



ABLV

BANKING / INVESTMENTS \ ADVISORY

# ABLV Bank, AS

Consolidated annual report  
for the year ended 31 December 2013

Together with independent auditors' report

## Contents

Bank's Management Report	3
The Council and the Board	8
Statement of Management's Responsibility	9
Financial Statements:	
Statements of Comprehensive Income	10
Statements of Financial Position	11
Statements of Changes in Shareholders' Equity	12
Cash Flow Statements	13
Notes	14
Independent Auditors' Report	74

## Bank's Management Report

Dear shareholders of ABLV Bank, AS,

Due to consequent implementation of the group's development strategy, ABLV Bank, AS, and other ABLV Group companies continued to grow in the reporting period. The growth was also facilitated by favourable overall economic conditions and upswing in our customers' areas of operations.

In 2013 the global economy growth continued to slow down: the global GDP increase is estimated to be less than 3.0% in 2013, whereas in 2012 it amounted to 3.5%. Growth pace decrease affected the world's largest economies: USA, China, Japan, and Germany. Furthermore, the major problem of the global economy – public debt increase in developed countries – was not solved in 2013.

However, Latvian economy continued to grow. In 2013, Latvia still was the leader in terms of GDP increase among all countries of the European Union. During the first three quarters of the year, Latvian GDP grew by 3.8%, 4.3%, and 4.5% respectively. This increase also boosted the optimism among local businessmen and investors, which is essential for further economic upturn. Such economic growth allowed decreasing the public debt to GDP ratio from 41.0% to 35.0%.

Overall Latvian investment environment and public debt servicing were positively influenced by Latvian credit rating upgrade by the leading rating agencies in 2013. The current rating is only one notch lower than during the period from 2004 to 2007. Whereas, Standard&Poor's decided to upgrade Latvian outlook from stable to positive at the end of 2013, preserving the current rating of BBB+, and thus in 2014 the country will be able to regain its highest rating so far.

Latvian economy is also positively affected by the programme of granting residence permits for investments in real estate and companies. It is difficult to calculate the exact economic effect of this programme, however according to approximate estimates the overall amount of funds attracted to the economy reaches several hundred million euros. For example, the programme directly affected the real estate sector, which grew by 11.6% in Q3, and construction of residential properties rose by 83.0% compared with the previous year. The programme also stimulated personal consumption.

Long-awaited implementation of single European currency, the euro, was also important for Latvian economy and financial market. This will definitely make Latvian economy more attractive for investors from both the West and the East. It is supposed to ensure considerable benefits for the country in the long term. Whereas establishment of the European Central Bank direct supervision over three largest banks – including ABLV Bank, AS, – will increase the stability, safety and reliability of those banks and Latvian banking system in general.

In autumn 2013, we celebrated ABLV Bank 20-year anniversary. We started operations being one of the smallest banks, and due to the steadily pursuing elaborated strategy our bank managed to successfully overcome all crisis situations, meanwhile retaining its independence, and became the largest private bank and one of the three biggest banks in Latvia.

One of the most significant events during the reporting period was another issue of ABLV Bank, AS, shares, under which there were 6 570 ordinary voting shares issued, and the bank's equity was increased by LVL 11.5 million (EUR 16.4 million) consequently. Also there were 2 400 employee shares issued. After completing the issue, the bank's share capital is comprised of 127 170 ordinary voting shares and 13 400 employee shares without voting rights attached. The sale price of one newly issued share equalled LVL 1 755 (EUR 2 499), and 38 current shareholders of the bank participated in the issue. Compared with the share issue performed in 2010, the price of one share of the bank increased 2.7 times. This clearly evidences financial return ensured by the shareholders' contribution. The funds obtained as a result of the share issue were invested in the bank's further development.

Continuing gradual replacement of long-term deposits with bonds, there were several new bond issues performed during the reporting period. In total, there were four issues of subordinated 10-year bonds for the sake of raising the capital performed in 2013, their size being USD 55.0 million and EUR 20.0 million, as well as six issues of straight 2-year bonds, amounting to USD 175.0 million and EUR 40.0 million. These bonds have been also included in the NASDAQ OMX Riga stock exchange list of debt securities. As at the end of 2013, investors held ABLV Bank, AS, bonds worth LVL 216.7 million (EUR 308.4 million), and 15 bond issues were included in the NASDAQ OMX Riga list of debt securities.

The efficiency of the business strategy chosen by us is also evidenced by the research performed by one of the most influential publications in the field of global capital and financial markets, Euromoney, which named ABLV Bank, AS, the best bank in Latvia. The appraisal was given to our bank under Euromoney Awards for Excellence 2013. According to

## Bank's Management Report

Euromoney, ABLV Bank, AS, is one of the strongest banks in the region in terms of capital, and it maintains steady growth and works with proportionate profit.

Since ABLV Bank, AS, and other ABLV Group companies are constantly developing, both business volume and number of officers are growing. In 2013, ABLV Group staff was increased by 90 officers, and 58 of those started their work at the bank's structural units. As at 31 December 2013, there were 698 officers working in ABLV Group, and 571 of those – in the bank. Therefore, a decision on moving part of the bank's structural units to new premises – the business centre Jupiter Centre, at 7 Skanstes Street – was taken. Now the bank has two administrative buildings in Riga – at 23 Elizabetes Street and 7 Skanstes Street.

### Financial results

The bank's major financial indicators for 2013 reached their historic maximum, and those evidence stable growth. ABLV Bank, AS, is the largest bank in Latvia with local capital and is ranked third in terms of the amount of assets.

- The bank's profit in 2013 amounted to LVL 30.7 million (EUR 43.7 million). Whereas the profit for 2012 was equal to LVL 16.5 million (EUR 23.4 million).
- The bank's operating income before allowances for credit losses totalled LVL 77.5 million (EUR 110.2 million). Compared with 2012, operating income has increased by 27.3%.
- The amount of customers' deposits equalled LVL 1.95 billion (EUR 2.78 billion) as at the end of the reporting period.
- The amount of the issued debt securities reached LVL 216.7 million (EUR 308.4 million).
- As at 31 December 2013, the amount of the bank's assets equalled LVL 2.33 billion (EUR 3.32 billion). Over the year, the amount of assets has grown by 8.9 %, the total assets increased by LVL 190.8 million (EUR 271.5 million).
- The bank's loan portfolio equalled LVL 535.0 million (EUR 761.3 million), as at the end of December.
- The bank's capital and reserves amounted to LVL 131.4 million (EUR 187.0 million).
- Assets under management and customers' financial instruments amounted to LVL 651.3 million (EUR 926.7 million).
- As at 31 December 2013, the bank's capital adequacy ratio was 17.53%, whereas liquidity equalled 79.20%.
- ROE reached 26.29%, and ROA – 1.36%, as at 31 December 2013.

The bank continued investing in securities. The total amount of the securities portfolio was equal to LVL 983.8 million (EUR 1.40 billion), as at 31 December 2013. The bank's securities portfolio is mostly composed of fixed-income debt securities, and 69.1% of the portfolio is constituted by securities having credit rating AA- and higher. In terms of the major countries, securities are allocated as follows: USA – 21.8%, Russia – 13.8%, Germany – 12.3%, Canada – 11.6%, Sweden – 8.8%, Latvia – 7.9%, Netherlands – 3.5%, Norway – 2.2%, Switzerland – 1.6%, and Great Britain – 1.4%. Whereas, 6.6% is constituted by securities issued by international institutions – the European Commission, EBRD, etc. In the reporting period, annual yield of the bank's securities portfolio amounted to 1.8%.

In 2013, Internetbank application for iPhone was made available to customers. Using the Internetbank for iPhone, customers will be able to view an account report and information on blocked amounts, payment card data, with an option to change the card status, as well as to make intrabank payments, to send currency exchange orders, and to perform other transactions.

In 2014, we will also offer Internetbank for iPad. Its functionality will be similar to that of standard Internetbank, from viewing account balances to managing of investment portfolios. Accounts, payment cards, deposits, investments, and credits will always be at hand, whereas convenient mailbox will keep customers informed of messages and reports sent by the bank. In order to facilitate the application use in different lightening conditions, the application is developed in accordance with our corporate style and it will be allowed to choose between two high-contrast versions — dark and light ones, as well as between landscape and portrait layout.

Improving work of our Client Line, from December 2013 we ensure the possibility to contact us any time — 24/7, calling at +371 6777 5555. Recognizing the growing significance of data protection, we implemented a number of new technologies and procedures for improving security in our Internetbank. For the utmost convenience, the new service implying the remote preparation of applications and payments for customers was launched.

It should be noted that under the euro implementation in Latvia on 1 January 2014 we also successfully switched the bank's systems, products and services to the new currency.

### Investments

In 2013, ABLV Bank, AS, affiliate companies ABLV Capital Markets, IBAS, and ABLV Asset Management, IPAS, worked hardily on launching new products and improving existing ones.

During 2013, the range of our open-end mutual funds was expanded by four new funds. Those include two corporate bond funds, ABLV European Corporate EUR Bond Fund and ABLV Global Corporate USD Bond Fund, which have moderate investment strategy and balanced risk level, and are aimed at achieving capital growth considerably higher than that ensured by deposit interest rates, by investing the funds' assets in corporate bonds with high coupon yield and high liquidity. There were also two new stock funds added, ABLV European Industry EUR Equity Fund and ABLV US Industry USD Equity Fund, with moderately aggressive investment strategy and increased risk level, which are aimed at achieving long-term capital growth. Just like existing mutual funds, the new funds are also managed by ABLV Asset Management, IPAS.

As at the end of 2013, the total asset value of the open-end mutual funds reached LVL 61.8 million (EUR 87.9 million). Since the beginning of the year, the total value of funds has increased by 72.4%, i.e., approximately by LVL 26.0 million (EUR 36.9 million). The growth of the funds' value was due to the high interest in financial markets and customers' willingness to diversify their investment portfolios by acquiring shares of ABLV funds, as well as due to establishment of four new funds mentioned before.

As at the end of 2013, the total assets under ABLV Asset Management, IPAS, management amounted to LVL 65.5 million (EUR 93.2 million), of which LVL 61.8 million (EUR 87.9 million) were customers' investments in mutual funds managed by the company, and LVL 3.7 million (EUR 5.3 million) were customers' funds invested in individual investment programmes.

ABLV Capital Markets, IBAS, which executes customers' instructions for purchasing and selling all types of financial instruments in the world's major stock markets, gained profit of LVL 2.3 million (EUR 3.3 million) in 2013. As at 31 December 2013, the total assets of the company's customers invested in financial instruments were equal to LVL 548.5 million (EUR 780.4 million).

We continued expanding the opportunities of obtaining financing against pledge of investment portfolio, and we offer it not just in USD and EUR currencies, but in RUB currency as well.

The bank's affiliate company ABLV Private Equity Management, SIA, continued its development; this company establishes and manages risk capital mutual funds for making investments in share capital of promising Latvian and foreign companies. ABLV Private Equity Management, SIA manages ABLV Private Equity Fund 2010, KS.

Due to the contribution of ABLV Private Equity Fund 2010, KS, Orto clinic was opened in Riga in 2013 which is the first newly built private traumatology and orthopedics centre in Latvia. The total project costs were about LVL 3.5 million (EUR 5.0 million), where LVL 2.7 million (EUR 3.8 million) were spent on the building construction, and LVL 0.8 million (EUR 1.2 million) – on acquiring medical and other necessary equipment. The project financing was ensured by ABLV Private Equity Fund 2010, KS, investments in the share capital of Orto klīnika, SIA, and by the bank loan. Earlier, ABLV Private Equity Fund 2010, KS, made investments in Depo DIY, SIA (construction materials retail chain), Vaiņode Agro Holding, SIA (agricultural holding) and Grindeks, AS (pharmaceutical company).

At the beginning of December 2013, ABLV Bank, AS, established a new company – AmberStone Group, AS, investing LVL 3.4 million (EUR 4.9 million) in its share capital. This will be a holding company, managing own investments. The objective of establishing AmberStone Group, AS, is to separate the business not related to rendering financial and banking services from ABLV Group. It is planned that till the end of 2015 the share capital of the new company will be increased to EUR 25.0 million, also due to attracting new shareholders from ABLV Bank, AS, shareholders, customers, and partners. The members of the company's board will be Agris Grīnbergs, who is appointed the Chairman of the Board, and Kārlis Kavass and Māris Kannenieks. Whereas ABLV Bank, AS, Chief Executive Officer, CEO, Ernests Bernis will be the Chairman of the company's council.

### Real estate management

Other companies of ABLV Group also continued to grow. The year 2013 was successful for the whole Latvian real estate sector, but real estate development and trading group Pillar outperformed the market in 2013, achieving great results. Its sales increased 2.5 times, i.e., by 141.0%. According to different estimates, the overall market growth is estimated 30.0%. In 2013, the company made the total of 613 property sale transactions, amounting to LVL 27.1 million (EUR 38.6 million). Whereas, during 2012 Pillar sold 254 properties for LVL 11.0 million (EUR 15.7 million).

The customers' activity has considerably grown in respect of all residential property segments – premium class, new projects, and especially existing homes. Among sold properties, 134 were the apartments in new and renovated projects, including 14 premium class apartments in Elizabetes Park House project. There were 476 apartments sold in existing homes (in 2012 – 125 apartments), as well as 2 commercial property sale transactions and one private house

## Bank's Management Report

sale transaction made. During last year the number of transactions with apartments in existing homes increased by 280.0%, whereas price growth in this sector was approximately up to 10.0%.

Pillar real estate development and renovation line of business continues to advance. By taking over and performing complete renovation of apartment blocks, private houses, and individual apartments, Pillar ensures their high-quality interior finishing. Totally, EUR 14.0 million has been invested in property renovation. Our renovated real estate development portfolio includes such special projects highly appreciated by customers as Elizabethes Park House, Saules Rasa, Pine Breeze, Mārtiņa Nams 2, Liesmas Apartment House, Dārza Apartment House, Lielezeres Apartment House, etc. The quality of our work is evidenced by the fact that most of the properties have already been sold off.

