Baltic International Bank

JSC "Baltic International Bank"

2014 Annual Report

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

Dear Ladies and Gentlemen,

The Bank succeeded in boosting volumes across the areas of business such as attracting funds, development of products and services (designed specifically to bring broader investment and saving opportunities for customers), penetration of new markets (that are appropriate for the purpose of asset allocation), and income growth. Unfortunately, the above mentioned fundamental factors have adversely affected the quality of the Bank's assets. As a result, the Bank encountered the necessity to set aside additional allowances.

In 2014, the Bank continued to actively acquire new customers and made substantial strides in expanding its customer base. This in turn enabled the Bank to increase its funding base significantly – the volume of customer deposits, as compared with 31 December 2013, grew by 62.8 percent or EUR 172.96 million. The deposits totalled EUR 448.24 (448.23) million as at 31 December 2014 and made up 89.79 percent of the total liabilities. Customer deposits remain the primary funding source for the Bank's ongoing operations. The total customer funds, including off-balance sheet assets, grew by 39.21 percent (39.21 percent) over the year to reach EUR 676.88 (676.87) million. Throughout the reporting year, the Bank offered its customers effective solutions geared towards managing assets. The customers were actively interested in traditional asset management, project financing and fiduciary transactions.

During the reporting period, compared with 31 December 2013, the Bank's assets increased by 57.7 percent (57.6 percent) to reach EUR 530.87 million as at 31 December 2014 compared to EUR 336.66 million as at 31 December 2013.

The significant volume of external funds raised enabled the Bank to diversify its assets. The Bank carried out a substantial volume of investment operations to buy gilt-edged securities, and hence the structure of the securities portfolio (in terms of quality) changed tangibly. Sovereign bonds, bonds of multilateral development banks (MDB) and government bonds carrying investment grade credit ratings made up 86.90 percent of the portfolio. The volume of the securities portfolio totalled EUR 96.56 million or 18.19 percent (18.19 percent) of the total assets as at 31 December 2014. Optimisation of the securities portfolio delivered a stable income from the bonds portfolio.

The Bank has decided to boost its securities portfolio for the purposes of application of the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (prudential standards for capital adequacy and liquidity). Currently, the Bank's asset-liability structure is fully compliant with the regulatory ratios. The Bank's liquidity coverage ratio exceeded 100 percent as at 31 December 2014 and was 253.10 percent (252.63 percent); the total capital ratio met both the regulatory threshold and the minimum individual level; the leverage ratio was 5.08 percent (4.93 percent).

The acquisition of new subordinated deposits fostered growth of the Bank's balance-sheet. According to 2014 financial results, the volume of subordinated deposits totalled EUR 16.70 million and showed the increase at an annualised rate of 50.44 percent.
While carrying out product diversification to gain access to funding sources, the Bank launched several new bond issues in 2014. The customers viewed the bonds as an attractive long-term investment vehicle. Thus, the Bank successfully closed its Bond Offering Programme No 1 for the issue of bonds totalling EUR 20 million.

The volume of the loan portfolio totalled EUR 97.75 (96.09) million as at 31 December 2014. The loan portfolio as a percentage of the total assets does not exceed 20 percent and is indicative of 5.6 percent shrinkage of the portfolio. Mortgage loans prevail in the portfolio (72.1 percent of the total portfolio). This reflects the Bank's conservative approach to credit risk. Notably, the geopolitical tension between Russia and Ukraine is fuelling country risk. As the existing country risk may jeopardise the quality of the Bank's assets, the Bank has set aside extra allowances totalling EUR 2.92 million and has also actively embarked on restructuring a portion of customers' credit obligations. Simultaneously, the Bank-funded projects show a greater tendency to shift to Western Europe.

As far as diversification of the resources is concerned, the Bank's participation in the ECB's program of so-called targeted longer-term refinancing operations (TLTROs) is worth mentioning. Under the scheme, the Bank has borrowed long-term resources totalling EUR 3.78 million against highly liquid bonds pledged as collateral. The Bank's participation in the TLTROs was driven primarily by the Bank's intention to use the money borrowed for funding customers' business projects.

According to 2014 financial results, the Bank's operating income grew at a moderate pace (up 8.7 percent) to reach EUR 14.58 million. As the customers were increasingly prone to using payment & cash services, brokerage services, trust services and card products, the net fee and commission income grew by 13.2 percent (13.2 percent). The percentage of the net fee and commission income within the operating income totalled 41 percent which is up from 39 percent in 2013. The Bank's project-funding offers stimulated customer interest towards asset management and hence contributed to the fee and commission income. Changes observed in the foreign exchange market enabled the Bank to report a threefold increase in foreign currency transaction gains. Foreign currency transaction gains grew up to EUR 3.91 (3.90) million and made up 27 percent of the total operating income.

The Bank continued to develop technologies in its efforts to provide more convenience in money management. Bank also rolled out new technology solutions, including financial instruments-related service in the Internet Banking environment. The Bank offered e-commerce solutions to its corporate customers.

At the end of 2014, the Bank unveiled a mobile application for BIB Internet Banking. The new application enabled the customers to check their account status, and loans more conveniently, as well as to obtain information about the financial instruments they have purchased. The application is available for the customers (smart phone users) on Apple and Android devices.

As a socially responsible enterprise (SCE), the Bank sponsored a number of culture and business specific projects:

- Publication of a unique album „Terra Mariana. 1186–1888" (facsimile copies, with scholarly commentaries)
- The film „I WILL NOT DIE" dedicated to Ilmars Blumbergs. The film signifies a continuance of the partnership with Ilmars Blumbergs. Originally, fundamentals of the partnership were laid down in 2009.
- Commercialization Reactor, a technology commercialization platform tailor-made for encouraging high-tech start-ups and acquisition of investments.

In 2014, the Bank adopted its Operational Excellence Strategy 2015–2017 (a medium-term plan). The Strategy places a major emphasis on the Bank's and the Group's investments services. The investments services are seen as being intended to boost asset management business.

The Bank's future prospects are associated not only with managing standard financial instrument portfolios, but also with providing alternative investment solutions. To fit into the area, the Bank needs to reshape certain processes, obtain a range of extra competencies, and expand the partner network.

We wish to thank our customers for making the past year interesting and marked by heightened activity, for the tasks posed, and for a vast amount of mutually beneficial transactions. We hope to continue our successful co-operation. Our special thanks are also due to the Bank's team whose harmonious efforts are the cornerstone of stability and further development.

30 March 2015

Valeri Belokon
Chairperson of the Council

Ilona Gulchak
Chairperson of the Board

Supervisory Council and Management Board

Supervisory Council (as of 31 December 2014)

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 2014)

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
Dinars Kolpakovs	Member of the Board	13/09/2005	21/05/2010
Inese Lazdovska	Member of the Board	17/10/2014	—

In the year ended 31 December 2014, no changes have been made in the Council membership.

During the year ended 31 December 2014 the following changes were made in the composition of JSC "Baltic International Bank" Management Board:

Janis Apelis have withdrawn their membership in the Management Board of JSC "Baltic International Bank". According to the Council's resolution of 17 October 2014, Inese Lazdovska was elected as a 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 2015 to the date of the approval of these financial statements.

Statement of Management's Responsibility

Riga, 30.03.2015

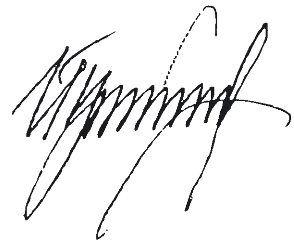
The management of JSC "Baltic International Bank" (the Bank) is responsible for the preparation of the consolidated financial statements of the Bank and its subsidiaries (the Group) as well as for the preparation of the separate financial statements of the Bank. The financial statements are prepared 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 9 to 102 are prepared in accordance with the source documents and fairly present the financial position of the Group and Bank as at 31 December 2014 and the results of their performance and cash flows for the for the year ended 31 December 2014.

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 street 7
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Independent Auditors' Report

To the shareholders of JSC "Baltic International Bank"

Report on the Separate and Consolidated Financial Statements

We have audited the accompanying separate financial statements of JSC "Baltic International Bank" ("the Bank"), which comprise the separate statement of financial position as at 31 December 2014, the separate statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 9 to 102. We have also audited the accompanying consolidated financial statements of JSC "Baltic International Bank" and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2014, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 9 to 102.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate and consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of these financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the 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.

KPMG Baltics SIA, a Latvian limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

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 JSC "Baltic International Bank" as at 31 December 2014, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the JSC "Baltic International Bank" and its subsidiaries as at 31 December 2014, and of the consolidated financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Emphasis of matter
Without qualifying our opinion, we draw attention to Note 49 of the separate and consolidated financial statements which describes political and economic situation in Ukraine and the Bank's and Group's exposures in Ukraine, and management's assessment of potential impact of the events in Ukraine on the Bank's and the Group's operating activities and financial position as at and for the year ended 31 December 2014. The outcome of these events is uncertain. The note further describes the management assumptions and actions as to the material uncertainty in relation to the Bank's and Group's ability to continue as a going concern in light of the capital adequacy requirements.

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 3 to 4, 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
Licence No 55

Ondrej Fikrle
Partner pp KPMG Baltics SIA
Riga, Latvia
30 March 2015

Valda Užāne
Sworn Auditor
Certificate No 4

Group Consolidated and Bank Separate Statement of Comprehensive Income

for the year ended 31 December 2014

	Notes 0	Group 31.12.2014 EUR	Bank 31.12.2014 EUR	Group 31.12.2013 EUR	Bank 31.12.2013 EUR
Interest income	6	7 337 472	7 397 759	8 746 375	8 837 458
Interest expense	7	(2 694 816)	(2 694 651)	(2 169 976)	(2 169 976)
Net interest income		**4 642 656**	**4 703 108**	**6 576 399**	**6 667 482**
Fee and commission income	8	7 681 208	7 682 384	6 238 557	6 240 031
Fee and commission expense	9	(1 704 521)	(1 704 207)	(960 017)	(960 017)
Net fee and commission income		**5 976 687**	**5 978 177**	**5 278 540**	**5 280 014**
Dividend income		6 614	6 614	14 989	14 989
Net trading loss	10	(326 964)	(326 964)	(35 145)	(35 145)
Net foreign exchange income	10	3 902 339	3 913 340	1 341 946	1 343 202
Other operating income		518 231	309 251	243 832	151 860
Total operating income		**14 719 563**	**14 583 526**	**13 420 561**	**13 422 402**
Administrative expenses	11	(13 021 025)	(12 843 185)	(12 494 075)	(12 386 092)
Other operating expenses		(184 177)	(181 499)	(300 262)	(202 364)
Net impairment loss	12	(2 921 920)	(2 921 920)	(937 129)	(715 757)
(Loss)/profit on revaluation of investment property	24	(279 329)	(242 482)	79 588	17 203
(Loss)/profit before income tax		**(1 686 888)**	**(1 605 560)**	**(231 317)**	**135 392**
Income tax (expense)/benefit	13	130 253	131 079	(83 577)	(106 882)
(Loss)/profit for the period		**(1 556 635)**	**(1 474 481)**	**(314 894)**	**28 510**
Other comprehensive loss					
Items that are or may be reclassified to profit or loss					
Available-for-sale financial assets – net change in fair value		(183 894)	(183 894)	—	—
Total comprehensive (loss)/income for the period		**(1 740 529)**	**(1 658 375)**	**(314 894)**	**28 510**

The accompanying notes on pages 17 to 102 are an integral part of these financial statements.

The financial statements on pages 9 to 102 has been authorised for issue by the Council and the Board on 30 March 2015, 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 2014

ASSETS	Notes	Group 31.12.2014 EUR	Bank 31.12.2014 EUR	Group 31.12.2013 EUR	Bank 31.12.2013 EUR
Cash and due from central banks	14	23 529 755	23 525 223	31 445 566	31 444 203
Financial assets held-for-trading		2 881 851	2 881 851	3 135 362	3 135 362
Securities held-for-trading	*16*	*476 839*	*476 839*	*1 668 770*	*1 668 770*
Derivative financial instruments	*17*	*2 405 012*	*2 405 012*	*1 466 592*	*1 466 592*
Due from credit institutions	18	277 591 255	277 591 255	154 968 015	154 968 015
Loans	19	96 086 863	97 753 368	101 560 553	103 580 577
Available for sale instruments	20	87 357 267	87 357 267	4 382 272	4 382 272
Securities held-to-maturity	21	8 730 659	8 730 659	5 713 113	5 713 113
Investments in equity accounted investees	22	1 144 547	1 144 547	1 144 547	1 144 547
Investments in subsidiaries	23	—	1 943 074	—	1 943 074
Investment property	24	7 475 877	3 917 853	7 919 135	4 160 335
Property and equipment	25	17 401 095	17 401 002	17 503 120	17 502 701
Intangible assets	26	4 321 276	4 321 276	4 567 598	4 567 598
Current income tax assets		285 301	285 301	227 867	227 867
Deferred expenses and accrued income	27	2 386 334	2 388 376	2 262 261	2 261 417
Other assets	28	1 768 433	1 626 388	2 064 396	1 624 924
Total assets		**530 960 513**	**530 867 440**	**336 893 805**	**336 656 005**

The accompanying notes on pages 17 to 102 are an integral part of these financial statements.

The financial statements on pages 9 to 102 has been authorised for issue by the Council and the Board on 30 March 2015, 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 2014

ASSETS Liabilities	Notes	Group 31.12.2014 EUR	Bank 31.12.2014 EUR	Group 31.12.2013 EUR	Bank 31.12.2013 EUR
Derivative financial instruments	17	1 965 060	1 965 060	622 676	622 676
Due to credit institutions	29	10 236 079	10 236 079	7 625 947	7 625 947
Deposits	30	448 233 466	448 244 286	275 280 527	275 288 611
Debt securities in issue	31	18 241 785	18 241 785	5 053 318	5 053 318
Accrued expenses, provisions and deferred income	32	1 488 662	1 483 680	1 169 283	1 166 600
Deferred tax liabilities	13	1 139 316	1 139 316	1 270 395	1 270 395
Other liabilities	33	1 616 660	1 177 713	1 691 735	1 190 652
Subordinated liabilities	34	16 701 727	16 701 727	11 101 637	11 101 637
Total liabilities		**499 622 755**	**499 189 646**	**303 815 518**	**303 319 836**
Shareholders' equity					
Share capital	35	29 496 389	29 496 389	29 556 042	29 556 042
Reserve capital	35	835 152	835 152	775 499	775 499
Property revaluation reserve	25	34 900	34 900	34 900	34 900
Available for sale instruments revaluation reserve	20	(183 894)	(183 894)	—	—
Retained earnings		1 155 211	1 495 247	2 711 846	2 969 728
Total shareholders' equity		**31 337 758**	**31 677 794**	**33 078 287**	**33 336 169**
Total liabilities and shareholders' equity		**530 960 513**	**530 867 440**	**336 893 805**	**336 656 005**
Commitments and contingencies					
Sureties (guarantees)	36	2 961 317	2 961 317	2 544 936	2 544 936
Commitments to customers	36	12 040 035	12 134 805	16 686 429	16 790 230
Total commitments and contingencies		**15 001 352**	**15 096 122**	**19 231 365**	**19 335 166**

The accompanying notes on pages 17 to 102 are an integral part of these financial statements.

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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 2014

	Share capital	Reserve capital	Property revaluation reserve	Available for sale instruments revaluation reserve	Retained earnings	TOTAL
	EUR	EUR	EUR	EUR	EUR	EUR
Balance as of 31 December 2012	**29 556 042**	**775 499**	**34 900**	**—**	**3 026 740**	**33 393 181**
Total comprehensive loss						
Net loss for the period	—	—	—	—	(314 894)	(314 894)
Total comprehensive loss	**—**	**—**	**—**	**—**	**(314 894)**	**(314 894)**
Balance as of 31 December 2013	**29 556 042**	**775 499**	**34 900**	**—**	**2 711 846**	**33 078 287**
Total comprehensive income						
Net profit for the period	—	—	—	—	(1 556 635)	(1 556 635)
Available for sale instruments revaluation reserve	—	—	—	(183 894)	—	(183 894)
Total comprehensive income	**—**	**—**	**—**	**(183 894)**	**(1 556 635)**	**(1 740 529)**
Transactions with owners, recorded directly in equity						
Transfer to reserve capital (Note 35)	(59 653)	59 653	—	—	—	—
Total transactions with owners, recorded directly in equity	**(59 653)**	**59 653**	—	—	—	—
Balance as of 31 December 2014	**29 496 389**	**835 152**	**34 900**	**(183 894)**	**1 155 211**	**31 337 758**

The accompanying notes on pages 17 to 102 are an integral part of these financial statements.

