivatives	–	437 619	–	**437 619**
	–	**437 619**	**–**	**437 619**

As of 31 December 2012	Published price quotations (Level 1) LVL	Valuation techniques based on market observable inputs (Level 2) LVL	Valuation techniques not based on market observable inputs (Level 3) LVL	Total LVL
Financial assets				
Available for sale instruments	–	38 468	78 750	**117 218**
Financial assets at fair value through profit or loss	1 136 384	–	–	**1 136 384**
Derivatives	6 574	1 043 498	–	**1 050 072**
	1 142 958	**1 081 966**	**78 750**	**2 303 674**
Financial liabilities				
Derivatives	–	521 857	–	**521 857**
	–	**521 857**	**–**	**521 857**

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.

Included in category "Valuation techniques based on market observable inputs" (Level 2) are financial assets and liabilities that are measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions in the same instrument or based on available market data. Main asset classes included in this category are financial assets for which pricing is obtained via pricing services but where prices have not been determined in an active market, financial assets with fair values based on broker quotes, investments in hedge funds private equity funds with fair value obtained via fund managers and assets that are valued using own models whereby the majority of assumptions are market observable.

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 hedge funds, private equity funds and limited partnerships.

During the current year, due to changes in market conditions for certain investments securities, quoted prices in active markets were not 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.

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

	Financial assets at fair value through profit or loss LVL	Available for sale instruments LVL	Financial investments at fair value through profit or loss LVL	**Total LVL**
As of 31 December 2012	**–**	**78 750**	**–**	**78 750**
Total gains and losses:	–	27 504	–	**27 504**
in profit or loss	–	*27 504*	–	***27 504***
in OCI	–	–	–	**–**
Purchases	–	47 057	–	**47 057**
As of 31 December 2013	**–**	**153 311**	**–**	**153 311**

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

	Financial assets at fair value through profit or loss LVL	Available for sale instruments LVL	Financial investments at fair value through profit or loss LVL	**Total LVL**
Net gain/(loss) on financial instruments at fair value through profit or loss	–	–	–	–
Net gain/(loss) on available-for-sale instruments	–	27 504	–	**27 504**
Total gains and losses included in profit or loss	**–**	**27 504**	**–**	***27 504***
Available-for-sale financial assets – net change in fair value	–	–	–	**–**
Total gains and losses recognised in other comprehensive income	**–**	**–**	**–**	**–**

The following table shows the valuation techniques use in measuring Level 2 and Level 3 fair values, as well as the significant unobservable inputs used:

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
Available for sale assets	Quotes from brokers	Illiquid securities bid prices	The estimated fair value would increase (decrease) if:
			Bid price quote increases
Available for sale assets (closed end funds)	Valuation is based on fund manager dislosed net Asset Value statement.	Net Asset value	The estimated fair value would increase (decrease) if:
			Net asset value increase (decrease)

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

As of 31 December 2013	Effect on profit or loss Increase LVL	Effect on profit or loss (Decrease) LVL	Effect on other comprehensive income Increase LVL	Effect on other comprehensive income (Decrease) LVL
Net asset value quote (10% movement)	–	–	12 581	(12 581)
Bid price movements (10% movement)	–	–	2 750	(2 750)
	-	**-**	**15 331**	**(15 331)**

(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:

As of 31 December 2013	Level 1 LVL	Level 2 LVL	Level 3 LVL	**Total LVL**	**Carrying amount LVL**
Financial assets					
Cash and due from central banks	–	22 099 112	–	**22 099 112**	**22 099 112**
Due from credit institutions	–	–	108 912 141	**108 912 141**	**108 912 141**
Loans	–	–	72 796 844	**72 796 844**	**72 796 844**
Securities held-to-maturity	4 015 199	–	–	**4 015 199**	**4 015 199**
	4 015 199	**22 099 112**	**181 708 985**	**207 823 296**	**207 823 296**

As of 31 December 2013	Level 1 LVL	Level 2 LVL	Level 3 LVL	**Total LVL**	**Carrying amount LVL**
Financial liabilities					
Due to credit institutions	–	5 359 546	–	**5 359 546**	**5 359 546**
Deposits	–	–	193 473 936	**193 473 936**	**193 473 936**
Other liabilities	–	14 340 911	–	**14 340 911**	**14 340 911**
	–	**19 700 457**	**193 473 936**	**213 174 393**	**213 174 393**