Active development of the project important for the whole ABLV Group – the financial and business centre New Hanza City, where ABLV Bank main building will be constructed in future – was continued. At the beginning of 2013, first construction works were started in Riga, at 28a Pulkveža Brieža Street, and Pillar will be able to move to its new office building at the project territory already in February 2014. Till now, more than LVL 20.0 million (EUR 28.5 million) have been invested in the project.

### Advisory

We always try to stay close to our customers, and therefore in 2013 we continued expanding the network of our representative offices abroad. The representative office of ABLV Consulting Services, AS, was opened in Vladivostok (Russia), as well as territorial structural unit in Limassol (Cyprus) started its operations.

Vladivostok is an important transportation hub at the Russian Far East, which services huge flow of goods transported by sea and railroad. The city has been rapidly developing during recent years, and volumes of goods turnover are increasing, therefore our presence in the city is a significant support to the customers whose business is related to Vladivostok, their cooperation partners, and other businessmen from all over Far East.

Whereas Cyprus was chosen since many customers from Russia and CIS states making business in Cyprus, also use the services rendered by companies registered there.

Having opened two new representative offices, currently ABLV Group has 12 representative offices in 8 countries – Russia, Ukraine, Belarus, Kazakhstan, Tajikistan, Azerbaijan, Uzbekistan, and Cyprus.

The service of obtaining residence permit in Latvia remains to be the most popular one among those rendered by ABLV Corporate Services, SIA. For convenience of foreign legal entities and to ensure cost reduction, in 2013 ABLV Corporate Services, SIA, started offering the opportunity of establishing a company in Latvia. Foreign legal entities can reduce their expenses by using tax benefits allowed for Latvian holding companies, as well as obtain more favourable lending conditions and payment fees.

Customers of ABLV Corporate Services, SIA, are also enthusiastic about getting advice on establishment of holding structures and assistance in changing their tax residence.

It should be noted that during the year specialists of ABLV Group participated in various international conferences, exhibitions and seminars: the largest Russian transport and logistics exhibition TransRussia, conference Intax Forums, Intax Expo, conference Inter Legal in Kiev, Kazakhstan conference Invest Pro – Kazakhstan 2013, as well as international conference and exhibition Intax Wealth Latvia, which was held in Riga for the first time. During those events, ABLV Group services were presented to existing and prospective customers.

### Luxembourg

In September 2013, which is the month of ABLV Bank 20-year anniversary celebration, ABLV Bank subsidiary bank in Luxembourg, ABLV Bank Luxembourg, S.A., started rendering services to customers. Alongside traditional banking products, customers are also offered services, developed especially for customers of the Luxembourg bank: fiduciary deposits, overnight deposits, advisory investment management, etc. ABLV Bank Luxembourg, S.A., combines the high level of ABLV customer service and traditions of the largest European investment centre.

The subsidiary bank in Luxembourg was established in order to develop the existing customer base and strengthen their loyalty, providing larger range of investment and fiduciary services, as well as to attract new customers. ABLV Bank, AS, is the first bank from the Baltic countries to establish a subsidiary bank in Luxembourg.

### Plans for 2014

Given the understanding that pressure of various unfavourable factors and complications in banking business are constantly growing, as well as requirements of supervisory authorities are increasing, the most important in such situation is to ensure stable growth and development of the bank, meanwhile constantly improving risk management and taking care of protection of the customers' interests.



## Bank's Management Report

In 2014, we plan to increase the bank's operating income at least by 15.0%. Due to expansion of the operations, 147 new jobs are supposed to be created in ABLV Group.

### For society

On 27 November 2013, ABLV Bank, AS, became a member of the Latvian Employers' Confederation. Joining the Confederation, we want to highlight that we are a socially responsible company, with high sense of responsibility to the state and willing to develop in a long term. The status of the Confederation member allows participating in development and adoption of the state policy planning documents and normative acts both domestically and internationally, thus bringing the changes that will have beneficial effect on development of the whole banking sector. In the Confederation, ABLV Bank, AS, will work on such issues as finance, operations of credit institutions, financial and investment services, securities and real estate transactions, and tax matters.

In 2013, ABLV Bank, AS, in cooperation with ABLV Charitable Foundation, continued supporting various socially important projects.

At the beginning of the year, the ABLV Bank, AS, collection supposed for future Latvian Contemporary Art Museum that is being created in cooperation with ABLV Charitable Foundation has been considerably increased. Due to acquiring new artworks, the collection became more diverse, comprising art of various genres: paintings, graphics, photos and videos, special artworks, and sculptures. Currently, the collection includes 204 works by 31 artists. On the 20<sup>th</sup> of September, the exhibition "...for an occurrence to become an adventure..." was opened in Riga Art Space, and works of all those artists were presented there. The exhibition aroused great public interest, and there were more than 5 600 visitors in total. We have also issued the art album "No Walls", which includes all the acquired artworks.

In July, we supported fifth exhibition of the dress collection brought by fashion historian Alexandre Vassiliev, which took place in the Museum of Decorative Arts and Design. This time the exhibition was named "From war to peace. Fashion of the 1940s and 1950s". Our customers had an opportunity to view the exhibition accompanied by Alexandre Vassiliev.

At the end of August, the bank's traditional golf tournament, ABLV Invitation Golf Tournament 2013, took place in Ozo Golf Club. There were 93 golfers participating in the tournament – they were our customers from Latvia and abroad, cooperation partners, bank's officers, and also prospective customers of the bank.

On 17 September 2013, the bank celebrated its 20<sup>th</sup> anniversary – during these 20 years of operations we have gained valuable experience. Celebrating this, there was a bronze bull sculpture placed in the territory of the future financial and business centre New Hanza City in Riga. The sculpture motto is Labor Omnia Vincit (Work conquers all), and it stands for the power of work, determination, self-belief, and confidence about the chosen path. The sculpture was created by famous artist Gļebs Panteļevs.

At the end of 2013, ABLV Charitable Foundation in cooperation with ABLV Bank, AS, for the seventh time arranged Christmas fund drive, during which our customers and officers made donations to two main social programmes of the fund: "Help hear!" (for acquiring hearing devices) and "Help grow up!" (for children camps). The fund together with ABLV Bank, AS, doubled the amount donated to both programmes – "Help hear!" and "Help grow up!". Besides these programmes, ABLV Charitable Foundation launched a new one – "Help 21.11" – to ensure a long-term support for children whose parents died or were severely injured in a result of the tragedy in Zolitude. ABLV Bank, AS also made the first donation to the programme equal to LVL 50.0 thousand (EUR 71.1 thousand).

In January 2014, after the fund drive was completed, we discovered that the total amount of donations under this fund drive reached incredibly high level exceeding EUR 333 thousand. Therefore, this year we will be able to make dreams of even more children willing to hear or go to a summer camp come true.

In 2013, the bank allocated the total of LVL 1.2 million (EUR 1.7 million) to charity.

Statement of corporate governance is published at the bank's home page [www.ablv.com](http://www.ablv.com).

We express our gratitude to our shareholders and customers for their loyalty and to all officers for their contribution to the bank's and the group's growth!



Chairman of the Council  
**Oļegs Fiļs**



Chairman of the Board  
**Ernests Bernis**

Riga, 24 February 2014

## The council and the board

### The council of the bank:

Chairman of the Council: Oļegs Fiļs	Date of re-election: 01/04/2013
Deputy Chairman of the Council: Jānis Krīgers	Date of re-election: 01/04/2013
Council Member: Igoris Rapoportis	Date of re-election: 01/04/2013

### The board of the bank:

Chairman of the Board: Ernests Bernis - Chief Executive Officer (CEO)	Date of re-election: 17/10/2011
Deputy Chairman of the Board: Vadims Reinfelds – Deputy Chief Executive Officer (dCEO)	Date of re-election: 17/10/2011
Board Members: Aleksandrs Pāže – Chief Compliance Officer (CCO)	Date of re-election: 17/10/2011
Edgars Pavlovičs – Chief Risk Officer (CRO)	17/10/2011
Māris Kannenieks – Chief Financial Officer (CFO)	17/10/2011
Rolands Citajevs – Chief IT Officer (CIO)	17/10/2011
 Romans Surnačovs – Chief Operating Officer (COO)	Date of election: 17/10/2011

There were no changes in the board of the bank during the reporting year.



## Statement of management's responsibility

The council and the board of ABLV Bank, AS (hereinafter – the bank) are responsible for the preparation of the financial statements of the bank as well as for the preparation of the consolidated financial statements of the bank and its subsidiaries (hereinafter – the group).

The financial statements set out on pages 10 to 73 are prepared in accordance with the source documents and present truly and fairly the financial position of the bank and the group as at 31 December 2013 and 2012, and the results of their operations, changes in the shareholders' equity and cash flows for the years then ended.

The aforementioned financial statements are prepared on a going concern basis in conformity with International Financial Reporting Standards as adopted by the European Union. Prudent and reasonable judgements and estimates have been made by the management in the preparation of the financial statements.

The council and the board of the bank (hereinafter – the management) are responsible for the maintenance of proper accounting records, the safeguarding of the group's assets, and the prevention and detection of fraud and other irregularities in the group. The management of the bank are also responsible for operating the group and the bank in compliance with the Law of the Republic of Latvia on Credit Institutions, Regulations of the Bank of Latvia and the Financial and Capital Market Commission, and other laws of the Republic of Latvia applicable to credit institutions.



Chairman of the Council  
**Ojēgs Fijs**



Chairman of the Board  
**Ernests Bernis**

Riga, 24 February 2014

# Income statements and other statements of comprehensive income for the years ended 31 December 2013 and 2012

	Notes	LVL'000			
		Group		Bank	
		01/01/2013-31/12/2013	01/01/2012-31/12/2012	01/01/2013-31/12/2013	01/01/2012-31/12/2012
Interest income	3	41,379	38,766	41,240	38,448
Interest expense	3	(11,410)	(15,367)	(11,200)	(15,349)
<b>Net interest income</b>		<b>29,969</b>	<b>23,399</b>	<b>30,040</b>	<b>23,099</b>
Commission and fee income	4	43,354	32,320	38,909	29,201
Commission and fee expense	4	(7,573)	(6,216)	(10,741)	(8,744)
<b>Net commission and fee income</b>		<b>35,781</b>	<b>26,104</b>	<b>28,168</b>	<b>20,457</b>
Net gain on transactions with financial instruments and foreign exchange	5	15,457	14,611	15,602	14,757
Gains on sale of non-financial assets held for sale	6	3,352	935	17	0
Other income	7	12,934	5,844	2,171	1,142
Income from dividends		74	7	1,461	1,404
Impairment allowance for loans	8	(6,653)	(12,438)	(6,653)	(12,264)
<b>Operating income</b>		<b>90,914</b>	<b>58,462</b>	<b>70,806</b>	<b>48,595</b>
Administrative expense	10	(39,057)	(30,250)	(29,829)	(23,965)
Amortisation and depreciation		(3,334)	(2,044)	(1,968)	(1,433)
Other expense	7	(5,773)	(3,078)	(591)	(521)
Provisions		-	(338)	-	(338)
Impairment of financial instruments		(856)	(322)	(856)	(322)
Impairment of other assets	9	446	(2,605)	(1,407)	(1,819)
<b>Operating expense</b>		<b>(48,574)</b>	<b>(38,637)</b>	<b>(34,651)</b>	<b>(28,398)</b>
<b>Profit before corporate income tax</b>		<b>42,340</b>	<b>19,825</b>	<b>36,155</b>	<b>20,197</b>
Corporate income tax	11	(6,498)	(3,959)	(5,459)	(3,743)
<b>Net profit for the year</b>		<b>35,842</b>	<b>15,866</b>	<b>30,696</b>	<b>16,454</b>
<b>Attributable to:</b>					
Equity holders of the bank		35,354	16,106		
Non-controlling interests		488	(240)		
<b>Other comprehensive income:</b>					
<b>Other comprehensive income which already is or could be recognised in profit or loss</b>					
Changes in fair value revaluation reserve of available-for-sale financial assets		(2,151)	4,773	(2,151)	4,773
Charge to income statement as a result of sale of available-for-sale securities		13	(16)	13	(16)
Charge to income statement due to recognised impairment of available-for-sale securities		769	342	769	342
Change in deferred corporate income tax		205	(764)	205	(764)
<b>Other comprehensive income, total</b>		<b>(1,164)</b>	<b>4,335</b>	<b>(1,164)</b>	<b>4,335</b>
<b>Total comprehensive income</b>		<b>34,678</b>	<b>20,201</b>	<b>29,532</b>	<b>20,789</b>
<b>Attributable to:</b>					
Equity holders of the bank		34,190	20,441		
Non-controlling interests		488	(240)		
<b>Earnings per share attributable to the equity holders of the bank, LVL</b>		<b>243.22</b>	<b>162.19</b>		