The financial statements on pages 9 to 102 has been authorised for issue by the Council and the Board on 30 March 2015, 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 2014

	Share capital	Reserve capital	Property revaluation reserve	Available for sale instruments revaluation reserve	Retained earnings	TOTAL
	EUR	EUR	EUR	EUR	EUR	EUR
Balance as of 31 December 2012	**29 556 042**	**775 499**	**34 900**	**—**	**2 941 218**	**33 307 659**
Total comprehensive income						
Net profit for the period	—	—	—	—	28 510	28 510
Total comprehensive income	**—**	**—**	**—**	**—**	**28 510**	**28 510**
Balance as of 31 December 2013	**29 556 042**	**775 499**	**34 900**	**—**	**2 969 728**	**33 336 169**
Total comprehensive income						
Net profit for the period	—	—	—	—	(1 474 481)	(1 474 481)
Available for sale instruments revaluation reserve	—	—	—	(183 894)	—	(183 894)
Total comprehensive income	**—**	**—**	**—**	**(183 894)**	**(1 474 481)**	**(1 658 375)**
Transactions with owners, recorded directly in equity						
Transfer to reserve capital (Note 35)	(59 653)	59 653	—	—	—	—
Total transactions with owners, recorded directly in equity	**(59 653)**	**59 653**	**—**	**—**	**—**	**—**
Balance as of 31 December 2014	**29 496 389**	**835 152**	**34 900**	**(183 894)**	**1 495 247**	**31 677 794**

The accompanying notes on pages 17 to 102 are an integral part of these financial statements.

The financial statements on pages 9 to 102 has been authorised for issue by the Council and the Board on 30 March 2015, 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 2014

	Group 31.12.2014 EUR	Bank 31.12.2014 EUR	Group 31.12.2013 EUR	Bank 31.12.2013 EUR
Cash flows from operating activities				
(Loss)/profit before income tax	(1 686 888)	(1 605 560)	(231 318)	135 392
Amortisation and depreciation	1 261 683	1 261 357	1 115 513	1 115 513
Increase in impairment allowance	2 921 920	2 921 920	937 129	715 757
Unrealised loss/(profit) on revaluation of investment property	279 329	242 482	(79 588)	(17 203)
(Profit)/loss on disposal of property and equipment and investment property	(39 102)	—	91 892	—
Increase in cash and cash equivalents from operating activities before changes in assets and liabilities	**2 736 942**	**2 820 199**	**1 833 628**	**1 949 159**
Decrease/(increase) in loans	2 567 258	2 920 777	(14 413 649)	(14 443 811)
Decrease/(increase) in due from credit institutions	4 886 343	4 886 343	(8 529 284)	(8 529 284)
Decrease/(increase) in financial assets held-for-trading	253 511	253 511	(24 315)	(24 315)
Increase in deferred expenses and accrued income	(124 073)	(126 959)	(523 647)	(517 207)
Increase in other assets	(334 070)	(465 052)	(735 065)	(477 775)
Increase in term deposits placed by central banks	3 781 559	3 781 559	—	—
Increase in due to credit institutions	263	263	81	81
Increase in deposits	172 952 939	172 955 675	3 988 601	3 994 647
Increase/(decrease) in derivative liabilities	1 342 384	1 342 384	(119 860)	(119 860)
Increase in accrued expenses, provisions and deferred income	319 379	317 080	19 150	19 150
(Decrease)/increase in other liabilities	(75 075)	(12 939)	606 236	538 090
Increase/(decrease) in cash and cash equivalents resulting from operating activities	**188 307 360**	**188 672 841**	**(17 898 124)**	**(17 611 125)**

The accompanying notes on pages 17 to 102 are an integral part of these financial statements.

Group Consolidated and Bank Separate Statement of Cash Flows

for the year ended 31 December 2014

	Group 31.12.2014 EUR	Bank 31.12.2014 EUR	Group 31.12.2013 EUR	Bank 31.12.2013 EUR
Corporate income tax paid	(58 260)	(57 434)	(330 640)	(330 160)
Increase/(decrease) in cash and cash equivalents from operating activities	**188 249 100**	**188 615 407**	**(18 228 764)**	**(17 941 285)**
Cash flow from investing activities				
Acquisition of property and equipment, intangible assets and investment property	(918 306)	(913 336)	(4 485 165)	(4 469 344)
Proceeds from sale of property and equipment and investment property	179 594	10 695	303 900	233
Acquisition of non-current assets held for sale	(29 291)	(29 291)	—	—
Proceeds from sale of non-current assets held for sale	282 802	282 802	—	—
Acquisition of shares in equity accounted investees	—	—	(534 122)	(534 122)
Purchase of available-for-sale instruments	(82 974 995)	(82 974 995)	(2 105 416)	(2 105 416)
Purchase of securities held-to-maturity	(5 910 326)	(5 910 326)	(2 381 532)	(2 381 532)
Redemption of held-to-maturity investments	2 892 780	2 892 780	6 001 810	6 001 810
Decrease in cash and cash equivalents as a result of investing activities	**(86 477 742)**	**(86 641 671)**	**(3 200 525)**	**(3 488 371)**

The accompanying notes on pages 17 to 102 are an integral part of these financial statements.

Group Consolidated and Bank Separate Statement of Cash Flows

for the year ended 31 December 2014

	Notes	Group 31.12.2014 EUR	Bank 31.12.2014 EUR	Group 31.12.2013 EUR	Bank 31.12.2013 EUR
Cash flows from financing activities					
Subordinated liabilities		5 600 090	5 600 090	5 228 476	5 228 476
Issuance of debt securities		13 394 014	13 394 014	5 053 318	5 053 318
Buyback of debt securities		—	(205 547)	—	—
Increase in cash and cash equivalents as a result of financing activities		**18 994 104**	**18 788 557**	**10 281 794**	**10 281 794**
Increase/(decrease) in cash and cash equivalents		**120 765 462**	**120 762 293**	**(11 147 495)**	**(11 147 862)**
Cash and cash equivalents at the beginning of the period	15	167 499 693	167 498 330	178 647 188	178 646 192
Cash and cash equivalents at the end of the period	15	**288 265 155**	**288 260 623**	**167 499 693**	**167 498 330**

The accompanying notes on pages 17 to 102 are an integral part of these financial statements.

The financial statements on pages 9 to 102 has been authorised for issue by the Council and the Board on 30 March 2015, and signed on their behalf by:

Valeri Belokon
Chairperson of the Council

Ilona Gulchak
Chairperson of the Board

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 30 March 2015. 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 2014 and 31 December 2013 are available at the Bank's website (www.bib.eu).

Functional and Presentation Currency

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

These consolidated financial statements are presented in euro. Subsidiaries of the Group operate in the functional currenci of euro.

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.

Judgements:

Going concern

Please refer to Note 49 for the details on going concern uncertainty assessment.

Consolidation

These consolidated financial statements include financial information of subsidiaries. The annual evaluation of the Group structure and identification of entities in which the Group has control as defined in Note 3 requires judgement to be made by the Group management, see also Note 23.

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.

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.

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.

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. 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.

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. Therefore, further information is disclosed in Notes 16, 20, 48.

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 fair value analysis is disclosed in note 48.

Further information about the methods used, assumptions made in measuring fair values is dislcosed in 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 2014:

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

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

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

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

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

The Group concluded that there are no changes as a consequence of new rules introduced by IFRS 11 because the Group's interest in a joint venture has been accounted as equity-accounted before.

IFRS 12: Disclosure of Interests in Other Entities
IFRS 12 brings together into a single standard all the disclosure requirements about an entity's interest in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Group has assessed new requirements and disclosed information about its interests in subsidiaries (Notes 23) and equity accounted investees (Note 22).

Other amendments to standards

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

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

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

IAS 19 – Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 February 2015)
The amendments are relevant only to defined benefit plans that involve contributions from employees or third parties meeting certain criteria. When these criteria are met, a company is permitted (but not required) to recognise them as a reduction of the service cost in the period in which the related service is rendered.

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

IFRIC 21 Levies (effective for annual periods beginning on or after 17 June 2014)
The Interpretation provides guidance as to the identification of the obligating event giving rise to a liability, and to the timing of recognising a liability to pay a levy imposed by government. In accordance with the Interpretation, the obligating event is the activity that triggers the payment of that levy, as identified in the relevant legislation and as a consequence, the liability for paying the levy is recognised when this event occurs. The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time. If the obligating event is the reaching of a minimum activity threshold, the corresponding liability is recognised when that minimum activity threshold is reached. The Interpretation sets out that and entity cannot have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate in that future period.

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

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

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

Basis of Consolidation

Subsidiaries

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

Loss of control

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

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 (eiro) at the European Central Bank's official exchange rate prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into euro at the European Central Bank'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		31.12.2014		31.12.2013	
1 GBP	=	EUR	0.7789000	EUR	0.8336940
1 RUB	=	EUR	72.3370000	EUR	45.0515385
1 USD	=	EUR	1.2141000	EUR	1.3646680
1 LVL	=	EUR	1.4228718	EUR	1.4228718

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. 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.

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.

Financial instruments and liabilities at fair value through profit or loss

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.

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.

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.

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.

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 eiro, applying the exchange rate set by the European Central Bank. 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.

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.

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.

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.

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	
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 2014 and as at and for the year ended 31 December 2013.

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 2014 the Bank has implemented the Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms and the Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms.

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 2014 was 87.16%, compared to 71.53% as at 31 December 2013.

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 interbank 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 2014 and 31 December 2013 and a simplified scenario of a 10% – 20% drop in the value of the eiro 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 2014 and 31 December 2013 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 2014 and 31 December 2013 and a simplified scenario of a 5% change in all securities prices is as follows:

	Net income 31.12.2014 EUR	Equity 31.12.2014 EUR	Net income 31.12.2013 EUR	Equity 31.12.2013 EUR
5% increase in securities prices	23 842	0.08%	83 439	0.28%
5% decrease in securities prices	(23 842)	–0.08%	(83 439)	–0.28%

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 2014, was 14.14% (31 December 2013: 14.24%).

According to the specific requirement of the FCMC, the Bank should maintain a capital adequacy ratio above minimum level – 13.7% for the period starting from 30 October 2014 to 30 September 2015 (from 30 October 2013.7 to 30 September 2014: 14.5%). As at 31 December 2014, 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 31.12.2014 EUR	Bank 31.12.2014 EUR	Group 31.12.2013 EUR	Bank 31.12.2013 EUR
Loans	6 358 326	6 423 299	7 611 381	7 702 464
Loans,	*6 313 546*	*6 378 519*	*7 571 058*	*7 662 141*
including interest incomes on impaired loans	*1 033 166*	*1 033 166*	*112 653*	*112 653*
Payment cards	*44 780*	*44 780*	*40 323*	*40 323*
Securities held-to-maturity	334 416	334 416	589 824	589 824
Due from credit institutions	302 759	302 759	422 069	422 069
Available for sale instruments	212 262	212 262	—	—
Securities held-for-trading	119 477	119 477	118 031	118 031
Due from Bank of Latvia	5 546	5 546	5 070	5 070
Other interest income	4 686	—	—	—
	7 337 472	**7 397 759**	**8 746 375**	**8 837 458**

7. Interest Expense

	Group 31.12.2014 EUR	Bank 31.12.2014 EUR	Group 31.12.2013 EUR	Bank 31.12.2013 EUR
Liabilities at amortised cost	1 905 481	1 905 481	1 587 600	1 587 600
Deposits	*1 074 627*	*1 074 627*	*1 183 626*	*1 183 626*
Subordinated liabilities	*513 102*	*513 102*	*385 958*	*385 958*
Debt securities	*314 961*	*314 961*	*16 373*	*16 373*
Due to credit institutions	*2 791*	*2 791*	*1 643*	*1 643*
Contributions to Deposit Guarantee Fund	775 048	775 048	553 961	553 961
Other interest expense	14 287	14 122	28 415	28 415
	2 694 816	**2 694 651**	**2 169 976**	**2 169 976**

8. Fee and Commission Income

	Group 31.12.2014 EUR	Bank 31.12.2014 EUR	Group 31.12.2013 EUR	Bank 31.12.2013 EUR
Servicing of transactions	3 939 285	3 940 461	3 204 455	3 205 929
Securities accounts administration charges	1 194 731	1 194 731	289 637	289 637
Payment cards	895 864	895 864	437 698	437 698
Trust operations	688 023	688 023	778 934	778 934
Forex transactions	404 680	404 680	960 127	960 127
Letters of credit	288 395	288 395	303 107	303 107
Fees and commissions from banks	232 831	232 831	197 106	197 106
Cash operations	16 138	16 138	16 211	16 211
Transactions in precious metals	11 059	11 059	42 766	42 766
Other	10 202	10 202	8 516	8 516
	7 681 208	**7 682 384**	**6 238 557**	**6 240 031**

9. Fee and Commission Expense

	Group 31.12.2014 EUR	Bank 31.12.2014 EUR	Group 31.12.2013 EUR	Bank 31.12.2013 EUR
Payment cards	560 360	560 360	401 330	401 330
Services of agents and brokers	460 540	460 540	56 195	56 195
Services of correspondent banks	408 793	408 793	387 331	387 331
Securities-based transactions	261 264	261 264	102 830	102 830
Foreign exchange operations	1 266	1 266	46	46
Other	12 298	11 984	12 285	12 285
	1 704 521	**1 704 207**	**960 017**	**960 017**

10. Net Trading Income

	Group 31.12.2014 EUR	Bank 31.12.2014 EUR	Group 31.12.2013 EUR	Bank 31.12.2013 EUR
Gain/(loss) on foreign exchange operations	6 839 632	6 850 633	(2 408 593)	(2 407 337)
(Loss)/gain on revaluation of positions in foreign currency	(2 937 293)	(2 937 293)	3 750 539	3 750 539
	3 902 339	**3 913 340**	**1 341 946**	**1 343 202**
Loss on trading in financial instruments	(312 785)	(312 785)	(272 074)	(272 074)
(Loss)/gain on revaluation of financial instruments	(14 179)	(14 179)	236 929	236 929
	(326 964)	**(326 964)**	**(35 145)**	**(35 145)**
	3 575 375	**3 586 376**	**1 306 801**	**1 308 057**

11. Administrative Expenses

	Group 31.12.2014 EUR	Bank 31.12.2014 EUR	Group 31.12.2013 EUR	Bank 31.12.2013 EUR
Staff salaries	5 486 968	5 404 061	4 763 183	4 700 787
Amortisation and depreciation (Notes 25, 26)	1 261 683	1 261 357	1 115 513	1 115 213
Social insurance payments	1 127 753	1 108 195	1 100 839	1 085 806
Representation expenses	918 524	918 524	1 083 774	1 083 774
Professional services	726 440	707 222	897 740	887 274
Lease, renovation and maintenance of property and equipment	613 351	603 700	489 136	484 320
Business trips	404 446	404 446	321 054	321 054
Non-deductible input VAT	334 892	312 227	435 090	435 090
Advertising and publicity	188 415	188 415	114 183	114 183
Communication	187 518	186 864	190 000	189 464
Charity and sponsorship	169 028	169 028	363 605	363 605
Event organisation	149 812	149 812	122 420	122 420
Stationary goods and household equipment	123 671	123 671	80 359	80 360
Motor vehicles	120 181	114 591	121 473	116 297
Real estate tax	101 013	84 968	61 780	53 578
Security	37 655	37 655	80 199	80 199
Taxes paid overseas	17 901	17 901	37 770	37 770
Insurance	11 806	11 175	11 764	11 041
Other	1 039 968	1 039 373	1 104 193	1 103 857
	13 021 025	**12 843 185**	**12 494 075**	**12 386 092**

12. Analysis of Changes in Impairment Loss Allowance for Asset Exposures

GROUP	Allowances for claims on the credit institutions EUR	Allowances for securities available-for-sale EUR	Allowances for loans EUR	Allowances for accrued income EUR	Allowances for other assets EUR	Recovery of written-off assets EUR	TOTAL EUR
Allowances as of 31 December 2012	**6 127 548**	**39 749**	**5 254 030**	**2 705**	**144 069**	**—**	**11 568 101**
Increase in allowances	—	—	915 231	3 096	222 196	—	**1 140 523**
Reversal of allowances	(5 965 965)	(39 135)	(164 259)	—	—	—	**(6 169 359)**
Net impairment loss for the period	**(5 965 965)**	**(39 135)**	**750 972**	**3 096**	**222 196**	**—**	**(5 028 836)**
Amounts written-off	—	—	(349 258)	—	(536)	—	**(349 794)**
Difference due to fluctuations in foreign currency exchange rates	(161 557)	(614)	(65 993)	(200)	—	—	**(228 364)**
Allowances as of 31 December 2013	**26**	**—**	**5 589 751**	**5 601**	**365 729**	**—**	**5 961 107**
Increase in allowances	108	—	2 927 809	—	20 115	—	**2 948 032**
Reversal of allowances	(134)	—	(21 377)	—	—	—	**(21 511)**
Recovery of written-off assets	—	—	—	—	—	(4 601)	**(4 601)**
Net impairment loss for the period	**(26)**	**—**	**2 906 432**	**—**	**20 115**	**(4 601)**	**2 921 920**
Amounts written-off	—	—	(2 685)	—	(20 393)	—	**(23 078)**
Difference due to fluctuations in foreign currency exchange rates	—	—	312 641	695	304	—	**313 640**
Allowances as of 31 December 2014	**—**	**—**	**8 806 139**	**6 296**	**365 755**	**(4 601)**	**9 173 589**