The following table shows the valuation techniques use in measuring Level 2 and Level 3 fair values, as well as the significant unobservable inputs used:

Type	Valuation technique	Significant unobservable inputs
Loans and advances due from financial institutions	Discounted cash flows	Discount rates
Loans and advances due from customers	Discounted cash flows	Discount rates, default rates
Deposits and balances due to financial institutions	Discounted cash flows	Discount rates
Deposits and balances due to customers	Discounted cash flows	Discount rates
Other borrowed funds	Discounted cash flows	Discount rates

49 Events subsequent to the reporting date

On 1 January 2014, Latvia joined the euro area. On that date the euro became the official currency of the Republic of Latvia. The Group's and the Bank's financial statements for the periods beginning on or after that date will be prepares in euros. All prior-year comparative data will be restated at 0.702804 Lats/Euro to be shown in euros.

50 Information on bank's staff and remuneration of the management *

* This note is not subject to audit

In 2013, the Bank's average staff count increased to 238 (2012: 230).

Based on the FCMC's Regulations No.61 "Regulations Governing the Disclosure of Information and Transparency of Institutions", the Bank publishes the information related to its remuneration policy, as formulated in accordance with the requirements outlined in Commission's Regulations No. 171 "Regulations Setting Forth the Basic Principles of the Remuneration Policy" (in effect as of 21 December 2009) and the established practices.

Within the framework of the Remuneration Policy, the Bank allocates the decision-making responsibility as follows:
the Bank's Council is responsible for:
- determining and approving the basic principles of the Remuneration Policy;
- supervising the Policy (Policy formulation, implementation and adherence to);
- approving the Bank's internal framework that regulates remuneration-related issues;
- determining the remuneration for the employees whose activities influence the Bank's risk profile (hereinafter referred to as risk-takers);
- revising the basic principles of the remuneration policy (on a regular basis, but no less than once a year) in order to align the remuneration structure to (i) the Bank's current activities and development strategy and (ii) altering external factors;
- setting forth the procedure for verifying whether the Bank's remuneration policy is implemented in strict conformity with the approved Remuneration Policy.

The Bank's Board is responsible for:
- ensuring that the remuneration policy and policy-relevant internal documents are formulated and complied with;
- informing the risk-takers of the indicators and methods used in evaluating their performance results and determining the variable pay component.

To ensure compliance with the remuneration policy and policy-relevant internal regulatory documents, the Board may involve the employees performing internal control functions, HR Division's staff, and the Bank's shareholders (if necessary).

The HR Division is responsible for:
- formulating and preparing the internal regulatory documents (requiring the approval by the Council and /or Board) related to the remuneration policy, including coordinating the preparation of the documents having a material impact on the Bank's risk profile and the quality of risk management (to this end, the HR Division may involve the employees performing internal control functions, and other competent employees who possess the required skills and knowledge and are authorised to perform the functions and to obtain all relevant information);
- coordinating the supervision over the application of the remuneration policy and evaluating the overall effectiveness of the policy;
- implementing remuneration instruments and maintaining long-term employee motivation plans;
- conducting employee performance evaluation (with respect to the Bank's risk-takers) on a regular basis, but no less than once a year;
- aggregating the Risk Management, Statements and Analysis Department - provided information and non-financial data;
- preparing a proposal concerning the size of a variable remuneration component to be awarded/paid to the risk-takers.

The proposal is submitted to the Bank's:
- Board – for giving its recommendations to the Council;
- Council – for final approval.

The Risk Management, Statements and Analysis Department is responsible for:
- furnishing the HR Division with the Report analysing the possible impact of a variable remuneration component - to be paid in the future - on the Bank's risk profile, based on financial results attained by the risk-takers (the Risk Director submits the report on the evaluation results to the HR Division);
- evaluating the impact exerted by variable remuneration components already paid/awarded to the risk-takers (including risks and the structure of the variable components) on the Bank's risk profile and submitting the evaluation results to the Bank's Council (the Risk Director submits the report on the evaluation results to the Bank's Council).

The Compliance Department is responsible for:
- verifying whether the remuneration structure is compliant with the regulatory requirements and the Bank's internal regulatory framework. The Compliance Director submits the non-compliance report (once any non-compliance is identified).