Chairman of the Council  
Oļegs Fiļs



Chairman of the Board  
Ernests Bernis

Riga, 24 February 2014

## Statements of financial position as at 31 December 2013 and 31 December 2012

LVL'000

Assets	Notes	Group	Group	Bank	Bank
		31/12/2013	31/12/2012	31/12/2013	31/12/2012
Cash and deposits with central banks	12	250,738	216,085	250,723	216,074
Balances due from credit institutions	13	450,023	392,898	435,062	388,665
Derivatives	17	317	81	317	81
Financial assets at fair value through profit or loss	14	11,803	3,333	11,803	3,333
Available-for-sale financial assets	15	519,130	547,757	514,213	547,757
Loans	18	527,171	499,787	535,022	503,611
Held-to-maturity financial assets	16	458,957	351,832	457,814	351,832
Investments in subsidiaries and associates	19	4,663	2,668	93,353	89,577
Investment properties	20	23,444	20,856	17,099	17,303
Tangible fixed assets	21	22,962	19,610	6,849	4,906
Intangible fixed assets	21	3,963	3,821	3,525	3,384
Current corporate income tax receivables		87	71	-	-
Deferred corporate income tax	11	499	404	-	74
Non-financial assets held for sale		50,712	56,045	437	855
Other assets	22	6,084	13,961	3,837	11,764
<b>Total assets</b>		<b>2,330,553</b>	<b>2,129,209</b>	<b>2,330,054</b>	<b>2,139,216</b>
<b>Liabilities</b>					
Derivatives	17	1 438	4 579	1 438	4 579
Demand deposits from credit institutions		7 488	967	10 184	2 406
Term deposits from credit institutions		2 553	2 230	-	8 405
Deposits	23	1 945 480	1 862 391	1 951 305	1 868 890
Current corporate income tax liabilities		3 727	1 273	3 602	1 057
Other liabilities		12 192	15 915	7 800	9 007
Deferred corporate income tax	11	559	71	119	-
Provisions		287	338	287	338
Issued securities	24	216 735	124 819	216 735	124 819
Subordinated deposits	25	7 133	12 912	7 133	12 912
<b>Total liabilities</b>		<b>2 197 592</b>	<b>2 025 495</b>	<b>2 198 603</b>	<b>2 032 413</b>
<b>Shareholders' equity</b>					
Paid-in share capital	26	21 086	19 740	21 086	19 740
Share premium		29 156	18 611	29 156	18 611
Reserve capital and other reserves		1 500	1 500	1 500	1 500
Fair value revaluation reserve of available-for-sale financial assets		691	1 855	691	1 855
Retained earnings brought forward		42 436	43 293	48 322	48 643
Retained earnings for the period		35 354	16 106	30 696	16 454
Attributable to the equity holders of the bank		130 223	101 105	131 451	106 803
Non-controlling interests		2 738	2 609	-	-
<b>Total shareholders' equity</b>		<b>132 961</b>	<b>103 714</b>	<b>131 451</b>	<b>106 803</b>
<b>Total liabilities and shareholders' equity</b>		<b>2 330 553</b>	<b>2 129 209</b>	<b>2 330 054</b>	<b>2 139 216</b>
<b>Memorandum items</b>					
Contingent liabilities	27	5 545	7 047	5 551	7 052
Financial commitments	27	42 477	30 161	42 730	30 276

  
Chairman of the Council  
**Oļegs Fiļs**

  
Chairman of the Board  
**Ernests Bernis**

Riga, 24 February 2014

## Statement of changes in shareholders' equity of the group for the years ended 31 December 2013 and 31 December 2012

LVL'000

	Paid-in share capital	Share premium	Reserve capital	Fair value revaluation reserve	Retained earnings	Attributable to the equity holders of the Bank	Non- controlling interests	Total shareholders' equity
<b>As at 1 January 2012</b>	<b>16 500</b>	<b>5 255</b>	<b>1 500</b>	<b>(2 480)</b>	<b>64 049</b>	<b>84 824</b>	<b>503</b>	<b>85 327</b>
Total comprehensive income for the reporting year	-	-	-	4 335	16 106	20 441	(240)	20 201
Dividends paid	-	-	-	-	(19 106)	(19 106)	-	(19 106)
Issue of personnel shares	1 650	-	-	-	(1 650)	-	-	-
Issue of shares	1 590	13 356	-	-	-	14 946	-	14 946
Increase of non-controlling interests	-	-	-	-	-	-	2 346	2 346
<b>As at 31 December 2012</b>	<b>19 740</b>	<b>18 611</b>	<b>1 500</b>	<b>1 855</b>	<b>59 399</b>	<b>101 105</b>	<b>2 609</b>	<b>103 714</b>
<b>As at 1 January 2013</b>	<b>19 740</b>	<b>18 611</b>	<b>1 500</b>	<b>1 855</b>	<b>59 399</b>	<b>101 105</b>	<b>2 609</b>	<b>103 714</b>
Total comprehensive income for the reporting year	-	-	-	(1 164)	35 354	34 190	488	34 678
Dividends paid	-	-	-	-	(16 558)	(16 558)	-	(16 558)
Issue of personnel shares	360	-	-	-	(405)	(45)	45	-
Issue of shares	986	10 545	-	-	-	11 531	-	11 531
Decrease of non-controlling interests	-	-	-	-	-	-	(404)	(404)
<b>As at 31 December 2013</b>	<b>21 086</b>	<b>29 156</b>	<b>1 500</b>	<b>691</b>	<b>77 790</b>	<b>130 223</b>	<b>2 738</b>	<b>132 961</b>

## Statement of changes in shareholders' equity of the bank for the years ended 31 December 2013 and 31 December 2012

LVL'000

	Paid-in share capital	Share premium	Reserve capital	Fair value revaluation reserve	Retained earnings	Total shareholders' equity
<b>As at 1 January 2012</b>	<b>16 500</b>	<b>5 255</b>	<b>1 500</b>	<b>(2 480)</b>	<b>69 399</b>	<b>90 174</b>
Total comprehensive income for the reporting year	-	-	-	4 335	16 454	20 789
Dividends paid	-	-	-	-	(19 106)	(19 106)
Issue of personnel shares	1 650	-	-	-	(1 650)	-
Issue of shares	1 590	13 356	-	-	-	14 946
<b>As at 31 December 2012</b>	<b>19 740</b>	<b>18 611</b>	<b>1 500</b>	<b>1 855</b>	<b>65 097</b>	<b>106 803</b>
<b>As at 1 January 2013</b>	<b>19 740</b>	<b>18 611</b>	<b>1 500</b>	<b>1 855</b>	<b>65 097</b>	<b>106 803</b>
Total comprehensive income for the reporting year	-	-	-	(1 164)	30 696	29 532
Dividends paid	-	-	-	-	(16 415)	(16 415)
Issue of personnel shares	360	-	-	-	(360)	-
Issue of shares	986	10 545	-	-	-	11 531
<b>As at 31 December 2013</b>	<b>21 086</b>	<b>29 156</b>	<b>1 500</b>	<b>691</b>	<b>79 018</b>	<b>131 451</b>

## Cash flow statements of the group and the bank for the years ended 31 December 2013 and 31 December 2012

	LVL'000			
	Group	Group	Bank	Bank
	01/01/2013- 31/12/2013	01/01/2012- 31/12/2012	01/01/2013- 31/12/2013	01/01/2012- 31/12/2012
<b>Cash flow from operating activities</b>				
Profit before corporate income tax	42,340	19,825	36,155	20,197
Amortisation and depreciation of fixed assets and investment properties	3,334	2,044	1,968	1,433
Allowance for impairment of assets	6,653	12,438	6,653	12,264
Impairment of other assets	(446)	2,605	1,407	1,819
Decrease in financial instruments	856	322	856	322
Interest (income)	(41,379)	(38,766)	(41,240)	(38,448)
Interest expense	11,410	15,367	11,200	15,349
Other non-cash items	137	5,011	774	(699)
<b>Net cash flow from operating activities before changes in assets and liabilities</b>	<b>22,905</b>	<b>18,846</b>	<b>17,773</b>	<b>12,237</b>
Decrease/ (increase) in balances due from credit institutions	3,306	(19,427)	7,402	(19,133)
(Increase) in loans	(38,364)	(41,504)	(42,530)	(44,627)
(Increase) in financial assets at fair value through profit or loss	(8,175)	(11,291)	(8,175)	(11,291)
Decrease/ (increase) in other assets	12,928	(10,072)	9,113	1,538
Increase/ (decrease) in balances due to credit institutions	189	(1,308)	(8,399)	7,210
Increase in deposits	131,370	288,111	132,431	286,906
(Decrease)/ increase in derivatives	(3,376)	12,527	(3,376)	12,527
(Decrease)/ increase in other liabilities	(3,732)	2,860	(1,713)	(304)
<b>Net cash flow from operating activities before corporate income tax</b>	<b>117,051</b>	<b>238,742</b>	<b>102,526</b>	<b>245,063</b>
Interest received in the reporting year	49,819	33,034	49,819	33,387
Interest (paid) in the reporting year	(15,859)	(12,631)	(15,657)	(12,631)
Corporate income tax (paid)	(2,972)	(409)	(2,376)	-
<b>Net cash flow from operating activities</b>	<b>148,039</b>	<b>258,736</b>	<b>134,312</b>	<b>265,819</b>
<b>Cash flow from investing activities</b>				
(Purchase) of held-to-maturity financial assets	(127,734)	(246,320)	(126,592)	(246,320)
Redemption of held-to-maturity financial assets	9,829	14,635	9,829	14,635
(Purchase) of available-for-sale financial assets	(650,964)	(766,214)	(646,046)	(766,214)
Sale of available-for-sale financial assets	653,421	636,700	653,421	636,700
(Purchase) of intangible and tangible fixed assets and investment properties	(9,497)	(16,826)	(4,105)	(2,230)
Sale of intangible and tangible fixed assets	456	5,467	256	53
(Purchase) of investments in other entities	(641)	(2,353)	(5,949)	(23,712)
Decrease in participation in subsidiaries	154	-	39	4,863
<b>Net cash flow from investing activities</b>	<b>(124,976)</b>	<b>(374,911)</b>	<b>(119,147)</b>	<b>(382,225)</b>
<b>Cash flow from financing activities</b>				
Increase in subordinated loans	2,431	2,335	2,431	2,335
(Repayment) of subordinated loans	(8,044)	(10,880)	(8,044)	(10,880)
Sale of issued securities	141,070	90,350	141,070	90,350
(Repurchase) of issued securities	(43,306)	(18,078)	(43,306)	(22,828)
Dividends (paid)	(16,554)	(19,100)	(16,410)	(19,100)
Issue of shares	11,531	14,946	11,531	14,946
<b>Net cash flow from financing activities</b>	<b>87,128</b>	<b>59,573</b>	<b>87,272</b>	<b>54,823</b>
<b>Net cash flow</b>	<b>110,191</b>	<b>(56,602)</b>	<b>102,437</b>	<b>(61,583)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>571,332</b>	<b>637,416</b>	<b>565,944</b>	<b>637,007</b>
Gain from revaluation of foreign currency positions	(5,546)	(9,482)	(5,546)	(9,480)
<b>Cash and cash equivalents at the end of the year</b>	<b>675,977</b>	<b>571,332</b>	<b>662,835</b>	<b>565,944</b>

	LVL'000			
	Group	Group	Bank	Bank
	31/12/2013	31/12/2012	31/12/2013	31/12/2012
<b>Cash and cash equivalents</b>				
Cash and deposits with central banks	250,738	216,078	250,723	216,074
Balances due from credit institutions	432,727	356,221	422,296	352,276
Balances due to credit institutions	(7,488)	(967)	(10,184)	(2,406)
<b>Total cash and cash equivalents</b>	<b>675,977</b>	<b>571,332</b>	<b>662,835</b>	<b>565,944</b>

Information about balances due from credit institutions, that does not cash equivalents, is shown at Note 13

## Notes to the financial statements for the year ended 31 December 2013

### Note 1

#### General information

ABLV Bank, AS was registered in Aizkraukle, Republic of Latvia, on 17 September 1993, as a joint stock company. At present, the legal address of the bank is Elizabetes Street 23, Riga.

The bank operates in accordance with the laws and regulations of the Republic of Latvia and the licence issued by the bank of Latvia that allows the bank to render all the financial services specified in the Law on Credit Institutions.

The group's and bank's main scope of activity is investment services, settlement products, asset management, financial consultations and real estate management.

The group and the bank operate the central office and one lending centre in Riga, subsidiary bank in Luxembourg, as well as foreign representation offices/ territorial structural units in Azerbaijan (Baku), in Belarus (Minsk), in Kazakhstan (Almaty), in Cyprus (Limassol), in Russia (Moscow, St. Petersburg, Yekaterinburg and Vladivostok), in Ukraine (Kyiv with a branch in Odessa), in Uzbekistan (Tashkent) and Tajikistan (Dushanbe).

The following abbreviations are used in the notes to these financial statements: International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), International Accounting Standards Board (IASB), International Financial Reporting Interpretations Committee (IFRIC), Financial and Capital Market Commission (FCMC), European Monetary Union (EMU), European Union (EU), Organisation for Economic Cooperation and Development (OECD).

These consolidated and separate financial statements contain the financial information about the bank and its subsidiaries as well as separately about the bank. The bank's separate financial statements are included in these consolidated financial statements to comply with legal requirements. The bank is the parent of the group.

The consolidated financial statements of the group and the separate financial statements of the bank for the year ended 31 December 2013 were approved by the bank's board on 24 February 2014.

Note 2

Information on principal accounting policies

a) Basis of Preparation

These consolidated and separate financial statements are based on the accounting records made pursuant to the legislative requirements and prepared in conformity with International Financial Reporting Standards and IFRIC Interpretations as adopted by the European Union, on a going concern basis.

These financial statements are prepared on a historical cost basis, except for financial assets and liabilities (available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss, and derivatives) which are reported at fair value.

During the year ended 31 December 2013, the group and the bank consistently applied accounting policies in line with those disclosed in the prior-year financial statements, except for the changes listed below in *Adoption of new and/or changed IFRSs and IFRIC interpretations in the reporting year*.

The accounting policies are applied consistently by all entities of the group.

The functional currency of the bank and its Latvian subsidiaries is the monetary unit of the Republic of Latvia (LVL). Transactions of the bank's foreign subsidiaries are accounted for in the currency of their economic environment. The presentation currency of the group and the bank is the lat (LVL).

From 1 January 2014 Latvia became a member of European Monetary Union. Starting from 1 January 2014 the bank's and its subsidiaries' functional currency is EUR.

These consolidated and separate financial statements are reported in thousands of lats (LVL'000), unless otherwise stated. Information given herein in brackets represent comparative figures as at 31 December 2012 or for the year ended 31 December 2012 respectively.