BANK	Allowances for claims on the credit institutions EUR	Allowances for securities available-for-sale EUR	Allowances for loans EUR	Allowances for accrued income EUR	Allowances for other assets EUR	Recovery of written-off assets EUR	TOTAL EUR
Allowances as of 31 December 2012	**6 127 548**	**39 749**	**5 650 269**	**2 705**	**144 069**	**—**	**11 964 340**
Increase in allowances	—	—	915 231	3 096	824	—	**919 151**
Reversal of allowances	(5 965 965)	(39 135)	(164 259)	—	—	—	**(6 169 359)**
Net impairment loss for the period	**(5 965 965)**	**(39 135)**	**750 972**	**3 096**	**824**	**—**	**(5 250 208)**
Amounts written-off	—	—	(349 258)	—	(536)	—	**(349 794)**
Difference due to fluctuations in foreign currency exchange rates	(161 557)	(614)	(65 993)	(200)	—	—	**(228 364)**
Allowances as of 31 December 2013	**26**	**—**	**5 985 990**	**5 601**	**144 357**	**—**	**6 135 974**
Increase in allowances	108	—	2 927 809	—	20 115	—	**2 948 032**
Reversal of allowances	(134)	—	(21 377)	—	—	—	**(21 511)**
Recovery of written-off assets	—	—	—	—	—	(4 601)	**(4 601)**
Net impairment loss for the period	**(26)**	**—**	**2 906 432**	**—**	**20 115**	**(4 601)**	**2 921 920**
Amounts written-off	—	—	(2 685)	—	(20 393)	—	**(23 078)**
Difference due to fluctuations in foreign currency exchange rates	—	—	312 641	695	304	—	**313 640**
Allowances as of 31 December 2014	**—**	**—**	**9 202 378**	**6 296**	**144 383**	**(4 601)**	**9 348 456**

**During 2012, the Bank made an impairment allowance totalling EUR 5 965 965 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. Income Tax

(a) Income tax charge

	Group 31.12.2014 EUR	Bank 31.12.2014 EUR	Group 31.12.2013 EUR	Bank 31.12.2013 EUR
Current income tax expense	826	—	480	—
Deferred income tax expense/(benefit)	(131 079)	(131 079)	83 097	106 882
	(130 253)	**(131 079)**	**83 577**	**106 882**

The Group's and the Bank's applicable tax rate is 15% (2013: 15%).

(b) Reconciliation between tax expense/(benefit) and accounting profit

	Group 31.12.2014 EUR	Bank 31.12.2014 EUR	Group 31.12.2013 EUR	Bank 31.12.2013 EUR
(Loss)/profit before income tax	**(1 686 888)**	**(1 605 560)**	**(231 317)**	**135 392**
Theoretically calculated tax at tax rate of 15%	(253 033)	(240 834)	(34 698)	20 309
Non-deductible expenses	272 620	259 595	363 642	363 642
Non-taxable income	(149 840)	(149 840)	(245 367)	(277 069)
	(130 253)	**(131 079)**	**83 577**	**106 882**

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

GROUP	Assets 31.12.2014 EUR	Assets 31.12.2013 EUR	Liabilities 31.12.2014 EUR	Liabilities 31.12.2013 EUR	Deferred tax assets/ (liabilities) 31.12.2014 EUR	Deferred tax assets/ (liabilities) 31.12.2013 EUR
Financial instruments at fair value through profit or loss	17 541	12 429	—	—	17 541	12 429
Property and equipment	—	—	(1 001 668)	(819 716)	(1 001 668)	(819 716)
Intangible assets	—	—	(563 177)	(536 466)	(563 177)	(536 466)
Investment property	—	—	(43 877)	(102 182)	(43 877)	(102 182)
Other assets	41 156	27 595	—	—	41 156	27 595
Other liabilities	—	36 958	(1 051)	—	(1 051)	36 958
Tax loss carry-forwards	411 760	110 987	—	—	411 760	110 987
Recognised net deferred tax assets/ (liabilities)	**470 457**	**187 969**	**(1 609 773)**	**(1 458 364)**	**(1 139 316)**	**(1 270 395)**

BANK	Assets 31.12.2014 EUR	Assets 31.12.2013 EUR	Liabilities 31.12.2014 EUR	Liabilities 31.12.2013 EUR	Deferred tax assets/ (liabilities) 31.12.2014 EUR	Deferred tax assets/ (liabilities) 31.12.2013 EUR
Financial instruments at fair value through profit or loss	17 541	12 429	—	—	17 541	12 429
Property and equipment	—	—	(1 001 668)	(819 716)	(1 001 668)	(819 716)
Intangible assets	—	—	(563 177)	(536 466)	(563 177)	(536 466)
Investment property	—	—	(43 877)	(102 182)	(43 877)	(102 182)
Other assets	41 156	27 595	—	—	41 156	27 595
Other liabilities	—	36 958	(1 051)	—	(1 051)	36 958
Tax loss carry-forwards	411 760	110 987	—	—	411 760	110 987
Recognised net deferred tax assets/ (liabilities)	**470 457**	**187 969**	**(1 609 773)**	**(1 458 364)**	**(1 139 316)**	**(1 270 395)**

(d) Movement in temporary differences

GROUP	Carrying amount 31.12.2013 EUR	Recognised in income statement 31.12.2014 EUR	Carrying amount 31.12.2014 EUR
Financial instruments at fair value through profit or loss	12 429	5 112	17 541
Property and equipment	(819 716)	(181 952)	(1 001 668)
Intangible assets	(536 466)	(26 711)	(563 177)
Investment property	(102 182)	58 305	(43 877)
Other assets	27 595	13 561	41 156
Other liabilities	36 958	(38 009)	(1 051)
Tax loss carry-forwards	110 987	300 773	411 760
	(1 270 395)	**131 079**	**(1 139 316)**

BANK	Carrying amount 31.12.2013 EUR	Recognised in income statement 31.12.2014 EUR	Carrying amount 31.12.2014 EUR
Financial instruments at fair value through profit or loss	12 429	5 112	17 541
Property and equipment	(819 716)	(181 952)	(1 001 668)
Intangible assets	(536 466)	(26 711)	(563 177)
Investment property	(102 182)	58 305	(43 877)
Other assets	27 595	13 561	41 156
Other liabilities	36 958	(38 009)	(1 051)
Tax loss carry-forwards	110 987	300 773	411 760
	(1 270 395)	**131 079**	**(1 139 316)**

The Group's and the Bank's unused tax losses 411 760 (2013: 110 987) totalled as at 31 December 2014. Under the applicable laws of the Republic of Latvia, the timeframe for tax loss carry-forwards is not limited.

14. Cash and Balances with Bank of Latvia

	Group 31.12.2014 EUR	Bank 31.12.2014 EUR	Group 31.12.2013 EUR	Bank 31.12.2013 EUR
Cash	1 353 263	1 348 731	1 574 784	1 573 421
Balance with the Bank of Latvia	22 176 492	22 176 492	29 870 782	29 870 782
	23 529 755	**23 525 223**	**31 445 566**	**31 444 203**

The Bank is required to ensure that the monthly average balance with the Bank of Latvia exceeds the statutory reserve requirement ratio for commercial banks. During 2014 and 2013 the Bank complied with the reserve requirements.

15. Cash and Cash Equivalents

	Group 31.12.2014 EUR	Bank 31.12.2014 EUR	Group 31.12.2013 EUR	Bank 31.12.2013 EUR
Cash	1 353 263	1 348 731	1 574 784	1 573 421
Balance with the Bank of Latvia	22 176 492	22 176 492	29 870 782	29 870 782
	23 529 755	**23 525 223**	**31 445 566**	**31 444 203**
Due from other credit institutions with up to 3 months original maturity	271 189 576	271 189 576	143 679 993	143 679 993
Due to other credit institutions with up to 3 months original maturity	(6 454 176)	(6 454 176)	(7 625 866)	(7 625 866)
	288 265 155	**288 260 623**	**167 499 693**	**167 498 330**

16. Securities-Held-For Trading

	Group and Bank 31.12.2014 EUR	Group and Bank 31.12.2013 EUR
Debt securities		
Government treasury bills	*29 291*	—
Bonds of other issuers and other fixed-income securities rated Ba	*420 876*	—
Bonds of other issuers and other fixed-income securities rated Caa	—	*1 021 978*
Shares and other variable income securities	26 672	646 792
	476 839	**1 668 770**

The table below shows the securities recorded by issuer profile:

	Group and Bank 31.12.2014 EUR	Group and Bank 31.12.2013 EUR
Debt securities of credit institutions	420 876	1 021 978
Debt securities of municipal authorities	29 291	—
Total debt securities	**450 167**	**1 021 978**
State-owned companies enterprises	17 909	337 302
Shares of credit institutions	—	272 375
Shares of private enterprises	8 763	37 115
Total shares	**26 672**	**646 792**
	476 839	**1 668 770**

The table below shows the geographical concentration of securities:

	Group and Bank 31.12.2014 EUR	Group and Bank 31.12.2013 EUR
Entity-issued debt securities exposed to country risk (Ukraine)	—	1 021 978
Debt securities of entities registered in OECD countries	29 291	—
Debt securities of entities registered in CIS countries	420 876	—
Total debt securities	**450 167**	**1 021 978**
Shares of entities registered in the Republic of Latvia	1 495	2 292
Shares of entities registered in OECD countries	2 697	30 134
Shares of entities registered in CIS countries	22 480	614 366
Total shares	**26 672**	**646 792**
	476 839	**1 668 770**

As of 31 December 2014 and 31 December 2013, the Bank did not possess any debt securities serving as collateral for repo transactions.

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 2014 and 31 December 2013. The foreign currency amounts presented below are translated at rates prevalent 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.

	Group and Bank		Group and Bank	
	31.12.2014 Assets EUR	31.12.2014 Liabilities EUR	31.12.2013 Assets EUR	31.12.2013 Liabilities EUR
Notional amount				
Currency SWAPS	212 685 377	212 240 485	232 184 612	231 244 332
Foreign currency FORWARD contracts	11 276 883	11 286 435	21 473 017	21 592 065
FUTURES contracts (gold)	394 729	—	613 360	—
	224 356 989	**223 526 920**	**254 270 989**	**252 836 397**
Fair value				
Currency SWAPS	2 385 700	1 940 808	1 424 744	484 464
Foreign currency FORWARD contracts	14 700	24 252	19 163	138 212
FUTURES contracts (gold)	4 612	—	22 685	—
	2 405 012	**1 965 060**	**1 466 592**	**622 676**

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

	Group and Bank		Group and Bank	
	31.12.2014 Assets EUR	31.12.2014 Liabilities EUR	31.12.2013 Assets EUR	31.12.2013 Liabilities EUR
Fair value				
Currency SWAPS with Latvia incorporated credit institutions	—	—	270 196	—
Currency SWAPS with other EU countries incorporated credit institutions	220 955	—	1 154 548	—
Currency SWAPS with non-OECD incorporated credit institutions	2 164 745	1 940 808	—	484 464
including currency SWAPS with Ukraine incorporated credit institutions	*—*	*1 431 565*	*—*	*484 464*
	2 385 700	**1 940 808**	**1 424 744**	**484 464**

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

	Group and Bank		Group and Bank	
	31.12.2014 Assets EUR	31.12.2014 Liabilities EUR	31.12.2013 Assets EUR	31.12.2013 Liabilities EUR
Fair value				
Foreign currency exchange FORWARD transactions with other EU countries incorporated credit institutions	6 510	6 765	—	—
Foreign currency exchange FORWARD transactions with Ukraine incorporated credit institutions	—	—	8 596	—
Foreign currency exchange FORWARD transactions with Latvian customers	—	—	137	5 124
Foreign currency exchange FORWARD transactions with other countries customers	8 190	17 487	10 430	133 088
	14 700	**24 252**	**19 163**	**138 212**

18. Due from Credit Institutions

	Group and Bank 31.12.2014 EUR	Group and Bank 31.12.2013 EUR
Repayable on demand	271 193 419	137 966 615
Other deposits	6 397 836	17 001 426
	277 591 255	**154 968 041**
Allowances (Note 12)	—	(26)
	277 591 255	**154 968 015**

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

	Group and Bank 31.12.2014 EUR	Group and Bank 31.12.2013 EUR
Due from credit institutions incorporated in the Republic of Latvia (Moody's ratings):	127 525	2 453 602
not rated	*127 525*	*2 453 602*
Due from credit institutions incorporated in other EU countries (Moody's ratings):	209 718 823	57 049 859
rated A	*25 205 579*	*22 429 937*
rated Baa	*179 265 885*	*31 922 817*
not rated	*5 247 359*	*2 697 105*
Due from credit institutions incorporated in other OECD countries (Moody's ratings):	64 402 135	78 233 968
rated A	*64 402 135*	*78 231 770*
not rated	—	*2 198*
Due from credit institutions incorporated in Ukraine (Moody's ratings):	4 264	14 830 418
rated Caa	—	*7 540*
rated Ca	*3 016*	*14 822 878*
not rated	*1 248*	—
Due from credit institutions incorporated in other countries (Moody's ratings):	3 338 508	2 400 194
rated A	*139 635*	—
rated Baa	—	*139 437*
rated Ba	*2 772 817*	*46*
rated B	*419 261*	*43 040*
rated Caa	*11*	*2 213 890*
not rated	*6 784*	*3 781*
	277 591 255	**154 968 041**
Allowances (Note 12)	—	(26)
	277 591 255	**154 968 015**

Concentration of placements with banks and other financial institutions

As at 31 December 2014 and 31 December 2013, 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 2014 and 31 December 2013 were EUR 243 665 835 and EUR 125 520 837, respectively.

19. Loans

(a) Loans by type

	Group 31.12.2014 EUR	Bank 31.12.2014 EUR	Group 31.12.2013 EUR	Bank 31.12.2013 EUR
Commercial loans	30 702 749	30 806 550	47 007 537	47 209 435
Mortgage loans	29 509 030	31 384 137	29 095 208	31 245 562
Trade finance	12 857 224	12 857 224	14 136 978	14 136 978
Overdrafts	2 384 104	2 467 940	4 773 900	4 837 911
Industrial loans	1 008 537	1 008 537	988 907	988 907
Consumer loans	253 063	253 063	250 955	250 955
Payment cards	223 245	223 245	224 356	224 356
Other	23 692 441	23 692 441	5 881 571	5 881 571
	100 630 393	**102 693 137**	**102 359 412**	**104 775 675**
Reverse repos	4 262 609	4 262 609	4 790 892	4 790 892
	104 893 002	**106 955 746**	**107 150 304**	**109 566 567**
Allowances (Note 12)	(8 806 139)	(9 202 378)	(5 589 751)	(5 985 990)
	96 086 863	**97 753 368**	**101 560 553**	**103 580 577**

(b) Loan profile by country of risk

GROUP	Gross loans 31.12.2014 EUR	Allowances 31.12.2014 EUR	Net loans 31.12.2014 EUR
Republic of Latvia	41 014 781	(4 628 167)	36 386 614
Other EU countries	20 440 177	(588 402)	19 851 775
Non-EU OECD countries	6 821 868	(247 422)	6 574 446
Ukraine	32 224 001	(3 016 390)	29 207 611
Other CIS countries	4 389 932	(325 754)	4 064 178
Other countries	2 243	(4)	2 239
	104 893 002	**(8 806 139)**	**96 086 863**

BANK	Gross loans 31.12.2014 EUR	Allowances 31.12.2014 EUR	Net loans 31.12.2014 EUR
Republic of Latvia	43 077 525	(5 024 406)	38 053 119
Other EU countries	20 440 177	(588 402)	19 851 775
Non-EU OECD countries	6 821 868	(247 422)	6 574 446
Ukraine	32 224 001	(3 016 390)	29 207 611
Other CIS countries	4 389 932	(325 754)	4 064 178
Other countries	2 243	(4)	2 239
	106 955 746	**(9 202 378)**	**97 753 368**

GROUP	Gross loans 31.12.2013 EUR	Allowances 31.12.2013 EUR	Net loans 31.12.2013 EUR
Republic of Latvia	44 398 019	(3 749 470)	40 648 549
Other EU countries	30 331 653	(519 209)	29 812 444
Non-EU OECD countries	6 071 939	(249 422)	5 822 517
Ukraine	18 885 414	(1 071 650)	17 813 764
Other CIS countries	5 021 546	—	5 021 546
Other countries	2 441 733	—	2 441 733
	107 150 304	**(5 589 751)**	**101 560 553**