The non-compliance report is submitted to:
- the Board – for giving the Council the Board's recommendations regarding the corrective action;
- the Council – for approving the corrective action (if necessary).

The Internal Audit Function is responsible for periodic policy-relevant checks (formulation, implementation and evaluation of the results). The Chief Audit Executive (the Head of the Internal Audit Function) reports audit findings to the Bank's Council.

The Bank does not establish the Remuneration Committee, taking into account the Bank's size and the specificity of the decision-making process.

The link between remuneration and performance (the pay-to-performance relationship) is ensured by the following elements of the remuneration system: extra payments and financial rewards / bonuses which are performance-linked (linked to the Bank's financial performance indicators, financial and non-financial performance indicators in the Bank's functional areas/ units, and financial and non-financial performance indicators of individual employees).

The Bank determines the basis for the payment by reference to the following performance results (financial and non-financial indicators) including the indicators whereby the employees acquire the irrevocable right to receive any element of variable pay and other benefits:
- Bank's profit figure - financial indicator;
- Achievement of functional unit's income plan (target income) - financial indicator;
- Implementation of functional unit's performance (action) plan - non-financial indicator;
- Achievement of individual income plan (target income) - financial indicator;
- Individual employee performance and professional development (results of interviews conducted on a yearly basis) - non-financial indicator;
- Acknowledgements and disciplinary penalties - non-financial indicator;
- Quality of the work on the project - non-financial indicator;
- Outstanding employee performance and special achievements - non-financial indicator;
- Quality of initiative projects - non-financial indicator.

The Bank divides variable remuneration into three broad categories (insignificant portion, significant portion and very substantial portion). Variable remuneration is subject to deferral arrangements as set out below.

An insignificant portion of variable remuneration may be paid out to the Bank's risk-takers right away and in full.

The Bank uses a two-stage payment model to pay out a significant portion of variable remuneration to the Bank's risk-takers:
- 60 percent variable pay can be paid out right away;
- 40 percent variable pay is deferred for the period which is calculated according to the approach described in the remuneration administration procedure – however, for a minimum of 3 years.

The Bank uses a two-stage payment model to pay out a very substantial portion of variable remuneration to the Bank's risk-takers:
- 40 percent variable pay can be paid out right away;
- 60 percent variable pay is deferred for the period which is calculated according to the approach described in the remuneration administration procedure – however, for a minimum of 3 years.

The deferred variable component is assessed and subsequently paid out upon the expiry of the deferral period. Prior to vesting, the deferred variable component is recalculated (reduced partially or completely). The variable component is recalculated through ex-post risk adjustments, taking into account the risks which (i) were not captured by the initial calculation and first came to light during the above mentioned deferral period and (ii) are not related to the performance results tied to the performance award, i.e. the deferred portion of the variable pay.

Information about the remuneration of institution's material risk takers (MRTs)

Job groups	Fixed remuneration component LVL	Variable remuneration component LVL	Variable component consists of elements, such as cash, shares, options
Board (6)	206 218	65 127	Cash only
Internal Control Functions (4)	91 997	17 372	Cash only
Customer service and investment services (5)	140 446	23 238	Cash only

* Installation allowance is a one-time payment made to new recruited staff.
** Severance pay is a one-time payment made to a terminated employee.

Job groups	Fixed remuneration component LVL	Variable remuneration component LVL	Variable component consists of elements, such as cash, shares, options
Investment services (3)	109 553	27 135	Cash only
Services for private individuals or small and medium-sized enterprises (3)	97 352	22 790	Cash only
Asset management (3)	129 990	35 548	Cash only
Accounting and control functions (5)	101 766	20 264	Cash only

* Installation allowance is a one-time payment made to new recruited staff.
** Severance pay is a one-time payment made to a terminated employee.

Information about remuneration paid to the institution's employees

Lines of business	Workforce number (in terms of full-time equivalent)	Total remuneration for 2013 LVL	Variable remuneration component LVL
Investment services	19	188,688	30,269
Services for private individuals or small and medium-sized enterprises (3)	54	702,706	134,471
Asset management	9	207,747	57,333
Accounting and legal functions	31	347,386	60,771
Internal control functions and transaction control functions	25	250,617	43,525
Administrative and support functions	117	1,015,373	229,828