The principal rates of exchange (LVL for one foreign currency unit) fixed by the Bank of Latvia and used in the preparation of the bank's and group's financial statements were as follows:

Reporting date	USD	EUR	RUB
31 December 2013	0.515	0.702804	0.0156
31 December 2012	0.531	0.702804	0.0174

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

During the year the group and the bank has adopted the following IFRS amendments:

- Amendment to IAS 1 Financial Statement Presentation - Presentation of Items of Other Comprehensive Income (OCI).
- Amendments to IAS 19 Employee Benefits.
- Amendment to IFRS 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities.
- IFRS 13 Fair Value Measurement.
- IFRIC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine.

Amendment to IAS 1 Financial Statement Presentation - Presentation of Items of Other Comprehensive Income (OCI).

This amendment changes the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's and the Bank's financial position or performance. Since the Group has just one OCI item, the change to its presentation is minimal.

Amendments to IAS 19 Employee Benefits.

These amendments range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. This amendment did not impact the financial statements of the Group and the Bank, because the Group and the Bank does not have material defined benefit obligations.



Amendment to IFRS 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities.

The amendment introduces common disclosure requirements. These disclosures would provide users with information that is useful in evaluating the effect or potential effect of netting arrangements on an entity's financial position. This amendment did not impact the financial statements of the Group and the Bank, because the Group and the Bank does not have netting arrangements.

IFRS 13 Fair Value Measurement.

The main reason of issuance of IFRS 13 is to reduce complexity and improve consistency in application when measuring fair value. It does not change when an entity is required to use fair value but, rather, provides guidance on how to measure fair value under IFRS when fair value is required or permitted by IFRS. The implementation of this standard did not have a material impact on the amounts recognised in these financial statements, however it resulted in additional disclosures (see Note 31).

IFRIC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine.

This interpretation applies to stripping costs incurred in surface mining activity during the production phase of the mine ('production stripping costs'). This interpretation had no impact on the Group's and the Bank's financial statements, as the Group and the Bank is not involved in mining activity.

The IASB has issued the Annual Improvements to IFRSs 2009 – 2011 Cycle, which contains amendments to its standards and the related Basis for Conclusions. The annual improvements project provides a mechanism for making necessary, but non-urgent, amendments to IFRS.

- IAS 1 Financial Statement Presentation. Clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period.
- IAS 16 Property, Plant and Equipment. Clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.
- IAS 32 Financial Instruments: Presentation. Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.
- IAS 34 Interim Financial Reporting. Clarifies the requirements in IAS 34 relating to segment information for total assets and liabilities for each reportable segment and disclosure at interim financial reports.

c) Standards issued but not yet effective

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

IAS 19 Employee Benefits (Amended)

Amendment is effective for financial years beginning on or after 1 July 2014. The amendments address accounting for the employee contributions to a defined benefit plan. This amendment has not yet been endorsed by the EU. Since the group's and the bank's employees do not make such contributions, the implementation of this amendment will not have any impact on the financial statements of the group and the bank.

IAS 27 Separate Financial Statements (Amended)

Amendment is effective for financial years beginning on or after 1 January 2014. As a result of the new standards IFRS 10, IFRS 11 and IFRS 12 this standard was amended to contain accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. IAS 27 Separate Financial Statements requires an entity preparing separate financial statements to account for those investments at cost or in accordance with IFRS 9 Financial Instruments. The implementation of this amendment will not have any impact on the financial statements of the group and the bank.

IAS 28 Investments in Associates and Joint Ventures (Amended)

Amendment is effective for financial years beginning on or after 1 January 2014. As a result of the new standards IFRS 10, IFRS 11 and IFRS 12 this standard was renamed and addresses the application of the equity method to investments in joint ventures in addition to associates. The implementation of this amendment will not have any impact on the financial statements of the group and the bank.

IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities (Amended)

Amendment is effective for financial years beginning on or after 1 January 2014. This amendment clarifies the meaning of "currently has a legally enforceable right to set-off" and also clarifies the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The group and the bank have not yet evaluated the impact of the implementation of this amendment.

IAS 36 Impairment of Assets (Amended)

Amendment is effective for financial years beginning on or after 1 January 2014. This amendment adds a few additional disclosure requirements about the fair value measurement when the recoverable amount is based on fair value less costs of disposal and removes an unintended consequence of IFRS 13 to IAS 36 disclosures. The amendment will not have any impact on the financial position or performance of the group and the bank, however may result in additional disclosures.

IAS 39 Financial Instruments: Recognition and Measurement (Amended)

Amendment is effective for financial years beginning on or after 1 January 2014. The amendment provides relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendment will not have any impact on the financial position or performance of the group and the bank, since it does not apply hedge accounting.

IFRS 9 Financial Instruments

The new standard is effective for financial years beginning on or after 1 January 2015. IFRS 9 will eventually replace IAS 39. The IASB has issued the first three parts of the standard, establishing a new classification and measurement framework for financial assets, requirements on the accounting for financial liabilities and hedge accounting. This standard has not yet been endorsed by the EU. The group and the bank has not yet evaluated the impact of the implementation of this standard.

IFRS 10 Consolidated Financial Statements

The new standard is effective for financial years beginning on or after 1 January 2014. IFRS 10 establishes a single control model that applies to all entities, including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled and, therefore, are required to be consolidated by a parent. Examples of areas of significant judgment include evaluating de facto control, potential voting rights or whether a decision maker is acting as a principal or agent. IFRS 10 replaces the part of IAS 27 Consolidated and Separate Financial Statements related to consolidated financial statements and replaces SIC 12 Consolidation — Special Purpose Entities. The group and the bank have not yet evaluated the impact of the implementation of this standard.

IFRS 11 Joint Arrangements

The new standard is effective for financial years beginning on or after 1 January 2014. IFRS 11 eliminates proportionate consolidation of jointly controlled entities. Under IFRS 11, jointly controlled entities, if classified as joint ventures (a newly defined term), must be accounted for using the equity method. Additionally, jointly controlled assets and operations are joint operations under IFRS 11, and the accounting for those arrangements will generally be consistent with today's accounting. That is, the entity will continue to recognize its relative share of assets, liabilities, revenues and expenses. The group and the bank have not yet evaluated the impact of the implementation of this standard.

IFRS 12 Disclosures of Interests in Other Entities

The new standard is effective for financial years beginning on or after 1 January 2014. IFRS 12 combines the disclosure requirements for an entity's interests in subsidiaries, joint arrangements, investments in associates and structured entities into one comprehensive disclosure standard. A number of new disclosures also will be required such as disclosing the judgments made to determine control over another entity. The group and the bank have not yet evaluated the impact of the implementation of this standard.

IFRS 14 Regulatory Deferral Accounts

The new standard is effective for financial years beginning on or after 1 January 2016. It is an interim standard that provides first-time adopters of IFRS with relief from derecognizing rate-regulated assets and liabilities until a comprehensive project on accounting for such assets and liabilities is completed by the IASB. This standard has not yet been endorsed by the EU. The implementation of this standard will not have any impact on the group and the bank.

IFRS 10, IFRS 12 and IAS 27 - Investment Entities (Amended)

The amendments are effective for financial years beginning on or after 1 January 2014. The amendments apply to entities that qualify as investment entities. The amendments provide an exception to the consolidation requirements of IFRS 10 by requiring investment entities to measure their subsidiaries at fair value through profit or loss, rather than consolidate them. The implementation of this amendment will not have any impact on the financial statements of the group, as the parent of the group is not an investment entity.

IFRIC Interpretation 21 Levies

Interpretation is effective for financial years beginning on or after 1 January 2014. This interpretation addresses the accounting for levies imposed by governments. Liability to pay a levy is recognized in the financial statements when the activity that triggers the payment of the levy occurs. This amendment has not yet been endorsed by the EU. The group and the bank have not yet evaluated the impact of the implementation of this interpretation.

## Notes to the financial statements for the year ended 31 December 2013

In December 2013 IASB issued a number of amendments of standards. Therefore, the adoptions of amendments are subject to change in accounting policy or disclosure. The applying of amendments is mandatory, but non-urgent. Amendments to the following standards have been made:

- IFRS 1 First-time adoption of IFRS;
- IFRS 2 Share-based Payment;
- IFRS 3 Business Combinations;
- IFRS 8 Operating Segments;
- IFRS 13 Fair value Measurement;
- IAS 16 Property, Plant and Equipment;
- IAS 24 Related Party Disclosures;
- IAS 38 Intangible Assets;
- IAS 40 Investment property.

The group and the bank is in the process of assessing the impact of the guidance on the financial position or performance of the group and the bank.

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

### d) Significant estimates and assumptions

The preparation of financial statements in accordance with IFRS as adopted by the EU requires the management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expense, and disclosure of contingencies. Future events occur which cause the assumptions used in arriving at the estimates to change. Such estimates and assumptions are based on most reliable information available to the management in respect to specific events and actions. The effect of any changes in estimates will be recorded in the financial statements when determinable.

The significant areas of estimation and assumptions relate to calculation of deferred corporate income tax, determining the allowance for credit losses and the collateral (pledge) value, estimation of impairment of other assets, and the fair value of financial assets and liabilities.

### e) Basis of Consolidation

At the year end, the bank had investments in subsidiaries in which the bank owned, directly or indirectly, more than 50% of the share capital and voting power and, therefore, bank has control of these entities. The bank is the parent of the group. These consolidated financial statements include all subsidiaries controlled by the parent. Subsidiaries are consolidated from the date on which control is transferred to the parent and are no longer consolidated from the date that control ceases. The entities of the group are listed in Note 19.

Investments in subsidiaries are presented in the bank's separate financial statements in accordance with the cost method.

The bank's and its subsidiaries' financial statements are consolidated in the group's financial statements using the full consolidation method, by adding together like items of assets and liabilities at the period end, as well as income and expenses. For the purposes of consolidation, intragroup balances and intragroup transactions, including interest income and expense, and unrealised profit and loss resulting from intragroup transactions are eliminated, unless there exists any indication of impairment. Non-controlling interests represent the portion of profit or loss, as well as the equity in a subsidiary not attributable, directly or indirectly, to the bank. The profit or loss attributable to non-controlling interests is separately disclosed in the consolidated statement of comprehensive income. Non-controlling interests are also presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. The bank's subsidiaries comply with the bank's policies and risk management methods.

In the consolidated financial statements, the cost of acquisition of a subsidiary acquired from a business combination is attributed to the fair values of the acquiree's identifiable assets, liabilities, and contingent liabilities at the acquisition date. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the difference (discount on acquisition) is recognised directly in the statement of comprehensive income in the year of acquisition. Following initial recognition by the group, goodwill arising from the business combination is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment at each reporting date.

f) Recognition and Derecognition of Financial Assets and Liabilities

A financial asset is any asset that is cash, an equity instrument of another entity, a contractual right to receive cash or another financial asset from another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or a contract that will or may be settled in the entity's own equity instruments and is a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments or a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or a contract that will or may be settled in the entity's own equity instruments and is a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments or a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

The group recognises financial assets and liabilities in its statement of financial position when, and only when, the group or the bank becomes a party to the contractual provisions of the instrument.

A financial asset is derecognised only when the contractual rights to receive cash flows from the asset have expired, or the group and the bank have transferred the financial asset and substantially all the risks and rewards of the asset to the counterparty.

A financial liability is derecognised only when the obligation under the liability is discharged according to the contract or cancelled or expires.

All purchases and sales of financial assets, except for loans issued to non-bank customers, are recognised and derecognised on the settlement date. Loans to non-bank customers are recognised in the statement of financial position when cash is transferred to the customer's current account.

g) Fair Value of Financial Assets and Liabilities

Fair value is the amount for which an asset could be exchanged or a liability settled between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction. The best evidence of fair value of financial assets and liabilities is quoted prices in an active market. If the market for a financial asset or liability is inactive, fair value is established by using a valuation technique, including discounted cash flow analysis, recent transactions that are substantially the same, as well as management estimates and assumptions. The comparison of carrying amounts and fair values of the group's and bank's financial assets and liabilities is presented in Note 31.

h) Offsetting of financial assets and financial liabilities

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

i) Income and Expense Recognition

All major income and expense items are recognised on an accrual basis. Interest income/ expense is recognised in the statement of comprehensive income for financial assets/ liabilities measured at amortised cost using the effective interest method.

Commission and fee income and expense are included in the statement of comprehensive income over the period or at a specific time, except for commission and fee income/ expense directly attributable to financial assets/ liabilities measured at amortised cost. For these assets/ liabilities the respective commission and fee income/ expense form an integral part of the effective interest rate.

Commission and fee income received once in a year for the whole reporting period is recognised in the statement of comprehensive income systematically on a straight-line basis during the period.

j) Foreign Currency Translation

Transactions denominated in foreign currencies are recorded in lats at exchange rates set forth by the Bank of Latvia at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into lats at exchange rates set by the Bank of Latvia at the end of the year. Any gain or loss resulting from a change in exchange rates subsequent to the transaction date is included in the statement of comprehensive income as profit or loss from revaluation of foreign currency positions.

k) Taxation

Corporate income tax is calculated in accordance with Latvian tax regulations at the rate of 15% and is based on the taxable income reported for the taxation period.

Deferred taxation arising from temporary differences in the timing of the recognition of items in the tax returns and these financial statements is calculated using the liability method. Deferred taxation relates to the future tax consequences of all events that have been recognised in the bank's financial statements or tax returns. The deferred tax liability is determined based on the tax rates that are expected to apply when the temporary differences reverse. The principal temporary differences arise from differing rates of accounting and tax depreciation on fixed assets, accrual for employee vacation pay, and revaluation of items of the statement of financial position, including securities revaluation and fair value revaluation reserve, and temporary difference in securities in excess of set limits and tax losses carried forward for the subsequent years. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

l) Financial Instruments

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the group and the bank intend to sell immediately or in the near term and those that the group and the bank upon initial recognition designate as at fair value through profit or loss;
- those that the group and the bank, upon initial recognition, designate as available for sale; or
- those for which the group and the bank may not recover substantially all of its initial investment, other than because of credit deterioration.