BANK	Gross loans 31.12.2013 EUR	Allowances 31.12.2013 EUR	Net loans 31.12.2013 EUR
Republic of Latvia	46 814 282	(4 145 709)	42 668 573
Other EU countries	30 331 653	(519 209)	29 812 444
Non-EU OECD countries	6 071 939	(249 422)	5 822 517
Ukraine	18 885 414	(1 071 650)	17 813 764
Other CIS countries	5 021 546	—	5 021 546
Other countries	2 441 733	—	2 441 733
	109 566 567	**(5 985 990)**	**103 580 577**

(c) Loans by customer profile

	Group 31.12.2014 EUR	Bank 31.12.2014 EUR	Group 31.12.2013 EUR	Bank 31.12.2013 EUR
Loans to corporate clients	83 751 058	85 813 802	80 401 157	82 817 420
Loans to financial institutions	6 113 298	6 113 298	7 682 941	7 682 941
Loans to non-profit institutions serving households	—	—	125	125
Loans to individuals	13 643 472	13 643 472	17 783 746	17 783 746
Loans to senior management and staff members of the Bank	1 385 174	1 385 174	1 282 335	1 282 335
	104 893 002	**106 955 746**	**107 150 304**	**109 566 567**
Allowances (Note 12)	(8 806 139)	(9 202 378)	(5 589 751)	(5 985 990)
	96 086 863	**97 753 368**	**101 560 553**	**103 580 577**

(d) Industry analysis of the loan portfolio

GROUP	Gross loans 31.12.2014 EUR	Allowances 31.12.2014 EUR	Net loans 31.12.2014 EUR
Trade	33 527 235	(3 493 188)	30 034 047
Real estate	24 117 146	(4 481 880)	19 635 266
Finance	18 821 217	(312 604)	18 508 613
Manufacturing	2 003 823	—	2 003 823
Energy	1 646 325	—	1 646 325
Information and communication services	1 162 971	(806)	1 162 165
Other services	6 503 347	(20 225)	6 483 122
Agriculture, forestry and timber	163 587	(3 456)	160 131
Other	1 918 705	(66 530)	1 852 175
Loans to individuals	15 028 646	(427 450)	14 601 196
	104 893 002	**(8 806 139)**	**96 086 863**

BANK	Gross loans 31.12.2014 EUR	Allowances 31.12.2014 EUR	Net loans 31.12.2014 EUR
Trade	33 527 235	(3 493 188)	30 034 047
Real estate	26 179 890	(4 878 119)	21 301 771
Finance	18 821 217	(312 604)	18 508 613
Manufacturing	2 003 823	—	2 003 823
Energy	1 646 325	—	1 646 325
Information and communication services	1 162 971	(806)	1 162 165
Other services	6 503 347	(20 225)	6 483 122
Agriculture, forestry and timber	163 587	(3 456)	160 131
Other	1 918 705	(66 530)	1 852 175
Loans to individuals	15 028 646	(427 450)	14 601 196
	106 955 746	**(9 202 378)**	**97 753 368**

GROUP	Gross loans 31.12.2013 EUR	Allowances 31.12.2013 EUR	Net loans 31.12.2013 EUR
Trade	33 287 403	(1 344 328)	31 943 075
Real estate	22 456 480	(3 428 745)	19 027 735
Finance	21 557 426	(312 579)	21 244 847
Manufacturing	2 023 497	—	2 023 497
Energy	1 680 171	—	1 680 171
Information and communication services	1 065 327	(38)	1 065 289
Other services	3 408 663	(20 225)	3 388 438
Agriculture, forestry and timber	17 454	(3 476)	13 978
Other	2 587 802	(66 531)	2 521 271
Loans to individuals	19 066 081	(413 829)	18 652 252
	107 150 304	**(5 589 751)**	**101 560 553**

BANK	Gross loans 31.12.2013 EUR	Allowances 31.12.2013 EUR	Net loans 31.12.2013 EUR
Trade	33 287 403	(1 344 328)	31 943 075
Real estate	24 872 743	(3 824 984)	21 047 759
Finance	21 557 426	(312 579)	21 244 847
Manufacturing	2 023 497	—	2 023 497
Information and communication services	1 065 327	(38)	1 065 289
Energy	1 680 171	—	1 680 171
Agriculture, forestry and timber	17 454	(3 476)	13 978
Other services	3 408 663	(20 225)	3 388 438
Other	2 587 802	(66 531)	2 521 271
Loans to individuals	19 066 081	(413 829)	18 652 252
	109 566 567	**(5 985 990)**	**103 580 577**

(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 31.12.2014 EUR	Allowances 31.12.2014 EUR	Net loans 31.12.2014 EUR
Non-delinquent loans	74 496 181	(2 958 541)	71 537 640
Up to 1 month (inclusive)	373 967	(124 556)	249 411
1 to 3 months	150 046	(2 239)	147 807
3 to 6 months	10 278 606	(964 402)	9 314 204
More than 6 months	19 594 202	(4 756 401)	14 837 801
	104 893 002	**(8 806 139)**	**96 086 863**

BANK	Gross loans 31.12.2014 EUR	Allowances 31.12.2014 EUR	Net loans 31.12.2014 EUR
Non-delinquent loans	76 558 925	(3 354 780)	73 204 145
Up to 1 month (inclusive)	373 967	(124 556)	249 411
1 to 3 months	150 046	(2 239)	147 807
3 to 6 months	10 278 606	(964 402)	9 314 204
More than 6 months	19 594 202	(4 756 401)	14 837 801
	106 955 746	**(9 202 378)**	**97 753 368**

GROUP	Gross loans 31.12.2013 EUR	Allowances 31.12.2013 EUR	Net loans 31.12.2013 EUR
Non-delinquent loans	79 317 552	(2 123 229)	77 194 323
Up to 1 month (inclusive)	1 681 729	—	1 681 729
1 to 3 months	11 198 822	—	11 198 822
3 to 6 months	795	(361)	434
More than 6 months	14 951 406	(3 466 161)	11 485 245
	107 150 304	**(5 589 751)**	**101 560 553**

BANK	Gross loans 31.12.2013 EUR	Allowances 31.12.2013 EUR	Net loans 31.12.2013 EUR
Non-delinquent loans	81 733 815	(2 519 468)	79 214 347
Up to 1 month (inclusive)	1 681 729	—	1 681 729
1 to 3 months	11 198 822	—	11 198 822
3 to 6 months	795	(361)	434
More than 6 months	14 951 406	(3 466 161)	11 485 245
	109 566 567	**(5 985 990)**	**103 580 577**

Movements in the loan impairment allowance for the years ended 31 December 2014 and 31 December 2013 are disclosed in Note 12.

(f) Restructured loans:
During the years ended 31 December 2014 and 31 December 2013, the Bank restructured loans by changing the terms of the loan agreement as follows:

	Group 31.12.2014 EUR	Bank 31.12.2014 EUR	Group 31.12.2013 EUR	Bank 31.12.2013 EUR
Interest capitalised	6 776 835	6 776 835	—	—
Interest rate change	2 537 093	2 537 093	—	—
Extension of the loan maturity date	1 128 934	1 128 934	—	—
Principal grace	136 914	136 914	4 654	4 654
Appointment of the substitute borrower (to act instead of the original one) or engagement of the guarantor	—	—	234 474	234 474
	10 579 776	**10 579 776**	**239 128**	**239 128**

During the period from 1 January 2015 to the date of signing these financial statements, the restructured loans have seen a well-respected payment discipline.

(g) Analysis of collateral

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

	Net loans 31.12.2014 EUR	Group % of loan portfolio 31.12.2014 %	Net loans 31.12.2014 EUR	Bank % of loan portfolio 31.12.2014 %
Real estate	68 835 091	71.64%	70 501 596	72.12%
Commercial pledge	15 302 202	15.92%	15 302 202	15.65%
Traded securities	4 262 609	4.44%	4 262 609	4.36%
Deposits	1 297 543	1.35%	1 297 543	1.33%
Other collateral	163 359	0.17%	163 359	0.17%
No collateral	6 226 059	6.48%	6 226 059	6.37%
	96 086 863	**100%**	**97 753 368**	**100%**

	Net loans 31.12.2013 EUR	Group % of loan portfolio 31.12.2013 %	Net loans 31.12.2013 EUR	Bank % of loan portfolio 31.12.2013 %
Real estate	68 053 453	67.00%	70 073 477	67.65%
Commercial pledge	15 224 314	15.00%	15 224 314	14.70%
Traded securities	5 069 698	5.00%	5 069 698	4.89%
Deposits	1 958 617	1.90%	1 958 617	1.89%
Other collateral	5 714 074	5.60%	5 714 074	5.52%
No collateral	5 540 397	5.50%	5 540 397	5.35%
	101 560 553	**100%**	**103 580 577**	**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 2014, the Group and Bank have not obtained ownership of assets through acquiring control over the property serving as collateral for commercial loans (2013: nil).

Brokerage account balances and security deposits paid to the counterparties are classified as unsecured loans.

(h) Significant credit exposures

As at 31 December 2014 and 31 December 2013 the Bank had no borrowers, including related parties whose outstanding loan balances exceeded 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 2014 and 31 December 2013.

(i) Breakdown of loans with inherent country risk (Ukraine) 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 31.12.2014 EUR	Allowances 31.12.2014 EUR	Net loans 31.12.2014 EUR
Non-delinquent loans	6 520 303	(404 109)	6 116 194
1 to 3 months	1 085	—	1 085
3 to 6 months	10 277 928	(964 000)	9 313 928
More than 6 months	15 424 685	(1 648 281)	13 776 404
	32 224 001	**(3 016 390)**	**29 207 611**

BANK	Gross loans 31.12.2014 EUR	Allowances 31.12.2014 EUR	Net loans 31.12.2014 EUR
Non-delinquent loans	6 520 303	(404 109)	6 116 194
1 to 3 months	1 085	—	1 085
3 to 6 months	10 277 928	(964 000)	9 313 928
More than 6 months	15 424 685	(1 648 281)	13 776 404
	32 224 001	**(3 016 390)**	**29 207 611**

GROUP	Gross loans 31.12.2013 EUR	Allowances 31.12.2013 EUR	Net loans 31.12.2013 EUR
Non-delinquent loans	9 870 391	(201 306)	9 669 085
1 to 3 months	5 385 181	—	5 385 181
More than 6 months	3 629 842	(870 344)	2 759 498
	18 885 414	**(1 071 650)**	**17 813 764**

BANK	Gross loans 31.12.2013 EUR	Allowances 31.12.2013 EUR	Net loans 31.12.2013 EUR
Non-delinquent loans	9 870 391	(201 306)	9 669 085
1 to 3 months	5 385 181	—	5 385 181
More than 6 months	3 629 842	(870 344)	2 759 498
	18 885 414	**(1 071 650)**	**17 813 764**

The Bank has entered into cession agreements to sell loans totalling EUR 9 million, more than six months overdue. The counterparty has made initial payments to purchase the exposure and, therefore, the Bank's management expects the amount to be recoverable and has based its impairment assessment of the loans on the basis that the purchaser will honour its commitment to purchase the loans.

20. Available for Sale Instruments

	Group and Bank 31.12.2014 EUR	Group and Bank 31.12.2013 EUR
Debt securities of central governments (Moody's ratings)	7 245 936	—
Debt securities of central governments rated Baa	*7 245 936*	—
Debt securities of credit institutions (Moody's ratings)	20 686 540	—
Debt securities of credit institutions rated Aaa	*20 686 540*	—
Debt securities of credit institutions domiciled in Iceland	—	39 135
Debt securities of financial institutions (Moody's ratings)	50 039 584	—
Debt securities of financial institutions rated Aaa	*50 039 584*	—
Public non-financial Corporations (Moody's ratings)	2 371 655	—
Public non-financial Corporations rated Baa	*2 371 655*	—
Shares and other variable income securities	7 013 552	4 343 137
Capital, JSC	*180 863*	*180 863*
S.W.I.F.T., SCRL	*53 960*	*54 735*
Imprimatur Capital Technology Venture Fund, LP	*359 420*	*179 007*
Tamar Energy, Ltd	*6 419 309*	*3 928 532*
	87 357 267	**4 382 272**

Investment in Capital JSC 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 2014 and 31 December 2013.

Imprimatur Capital Technology Venture Fund makes seed investments in SMEs which becomes 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. Please refer to note 48 on sensitivity analysis of the fair value of this exposure.

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 owns 5 percent of shares in Tamar Energy.

Even though net assets have decreased due to accumulated losses, the Bank's management assesses that due to increase in turnover and high future potential there is no need to recognise an impairment allowance. Below is a summary of Tamar Energy financial information:

	Tamar Energy, Ltd 31.04.2014 EUR	**Tamar Energy, Ltd 31.04.2013 EUR**
Current assets	29 139 967	14 368 922
Non-current assets	53 760 810	23 115 108
Total assets	**82 900 777**	**37 484 030**
Current liabilities	3 277 301	4 778 522
Non-current liabilities	6 658 556	2 371 359
Total liabilities	**9 935 857**	**7 149 881**
Net assets	**72 964 920**	**30 334 149**
Income	7 955 943	2 586 178
Expenses	(17 524 776)	(10 388 061)
Loss	**(9 568 833)**	**(7 801 883)**
Group share in net assets	**3 648 246**	**1 516 707**
Group share in loss	**(478 442)**	**(390 094)**

21. Līdz termiņa beigām turēti ieguldījumi

	Group and Bank 31.12.2014 EUR	Group and Bank 31.12.2013 EUR
Government bonds	5 910 325	747 488
Bonds and other fixed-income securities	2 820 334	4 965 625
	8 730 659	**5 713 113**

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

	Group and Bank 31.12.2014 EUR	Group and Bank 31.12.2013 EUR
Debt securities of central governments (Moody's ratings)	5 910 326	747 487
Debt securities of central governments rated A	*986 830*	—
Debt securities of central governments rated Baa	*4 923 496*	*747 487*
Debt securities of credit institutions (Moody's ratings)	517 298	2 303 285
Debt securities of credit institutions rated Baa	*84 206*	*75 216*
Debt securities of credit institutions rated Ba	*433 092*	*391 038*
Debt securities of credit institutions rated Caa	—	*1 837 031*
Public non-financial Corporations (Moody's ratings)	—	610 129
Public non-financial Corporations rated Baa	—	*610 129*
Debt securities of private enterprises (Moody's ratings)	2 303 035	2 052 212
Debt securities of private enterprises rated Baa	*1 226 825*	*1 085 729*
Debt securities of private enterprises rated Ba	*871 495*	*784 831*
Debt securities of private enterprises rated BB	*204 715*	*181 652*
	8 730 659	**5 713 113**

According to the amendments to IAS 39, the Bank sold Ukraine held-to-maturity assets during 2014. 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 at the conclusion that a 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 determined that the aforementioned event made it necessary to sell held-to-maturity financial instruments, and that the sale did not constitute „tainting" under IAS 39.9.

22. Investments in Equity Accounted Investees

	Ownership (%)	Country of incorporation	Purpose	Group and Bank 31.12.2014 EUR	Group and Bank 31.12.2013 EUR
LLC "Komunikācijas un projekti"	50	Latvia	Investments	1 144 547	1 144 547
				1 144 547	**1 144 547**

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.

	LLC "Komunikācijas un projekti"	
	31.12.2014 EUR	**31.12.2013 EUR**
Current assets	1 500	6 887
Non-current assets	2 387 524	2 377 045
Total assets	**2 389 024**	**2 383 932**
Current liabilities	87 343	4 776
Non-current liabilities	—	64 888
Total liabilities	**87 343**	**69 664**
Net assets	**2 301 681**	**2 314 268**
Income	—	—
Expenses	(12 587)	(9 271)
Loss	**(12 587)**	**(9 271)**
Group share in net assets	**1 150 841**	**1 157 134**
Group share in loss	**(6 294)**	**(4 636)**

23. Investments in Subsidiaries

The subsidiaries of the Bank are as follows:

Name	Country of incorporation	Principal Activities	Carrying amount of investment	Ownership 31.12.2014 %	Ownership 31.12.2013 %
“BIB Real Estate” LLC	Latvia	Real estate	1 940 228	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	2 846	100	100
Investments in subsidiaries			**1 943 074**		

The management assessed future cash flows to be generated by the investee and as a result of this assessments concluded that there is no objective evidence of impairment of the investment.

	SIA “BIB Real Estate” 31.12.2014 EUR	SIA “BIB Real Estate” 31.12.2013 EUR
Current assets	420 001	450 516
Non-current assets	3 558 024	3 758 801
Total assets	**3 978 025**	**4 209 317**
Current liabilities	494 322	509 719
Non-current liabilities	2 284 116	2 416 263
Total liabilities	**2 778 438**	**2 925 982**
Net assets	**1 199 587**	**1 283 335**
Income	173 193	122 162
Expenses	(256 942)	(468 285)
Loss	**(83 749)**	**(346 123)**
Group share in net assets	**1 199 587**	**1 283 335**
Group share in loss	**(83 749)**	**(346 123)**

	SIA “BIB Consulting”	
	31.12.2014 EUR	**31.12.2013 EUR**
Current assets	13 360	10 588
Non-current assets	93	421
Total assets	**13 453**	**11 009**
Current liabilities	6 242	5 393
Non-current liabilities	—	—
Total liabilities	**6 242**	**5 393**
Net assets	**7 211**	**5 616**
Income	83 714	61 980
Expenses	(82 119)	(59 263)
Loss	**1 595**	**2 717**
Group share in net assets	**7 211**	**5 616**
Group share in loss	**1 595**	**2 717**

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 appraisals from independent appraisers who hold a recognised and relevant professional qualification and have recent experience in appraising similar property.

Investment property	**Group EUR**	**Bank EUR**
As of 31 December 2012	**8 219 481**	**4 143 132**
Additions	15 625	—
Revaluation	79 588	17 203
Sale	(395 559)	—
As of 31 December 2013	**7 919 135**	**4 160 335**
Additions	4 970	—
Revaluation	(279 329)	(242 482)
Sale	(168 899)	—
As of 31 December 2014	**7 475 877**	**3 917 853**

Gain on investment property sold during 2014 was EUR 39 102 in the Group.

Amounts recognised in the profit or loss (apart from revaluation and disposal result):	Group EUR	Bank EUR
Rental income earned on investment property	71 473	71 473
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	(17 450)	(17 450)
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	(24 201)	(1 783)

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:

The Group's investment

Type	EUR	Valuation technique	Significant unobservable inputs	31.12.2014	31.12.2013	Inter-relation between significant unobservable inputs and fair value measurement
Construction objects and related land plots in Latvia	1 145 800	Comparable transaction method	Sales price varies from EUR to EUR per m^2	133–452	92–287	The estimated fair value would increase (decrease) if: • Sales price per m2 was higher (lower); • Rental income per m2 was higher (lower); • The discount rate was lower (higher); • The occupancy rate was lower.
		Discounted cash flows technique: the model is based on discounted cash flows from rental income	Rental income per m^2 of EUR	0.38–6.19	0.38–6.19	
			Discount rate of %	6.63–9.75	6.63–9.75	
			Occupancy rate of %	90	90	
Land plots in Riga	2 088 700	Comparable transaction method	Sales price varies from EUR to EUR per m^2	1 100–1 350	1 300	The estimated fair value would increase (decrease) if: • Sales price per m^2 was higher (lower); • The discount rate was lower (higher); • Construction costs per m^2 would be less (greater); • The final sale price per m^2 was higher (lower).
		Discounted cash flows technique: the model is based on discounted cash flows from rental income	Discount rate of %	12.25	12.25	
			Construction costs EUR per m^2	777	480	
			The final sale price EUR per m^2	1 350	1 300	
Land plots in Latvia	1 324 000	Comparable transaction method	Sales price varies from EUR to EUR per m^2	14–86	7–61	The estimated fair value would increase (decrease) if: • Sales price per m^2 was higher (lower); • The discount rate was lower (higher); • Construction costs per m^2 would be less (greater); • The final sale price per m^2 was higher (lower).
		Discounted cash flows technique: the model is based on discounted cash flows from rental income	Discount rate of %	11.75	11.75	
			Construction costs EUR per m^2	683	480	
			The final sale price EUR per m^2	785	552	
Premises in Latvia	443 000	Comparable transaction method	Sales price varies from EUR to EUR per m^2	2 121–2 128	14 77–1 478	The estimated fair value would increase (decrease) if: • Sales price per m^2 was higher (lower); • Rental income per m^2 was higher (lower); • The discount rate was lower (higher); • The occupancy rate was higher (lower).
		Discounted cash flows technique: the model is based on discounted cash flows from rental income	Rental income per m^2 of EUR	4.00	2.81	
			Discount rate of %	12.75	12.75	
			Occupancy rate of %	50	50	

Type	EUR	Valuation technique	Significant unobservable inputs	31.12.2014	31.12.2013	Inter-relation between significant unobservable inputs and fair value measurement
Construction objects and related land plots in Latvia	515 700	Comparable transaction method	Sales price varies from EUR to EUR per m²	87–665	61–468	The estimated fair value would increase (decrease) if: • Sales price per m² was higher (lower).
Land plot in Riga	448 000	Comparable transaction method	Sales price varies from EUR to EUR per m²	1 409	987	The estimated fair value would increase (decrease) if: • Sales price per m² was higher (lower).
Land plots in Jurmala	558 400	Comparable transaction method	Sales price varies from EUR to EUR per m²	40–69	27–47	The estimated fair value would increase (decrease) if: • Sales price per m² was higher (lower).
Apartments in Latvia	268 924	Comparable transaction method	Sales price varies from EUR to EUR per m²	3 113	2 188–3 254	The estimated fair value would increase (decrease) if: • Sales price per m² was higher (lower).
Construction objects and related land plots in Belarus	356 632	Comparable transaction method	Sales price varies from EUR to EUR per m²	921	618–909	The estimated fair value would increase (decrease) if: • Sales price per m² was higher (lower); • Rental income per m² was higher (lower); • The occupancy rate was higher (lower).
		Discounted cash flows technique: the model is based on discounted cash flows from rental income	Rental income per m² of EUR	0.26	0.18	
			Occupancy rate of %	100	100	
Premises in Belarus	326 721	Comparable transaction method	Sales price varies from EUR to EUR per m²	846	813	The estimated fair value would increase (decrease) if: • Sales price per m² was higher (lower); • Rental income per m2 was higher (lower); • The occupancy rate was higher (lower).
		Discounted cash flows technique: the model is based on discounted cash flows from rental income	Rental income per m² of EUR	0.26	0.18	
			Occupancy rate of %	100	100	
Investment property	**7 475 877**					

Sensitivity analyses

A Riga-based land plot represents the largest exposure. A 5-percent change in the sale price and the discount-rate change by 250 basis points would significantly affect the Bank's profit:

	31.12.2014 EUR	31.12.2013 EUR
Land plots in Riga	2 088 700	2 383 310
Profit from revaluation of investment properties if sales price will increase by 5%	696 836	576 304
Losses from revaluation of investment properties if sales price will decrease by 5%	(675 192)	(505 729)
Losses from revaluation of investment properties if the discount-rates will increase by 250 basis points	(367 639)	(235 385)

25. Property and Equipment

GROUP	Buildings and land (own use) EUR	Motor vehicles EUR	Office equipment EUR	Construction in progress EUR	Total EUR
Acquisition cost					
As of 31 December 2012	**12 866 472**	**253 268**	**3 545 102**	**672 296**	**17 337 138**
Additions	2 664 084	—	780 824	665 893	4 110 801
Disposals	—	(59 684)	(836 171)	—	(895 855)
Reclassification	1 151 803	—	—	(1 151 803)	—
As of 31 December 2013	**16 682 359**	**193 584**	**3 489 755**	**186 386**	**20 552 084**
Additions	—	122 162	514 910	31 987	669 059
Disposals	—	(36 054)	(497 924)	—	(533 978)
As of 31 December 2014	**16 682 359**	**279 692**	**3 506 741**	**218 373**	**20 687 165**
Depreciation					
As of 31 December 2012	**(1 101 943)**	**(127 703)**	**(1 962 311)**	**—**	**(3 191 957)**
Depreciation	(225 787)	(41 561)	(474 123)	—	(741 471)
Disposals	—	48 527	835 937	—	884 464
As of 31 December 2013	**(1 327 730)**	**(120 737)**	**(1 600 497)**	**—**	**(3 048 964)**
Depreciation	(287 220)	(35 897)	(447 967)	—	(771 084)
Disposals	—	36 054	497 924	—	533 978
As of 31 December 2014	**(1 614 950)**	**(120 580)**	**(1 550 540)**	**—**	**(3 286 070)**
Net book value					
As of 31 December 2012	**11 764 529**	**125 565**	**1 582 791**	**672 296**	**14 145 181**
As of 31 December 2013	**15 354 629**	**72 847**	**1 889 258**	**186 386**	**17 503 120**
As of 31 December 2014	**15 067 409**	**159 112**	**1 956 201**	**218 373**	**17 401 095**

BANK	Buildings and land (own use) EUR	Motor vehicles EUR	Office equipment EUR	Construction in progress EUR	Total EUR
Acquisition cost					
As of 31 December 2012	**12 866 472**	**253 268**	**3 541 790**	**672 296**	**17 333 826**
Additions	2 664 084	—	780 628	665 893	4 110 605
Disposals	—	(59 684)	(836 171)	—	(895 855)
Reclassification	1 151 803	—	—	(1 151 803)	—
As of 31 December 2013	**16 682 359**	**193 584**	**3 486 247**	**186 386**	**20 548 576**
Additions	—	122 162	514 910	31 987	669 059
Disposals	—	(36 054)	(497 924)	—	(533 978)
As of 31 December 2014	**16 682 359**	**279 692**	**3 503 233**	**218 373**	**20 683 657**
Depreciation					
As of 31 December 2012	**(1 101 943)**	**(127 703)**	**(1 959 522)**	**—**	**(3 189 168)**
Depreciation	(225 787)	(41 561)	(473 823)	—	(741 171)
Disposals	—	48 527	835 937	—	884 464
As of 31 December 2013	**(1 327 730)**	**(120 737)**	**(1 597 408)**	**—**	**(3 045 875)**
Depreciation	(287 220)	(35 897)	(447 641)	—	(770 758)
Disposals	—	36 054	497 924	—	533 978
As of 31 December 2014	**(1 614 950)**	**(120 580)**	**(1 547 125)**	**—**	**(3 282 655)**
Net book value					
As of 31 December 2012	**11 764 529**	**125 565**	**1 582 268**	**672 296**	**14 144 658**
As of 31 December 2013	**15 354 629**	**72 847**	**1 888 839**	**186 386**	**17 502 701**
As of 31 December 2014	**15 067 409**	**159 112**	**1 956 108**	**218 373**	**17 401 002**

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. The management believes that any fair value sensitivity is not material to the financial statements.

26. Intangible Assets

	Group Software EUR	Bank Software EUR
Acquisition cost		
As of 31 December 2012	**5 335 095**	**5 334 435**
Additions	369 897	369 897
Disposals	(35 703)	(35 703)
As of 31 December 2013	**5 669 289**	**5 668 629**
Additions	244 277	244 277
Disposals	(75 512)	(75 512)
As of 31 December 2014	**5 838 054**	**5 837 394**
Amortization		
As of 31 December 2012	**(763 352)**	**(762 692)**
Amortization	(374 042)	(374 042)
Disposals	35 703	35 703
As of 31 December 2013	**(1 101 691)**	**(1 101 031)**
Amortization	(490 599)	(490 599)
Disposals	75 512	75 512
As of 31 December 2014	**(1 516 778)**	**(1 516 118)**
Net book value		
As of 31 December 2012	**4 571 743**	**4 571 743**
As of 31 December 2013	**4 567 598**	**4 567 598**
As of 31 December 2014	**4 321 276**	**4 321 276**

27. Deferred Expenses and Accrued Income

	Group 31.12.2014 EUR	Bank 31.12.2014 EUR	Group 31.12.2013 EUR	Bank 31.12.2013 EUR
Deferred expenses	1 484 960	1 484 502	1 339 178	1 338 334
Other accrued income	907 670	910 170	928 684	928 684
	2 392 630	**2 394 672**	**2 267 862**	**2 267 018**
Allowances (Note 12)	(6 296)	(6 296)	(5 601)	(5 601)
	2 386 334	**2 388 376**	**2 262 261**	**2 261 417**

28. Other Assets

	Group 31.12.2014 EUR	Bank 31.12.2014 EUR	Group 31.12.2013 EUR	Bank 31.12.2013 EUR
Financial assest				
Accounts receivable	621 351	267 367	898 877	254 347
Prepayments	309 853	301 575	322 707	307 302
Money in transit (replenishment of a correspondent account)	91 439	91 439	156 719	156 719
Unsettled spot forex transactions	231 984	231 984	142 079	142 079
Funds placed in guarantee funds	137 053	137 053	121 892	121 892
Prepaid taxes	136 570	135 415	75 187	74 278
Others	95 840	95 840	2 234	2 234
Non financial assest				
Precious metals	510 098	510 098	710 430	710 430
	2 134 188	**1 770 771**	**2 430 125**	**1 769 281**
Allowances (Note 12)	(365 755)	(144 383)	(365 729)	(144 357)
	1 768 433	**1 626 388**	**2 064 396**	**1 624 924**

Precious metals are stated at fair value.

The impairment allowance was made for accounts receivable.

29. Due to Credit Institutions

	Group and Bank 31.12.2014 EUR	Group and Bank 31.12.2013 EUR
Repayable on demand	276 761	7 625 947
Term balances	9 959 318	—
	10 236 079	**7 625 947**

The table below shows geographical concentration:

	Group and Bank 31.12.2014 EUR	Group and Bank 31.12.2013 EUR
Due to central banks	3 781 559	—
Credit institutions incorporated in the Republic of Latvia	32 594	10 044
Credit institutions incorporated in other non-OECD countries	6 421 926	7 615 903
	10 236 079	**7 625 947**

As at 31 December 2014 and 31 December 2013 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 2014 and 31 December 2013, the Group and Bank had balances with two and one credit institutions, which exceeded 10% of total placements by credit institutions. The gross values of these balances as of 31 December 2014 and 31 December 2013 were EUR 9 957 415 and EUR 7 327 790, respectively.

30. Deposits

	Group 31.12.2014 EUR	Bank 31.12.2014 EUR	Group 31.12.2013 EUR	Bank 31.12.2013 EUR
Repayable on demand				
Corporate customers	346 324 419	346 335 239	189 519 599	189 527 683
Financial institutions	2 638 049	2 638 049	2 335 260	2 335 260
Public organisations	509	509	97 662	97 662
State-owned companies	39 861	39 861	7 392	7 392
Central governments	—	—	2 188	2 188
Individuals	41 547 887	41 547 887	21 360 308	21 360 308
	390 550 725	**390 561 545**	**213 322 409**	**213 330 493**
Term deposits				
Corporate customers	34 479 446	34 479 446	39 574 368	39 574 368
Financial institutions	—	—	346 677	346 677
Individuals	23 203 295	23 203 295	22 037 073	22 037 073
	57 682 741	**57 682 741**	**61 958 118**	**61 958 118**
Total deposits	**448 233 466**	**448 244 286**	**275 280 527**	**275 288 611**

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

Blocked accounts
As at 31 December 2014, the Bank maintained customer deposit balances of EUR 8 925 151 (as at 31 December 2013: EUR 12 249 693) 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 2014 and 31 December 2013, 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 31.12.2014 EUR	Group and Bank 31.12.2013 EUR
Bond issue	18 241 785	5 053 318
	18 241 785	**5 053 318**

During the year ended 31 December 2014, two issued unlisted debt securities were redeemed.

During the year ended 31 December 2014, an average annual interest rate of 2.64% was applied to the debt securities in issue. The issued securities are not publicly traded.

Notional amount	Coupon Rate	Iissuance Date	Maturity Date	Book value, EUR
EUR 1 000 000	2.30%	22.09.2014	22.09.2015	1 006 325
EUR 2 900 000	2.83%	21.11.2013	21.11.2015	2 909 119
EUR 400 000	2.85%	12.03.2014	12.03.2016	403 452
USD 1 300 000	2.30%	26.02.2014	26.02.2015	1 079 303
USD 1 300 000	2.30%	09.05.2014	09.05.2015	1 074 309
USD 5 550 000	2.20%	22.09.2014	22.09.2015	4 598 945
USD 2 150 000	2.88%	21.11.2013	21.11.2015	1 776 525
USD 2 500 000	2.88%	12.03.2014	12.03.2016	2 077 095
USD 2 000 000	3.21%	16.06.2014	16.03.2016	1 649 514
USD 1 000 000	3.21%	02.07.2014	02.04.2016	836 801
USD 1 000 000	2.78%	15.09.2014	15.09.2016	830 397
				18 241 785

32. Accrued Expenses, Provisions and Deferred Income

	Group 31.12.2014 EUR	Bank 31.12.2014 EUR	Group 31.12.2013 EUR	Bank 31.12.2013 EUR
Provision for unused vacation	274 371	274 371	246 387	246 387
Accrued payable to the Deposit Guarantee Scheme (DGS)	232 667	232 667	136 906	136 906
Accruals for other payments	647 139	642 157	537 695	537 695
Other accrued expense	37 747	37 747	32 811	30 128
Deferred income	296 738	296 738	215 484	215 484
	1 488 662	**1 483 680**	**1 169 283**	**1 166 600**

33. Other Liabilities

	Group 31.12.2014 EUR	Bank 31.12.2014 EUR	Group 31.12.2013 EUR	Bank 31.12.2013 EUR
Unsettled spot forex transactions	49 193	49 193	619 800	619 800
Money in transit	598 933	598 933	166 288	166 288
Staff salaries	166 367	166 367	144 034	144 034
Collateral securing the obligations	5 271	5 271	109 772	109 772
Other accounts payable	796 896	357 949	651 841	150 758
	1 616 660	**1 177 713**	**1 691 735**	**1 190 652**

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 2014, the Bank had one customer whose deposit exceeded 10% of the total volume of subordinated deposits.