Such assets are carried at amortised cost using the effective interest method less the allowance for credit losses (impairment expense) as presented in Note 8. Gains or losses are recognised in the statement of comprehensive income upon derecognition or impairment of these assets, as well as through amortisation. Gains and losses are recognised in the statement of comprehensive income as interest income/ expense when the liabilities are derecognised through the amortisation process.

For the purposes of these financial statements, finance lease receivables are classified as loans.

Held-to-maturity investments

Held-to-maturity portfolio represents non-derivative financial assets with fixed or determinable payments and fixed maturities that are quoted in an active market. The group/ bank has the intention to hold the financial assets included in the held-to-maturity portfolio to maturity with the purpose of generating profit from coupon and principal payments. The financial assets of the held-to-maturity portfolio are initially recognised at cost and subsequently measured at amortised cost using the effective interest method, less impairment loss. Gains or losses are recognised in the statement of comprehensive income upon derecognition or impairment of these assets, as well as through the amortisation process. Gains and losses are recognised in the statement of comprehensive income as interest income/ expense when the liabilities are derecognised through the amortisation process.

Available-for-sale financial assets

The group and the bank acquire available-for-sale securities to hold them for an undefined period. The available-for-sale portfolio includes fixed income securities, investments in shares and investment funds.

Available-for-sale securities are divided into two portfolios:

- liquidity portfolio, which is aimed at forming the bank's liquidity reserve with a minimum interest rate risk and credit risk;
- investments' held for undefined period portfolio, which consists of investments not classified as a part of other portfolios.

## Notes to the financial statements for the year ended 31 December 2013

After initial recognition at fair value, including direct transaction costs, available-for-sale securities are measured at fair value. The revaluation result is charged through the statement of comprehensive income to the shareholders' equity as the fair value revaluation reserve of available-for-sale financial assets. Financial assets having no quoted prices available and whose fair value cannot be determined reliably using other models are stated at cost.

For available-for-sale securities acquired at a discount (premium), the respective discount (premium) amount is amortised on a systematic basis, using the effective interest method. Amortised amounts are charged to the statement of comprehensive income as interest income from debt securities.

Any gain or loss resulting from disposal of available-for-sale securities and the fair value revaluation reserve accrued until such disposal are included in the statement of comprehensive income as net realised gain/ (loss) from available-for-sale financial assets.

### Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are assets that are held for trading. Financial assets held for trading are included in the trading portfolio. Fixed income securities of the trading portfolio are held by the group and the bank for the purpose of selling and/or acquired for generating profit in the near term from the expected spread between purchasing and selling prices. The financial assets and liabilities to be included in the trading portfolio are defined by the bank's trading portfolio policy.

Securities held for trading purposes are initially stated at fair value and further marked-to-market on the basis of quoted market prices. Any gain or loss resulting from revaluation of securities at fair value as well as any gain or loss resulting from disposal of the above securities is included in the statement of comprehensive income under "Net gain/ (loss) from financial assets at fair value through profit or loss". Meanwhile, interest income earned and/ or accrued is charged to the statement of comprehensive income as interest income from debt securities using the effective interest rate method while dividend income is recorded as income from dividends if the right to the payment is established.

### Derivatives

In the ordinary course of business, the group and the bank use derivative financial instruments: currency swaps, futures, and forward foreign exchange rate contracts.

Derivative financial instruments are carried at cost and restated at fair value at the date of recognition and beyond. Derivative financial instruments are presented in the statement of financial position in a separate caption "Derivatives" under assets and liabilities respectively. The mark-to-market value is defined based on the quoted market prices or discounted cash flow models. Any gain or loss resulting from fair value movements of derivatives is recognised in the statement of comprehensive income as "Net gain/ (loss) from financial assets at fair value through profit or loss".

### Issued debt securities

The group and the bank recognise issued debt securities at the date when the respective funds are received. After initial recognition when these financial liabilities are stated at fair value, including direct transaction costs, those are subsequently carried at amortised cost using the effective interest method. When issued debt securities are sold at a discount, the difference is amortised applying the effective interest method until the debt matures and charged to the statement of comprehensive income as interest expense.

### m) Non-financial Assets Held for Sale

Non-financial assets held for sale represent real estate taken over by the group/ bank for the purpose of selling as collateral for the outstanding loans or acquired in the ordinary course of business. Such assets are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

### n) Finance Leases – Where the Bank is Lessor

Finance lease receivables are recognised as assets at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Income from finance leases is recognised over the lease term to produce a constant periodic return on the remaining balance of the liability. Lease payments are charged to the statement of comprehensive income on a straight-line basis over the lease term.



o) Off-balance Sheet Financial Commitments and Contingent Liabilities

In the ordinary course of business, the group and the bank are involved in off-balance sheet financial instruments comprising loan and credit line commitments, financial guarantees, as well as commercial letters of credit. Such financial instruments do not involve outflow of the bank's economic benefits, thus they are not recorded as the bank's liabilities. These financial instruments are presented in the financial statements as memorandum items upon the conclusion of the respective agreements. The methodology for provisioning against off-balance sheet financial commitments and contingent liabilities is consistent with that described in paragraph (o) below.

p) Provisions

Provisions are recognised when the group or the bank has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

q) Impairment of Financial Assets and Financial Commitments

The group/ bank issues loans to its customers. Troubled debts are defined as loans and financial commitments with regard to which, based on the monitoring activities performed or other information obtained, the management of the group and the bank believe that the contractual interest and principal due might not be collected or customers might default on other contractual conditions, which might result in an outflow of resources embodying economic benefits. Non-performing loans are defined as loans, which have delay of its contractual payments more than 90 days or are planed to start the credit recovery process, fore example, forced sales of loan collateral, and also loans whose collaterals already has been realized. According to the approved impairment assessment policy, the group and the bank determine allowance for credit losses (impairment allowance). When a loan has been classified as non-performing, an allowance for credit losses is established for that specific loan or amount of the outstanding balance, which is deemed impaired. The level of the allowance is based on the present value of expected future cash flows considering relevant factors including, but not limited to, the group's and bank's past loan loss experience, known and inherent risks in the portfolio of loans and advances, adverse situations that may affect the borrowers' ability to repay, the collateral value and current economic conditions as well as other relevant factors affecting loan and advances collectability and collateral values. Ultimate losses may vary from the current estimates. The value of the collateral held in connection with loans and advances is based on the estimated realisable value of the asset and is taken into account when determining expected cash flows and accordingly the allowance. The group and the bank determine individual and collective (portfolio) impairment.

The above estimates are reviewed periodically. As changes of the allowance become necessary as a result of the review made, respective allowance changes are taken to the statement of comprehensive income of the reporting period. The management of the group and the bank have made their best estimates of losses and believe the estimates presented in the financial statements to be reasonable in the light of the available facts and information.

The individual impairment allowance is determined after individually reviewing all credits for potentially uncollectable amounts. Individual assessment is made for credits that individually have objective evidence of impairment, based on the borrower's financial position, value of collateral, and fulfilment of the loan agreement.

The collective (portfolio) allowance relates to existing credit losses, as well as 'incurred, but not yet known to the bank'. The collective impairment allowance is estimated based upon historical pattern of losses in the loan portfolio, as well as taking into account changes in collateral values, and general economic and market conditions or events that have occurred prior to the reporting date and that indicate an adverse impact on the future cash flows from certain loans and receivable balances outstanding. This method permits attributing each group of loans with similar credit characteristics to historical loss experience and observable market data reflecting current circumstances.

When loans cannot be recovered, they are written off and charged against allowances for credit losses. They are not written off until all the necessary legal procedures have been completed and the ultimate amount of the loss is determined.

The group/ bank assesses on a regular basis whether there is any objective evidence that a financial asset or group of financial assets is impaired. Based on the estimates of the management of the group/ bank, a decline in the fair value of the instrument by more than 20% below its cost or for more than one financial year is treated as objective evidence of significant and prolonged impairment of available-for-sale financial instruments. If any such evidence exists, the cumulative loss measured as the difference between the acquisition cost and current fair value, less any impairment loss previously recognised in profit or loss, is removed from equity and recognised in profit or loss.

Impairment loss recognised in profit or loss is not reversed through profit or loss. If, in a subsequent period, the fair value of a financial instrument 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.



r) Impairment of Non-financial Assets

The bank assesses at each reporting date or more frequently if events or changes in circumstances indicate that there is an indication that a non-financial asset may be impaired. If any such indication exists, the bank makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount. This written down amount constitutes an impairment loss.

For non-financial assets, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If any such indication exists, the recoverable amount is estimated.

A previously recognised impairment loss is reversed only if there has been a change in the estimate used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. This increase amount constitutes reversal of impairment losses.

s) Intangible Fixed Assets

Intangible fixed assets comprise the purchased software that does not constitute an integral part of hardware, and licences. Amortisation is provided using the straight-line method over the period of acquired rights or over the estimated useful life of the asset.

The group and the bank have applied the annual rates ranging from 5% (5%) to 20% (20%) to amortise their intangible assets.

t) Tangible Fixed Assets

Tangible fixed assets are recorded at cost less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful life of the asset. When calculating depreciation of the buildings that are classified as tangible fixed assets, the buildings are divided in separate parts (components). Each component is depreciated separately over its estimated useful life. Fixed assets, including leasehold improvements under construction and preparation, are not depreciated. Land is not subject to depreciation.

The group and the bank have applied the following depreciation rates:

Category	Annual rate
Buildings and property improvements	1,3% - 20%
Vehicles	20%
Office equipment , EDP equipment and software	10% - 33%
Production equipment	5% - 10%

Costs of maintenance and repair are charged to the statement of comprehensive income as incurred. Leasehold improvements are capitalised and amortised over the remaining period of lease contracts on a straight-line basis.

u) Investment Properties

Investment properties comprise land and buildings, as well as costs of the investment property development project in progress that are not used by the group and the bank, and are held with the main purpose to earn rentals, as well as gain on value appreciation. Such investments are classified as investment property and are accounted for using the cost model of accounting for investment properties. Investment properties are carried in the statement of financial position at their cost value less accumulated depreciation. The annual depreciation rate applied to investment properties, except for land which is not depreciated, is 5%.

v) Employee Benefits

Short-term employee benefits, including salary, statutory social insurance contributions, bonuses and allowances, as well as life insurance premiums are charged to the statement of comprehensive income as administrative expense in the period when the services are provided.

The accrual for employee vacation pay is estimated for the group's or bank's personnel based on the total number of vacation days earned but not taken, multiplied by the average daily remuneration expense pursuant to the Latvian Labour Law, and adding the related statutory social insurance contributions payable by the employer.

## Notes to the financial statements for the year ended 31 December 2013

### w) Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and balances due from central banks and other credit institutions with a contractual original maturity of three months or less. The cash balance is reduced by the amount of demand deposits from the above institutions. Cash and cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of change in value.

### x) Subsequent Events

Post-year-end events that provide additional information about the group's/ bank's position at the reporting date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

### y) Reclassification

1. During the previous reporting periods, the group recognised penalties related to late repayment of loans in profit or loss as other income. From 2013, such penalties are included in the effective interest rate calculation for respective loans and recognised in profit or loss as interest income.
2. During the previous reporting periods, the group recognised customer attraction costs in profit or loss as other expense. From 2013, such expense is recognised in profit or loss as commission and fee expense.
3. During the previous reporting periods, the group recognised income and expense from transactions with non-financial assets held for sale in profit or loss as other income or expense, respectively. From 2013, all income and expense related to operations with non-financial assets held for sale are reported separately in Income Statement as Gains on sales of non-financial assets held for sale.
4. During the previous reporting periods, the group recognised impairment of accrued income from financial instruments and other assets in profit or loss as impairment allowance. From 2013, impairment has been reclassified in line with the asset category.

Table of reclassification effect:

	Reference	LVL'000					
		Group			Bank		
		After reclassification	Change	2012	After reclassification	Change	2012
Interest income	1.	38,766	463	38,303	38,448	460	37,988
Commission and fee expense	2.	(6,216)	(2,289)	(3,927)	(8,744)	(5,221)	(3,523)
Gain on non-financial assets held for sale	3.	935	935	-	-	-	-
Gain on disposal of tangible and intangible fixed assets		-	(23)	23	-	(18)	18
Other income	1., 3.	5,844	(10,848)	16,692	1,142	(442)	1,584
Impairment allowance for loans	4.	(12,438)	986	(13,424)	(12,264)	975	(13,239)
Other expense	2., 3.	(3,078)	11,762	(14,840)	(521)	5,221	(5,742)
Impairment of financial instruments	4.	(322)	20	(342)	(322)	20	(342)
Impairment of other assets	4.	(2,605)	(1,006)	(1,599)	(1,819)	(995)	(824)

## Note 3

## Interest income and expense

	LVL'000			
	Group	Group	Bank	Bank
	01/01/2013- 31/12/2013	01/01/2012- 31/12/2012	01/01/2013- 31/12/2013	01/01/2012- 31/12/2012
<b>Interest income</b>				
<b>Interest income on available-for-sale financial assets at amortised cost</b>				
on loans and advances to customers	21,461	22,363	21,337	22,053
on held-to-maturity securities	14,367	10,026	14,365	10,026
on available-for-sale securities	3,755	5,084	3,755	5,084
on balances due from credit institutions and central banks	1,796	1,293	1,783	1,285
<b>Total interest income on available-for-sale financial assets at amortised cost</b>	<b>41,379</b>	<b>38,766</b>	<b>41,240</b>	<b>38,448</b>
<b>Total interest income</b>	<b>41,379</b>	<b>38,766</b>	<b>41,240</b>	<b>38,448</b>
<b>Interest expense</b>				
on the deposit guarantee fund	4,332	5,930	4,324	5,930
on subordinated liabilities	3,857	3,855	3,857	3,855
on debt securities issued	2,174	743	2,174	787
on deposits from non-bank customers	944	4,734	815	4,741
on balances due to credit institutions and central banks	103	105	30	36
<b>Total interest expense</b>	<b>11,410</b>	<b>15,367</b>	<b>11,200</b>	<b>15,349</b>

The group's and the bank's interest income on impaired assets totalled LVL 1.6 (2.7) million.

## Note 4

## Commission and fee income and expense

	LVL'000			
	Group	Group	Bank	Bank
	01/01/2013- 31/12/2013	01/01/2012- 31/12/2012	01/01/2013- 31/12/2013	01/01/2012- 31/12/2012
<b>Commission and fee income</b>				
commission on payment transfer handling on behalf of customers	22,072	16,319	22,067	16,319
commission on account service	7,347	4,044	7,388	4,044
commission on handling of settlement cards	6,305	5,576	6,305	5,576
commission on brokerage operations	4,000	2,700	-	-
commission on asset management	1,515	1,172	574	745
commission on documentary transactions	594	665	594	665
other commission and fee income	1,521	1,844	1,981	1,852
<b>Total commission and fee income</b>	<b>43,354</b>	<b>32,320</b>	<b>38,909</b>	<b>29,201</b>
<b>Commission and fee expense</b>				
commission on customer attraction	2,088	2,289	6,014	5,221
correspondent bank service charges	3,193	2,149	3,193	2,149
commission on transactions with settlement cards	1,483	1,355	1,483	1,355
commission on brokerage operations	680	383	-	-
other commission and fee expense	129	40	51	19
<b>Total commission and fee expense</b>	<b>7,573</b>	<b>6,216</b>	<b>10,741</b>	<b>8,744</b>

## Note 5

## Net gain on transactions with financial instruments and foreign exchange

	LVL'000			
	Group		Bank	
	01/01/2013- 31/12/2013	01/01/2012- 31/12/2012	01/01/2013- 31/12/2013	01/01/2012- 31/12/2012
<b>Financial assets at fair value through profit or loss</b>				
Gain/(loss) from revaluation of financial assets at fair value through profit or loss	433	204	433	193
Derivatives	15	19	15	19
Securities	418	185	418	174
Gain/(loss) from trading with financial assets at fair value through profit or loss	325	(33)	325	(33)
Derivatives	81	(45)	81	(45)
Securities	244	12	244	12
<b>Net gain/ (loss) from financial assets at fair value through profit or loss</b>	<b>758</b>	<b>171</b>	<b>758</b>	<b>160</b>
<b>Available-for-sale financial instruments</b>				
Gain from sale of available-for-sale securities	(13)	16	(13)	16
<b>Net realised gain from available-for-sale financial assets</b>	<b>(13)</b>	<b>16</b>	<b>(13)</b>	<b>16</b>
<b>Foreign exchange</b>				
Profit from foreign currency exchange	15,125	14,109	15,260	14,264
(Loss)/gain from revaluation of foreign currency positions	(413)	315	(403)	317
<b>Net result from foreign exchange trading and revaluation</b>	<b>14,712</b>	<b>14,424</b>	<b>14,857</b>	<b>14,581</b>
<b>Net gain on transactions with financial assets and foreign exchange</b>	<b>15,457</b>	<b>14,611</b>	<b>15,602</b>	<b>14,757</b>

## Note 6

## Net gain on non-financial assets held for sale

	LVL'000			
	Group		Bank	
	01/01/2013- 31/12/2013	01/01/2012- 31/12/2012	01/01/2013- 31/12/2013	01/01/2012- 31/12/2012
Proceeds from disposal of assets held for sale	24 884	10 214	260	-
Cost of sold assets held for sale	(20 481)	(8 383)	(243)	-
<b>Net profit form sales</b>	<b>4 403</b>	<b>1 831</b>	<b>17</b>	<b>-</b>
Proceeds from lease of assets held for sale	360	194	-	-
Expense related to disposal of assets held for sale	(193)	(341)	-	-
Expense related to management of assets held for sale	(1 218)	(749)	-	-
<b>Net gain on non-financial assets held for sale</b>	<b>3 352</b>	<b>935</b>	<b>17</b>	<b>-</b>

## Note 7

## Other operating income and expense

	LVL'000			
	Group	Group	Bank	Bank
	01/01/2013- 31/12/2013	01/01/2012- 31/12/2012	01/01/2013- 31/12/2013	01/01/2012- 31/12/2012
<b>Other income</b>				
other income from the sale of products by related companies	6,656	2,663	-	-
repurchase of liabilities	2,039	-	-	-
recognition of associates under the equity method	1,754	910	-	-
financial consulting, legal and accounting services	1,170	807	-	-
sale of companies	219	576	451	169
sale of services to subsidiaries	-	-	1,414	690
other operating income	1,096	888	306	283
<b>Total other income</b>	<b>12,934</b>	<b>5,844</b>	<b>2,171</b>	<b>1,142</b>
<b>Other expense</b>				
other expense related to the sale of products by related companies	4,890	2,199	-	-
membership fees	564	489	460	419
other expense	319	390	131	102
<b>Total other expense</b>	<b>5,773</b>	<b>3,078</b>	<b>591</b>	<b>521</b>

## Note 8

## Allowances for loan impairment

	LVL'000			
	Group	Group	Bank	Bank
Category	01/01/2013- 31/12/2013	01/01/2012- 31/12/2012	01/01/2013- 31/12/2013	01/01/2012- 31/12/2012
Loans - individual allowances	(186)	1 513	(186)	1 339
Loans - portfolio allowances	7 229	10 675	7 229	10 675
(Recovery) of write-offs/ loss during write-offs	(390)	250	(390)	250
<b>Impairment allowances established during the reporting year, net</b>	<b>6 653</b>	<b>12 438</b>	<b>6 653</b>	<b>12 264</b>

The table below presents changes in impairment allowances of the group in 2013:

	LVL'000				
	Mortgage loans	Business loans	Consumer loans	Other loans	Total
<b>Allowances at the beginning of the year</b>	<b>37 652</b>	<b>7 129</b>	<b>54</b>	<b>2 587</b>	<b>47 422</b>
Increase/ (decrease) in allowances for the year	6 939	(528)	22	610	7 043
(Decrease) in allowances for the year due to currency fluctuations	(5)	(28)	-	-	(33)
(Elimination) of allowances for the year due to write-offs	(16 794)	(1 869)	(35)	(534)	(19 232)
<b>Allowances at the end of the year</b>	<b>27 792</b>	<b>4 704</b>	<b>41</b>	<b>2 663</b>	<b>35 200</b>
Individual allowances	860	4 342	-	383	5 585
Portfolio allowances	26 932	362	41	2 280	29 615
<b>Total gross loans</b>	<b>284 387</b>	<b>257 344</b>	<b>1 069</b>	<b>19 571</b>	<b>562 371</b>

As at 31 December 2013, the impairment allowances formed 6.4% (8.6%) of the group's loan portfolio.

Notes to the financial statements for the year ended 31 December 2013

The table below presents changes in the impairment allowances of the group in 2012:

	LVL'000				
	Mortgage loans	Business loans	Consumer loans	Other loans	Total
<b>Allowances at the beginning of the year</b>	<b>42 957</b>	<b>14 353</b>	<b>63</b>	<b>1 291</b>	<b>58 664</b>
Increase/ (decrease) in allowances for the year	12 044	(1 572)	16	1 700	12 188
(Decrease) in allowances for the year due to currency fluctuations	(7)	(17)	-	-	(24)
(Elimination) of allowances for the year due to write-offs	(17 342)	(5 635)	(25)	(404)	(23 406)
<b>Allowances at the end of the year</b>	<b>37 652</b>	<b>7 129</b>	<b>54</b>	<b>2 587</b>	<b>47 422</b>
Individual allowances	966	6 719	-	385	8 070
Portfolio allowances	36 686	410	54	2 202	39 352
<b>Total gross loans</b>	<b>322 538</b>	<b>207 034</b>	<b>1 263</b>	<b>16 374</b>	<b>547 209</b>

The table below presents changes in impairment allowances of the bank in 2013:

	LVL'000				
	Mortgage loans	Business loans	Consumer loans	Other loans	Total
<b>Allowances at the beginning of the year</b>	<b>37 652</b>	<b>7 129</b>	<b>54</b>	<b>2 587</b>	<b>47 422</b>
Increase/ (decrease) in allowances for the year	6 939	(528)	22	610	7 043
(Decrease) in allowances for the year due to currency fluctuations	(5)	(28)	-	-	(33)
(Elimination) of allowances for the year due to write-offs	(16 794)	(1 869)	(35)	(534)	(19 232)
<b>Allowances at the end of the year</b>	<b>27 792</b>	<b>4 704</b>	<b>41</b>	<b>2 663</b>	<b>35 200</b>
Individual allowances	860	4 342	-	383	5 585
Portfolio allowances	26 932	362	41	2 280	29 615
<b>Total gross loans</b>	<b>284 387</b>	<b>265 195</b>	<b>1 069</b>	<b>19 571</b>	<b>570 222</b>

The table below presents changes in impairment allowances of the bank in 2012:

	LVL'000				
	Mortgage loans	Business loans	Consumer loans	Other loans	Total
<b>Allowances at the beginning of the year</b>	<b>42 957</b>	<b>14 527</b>	<b>63</b>	<b>1 291</b>	<b>58 838</b>
Increase/ (decrease) in allowances for the year	12 044	(1 746)	16	1 700	12 014
(Decrease) in allowances for the year due to currency fluctuations	(7)	(17)	-	-	(24)
(Elimination) of allowances for the year due to write-offs	(17 342)	(5 635)	(25)	(404)	(23 406)
<b>Allowances at the end of the year</b>	<b>37 652</b>	<b>7 129</b>	<b>54</b>	<b>2 587</b>	<b>47 422</b>
Individual allowances	966	6 719	-	385	8 070
Portfolio allowances	36 686	410	54	2 202	39 352
<b>Total gross loans</b>	<b>322 538</b>	<b>210 858</b>	<b>1 263</b>	<b>16 374</b>	<b>551 033</b>

## Note 9

## Impairment of other assets

The group's and bank's management have carried out valuation of non-financial assets - the real estate taken over for sale and other assets, including investments in subsidiaries – to determine whether the carrying amount of the above mentioned assets does not exceed their recoverable amount. As a result it was established that the previously recognised impairment has changed. Based on the analysis carried out, in 2013 and 2012 the group and the bank recognised impairment of other assets.

The table below presents changes in impairment for other assets of the group and the bank:

Category	LVL'000			
	Group		Bank	
	01/01/2013- 31/12/2013	01/01/2012- 31/12/2012	01/01/2013- 31/12/2013	01/01/2012- 31/12/2012
Non-financial assets taken over for sale	305	1 464	-	(37)
Other assets	(751)	1 141	(766)	1 130
Investments in subsidiaries	-	-	2 173	726
<b>Total impairment adjustment</b>	<b>(446)</b>	<b>2 605</b>	<b>1 407</b>	<b>1 819</b>

## Note 10

## Administrative expense

Category	LVL'000			
	Group		Bank	
	01/01/2013- 31/12/2013	01/01/2012- 31/12/2012	01/01/2013- 31/12/2013	01/01/2012- 31/12/2012
Remuneration to personnel, incl. SSIC	24,657	19,537	19,536	16,354
Repairs and maintenance of premises	2,586	1,971	1,849	1,242
IT system expense	2,215	1,746	1,824	1,708
Advertising and marketing expense	1,990	1,781	1,796	1,672
Remuneration to the management, incl. SSIC	1,839	1,763	846	1,101
Donations	1,292	27	1,208	27
Other personnel expense	753	699	477	414
Other taxes	593	293	260	131
Communication expense	534	521	437	407
Other administrative expense	2,598	1,912	1,596	909
<b>Total administrative expense</b>	<b>39,057</b>	<b>30,250</b>	<b>29,829</b>	<b>23,965</b>

In 2013 and 2012, the group and the bank employed an average of 656 (575) and 545 (494) persons (full-time equivalent).