Depositor	Currency	Amount in currency	Interest rate	The date of conclusion of the loan agreement	Repayment date	Group and Bank Amount 31.12.2014 EUR	Group and Bank Amount 31.12.2013 EUR
Diana Belokon	GBP	2 500 740	7.00%	30.04.2013	14.01.2019	3 210 279	2 999 285
Total						**3 210 279**	**2 999 285**

	Group and Bank 31.12.2014 EUR	Group and Bank 31.12.2013 EUR
Residents of the Republic of Latvia		
Corporate customers	*19 074*	*19 074*
Individuals	*5 372 961*	*1 662 462*
Residents of other countries		
Individuals	*11 309 692*	*9 420 101*
	16 701 727	**11 101 637**

35. Shareholders' Equity

Following the law requirement, the Bank re-registered its share capital in Euro on 10 April 2014. In result of the re-registration 59 653 EUR were transfered to reserve capital. The share capital as of 31 December 2014 consists of 14 154 421 shares in total nominal value of EUR 29 496 389. The nominal value of one share is EUR 7.10. The structure of shareholders holding ordinary shares did not change.

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. Of the Bank's 93 shareholders, 28 are legal entities and 65 are individuals.

Reserve capital in the amount of EUR 835 152 (31 December 2013: EUR 775 499) 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 EUR
Total paid-in share capital 31 December 2012	**4 154 421**	**29 556 042**
Total paid-in share capital 31 December 2013	**4 154 421**	**29 556 042**
Transfer to reserve capital		(59 653)
Total paid-in share capital 31 December 2014	**4 154 421**	**29 496 389**

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

	31.12.2014	31.12.2013
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 31.12.2014 EUR	Bank 31.12.2014 EUR	Group 31.12.2013 EUR	Bank 31.12.2013 EUR
Sureties and guarantees	**2 961 317**	**2 961 317**	**2 544 936**	**2 544 936**
Commitments to customers	**12 040 035**	**12 134 805**	**16 686 429**	**16 790 230**
Commitments to extend credit	8 037 128	8 131 898	7 654 112	7 757 913
Unused creditcard limits	715 047	715 047	744 249	744 249
Other commitments	3 287 860	3 287 860	8 288 068	8 288 068
	15 001 352	**15 096 122**	**19 231 365**	**19 335 166**

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 2014, assets administered by the Bank totaled EUR 129 476 720. As of 31 December 2013, the Bank's administered assets stood at EUR 77 710 787.

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 2014 and 2013.

39. Related Party Transactions

The outstanding balances as of 31 December 2014 and related income statement amounts of transactions for the year ended 31 December 2014 with other related parties are as follows:

GROUP AND BANK As of 31 December 2014	Subsidiary EUR	Associate EUR	Shareholders, Members of the Supervisory Council and Management Board EUR	Other senior executives EUR	Other EUR	Total EUR
Due from credit institutions						
At the beginning of the period	—	—	—	—	58	**58**
Difference due to fluctuations in foreign currency exchange rates	—	—	—	—	7	**7**
At the end of the period	—	—	—	—	65	**65**
Loans						
At the beginning of the period	2 020 024	45 945	345 766	—	2 302 927	**4 714 662**
Gross Loans	*2 416 263*	*45 945*	*345 766*	—	*2 302 927*	***5 110 901***
Allowances	*(396 239)*	—	—	—	—	***(396 239)***
Issued during the period	142 318	21 447	482 480	—	492 204	**1 138 449**
Repaid during the period	(495 837)	—	(570 489)	—	(1 526 308)	**(2 592 634)**
Difference due to fluctuations in foreign currency exchange rates	—	—	391	—	14 631	**15 022**
Changes in the group of Bank-related parties	—	—	—	—	(125)	**(125)**
At the end of the period	1 666 505	67 392	258 148	—	1 283 329	**3 275 374**
Gross Loans	*2 062 744*	*67 392*	*258 148*	—	*1 283 329*	***3 671 613***
Allowances	*(396 239)*	—	—	—	—	***(396 239)***
Interest income	64 973	5 638	7 795	—	126 664	**205 070**
Other assets						
At the beginning of the period	11 492	—	—	—	(155)	**11 337**
Issued during the period	47 370	—	—	—	—	**47 370**
Repayment during the period	(4 573)	—	—	—	—	**(4 573)**
At the end of the period	54 289	—	—	—	(155)	**54 134**
Sureties (guarantees)	—	—	—	—		
At the beginning of the period	—	—	—	—	36 490	**36 490**
Redeemed during the period	—	—	—	—	(36 490)	**(36 490)**
At the end of the period	—	—	—	—	—	—
Due to credit institutions						
At the beginning of the period	—	—	—	—	216 110	**216 110**
Increase in balances during the period	—	—	—	—	19 554	**19 554**
Decline in balances during the period	—	—	—	—	(108)	**(108)**
Difference due to fluctuations in foreign currency exchange rates	—	—	—	—	8 390	**8 390**
At the end of the period	—	—	—	—	243 946	**243 946**
Deposits						
At the beginning of the period	8 084	3 853	330 305	209 675	717 364	**1 269 281**
Increase in balances during the period	1 267 694	17 557	2 001 094	—	20 798 115	**24 084 460**
Decline in balances during the period	(1 264 956)	(21 302)	(2 013 176)	—	(21 013 313)	**(24 312 747)**
Difference due to fluctuations in foreign currency exchange rates	—	—	236	—	14 590	**14 826**
Changes in the group of Bank-related parties	—	—	—	(209 675)	(43 276)	**(252 951)**
At the end of the period	10 822	108	318 459	—	473 480	**802 869**
Interest expense	—	—	11 032	5 432	1 564	**18 028**
Subordinated liabilities						
At the beginning of the period	—	—	10 064	—	4 519 234	**4 529 298**
Difference due to fluctuations in foreign currency exchange rates	—	—	—	—	210 410	**210 410**
At the end of the period	—	—	10 064	—	4 729 644	**4 739 708**
Interest expense	—	—	800	—	324 661	**325 461**

All related party transactions are at arm’s length.

GROUP AND BANK As of 31 December 2013	Subsidiary EUR	Associate EUR	Shareholders, Members of the Supervisory Council and Management Board EUR	Other senior executives EUR	Other EUR	Total EUR
Due from credit institutions						
At the beginning of the period	—	—	—	—	60	**60**
Difference due to fluctuations in foreign currency exchange rates	—	—	—	—	(2)	**(2)**
At the end of the period	—	—	—	—	58	**58**
Loans						
At the beginning of the period	1 989 862	25 546	615 358	—	3 278 628	**5 909 394**
Gross Loans	*2 386 101*	*25 546*	*615 358*	—	*3 278 628*	***6 305 633***
Allowances	*(396 239)*	—	—	—	—	***(396 239)***
Issued during the period	868 178	78 169	425 350	—	292 071	**1 663 768**
Repaid during the period	(838 016)	(57 770)	(670 227)	—	(1 259 112)	**(2 825 125)**
Difference due to fluctuations in foreign currency exchange rates	—	—	(61)	—	(8 660)	**(8 721)**
Changes in the group of Bank-related parties	—	—	(24 654)	—	—	**(24 654)**
At the end of the period	2 020 024	45 945	345 766	—	2 302 927	**4 714 662**
Gross Loans	*2 416 263*	*45 945*	*345 766*	—	*2 302 927*	***5 110 901***
Allowances	*(396 239)*	—	—	—	—	***(396 239)***
Interest income	91 084	2 453	21 919	—	246 618	**362 074**
Other assets						
At the beginning of the period	179	—	—	—	—	**179**
Issued during the period	11 337	—	—	—	—	**11 337**
Repayment during the period	(24)	—	—	—	(155)	**(179)**
At the end of the period	11 492	—	—	—	(155)	**11 337**
Sureties (guarantees)						
Issued during the period	—	—	—	—	410 749	**410 749**
Redeemed during the period	—	—	—	—	(374 259)	**(374 259)**
At the end of the period	—	—	—	—	36 490	**36 490**
Due to credit institutions						
At the beginning of the period	—	—	—	—	217 879	**217 879**
Difference due to fluctuations in foreign currency exchange rates	—	—	—	—	(1 769)	**(1 769)**
At the end of the period	—	—	—	—	216 110	**216 110**
Deposits						
At the beginning of the period	2 038	—	813 850	70 476	1 114 894	**2 001 258**
Increase in balances during the period	1 136 042	127 368	9 446 578	611 160	56 602 753	**67 923 901**
Decline in balances during the period	(1 129 996)	(123 515)	(9 890 790)	(471 961)	(57 173 431)	**(68 789 693)**
Difference due to fluctuations in foreign currency exchange rates	—	—	(46)	—	(3 544)	**(3 590)**
Changes in the group of Bank-related parties	—	—	(39 287)	—	176 692	**137 405**
At the end of the period	8 084	3 853	330 305	209 675	717 364	**1 269 281**
Interest expense	—	—	20 889	2 149	76 816	**99 854**
Subordinated liabilities						
At the beginning of the period	—	—	10 064	—	1 019 267	**1 029 331**
Increase in balances during the period	—	—	—	—	1 000 681	**1 000 681**
Decline in balances during the period	—	—	—	—	(500 000)	**(500 000)**
Changes in the group of Bank-related parties	—	—	—	—	2 999 286	**2 999 286**
At the end of the period	—	—	10 064	—	4 519 234	**4 529 298**
Interest expense	—	—	793	—	233 140	**233 933**

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 – 13.7% for the period starting from 1 October 2014 till 30 September 2015 (from 1 October 2013 till 30 September 2014: 13%). As at 31 December 2014, 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 III.

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 2014:

Total equity capital	**Koncerns EUR**	**Banka EUR**
Paid-in share capital	29 496 389	29 496 389
Reserve capital and other reserves	835 152	835 152
Retained earnings	2 711 846	2 969 728
Profit for the current year	(1 556 635)	(1 474 481)
Intangible assets	(4 321 276)	(4 321 276)
Deferred tax related to the intangible asset	563 177	563 177
Available for sale instruments revaluation reserve (negativ)	(183 894)	(183 894)
Less revaluation of investment property	(755 891)	(288 439)
Tier 1 Core Capital	**26 788 868**	**27 596 356**
Subordinated liabilities	12 187 644	12 187 644
Tier 2 Supplementary Capital	**12 187 644**	**12 187 644**
TOTAL CAPITAL	**38 976 512**	**39 784 000**
Capital charge for credit risk inherent in the Bank's book, including the breakdown of exposures by categories:	18 810 180	18 875 443
Central governments or central banks	*502 566*	*502 566*
Public entities	*4 718 449*	*4 718 449*
Commercial companies	*4 052 928*	*4 052 928*
*Overdue (delinquent) exposures**	*2 435 999*	*2 435 999*
High-risk exposures	*3 573 180*	*3 778 847*
Shares and other variable income securities	*623 895*	*779 341*
Other items	*2 903 163*	*2 607 313*
The total capital charge for market risks	83 840	83 840
Capital charge for operational risk	2 101 666	2 085 319
Total capital charge	**20 995 686**	**21 044 602**
CAPITAL ADEQUACY RATIOS		
Common Equity Tier 1 capital ratio	10.21%	10.49%
Tier 1 capital ratio	10.21%	10.49%
CAPITAL ADEQUACY RATIOS		
31 December 2014	**14.85%**	**15.12%**
CAPITAL ADEQUACY RATIOS		
31 December 2013	**13.96%**	**14.24%**
Capital ratios, taking into account adjustments		
Allowance or asset value adjustment by applying special policy for the purposes of calculating own funds	2 584 492	2 584 492
Common Equity Tier 1 capital ratio, taking into account adjustments	9.71%	10.00%
Tier 1 capital ratio, taking into account adjustments	9.71%	10.00%
Capital adequacy ratio, taking into account adjustments	**13.87%**	**14.14%**

**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 2014 and 31 December 2013. In 2015 discussions with the Financial and Capital Market Commission of the Republic of Latvia started in relation to possible increase in capital adjustments to the capital requirements calculation. Please see note 49 for further details.

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.

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	Demand EUR	Less than 1 month EUR	1 to 3 months EUR	3 to 6 months EUR	6 to 12 months EUR	1 to 5 years EUR	5 years and more EUR	With no stated maturity or pledged as collateral EUR	TOTAL EUR
As of 31 December 2014									
ASSETS									
Cash and due from central banks	23 529 755	—	—	—	—	—	—	—	**23 529 755**
Due from credit institutions	267 010 134	3 842	—	—	2 525 876	—	65	8 051 338	**277 591 255**
Financial assets held-for-trading	464 807	2 405 012	—	—	—	—	12 032	—	**2 881 851**
Securities held-for-trading	*464 807*	—	—	—	—	—	*12 032*	—	***476 839***
Derivative financial instruments	—	*2 405 012*	—	—	—	—	—	—	***2 405 012***
Available for sale instruments	74 674 442	66 464	222 376	49 462	25 510	—	7 013 552	5 305 461	**87 357 267**
Securities held-to-maturity	—	27 593	64 813	22 851	—	4 164 573	4 450 829	—	**8 730 659**
Loans	17 186 469	5 767 578	10 779 562	9 440 037	13 632 872	32 196 315	2 848 022	4 236 008	**96 086 863**
Other financial assets	1 061 762	428 808	403 640	178 404	247 454	816 003	—	1 938 445	**5 074 516**
Non-financial assets	—	—	—	—	—	—	—	29 708 347	**29 708 347**
Total assets	**383 927 369**	**8 699 297**	**11 470 391**	**9 690 754**	**16 431 712**	**37 176 891**	**14 324 500**	**49 239 599**	**530 960 513**
LIABILITIES									
Due to credit institutions	276 761	6 177 759	—	—	—	1 559	—	3 780 000	**10 236 079**
Deposits	390 911 110	7 035 454	21 032 140	5 881 809	10 594 811	5 341 212	82 671	7 354 259	**448 233 466**
Debt securities in issue	—	13 147	1 141 434	1 091 298	10 242 146	5 753 760	—	—	**18 241 785**
Derivative financial instruments	—	1 965 060	—	—	—	—	—	—	**1 965 060**
Subordinated liabilities	—	19 352	36 337	22 551	2 204 747	10 709 085	3 709 655	—	**16 701 727**
Financial liabilities	3 576 796	795 333	(314 007)	1 692	43 249	133 673	7 902	—	**4 244 638**
Shareholders' equity	—	—	—	—	—	—	—	31 337 758	**31 337 758**
Total liabilities and shareholders' equity	**394 764 667**	**16 006 105**	**21 895 904**	**6 997 350**	**23 084 953**	**21 939 289**	**3 800 228**	**42 472 017**	**530 960 513**
Sureties and commitments*	10 266 143	—	—	—	—	—	—	2 349 876	**12 616 019**
Maturity gap	**(21 103 441)**	**(7 306 808)**	**(10 425 513)**	**2 693 404**	**(6 653 241)**	**15 237 602**	**10 524 272**	**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 EUR 1 566 977. The value of the gold totals EUR 818 356.*

GROUP	Demand EUR	Less than 1 month EUR	1 to 3 months EUR	3 to 6 months EUR	6 to 12 months EUR	1 to 5 years EUR	5 years and more EUR	With no stated maturity or pledged as collateral EUR	TOTAL EUR
As of 31 December 2013									
Assets	177 094 218	15 326 700	5 106 458	13 589 059	42 374 881	24 123 234	7 585 281	51 693 974	**336 893 805**
Liabilities	218 446 009	6 648 549	27 418 936	10 207 179	11 859 807	14 633 821	5 334 863	42 344 641	**336 893 805**
Sureties and commitments*	11 709 902	—	—	—	—	—	—	4 689 750	**16 399 652**
Maturity gap	**(53 061 693)**	**8 678 151**	**(22 312 478)**	**3 381 880**	**30 515 074**	**9 489 413**	**2 250 418**	**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 EUR 2 099 250. The value of the gold totals EUR 732 463.*