The following table specifies employees of the group and the bank at the year-end:

	Group		Bank	
	31/12/2013	31/12/2012	31/12/2013	31/12/2012
Management	18	17	10	10
Heads of divisions and departments	118	110	91	85
Other personnel	562	481	470	418
<b>Total at the end of the year</b>	<b>698</b>	<b>608</b>	<b>571</b>	<b>513</b>



## Note 11

## Taxation

	LVL'000			
	Group	Group	Bank	Bank
	01/01/2013- 31/12/2013	01/01/2012- 31/12/2012	01/01/2013- 31/12/2013	01/01/2012- 31/12/2012
Profit before corporate income tax	42,340	19,825	36,155	20,197
<b>Theoretical corporate income tax</b>	<b>6,351</b>	<b>2,974</b>	<b>5,422</b>	<b>3,030</b>
Permanent differences	(106)	879	(222)	518
<b>Actual corporate income tax expense for the reporting year</b>	<b>6,245</b>	<b>3,853</b>	<b>5,200</b>	<b>3,548</b>
Adjustments to prior-year corporate income tax	115	(89)	115	-
Adjustments to prior-year deferred tax	(6)	30	-	30
Tax paid abroad	144	165	144	165
<b>Total corporate income tax expense</b>	<b>6,498</b>	<b>3,959</b>	<b>5,459</b>	<b>3,743</b>

Deferred corporate income tax calculation:

	LVL'000			
	Group	Group	Bank	Bank
	31/12/2013	31/12/2012	31/12/2013	31/12/2012
	Amounts subject to temporary differences	Amounts subject to temporary differences	Amounts subject to temporary differences	Amounts subject to temporary differences
Accumulated excess of tax depreciation over accounting depreciation	10 491	8 592	5 162	4 328
Fair value revaluation reserve of available-for-sale financial assets	813	2 183	813	2 183
Revaluation of derivatives and securities	(1 123)	383	(1 123)	383
Revaluation of assets and accrual for vacation pay	(9 521)	(12 638)	(4 056)	(7 380)
Deferred tax asset on intra-group transactions	1 458	(2 235)	-	-
Tax loss	(11 302)	(8 424)	-	-
Unrecognised tax asset	9 579	9 923	-	-
<b>Basis for calculation of deferred corporate income tax</b>	<b>395</b>	<b>(2 216)</b>	<b>796</b>	<b>(486)</b>
Tax rate	15%	15%	15%	15%
<b>Deferred corporate income tax (asset)/ liability at the end of the year</b>	<b>(499)</b>	<b>(404)</b>	<b>-</b>	<b>(74)</b>
	<b>559</b>	<b>71</b>	<b>119</b>	<b>-</b>

	LVL'000			
	Group	Group	Bank	Bank
	01/01/2013- 31/12/2013	01/01/2012- 31/12/2012	01/01/2013- 31/12/2013	01/01/2012- 31/12/2012
<b>Deferred corporate income tax at the beginning of the year</b>	<b>(404)</b>	<b>(3,386)</b>	<b>(74)</b>	<b>(3,359)</b>
	<b>71</b>	<b>186</b>	<b>-</b>	<b>-</b>
Increase charged to the statement of comprehensive income	552	2,355	398	2,521
Increase/ (decrease) attributable to fair value revaluation reserve under equity	(205)	764	(205)	764
Adjustments attributable to retained earnings/ (accumulated deficit)	46	(252)	-	-
<b>Deferred corporate income tax (asset)/ liability at the end of the year</b>	<b>(499)</b>	<b>(404)</b>	<b>-</b>	<b>(74)</b>
	<b>559</b>	<b>71</b>	<b>119</b>	<b>-</b>

Taxes paid by the group and the bank:

Tax	LVL'000			
	Group	Group	Bank	Bank
	01/01/2013- 31/12/2013	01/01/2012- 31/12/2012	01/01/2013- 31/12/2013	01/01/2012- 31/12/2012
Statutory social insurance contributions	6,171	5,539	5,130	4,916
Personal income tax	3,853	3,270	3,303	2,878
Real estate tax	356	311	160	131
Corporate income tax	2,972	409	2,376	-
Value added tax	1,283	446	219	202
Unemployment risk duty	2	2	2	2
<b>Total</b>	<b>14,637</b>	<b>9,977</b>	<b>11,190</b>	<b>8,129</b>

Note 12

## Cash and deposits with central banks

	LVL'000			
	Group	Group	Bank	Bank
	31/12/2013	31/12/2012	31/12/2013	31/12/2012
Deposits with the Bank of Latvia	245 026	209 387	245 026	209 387
Cash	5 705	6 691	5 697	6 687
Deposits with the Banque de Luxembourg	7	7	-	-
<b>Kopā nauda un prasības pret centrālajām bankām</b>	<b>250 738</b>	<b>216 085</b>	<b>250 723</b>	<b>216 074</b>

Deposits with the Bank of Latvia comprise the bank's correspondent account balances. In accordance with the resolution of the Council of the Bank of Latvia, credit institutions have to comply with the obligatory reserve requirement. During the period of the requirement, the average monthly balance of the bank's correspondent account with the Bank of Latvia must exceed the minimum reserve requirement. The bank was in compliance with this requirement as at 31 December 2013. As at 31 December 2013 and 2012, the bank had no balances due from central banks that would be past due.

Note 13

## Balances due from credit institutions

As at 31 December 2013, the Bank had established correspondent relationships with 28 (27) credit institutions registered in the EU and OECD area, 5 (6) credit institutions registered in Latvia, and 28 (16) credit institutions incorporated in other countries.

As at 31 December 2013, the group's and bank's major balances due from credit institutions registered in the EU and OECD area were as follows: LVL 52.5 (47.8) million due from the Bank of Montreal, LVL 44.6 (4.1) million due from Deutsche Bank AG, and LVL 40.2 (23.6) million due from Commerzbank AG.

	LVL'000			
	Group	Group	Bank	Bank
	31/12/2013	31/12/2012	31/12/2013	31/12/2012
<b>Demand deposits with credit institutions</b>				
Correspondent account balances	245 677	205 615	239 498	201 677
Overnight deposits	-	331	-	331
<b>Total demand deposits with credit institutions</b>	<b>245 677</b>	<b>205 946</b>	<b>239 498</b>	<b>202 008</b>
<b>Other balances due from credit institutions</b>				
Term deposits	182 255	138 339	173 777	138 339
Other balances	22 091	48 613	21 787	48 318
<b>Total other balances due from credit institutions</b>	<b>204 346</b>	<b>186 952</b>	<b>195 564</b>	<b>186 657</b>
<b>Total balances due from credit institutions</b>	<b>450 023</b>	<b>392 898</b>	<b>435 062</b>	<b>388 665</b>

As at 31 December 2013, part of the balances due from credit institutions of the group totalling LVL 13.1 (34.0) million and part of the balances due from credit institutions of the bank totalling LVL 12.8 (33.7) million, that are not cash equivalents, were pledged for securing transactions with financial instruments. Each equivalent does not include term deposits of the group totalling LVL 4.2 (2.7) million and term deposits of the bank totalling LVL 0 (2.7) million.

As at 31 December 2013 and 2012, the group's and bank's balances due from credit institutions were neither past due nor impaired. The maximum credit risk exposure of the balances due from credit institutions is equal to the carrying amount of these assets.

## Note 14

### Financial assets at fair value through profit or loss

	LVL'000	
	Group/ bank 31/12/2013	Group/ bank 31/12/2012
Equity shares securities		
Credit institutions	1 316	457
Corporate companies	962	811
Total investments in equity shares	2 278	1 268
Investments in funds	9 525	2 065
<b>Total financial assets at fair value through profit or loss</b>	<b>11 803</b>	<b>3 333</b>

The maximum credit risk exposure of securities designated at fair value is equal to the carrying amount of these assets.

As at 31 December 2013, the following financial instruments of all the financial assets at fair value were not listed on stock exchanges:

- LVL 20 (0) thousand - equity shares in of other countries;
- LVL 9 040 (1 329) thousand – investment certificates of open ended investment funds registered in Latvia, which are redeemable at net asset value.

Ten largest exposures as at 31 December 2013 amounted to 88.5% (88.7%) of the total group's and bank's financial assets at fair value through profit or loss.

## Note 15

### Available-for-sale financial assets

Issuer	LVL'000			
	Group 31/12/2013	Group 31/12/2012	Bank 31/12/2013	Bank 31/12/2012
Fixed-income debt securities				
Central governments and central banks	301 726	299 930	301 726	299 930
Credit institutions	162 131	165 903	162 131	165 903
International organisations	28 284	62 337	28 284	62 337
State-owned enterprises	7 889	10 960	7 889	10 960
Financial auxiliaries and other financial intermediaries	5 280	2 185	5 280	2 185
Corporate companies	4 863	3 834	4 863	3 834
Municipalities	3 005	361	3 005	361
Total fixed-income debt securities	513 178	545 510	513 178	545 510
Equity shares				
Financial auxiliaries and other financial intermediaries	98	98	98	98
Total investments in equity shares	98	98	98	98
Investments in funds	5 854	2 149	937	2 149
<b>Total available-for-sale financial assets</b>	<b>519 130</b>	<b>547 757</b>	<b>514 213</b>	<b>547 757</b>

The maximum credit risk exposure of available-for-sale financial assets is equal to the carrying amount of these assets.

Most of these assets – 92.2% (93.3%) - have been invested by the bank in investment-grade securities. At the end of the reporting year, the weighted average duration of the bank's securities portfolio was 1.6 (2.1).

As at 31 December 2013, the following available-for-sale financial assets were not listed on stock exchanges:

- LVL 4 918 (223) thousand – investment certificates of open ended investment funds registered in the EMU member states, which are redeemable at net asset value
- LVL 98 (98) thousand – equity shares in companies registered in the EMU member states;
- LVL 399 (0) thousand – debt securities issued by international organisations;
- LVL 970 (2 149) thousand - investment certificates of private equity funds registered in other countries.

Ten largest exposures as at 31 December 2013 amounted to 81.6% (74.3%) of the group's total available-for-sale financial assets.

## Note 16

### Held-to-maturity financial assets

Issuer	LVL'000			
	Group 31/12/2013	Group 31/12/2012	Bank 31/12/2013	Bank 31/12/2012
Fixed-income debt securities				
Central governments and central banks	170 982	107 303	170 982	107 303
Credit institutions	121 659	121 387	120 901	121 387
Corporate companies	93 680	67 465	93 295	67 465
International organisations	37 138	27 065	37 138	27 065
Municipalities	30 296	23 226	30 296	23 226
State-owned enterprises	5 202	5 386	5 202	5 386
<b>Total held-to-maturity financial assets</b>	<b>458 957</b>	<b>351 832</b>	<b>457 814</b>	<b>351 832</b>

The maximum credit risk exposure of held-to-maturity securities is equal to the carrying amount of these assets.

As at 31 December 2013, the following held-to-maturity financial assets were not listed on stock exchanges:

- LVL 497 (505) thousand - debt securities issued by credit institutions of other countries;
- LVL 86 (0) debt securities issued by companies of other countries.

As at 31 December 2013, part of the held-to-maturity financial assets totalling LVL 19.4 (15.1) million were pledged for securing transactions with financial instruments.

Ten largest positions as at 31 December 2013 amounted to 42.6% (40.4%) of the group's total held-to-maturity securities.

## Note 17

### Derivatives

The table below presents the notional amounts and fair values of foreign currency exchange contracts and other derivative financial instruments. The notional amount of foreign currency exchange contracts is the amount receivable. The notional amount of other derivative financial instruments is the value of the underlying assets of these instruments.

	LVL'000					
	Group/ bank			Group/ bank		
	31/12/2013			31/12/2012		
	Notional amount	Fair value		Notional amount	Fair value	
	Assets	Liabilities		Assets	Liabilities	
Gold futures	480	15	-	662	19	-
Forwards	9,239	14	19	4,224	16	21
Swaps	160,610	288	1,419	147,932	46	4,558
<b>Total derivatives</b>	<b>170,329</b>	<b>317</b>	<b>1,438</b>	<b>152,818</b>	<b>81</b>	<b>4,579</b>

The bank uses foreign exchange derivatives to manage its currency positions. For the most part, the bank's counterparties in foreign currency exchange transactions are credit institutions. As at 31 December 2013, more than 96.3% (98.0%) of the foreign currency exchange contracts (assets at fair value) were attributable to credit institutions. As at 31 December 2013 and 2012, no payments associated with derivatives were past due.

## Note 18

## Loans

The breakdown of loans issued by the group and the bank by customer profile:

Customer profile	LVL'000			
	Group 31/12/2013	Group 31/12/2012	Bank 31/12/2013	Bank 31/12/2012
Private individuals	314 290	348 315	314 290	348 315
Corporate companies	211 559	172 500	213 717	169 605
Financial auxiliaries and other financial intermediaries	36 522	26 394	42 215	33 113
<b>Total</b>	<b>562 371</b>	<b>547 209</b>	<b>570 222</b>	<b>551 033</b>
Impairment allowance	(35 200)	(47 422)	(35 200)	(47 422)
<b>Net loans</b>	<b>527 171</b>	<b>499 787</b>	<b>535 022</b>	<b>503 611</b>

More detailed information about allowances for loans impairment is available at Note 8.

The maximum credit risk exposure of loans issued to customers is equal to the carrying amount of these assets.

Ten largest exposures as at 31 December 2013 amounted to 21.9% (16.8%) of the total group's and bank's net loan portfolio. No individual impairment allowances have been established for these loans.