BANK	Demand EUR	Less than 1 month EUR	1 to 3 months EUR	3 to 6 months EUR	6 to 12 months EUR	1 to 5 years EUR	5 years and more EUR	With no stated maturity or pledged as collateral EUR	TOTAL EUR
As of 31 December 2014									
ASSETS									
Cash and due from central banks	23 525 223	—	—	—	—	—	—	—	**23 525 223**
Due from credit institutions	267 010 134	3 842	—	—	2 525 876	—	65	8 051 338	**277 591 255**
Financial assets held-for-trading	464 807	2 405 012	—	—	—	—	12 032	—	**2 881 851**
Securities held-for-trading	*464 807*	—	—	—	—	—	*12 032*	—	***476 839***
Derivative financial instruments	—	*2 405 012*	—	—	—	—	—	—	***2 405 012***
Available for sale instruments	74 674 442	66 464	222 376	49 462	25 510	—	7 013 552	5 305 461	**87 357 267**
Securities held-to-maturity	—	27 593	64 813	22 851	—	4 164 573	4 450 829	—	**8 730 659**
Loans	17 186 469	6 489 370	10 779 562	9 440 037	14 466 183	32 307 717	2 848 022	4 236 008	**97 753 368**
Other financial assets	921 759	428 808	403 640	178 404	247 454	816 003	—	3 881 519	**6 877 587**
Non-financial assets	—	—	—	—	—	—	—	26 150 230	**26 150 230**
Total assets	**383 782 834**	**9 421 089**	**11 470 391**	**9 690 754**	**17 265 023**	**37 288 293**	**14 324 500**	**47 624 556**	**530 867 440**
LIABILITIES									
Due to credit institutions	276 761	6 177 759	—	—	—	1 559	—	3 780 000	**10 236 079**
Deposits	390 921 930	7 035 454	21 032 140	5 881 809	10 594 811	5 341 212	82 671	7 354 259	**448 244 286**
Debt securities in issue	—	13 147	1 141 434	1 091 298	10 242 146	5 753 760	—	—	**18 241 785**
Derivative financial instruments	—	1 965 060	—	—	—	—	—	—	**1 965 060**
Subordinated liabilities	—	19 352	36 337	22 551	2 204 747	10 709 085	3 709 655	—	**16 701 727**
Financial liabilities	3 132 867	795 333	(314 007)	1 692	43 249	133 673	7 902	—	**3 800 709**
Shareholders' equity	—	—	—	—	—	—	—	31 677 794	**31 677 794**
Total liabilities and shareholders' equity	**394 331 558**	**16 006 105**	**21 895 904**	**6 997 350**	**23 084 953**	**21 939 289**	**3 800 228**	**42 812 053**	**530 867 440**
Sureties and commitments*	10 360 913	—	—	—	—	—	—	2 349 876	**12 710 789**
Maturity gap	**(20 909 637)**	**(6 585 016)**	**(10 425 513)**	**2 693 404**	**(5 819 930)**	**15 349 004**	**10 524 272**	**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 EUR 1 566 977. The value of the gold totals EUR 818 356.*

As of 31 December 2013									
Assets	176 740 985	16 048 568	5 034 997	14 116 519	43 128 606	24 123 234	7 585 281	49 877 815	**336 656 005**
Liabilities	217 953 010	6 645 865	27 418 936	10 207 179	11 859 807	14 633 821	5 334 863	42 602 524	**336 656 005**
Sureties and commitments*	11 813 703	—	—	—	—	—	—	4 689 750	**16 503 453**
Maturity gap	**(53 025 728)**	**9 402 703**	**(22 383 939)**	**3 909 340**	**31 268 799**	**9 489 413**	**2 250 418**	**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 EUR 2 099 250. The value of the gold totals EUR 732 463.*

42. Contractual Cash Flows

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

	Demand and less than 1 month EUR	1 to 3 months EUR	3 to 6 months EUR	6 to 12 months EUR	More than 1 year EUR	Total gross amount outflow/ (inflow) EUR	Carrying amount EUR
As of 31 December 2014							
Non-derivative liabilities							
Deposits and balances due to financial institutions	6 454 520	—	—	—	3 781 559	10 236 079	10 236 079
Current accounts and deposits due to customers	405 315 839	21 059 907	5 918 273	10 725 335	5 752 242	448 771 596	448 244 286
Other borrowed funds	32 499	1 177 771	1 113 849	12 810 101	23 634 752	38 768 972	34 943 512
Derivative liabilities							
• Inflow	(223 962 260)	—	—	—	—	(223 962 260)	(439 952)
• Outflow	223 526 920	—	—	—	—	223 526 920	—
Total	**411 367 518**	**22 237 678**	**7 032 122**	**23 535 436**	**33 168 553**	**497 341 307**	**492 983 925**
Credit related commitments	15 096 122	—	—	—	—	—	—

	Demand and less than 1 month EUR	1 to 3 months EUR	3 to 6 months EUR	6 to 12 months EUR	More than 1 year EUR	Total gross amount outflow/ (inflow) EUR	Carrying amount EUR
As of 31 December 2013							
Non-derivative liabilities							
Deposits and balances due to financial institutions	7 625 947	—	—	—	—	7 625 947	7 625 947
Current accounts and deposits due to customers	222 182 732	27 421 305	10 231 456	11 847 659	4 252 705	275 935 857	275 288 611
Other borrowed funds	8 608	17 649	34 657	209 562	18 813 474	19 083 950	16 154 955
Derivative liabilities							
• Inflow	(253 657 629)	—	—	—	—	(253 657 629)	(843 917)
• Outflow	252 836 397	—	—	—	—	252 836 397	—
Total	**228 996 055**	**27 438 954**	**10 266 113**	**12 057 221**	**23 066 179**	**301 824 522**	**298 225 596**
Credit related commitments	19 335 166	—	—	—	—	—	—

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	EUR	USD	GBP	RUB	CHF	Other currencies	TOTAL EUR
As of 31 December 2014							
ASSETS							
Cash and due from central banks	22 698 634	721 581	104 031	—	3 435	2 074	**23 529 755**
Due from credit institutions	104 098 459	162 443 397	3 794 430	250 084	5 896 085	1 108 800	**277 591 255**
Financial assets held-for-trading	2 435 798	446 053	—	—	—	—	**2 881 851**
Securities held-for-trading	*30 786*	*446 053*	—	—	—	—	***476 839***
Derivative financial instruments	*2 405 012*	—	—	—	—	—	***2 405 012***
Available for sale instruments	594 243	80 343 715	6 419 309	—	—	—	**87 357 267**
Securities held-to-maturity	—	8 730 659	—	—	—	—	**8 730 659**
Loans	60 681 000	24 412 713	10 992 354	784	12	—	**96 086 863**
Financial and non-financial assets	32 694 109	1 313 006	256 716	4 941	—	514 091	**34 782 863**
Total assets	**223 202 243**	**278 411 124**	**21 566 840**	**255 809**	**5 899 532**	**1 624 965**	**530 960 513**
LIABILITIES							
Due to credit institutions	3 939 839	6 293 634	2 606	—	—	—	**10 236 079**
Deposits	97 539 535	324 785 066	18 630 982	227 931	5 964 193	1 085 759	**448 233 466**
Debt securities in issue	4 318 896	13 922 889	—	—	—	—	**18 241 785**
Derivative financial instruments	1 965 060	—	—	—	—	—	**1 965 060**
Subordinated liabilities	8 117 920	5 373 528	3 210 279	—	—	—	**16 701 727**
Financial liabilities	3 293 253	832 610	102 667	3 583	216	12 309	**4 244 638**
Shareholders' equity	31 337 758	—	—	—	—	—	**31 337 758**
Total liabilities and shareholders' equity	**150 512 261**	**351 207 727**	**21 946 534**	**231 514**	**5 964 409**	**1 098 068**	**530 960 513**
GROSS POSITION	**72 689 982**	**(72 796 603)**	**(379 694)**	**24 295**	**(64 877)**	**526 897**	
Unsettled spot forex contracts	(55 094 100)	55 175 502	101 389	—	—	—	
Forward contracts	(16 448 156)	16 863 876	41	—	82 233	(62 654)	
NET POSITION	**1 147 726**	**(757 225)**	**(278 264)**	**24 295**	**17 356**	**464 243**	
Ratio to the shareholders' equity* (%)		–1.94%	–0.71%	0.06%	0.04%		
As of 31 December 2013							
Assets	127 640 890	191 054 988	13 915 490	319 890	2 766 404	1 196 143	**336 893 805**
Liabilities	108 796 922	208 885 419	15 706 652	176 726	2 817 904	510 182	**336 893 805**
Gross position	**18 843 968**	**(17 830 431)**	**(1 791 162)**	**143 164**	**(51 500)**	**685 961**	
Net position	**(1 178 552)**	**577 212**	**5 498**	**143 164**	**166 307**	**796 189**	

**Equity (net worth) totalling EUR 38 775 085 as of 31 December 2014 (as of 31 December 2013: 32 971 719).*

BANK	EUR	USD	GBP	RUB	CHF	Other currencies	TOTAL EUR
As of 31 December 2014							
ASSETS							
Cash and due from central banks	22 694 102	721 581	104 031	—	3 435	2 074	**23 525 223**
Due from credit institutions	104 098 459	162 443 397	3 794 430	250 084	5 896 085	1 108 800	**277 591 255**
Financial assets held-for-trading	2 435 798	446 053	—	—	—	—	**2 881 851**
Securities held-for-trading	*30 786*	*446 053*	—	—	—	—	***476 839***
Derivative financial instruments	*2 405 012*	—	—	—	—	—	***2 405 012***
Available for sale instruments	594 243	80 343 715	6 419 309	—	—	—	**87 357 267**
Securities held-to-maturity	—	8 730 659	—	—	—	—	**8 730 659**
Loans	62 347 505	24 412 713	10 992 354	784	12	—	**97 753 368**
Financial and non-financial assets	30 939 063	1 313 006	256 716	4 941	—	514 091	**33 027 817**
Total assets	**223 109 170**	**278 411 124**	**21 566 840**	**255 809**	**5 899 532**	**1 624 965**	530 867 440
LIABILITIES							
Due to credit institutions	3 939 839	6 293 634	2 606	—	—	—	**10 236 079**
Deposits	97 550 355	324 785 066	18 630 982	227 931	5 964 193	1 085 759	**448 244 286**
Debt securities in issue	4 318 896	13 922 889	—	—	—	—	**18 241 785**
Derivative financial instruments	1 965 060	—	—	—	—	—	**1 965 060**
Subordinated liabilities	8 117 920	5 373 528	3 210 279	—	—	—	**16 701 727**
Financial liabilities	2 849 324	832 610	102 667	3 583	216	12 309	**3 800 709**
Shareholders' equity	31 677 794	—	—	—	—	—	**31 677 794**
Total liabilities and shareholders' equity	**150 419 188**	**351 207 727**	**21 946 534**	**231 514**	**5 964 409**	**1 098 068**	530 867 440
GROSS POSITION	**72 689 982**	**(72 796 603)**	**(379 694)**	**24 295**	**(64 877)**	**526 897**	
Unsettled spot forex contracts	(55 094 100)	55 175 502	101 389	—	—	—	
Forward contracts	(16 448 156)	16 863 876	41	—	82 233	(62 654)	
NET POSITION	**1 147 726**	**(757 225)**	**(278 264)**	**24 295**	**17 356**	**464 243**	
Ratio to the shareholders' equity* (%)		–1.90%	–0.70%	0.06%	0.04%		
As of 31 December 2013							
Assets	127 403 090	191 054 988	13 915 490	319 890	2 766 404	1 196 143	**336 656 005**
Liabilities	108 718 610	208 725 931	15 706 652	176 726	2 817 904	510 182	**336 656 005**
Gross position	**18 684 480**	**(17 670 943)**	**(1 791 162)**	**143 164**	**(51 500)**	**685 961**	
Net position	**(1 555 732)**	**736 700**	**5 498**	**143 164**	**166 307**	**796 189**	

**Pašu kapitāla vērtība 2014. gada 31. decembrī 39 582 573 EUR (2013. gada 31. decembrī: 33 575 755).*

44. Sensitivities Analysis

Currency (foreign exchange) risk

The sum of overall foreign exchange exposure and the net position in gold stood at 1.38% of the Group's equity as of 31 December 2014 (as of 31 December 2013: 1.57%).

Figures show that a 10-20 percent drop of the eiro against other currencies may have the following impact on the Group's profit (in EUR):

	31.12.2014 USD	31.12.2014 GBP	31.12.2014 RUB	31.12.2013 USD	31.12.2013 GBP	31.12.2013 RUB
Rate valid:	1.2141	0.7789	72.3370	1.3647	0.8337	45.0515
Foreign currency position (in EUR):	(757 225)	(278 264)	24 295	577 212	5 498	143 164
Profit/(loss) (in EUR):	(75 723)	(27 826)	4 859	57 721	782	14 316

The sum of overall foreign exchange exposure and the net position in gold stood at 1.34% of the Bank's equity as of 31 December 2014 (as of 31 December 2013: 5.65%).

Figures show that a 10–20 percent drop of the eiro against other currencies may have the following impact on the Bank's profit (in EUR):

	31.12.2014 USD	**31.12.2014 GBP**	**31.12.2014 RUB**	**31.12.2013 USD**	**31.12.2013 GBP**	**31.12.2013 RUB**
Rate valid:	1.2141	0.7789	72.3370	1.3647	0.8337	45.0515
Foreign currency position (in EUR):	(757 225)	(278 264)	24 295	736 700	5 498	143 164
Profit/(loss) (in EUR):	(75 723)	(27 826)	4 859	73 670	550	14 316

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	**Up to 1 month (inclusive) EUR**	**1 to 3 months EUR**	**3 to 6 months EUR**	**6 to 12 months EUR**	**One year and more EUR**	**Non interest bearing EUR**	**TOTAL EUR**
As of 31 December 2014							
ASSETS							
Cash and due from central banks	22 176 491	—	—	—	—	1 353 264	**23 529 755**
Due from credit institutions	259 296 889	1 250 000	—	3 033 788	—	14 010 578	**277 591 255**
Financial assets held-for-trading	—	—	—	—	445 053	2 436 798	**2 881 851**
Securities held-for-trading	—	—	—	—	*445 053*	*31 786*	*476 839*
Derivative financial instruments	—	—	—	—	—	*2 405 012*	***2 405 012***
Available for sale instruments	—	—	4 128 778	37 233 218	38 617 906	7 377 365	**87 357 267**
Securities held-to-maturity	—	—	—	—	8 615 403	115 256	**8 730 659**
Loans	4 553 174	10 552 359	10 348 668	13 280 987	33 757 854	23 593 821	**96 086 863**
Financial and non-financial assets	—	—	—	—	—	34 782 863	**34 782 863**
Total assets	**286 026 554**	**11 802 359**	**14 477 446**	**53 547 993**	**81 436 216**	**83 669 945**	**530 960 513**
LIABILITIES							
Due to credit institutions	6 177 416	—	—	—	3 780 000	278 663	**10 236 079**
Deposits	309 249 244	21 147 867	5 856 258	11 538 108	5 760 813	94 681 176	**448 233 466**
Debt securities in issue	—	4 353 546	5 741 611	5 571 288	2 470 966	104 374	**18 241 785**
Derivative financial instruments	—	—	—	—	—	1 965 060	**1 965 060**
Subordinated liabilities	—	—	—	2 204 551	14 418 740	78 436	**16 701 727**
Financial liabilities	—	—	—	—	—	4 244 638	**4 244 638**
Shareholders' equity	—	—	—	—	—	31 337 758	**31 337 758**
Total liabilities and shareholders' equity	**315 426 660**	**25 501 413**	**11 597 869**	**19 313 947**	**26 430 519**	**132 690 105**	**530 960 513**
Net position sensitive to interest rate risk	**(29 400 106)**	**(13 699 054)**	**2 879 577**	**34 234 046**	**55 005 697**	**(49 020 160)**	

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 292 328 EUR (as of 31 December 2013: EUR 247 708).

A 100 basis point decrease/increase in interest rates is likely to have effect (decrease/increase) on the Group's other comprehensive income to the amount of 118 888 EUR (as of 31 December 2013: EUR 0).

	Up to 1 month (inclusive) EUR	1 to 3 months EUR	3 to 6 months EUR	6 to 12 months EUR	One year and more EUR	Non interest bearing EUR	TOTAL EUR
As of 31 December 2013							
Assets	153 066 965	4 320 967	14 341 018	41 599 971	28 109 750	95 455 134	**336 893 805**
Liabilities	166 223 247	27 386 476	14 966 887	11 801 152	16 701 920	99 814 123	**336 893 805**
Net position sensitive to interest rate risk	**(13 156 282)**	**(23 065 509)**	**(625 869)**	**29 798 819**	**11 407 830**	**(4 358 989)**	

BANK	Up to 1 month (inclusive) EUR	1 to 3 months EUR	3 to 6 months EUR	6 to 12 months EUR	One year and more EUR	Non interest bearing EUR	TOTAL EUR
As of 31 December 2014							
ASSETS							
Cash and due from central banks	22 176 491	—	—	—	—	1 348 732	**23 525 223**
Due from credit institutions	259 296 889	1 250 000	—	3 033 788	—	14 010 578	**277 591 255**
Financial assets held-for-trading	—	—	—	—	445 053	2 436 798	**2 881 851**
Securities held-for-trading	—	—	—	—	*445 053*	*31 786*	*476 839*
Derivative financial instruments	—	—	—	—	—	*2 405 012*	***2 405 012***
Available for sale instruments	—	—	4 128 778	37 233 218	38 617 906	7 377 365	**87 357 267**
Securities held-to-maturity	—	—	—	—	8 615 403	115 256	**8 730 659**
Loans	5 274 818	10 552 359	10 348 668	14 030 461	33 953 092	23 593 970	**97 753 368**
Financial and non-financial assets	—	—	—	—	—	33 027 817	**33 027 817**
Total assets	**286 748 198**	**11 802 359**	**14 477 446**	**54 297 467**	**81 631 454**	**81 910 516**	**530 867 440**
LIABILITIES							
Due to credit institutions	6 177 416	—	—	—	3 780 000	278 663	**10 236 079**
Deposits	309 249 244	21 147 867	5 856 258	11 538 108	5 760 813	94 691 996	**448 244 286**
Debt securities in issue	—	4 353 546	5 741 611	5 571 288	2 470 966	104 374	**18 241 785**
Derivative financial instruments	—	—	—	—	—	1 965 060	**1 965 060**
Subordinated liabilities	—	—	—	2 204 551	14 418 740	78 436	**16 701 727**
Financial liabilities	—	—	—	—	—	3 800 709	**3 800 709**
Shareholders' equity	—	—	—	—	—	31 677 794	**31 677 794**
Total liabilities and shareholders' equity	**315 426 660**	**25 501 413**	**11 597 869**	**19 313 947**	**26 430 519**	**132 597 032**	**530 867 440**
Net position sensitive to interest rate risk	**(28 678 462)**	**(13 699 054)**	**2 879 577**	**34 983 520**	**55 200 935**	**(50 686 516)**	

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 283 538 EUR (as of 31 December 2013: EUR 235 509).

A 100 basis point decrease/increase in interest rates is likely to have effect (decrease/increase) on the Bank's other comprehensive income to the amount of 118 888 EUR (as of 31 December 2013: EUR 0).

	Up to 1 month (inclusive) EUR	1 to 3 months EUR	3 to 6 months EUR	6 to 12 months EUR	One year and more EUR	Non interest bearing EUR	TOTAL EUR
As of 31 December 2013							
Assets	153 788 608	4 320 967	14 884 558	42 354 587	28 109 750	93 197 535	**336 656 005**
Liabilities	166 223 247	27 386 476	14 966 887	11 801 154	16 701 920	99 576 321	**336 656 005**
Net position sensitive to interest rate risk	**(12 434 639)**	**(23 065 509)**	**(82 329)**	**30 553 433**	**11 407 830**	**(6 378 786)**	

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 31.12.2014 EUR	Net maximum credit risk exposure 31.12.2014 EUR	Gross maximum credit risk exposure 31.12.2013 EUR	Net maximum credit risk exposure 31.12.2013 EUR
Cash and due from central banks	23 525 223	23 525 223	31 444 203	31 444 203
Due from credit institutions	277 591 255	277 591 255	154 968 015	154 968 015
Financial assets held-for-trading	2 881 851	2 881 851	3 135 362	3 135 362
Securities held-for-trading	*476 839*	*476 839*	*1 668 770*	*1 668 770*
Derivative financial instruments	*2 405 012*	*2 405 012*	*1 466 592*	*1 466 592*
Available for sale instruments	87 357 267	87 357 267	4 382 272	4 382 272
Securities held-to-maturity	8 730 659	8 730 659	5 713 113	5 713 113
Loans	106 955 746	511 353	109 566 567	460 207
Investments in equity accounted investees	1 144 547	1 144 547	1 144 547	1 144 547
Investments in subsidiaries	1 943 074	1 943 074	1 943 074	1 943 074
Other financial assets	1 116 290	1 116 290	914 494	914 494
Total financial assets	**511 245 912**	**404 801 519**	**313 211 673**	**204 105 287**
Sureties (guarantees)	2 961 317	2 571 317	2 544 936	2 104 936
Commitments to customers	12 134 805	2 500 134	16 790 230	13 721 301
Total commitments and contingencies	**15 096 122**	**5 071 451**	**19 335 166**	**15 826 237**
Total maximum credit risk exposure	**526 342 034**	**409 872 970**	**332 546 839**	**219 931 524**

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:

	Financial assets/ liabilities at amortised cost EUR	Financial assets/ liabilities at fair value through profit and loss EUR	Financial assets available-for-sale EUR	Total EUR	Fair value EUR
As of 31 December 2014					
ASSETS					
Cash and due from central banks	23 525 223	—	—	**23 525 223**	**23 525 223**
Due from credit institutions	277 591 255	—	—	**277 591 255**	**277 578 075**
Financial assets held-for-trading	—	2 881 851	—	**2 881 851**	**2 881 851**
Securities held-for-trading	—	*476 839*	—	***476 839***	***476 839***
Derivative financial instruments	—	*2 405 012*	—	***2 405 012***	***2 405 012***
Available for sale instruments	—	—	87 357 267	**87 357 267**	**87 357 267**
Securities held-to-maturity	8 730 659	—	—	**8 730 659**	**8 730 659**
Loans	97 753 368	—	—	**97 753 368**	**96 036 527**
Other financial assets	1 116 290	—	—	**1 116 290**	**1 116 290**
Total financial assets	**408 716 795**	**2 881 851**	**87 357 267**	**498 955 913**	**497 225 892**
Liabilities					
Due to credit institutions	10 236 079	—	—	**10 236 079**	**10 236 079**
Deposits	448 244 286	—	—	**448 244 286**	**448 424 142**
Debt securities in issue	18 241 785	—	—	**18 241 785**	**18 241 785**
Derivative financial instruments	—	1 965 060	—	**1 965 060**	**1 965 060**
Subordinated liabilities	16 701 727	—	—	**16 701 727**	**17 233 276**
Total financial liabilities	**493 423 877**	**1 965 060**	**—**	**495 388 937**	**496 100 342**

	Financial assets/ liabilities at amortised cost EUR	Financial assets/ liabilities at fair value through profit and loss EUR	Financial assets available-for-sale EUR	Total EUR	Fair value EUR
As of 31 December 2013					
ASSETS					
Cash and due from central banks	31 444 203	—	—	**31 444 203**	**31 444 203**
Due from credit institutions	154 968 015	—	—	**154 968 015**	**154 895 063**
Financial assets held-for-trading	—	3 135 362	—	**3 135 362**	**3 135 362**
Securities held-for-trading	—	*1 668 770*	—	***1 668 770***	***1 668 770***
Derivative financial instruments	—	*1 466 592*	—	***1 466 592***	***1 466 592***
Available for sale instruments	—	—	4 382 272	**4 382 272**	**4 382 272**
Securities held-to-maturity	5 713 113	—	—	**5 713 113**	**5 828 442**
Loans	103 580 577	—	—	**103 580 577**	**104 262 170**
Other financial assets	914 494	—	—	**914 494**	**914 494**
Total financial assets	**296 620 402**	**3 135 362**	**4 382 272**	**304 138 036**	**304 862 006**
Liabilities					
Due to credit institutions	7 625 947	—	—	**7 625 947**	**7 625 947**
Deposits	275 288 611	—	—	**275 288 611**	**275 887 062**
Derivative financial instruments	—	622 676	—	**622 676**	**622 676**
Subordinated liabilities	11 101 637	—	—	**11 101 637**	**12 785 482**
Total financial liabilities	**299 069 513**	**622 676**	—	**299 692 189**	**301 974 485**

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.

GROUP AND BANK	Published price quotations (Level 1) EUR	Valuation techniques based on market observable inputs (Level 2) EUR	Valuation techniques not based on market observable inputs (Level 3) EUR	Total EUR
As of 31 December 2014				
Financial assets				
Available for sale instruments	80 343 715	53 960	359 420	**80 757 095**
Financial assets at fair value through profit or loss	476 839	—	—	**476 839**
Derivatives	4 612	2 400 400	—	**2 405 012**
	80 825 166	**2 454 360**	**359 420**	**83 638 946**
Financial liabilities				
Derivatives	—	1 965 060	—	**1 965 060**
	—	**1 965 060**	—	**1 965 060**

GROUP AND BANK	Published price quotations (Level 1) EUR	Valuation techniques based on market observable inputs (Level 2) EUR	Valuation techniques not based on market observable inputs (Level 3) EUR	Total EUR
As of 31 December 2013				
Financial assets				
Available for sale instruments	—	54 735	218 142	**272 877**
Financial assets at fair value through profit or loss	646 496	1 022 274	—	**1 668 770**
Derivatives	22 685	1 443 907	—	**1 466 592**
	669 181	**2 520 916**	**218 142**	**3 408 239**
Financial liabilities				
Derivatives	—	622 676	—	**622 676**
	—	**622 676**	**—**	**622 676**

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 EUR	Available for sale financial instruments EUR	Financial investments at fair value through profit or loss EUR	Total EUR
As of 31 December 2013	—	**218 142**	—	**218 142**
Total gains and losses:	—	—	—	—
in profit or loss	—	—	—	—
in OCI	—	—	—	—
Purchases	—	180 413	—	**180 413**
Sale	—	(39 135)	—	**(39 135)**
As of 31 December 2014	—	**359 420**	—	**359 420**

Total gains or losses for the year ended 31 December 2013 in the statement of comprehensive income as follows:

	Financial assets at fair value through profit or loss EUR	Available for sale financial instruments EUR	Financial investments at fair value through profit or loss EUR	Total EUR
Net gain/(loss) on financial instruments at fair value through profit or loss	—	—	—	—
Net gain/(loss) on available-for-sale instruments	—	39 135	—	39 135
Total gains and losses included in profit or loss	—	**39 135**	—	**39 135**
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	non-liquid 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:

	Effect on other comprehensive income	
	Increase EUR	(Decrease) EUR
As of 31 December 2014		
Net asset value quote (10% movement)	35 942	(35 942)
Bid price movements (10% movement)	(9 195)	9 195
	26 747	(26 747)

(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:

BANK	Level 1 EUR	Level 2 EUR	Level 3 EUR	Total EUR	Carrying amount EUR
As of 31 December 2014					
Financial assets					
Cash and due from central banks	—	23 525 223	—	**23 525 223**	**23 525 223**
Due from credit institutions	—	—	277 578 075	**277 578 075**	**277 591 255**
Loans	—	—	96 036 527	**96 036 527**	**97 753 368**
Securities held-to-maturity	8 730 659	—	—	**8 730 659**	**8 730 659**
	8 730 659	**23 525 223**	**373 614 602**	**405 870 484**	**407 600 505**
Financial liabilities					
Due to credit institutions	—	10 236 079	—	10 236 079	10 236 079
Deposits	—	—	448 424 142	448 424 142	448 244 286
Other liabilities	—	43 297 774	—	**43 297 774**	**40 709 281**
	—	**53 533 853**	**448 424 142**	**501 957 995**	**499 189 646**
As of 31 December 2013					
Financial assets					
Cash and due from central banks	—	31 444 203	—	**31 444 203**	**31 444 203**
Due from credit institutions	—	154 895 063	—	**154 895 063**	**154 968 015**
Loans	—	104 262 170	—	**104 262 170**	**103 580 577**
Securities held-to-maturity	5 828 442	—	—	**5 828 442**	**5 713 113**
	5 828 442	290 601 436	—	**296 429 878**	**295 705 908**
Financial liabilities					
Due to credit institutions	—	275 887 062	—	**275 887 062**	**7 625 947**
Deposits	—	448 424 142	—	**448 424 142**	**275 288 611**
Other liabilities	—	22 089 123	—	**22 089 123**	**20 405 278**
	—	746 400 327	—	**746 400 327**	**303 319 836**

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. Going Concern

Ukraine's economic situation has further deteriorated significantly during 2014. Political and social unrest combined with rising regional tensions has deepened the ongoing economic crisis and has resulted in a widening of the state budget deficit and a depletion of the National Bank of Ukraine's foreign currency reserves. In February 2014, following the devaluation of the national currency, the National Bank of Ukraine introduced certain administrative restrictions on currency conversion transactions and also announced a transition to a floating foreign exchange rate regime. The national currency suffered further devaluation later in the year. The final resolution and the effects of the political and economic crisis are difficult to predict but may have further severe effects on the Ukrainian economy.

The Bank is following closely the economic and political developments in Ukraine in relation to the Bank's exposures in this country.

The following is an overview of the Bank's and the Group's exposure to Ukraine (as of December 31, 2014):

- Loans – 29 207 611 EUR
- Contingent liabilities and commitments to customers – 2 104 804 EUR

A sensitivity analysis to change in collateral value by 15% implies additional impairment allowances for loans in the amount of EUR 1 733 thousand, which in turn would decrease the capital adequacy by 0.51% to 13.63% which would be below the level of capital adequacy set by the banking regulator, the Financial and Capital Market Commission of the Republic of Latvia, of 13.70%. For further details on loan exposures in Ukraine and the related uncertainty please refer to Note 19 (i).

Sensitivity analysis to change in collateral was not conducted for contingent liabilities and commitments since these relate to performing clients of the Bank without any amounts overdue or other customer specific impairment triggers.

The Financial and Capital Market Commission of the Republic of Latvia has evaluated the Bank's exposures in Ukraine and has concluded that the Bank needs to adjust the regulatory capital requirement calculation in light of the heightened risk relating to positions in Ukraine. The required capital adjustment according to the Bank's estimates in March 2015 results in the decrease of the capital adequacy ratio below the individual requirement of the FCMC, 13.7%, to 8.9%. Nevertheless, the final decision by the regulator is pending, and discussions about the required adjustments to prudential capital vary and the range of possible final outcomes is from 8.9% to 13.8%. This event, in turn, indicates at material uncertainty in relation to the Bank's ability to continue as a going concern. Furthermore, the Bank's tier 1 capital ratio (CET1) will be not drop below 7.5% (in the worst case scenario) which is in full compliance with the Regulation (EU) No 575/2013 of the European Parliament on prudential requirements for credit institutions and investment firms.

In light of the uncertain development of events in Ukraine, and following the principle of prudence, the management of the Bank has decided that the key priority for 2015 will be the reducing the Bank's and the Group's exposures in Ukraine to the extent possible. The task is currently underway. According to the management's estimates the structure of the loans, the collateral behind and the activities already undertaken by the Bank will allow to significantly decreasing the part of non-performing loans out of the total Bank's exposure in Ukraine and/or either extinguish or restructure them.

The management of the Bank has also developed and has started implementing a plan to maintain the required individual capital adequacy ratio that fully addresses the possible shortage. According to the plan, there are both short term (up to 6 months) and long term (up to 1 year) solutions. The short term measures are directed towards the reduction of the risk of assets (for example by making investments in securities of the most secure issuers) and the improvement of profitability (for example, by optimising administrative expenses, stimulating the volumes of commission income earned by increasing the volume and diversity of the business, also by reviewing the Bank's price list for certain services in line with the market situation). In terms of the long-term measures, these include an increase in both the share capital and subordinated capital. The management of the Bank expects that the share capital increase by nearly EUR 9 million will be finalised by the end of 2015. This plan has a full support by the shareholders of the Bank who are committed to address any going concern issues that arise in light of the current developments in the Bank's markets.

50. Events Subsequent to the Reporting Date

During the period from 1 January 2015 to the date of signing these financial statements, one of the Bank's correspondent banks has experienced deterioration in its financial position. The Bank has made a special allowance totalling EUR 1 374 thousand; the figure corresponds to the balance of the claim against the bank. As at 31 December 2014, the Bank did not have any claim against the correspondent bank. The Bank expects that its claims will be satisfied during the correspondent bank's liquidation process.

51. 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 251 (2013: 238).

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:

Financial indicators

- Bank's profit figure – financial indicator;
- Achievement of functional unit's income plan (target income) – financial indicator;
- Achievement of individual income plan (target income) – financial indicator;

Non-financial indicators

- Implementation of functional unit's performance (action) plan – non-financial indicator;
- Individual employee performance and professional development (results of interviews conducted on a yearly basis) – non-financial indicator;
- Outstanding employee performance and special achievements – non-financial indicator;
- Quality of the work on the project – non-financial indicator;
- Quality of initiative projects – non-financial indicator.
- Acknowledgements and disciplinary penalties – 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 remuneration paid to the institution's employees	**Total remuneration EUR**	**Variable remuneration component EUR**
Supervisory Council (3)	207 162	19 469
Board (6)	447 951	101 355
Investment services (17)	341 698	49 890
Services for private individuals or small and medium-sized enterprises (54.75)	1 116 153	185 713
Asset management (6)	274 257	16 807
Administrative and support functions (158.2)	2 646 999	402 420
Internal Control Functions (4)	362 355	51 612

Information about the remuneration of institution's material risk takers (MRTs)	**Fixed remuneration component EUR**	**Cash EUR**	**Variable remuneration component EUR**	**Cash EUR**
Board (6)	346 596	346 596	101 355	101 355
Investment services (2)	101 109	101 109	15 614	15 614
Services for private individuals or small and medium-sized enterprises (2)	74 422	74 422	11 831	11 831
Internal Control Functions (4)	150 363	150 363	24 325	24 325