The breakdown of loans issued by the group and the bank by category:

Category	LVL'000					
	Group			Group		
	31/12/2013			31/12/2012		
	Carrying amount	Off-balance sheet amount	Total exposure, gross	Carrying amount	Off-balance sheet amount	Total exposure, gross
Ordinary loans	483,521	16,865	500,386	460,578	13,146	473,724
Credit lines	58,899	15,153	74,052	61,160	8,172	69,332
Balances due from financial auxiliaries and other financial intermediaries	16,726	-	16,726	13,674	-	13,674
Overdrafts	2,164	-	2,164	10,819	-	10,819
Payment cards	1,061	10,242	11,303	978	8,783	9,761
<b>Total</b>	<b>562,371</b>	<b>42,260</b>	<b>604,631</b>	<b>547,209</b>	<b>30,101</b>	<b>577,310</b>
Impairment allowance	(35,200)	-	(35,200)	(47,422)	-	(47,422)
<b>Net loans</b>	<b>527,171</b>	<b>42,260</b>	<b>569,431</b>	<b>499,787</b>	<b>30,101</b>	<b>529,888</b>

Category	LVL'000					
	Bank			Bank		
	31/12/2013			31/12/2012		
	Carrying amount	Off-balance sheet amount	Total exposure, gross	Carrying amount	Off-balance sheet amount	Total exposure, gross
Ordinary loans	491,373	16,865	508,238	457,683	13,146	470,829
Credit lines	58,899	15,369	74,268	61,160	8,252	69,412
Balances due from financial auxiliaries and other financial intermediaries	16,725	-	16,725	20,393	-	20,393
Overdrafts	2,164	-	2,164	10,819	-	10,819
Payment cards	1,061	10,279	11,340	978	8,818	9,796
<b>Total</b>	<b>570,222</b>	<b>42,513</b>	<b>612,735</b>	<b>551,033</b>	<b>30,216</b>	<b>581,249</b>
Impairment allowance	(35,200)	-	(35,200)	(47,422)	-	(47,422)
<b>Net loans</b>	<b>535,022</b>	<b>42,513</b>	<b>577,535</b>	<b>503,611</b>	<b>30,216</b>	<b>533,827</b>

Notes to the financial statements for the year ended 31 December 2013

The breakdown of allowances established by the group and the bank by loan category:

Category	31/12/2013				31/12/2012			
	Individual allowances	Portfolio allowances for impaired loans	Portfolio allowances for not impaired loans	Total	Individual allowances	Portfolio allowances for impaired loans	Portfolio allowances for not impaired loans	Total
Mortgage loans	860	24,802	2,130	27,792	966	34,404	2,282	37,652
Business loans	4,342	171	191	4,704	6,719	410	-	7,129
Other loans	383	2,280	-	2,663	385	2,202	-	2,587
Consumer loans	-	41	-	41	-	54	-	54
<b>Total allowances for loan impairments</b>	<b>5,585</b>	<b>27,294</b>	<b>2,321</b>	<b>35,200</b>	<b>8,070</b>	<b>37,070</b>	<b>2,282</b>	<b>47,422</b>

The breakdown of loans issued by the group and the bank by industry profile:

Industry	Group		Bank	
	31/12/2013	31/12/2012	31/12/2013	31/12/2012
Mortgage loans to private individuals	251,539	279,521	251,539	279,521
Real estate management	98,278	64,171	98,278	64,171
Financial and insurance activities	68,955	43,385	74,648	52,455
Trading	36,227	44,807	36,227	44,807
Other loans to private individuals	29,787	25,072	29,728	25,013
Transportation and logistics	6,172	7,061	6,172	7,061
Agriculture and forestry	4,855	6,985	7,588	6,985
Manufacturing	4,626	3,264	4,626	3,264
Construction	1,437	2,331	1,437	2,331
Energy	-	54	2,365	2,816
Other industries	25,295	23,136	22,414	15,187
<b>Net loans</b>	<b>527,171</b>	<b>499,787</b>	<b>535,022</b>	<b>503,611</b>

Below is provided the collateral analysis for the group's loans:

Loan type	Total loans	Deposit	Securities	Real estate	Other collateral	Fair value of collateral
						31/12/2013
Mortgage loans	284 387	-	-	254 825	-	254 825
Business loans	257 344	2 529	161 136	288 100	12 362	464 127
Other loans	19 571	-	-	-	261	261
Consumer loans	1 069	3 227	-	-	-	3 227
<b>Total loans</b>	<b>562 371</b>	<b>5 756</b>	<b>161 136</b>	<b>542 925</b>	<b>12 623</b>	<b>722 440</b>
Impairment allowance	(35 200)					
<b>Total loans, net</b>	<b>527 171</b>					
<b>Loan type</b>						31.12.2012.
Mortgage loans	322 538	-	-	287 607	68	287 675
Business loans	207 034	8 855	162 617	190 868	25 822	388 162
Other loans	16 374	-	-	-	-	-
Consumer loans	1 263	3 182	-	-	-	3 182
<b>Total loans</b>	<b>547 209</b>	<b>12 037</b>	<b>162 617</b>	<b>478 475</b>	<b>25 890</b>	<b>679 019</b>
Impairment allowance	(47 422)					
<b>Total loans, net</b>	<b>499 787</b>					

## Notes to the financial statements for the year ended 31 December 2013

Below is provided the collateral analysis for the bank's loans:

Loan type						LVL'000
	Total loans	Deposit	Securities	Real estate	Other collateral	Fair value of collateral
						31.12.2013.
Mortgage loans	284 387	-	-	254 825	-	254 825
Business loans	265 195	2 529	161 136	288 100	12 362	464 127
Other loans	19 571	-	-	-	261	261
Consumer loans	1 069	3 227	-	-	-	3 227
<b>Total loans</b>	<b>570 222</b>	<b>5 756</b>	<b>161 136</b>	<b>542 925</b>	<b>12 623</b>	<b>722 440</b>
Impairment allowance	(35 200)					
<b>Total loans, net</b>	<b>535 022</b>					
						31.12.2012.
Mortgage loans	322 538	-	-	287 607	68	287 675
Business loans	210 858	8 855	162 617	190 868	25 822	388 162
Other loans	16 374	-	-	-	-	-
Consumer loans	1 263	3 182	-	-	-	3 182
<b>Total loans</b>	<b>551 033</b>	<b>12 037</b>	<b>162 617</b>	<b>478 475</b>	<b>25 890</b>	<b>679 019</b>
Impairment allowance	(47 422)					
<b>Total loans, net</b>	<b>503 611</b>					

The principles for determination of the fair value of collateral are described in Note 34. During the reporting year, the real estate with a total value of LVL 9.1 (11.0) million was taken over.

## Note 19

### Investments in subsidiaries and associates

The group has shares in the following companies:

Company	Country of incorporation	Share capital	Equity	Group's share of total share capital, %	31/12/2013			31/12/2012	
					Carrying amount under equity method	Share capital	Equity	Group's share of total share capital, %	Carrying amount under equity method
DEPO DIY, SIA	LV	5,272	16,044	25	4,660	5,272	11,097	25	2,668
Traumatoloģijas un ortopēdijas klīnika Ādaži	LV	2	9	30	3	-	-	-	-
<b>Investments in associates</b>		<b>5,274</b>	<b>16,053</b>	<b>x</b>	<b>4,663</b>	<b>5,272</b>	<b>11,097</b>	<b>x</b>	<b>2,668</b>



## Notes to the financial statements for the year ended 31 December 2013

The bank has equity investments in the following companies:

Company	Country of incorporation	31/12/2013				LVL'000 31/12/2012			
		Share capital	Equity	Bank's share of total share capital %	Carrying amount	Share capital	Equity	Bank's share of total share capital %	Carrying amount
Pillar Holding Company, KS	LV	63,252	64,528	100	63,252	63,252	63,731	99.9997	63,252
ABLV Bank Luxembourg, S.A.	LU	14,056	10,796	100	14,056	14,056	12,767	100	14,056
ABLV Private Equity Fund 2010, KS	LV	7,028	8,606	100	7,028	7,028	7,872	100	7,028
New Hanza City, SIA	LV	6,900	6,790	100	6,900	4,400	4,352	100	4,400
AmberStone Group, AS	LV	3,444	3,444	100	3,444	-	-	-	-
ABLV Consulting services, AS	LV	500	623	100	500	500	540	100	500
ABLV Capital Markets, IBAS	LV	450	2,792	90	405	400	1,886	100	400
ABLV Asset Management, IPAS	LV	400	657	100	400	400	391	100	400
ABLV Private Equity Mangement, SIA	LV	120	214	100	120	120	150	100	120
ABLV Corporate Services, SIA	LV	20	134	100	20	20	140	100	20
Pillar, SIA	LV	2	2	100	4	2	2	100	4
Pillar Management, SIA	LV	-	-	-	-	500	391	100	500
<b>Total investments in subsidiaries and associates</b>		<b>96,172</b>	<b>98,586</b>		<b>96,129</b>	<b>90,678</b>	<b>92,222</b>		<b>90,680</b>
	Impairment allowance				(2,776)				(1,103)
<b>Total investments in subsidiaries and associates, net</b>					<b>93,353</b>				<b>89,577</b>

During the reporting year, the bank increased its investment in ABLV Capital Markets, IBAS by LVL 5 thousand; during the reporting year, ABLV Capital Markets, IBAS, issued registered non-voting shares (personnel shares) amounting to LVL 45 thousand.

The increase in the share capital of New Hanza City, SIA, of LVL 1.0 million, that at the end of the reporting period was paid according to the capital increase rules, was not registered with the Enterprise Register of the Republic of Latvia after the year end.

The movements in investments in subsidiaries and associates:

	LVL'000			
	Group 01/01/2013- 31/12/2013	Group 01/01/2012- 31/12/2012	Bank 01/01/2013- 31/12/2013	Bank 01/01/2012- 31/12/2012
<b>Investments at the beginning of the year</b>	<b>2,668</b>	<b>315</b>	<b>90,680</b>	<b>71,873</b>
New subsidiaries established	-	-	3,444	4
Investments in associates	641	1,757	-	-
Increase in investments in associates under equity method	1,754	910	-	-
Dividend payout from associates	(400)	-	-	-
(Decrease) in investments in associates consolidated during the reporting year	-	(314)	-	-
Investments in existing subsidiaries	-	-	2,505	21,303
Disposal of subsidiaries	-	-	(500)	(2,500)
<b>Investments at the end of the year</b>	<b>4,663</b>	<b>2,668</b>	<b>96,129</b>	<b>90,680</b>
Impairment allowance	-	-	(2,776)	(1,103)
<b>Investments at the end of the year, net</b>	<b>4,663</b>	<b>2,668</b>	<b>93,353</b>	<b>89,577</b>

As at 31 December 2013, funds of the customers of ABLV Asset Management, IPAS, managed by the said company based on the customers' authorisation amounted to LVL 65.5 (38.2) million. The value of financial instruments of the ABLV Capital Markets, IBAS, customers as at 31 December 2013 was LVL 548.5 (425.5) million.

## Notes to the financial statements for the year ended 31 December 2013

As at 31 December 2013, the group comprises of the following subsidiaries:

No	Company	Country of incorporation	Registration number	Business profile	Share in the entity's capital (%)
1	ABLV Bank, AS	LV	50003149401	Financial services	100
2	ABLV Bank Luxembourg, S.A.	LU	B 162048	Financial services	100
3	ABLV Consulting Services, AS	LV	40003540368	Consulting services	100
4	ABLV Corporate Services, SIA	LV	40103283479	Consulting services	100
5	ABLV Corporate Services, LTD	CY	HE273600	Consulting services	100
6	Pillar Holding Company, KS	LV	40103260921	Holding company	100
7	Pillar, SIA	LV	40103554468	Real estate transactions	100
8	Pillar Management, SIA	LV	40103193211	Real estate transactions	100
9	Pillar 2, SIA	LV	40103193033	Real estate transactions	100
10	Pillar 3, SIA	LV	40103193067	Real estate transactions	100
11	Pillar 4, SIA	LV	40103210494	Real estate transactions	100
12	Pillar 6, SIA	LV	40103237323	Real estate transactions	100
13	Pillar 7, SIA	LV	40103237304	Real estate transactions	100
14	Pine Breeze, SIA	LV	40103240484	Real estate transactions	100
15	Pillar 9, SIA	LV	40103241210	Real estate transactions	100
16	Pillar 10, SIA	LV	50103247681	Real estate transactions	100
17	Pillar 11, SIA	LV	40103258310	Real estate transactions	100
18	Pillar 12, SIA	LV	40103290273	Real estate transactions	100
19	Liezezeres Apartment House, SIA	LV	50103313991	Real estate transactions	100
20	Pillar 18, SIA	LV	40103492079	Real estate transactions	100
21	Elizabetes Park House, SIA	LV	50003831571	Real estate transactions	91.6
22	Pillar Parking, SIA	LV	40103731804	Parking management	100
23	New Hanza City, SIA	LV	40103222826	Real estate transactions	100
24	ABLV Asset Management, IPAS	LV	40003814724	Financial services	100
25	ABLV Capital Markets, IBAS	LV	40003814705	Financial services	90
26	AmberStone Group, AS	LV	40103736854	Holding company	100
27	ABLV Private Equity Management, SIA	LV	40103286757	Investment project management	100
28	ABLV Private Equity Fund 2010, KS	LV	40103307758	Investment activities	100
29	Vaiņode Agro Holding, SIA	LV	40103503851	Holding company	70
30	Vaiņodes Agro, SIA	LV	40103484940	Agriculture	70
31	Vaiņodes Bekons, SIA	LV	42103019339	Agriculture	70
32	Gas Stream, SIA	LV	42103047436	Electricity generation	70
33	Bio Future, SIA	LV	42103047421	Electricity generation	70
34	Orto klīnika, SIA	LV	40103175305	Medical services	60
35	Orto māja, SIA	LV	40103446845	Real estate transactions	60

## Note 20

## Investment properties

	LVL'000			
	Group		Bank	
	31/12/2013	31/12/2012	31/12/2013	31/12/2012
Investment properties	22 340	20 188	17 097	17 303
Prepayments for investment properties	1 104	668	2	-
<b>Total investment properties</b>	<b>23 444</b>	<b>20 856</b>	<b>17 099</b>	<b>17 303</b>

The movements in the group's and bank's investment properties in 2013 are as follows:

	Group			Bank		
	Land	Buildings	Total, excl. prepayments	Land	Buildings	Total, excl. prepayments
	<b>Acquisition value as at 01/01/2013</b>	<b>19,030</b>	<b>1,211</b>	<b>20,241</b>	<b>17,139</b>	<b>217</b>
Additions	784	1,235	2,019	8	-	8
Reclassification	(147)	512	365	(147)	147	-
Disposals	-	(206)	(206)	-	(206)	(206)
<b>Acquisition value as at 31/12/2013</b>	<b>19,667</b>	<b>2,752</b>	<b>22,419</b>	<b>17,000</b>	<b>158</b>	<b>17,158</b>
<b>Accumulated depreciation as at 01/01/2013</b>	<b>-</b>	<b>53</b>	<b>53</b>	<b>-</b>	<b>53</b>	<b>53</b>
Depreciation charge	-	26	26	-	8	8
<b>Accumulated depreciation as at 31/12/2013</b>	<b>-</b>	<b>79</b>	<b>79</b>	<b>-</b>	<b>61</b>	<b>61</b>
<b>Net carrying amount as at 01/01/2013</b>	<b>19,030</b>	<b>1,158</b>	<b>20,188</b>	<b>17,139</b>	<b>164</b>	<b>17,303</b>
<b>Net carrying amount as at 31/12/2013</b>	<b>19,667</b>	<b>2,673</b>	<b>22,340</b>	<b>17,000</b>	<b>97</b>	<b>17,097</b>

The movements in the group's and bank's investment properties in 2012 are as follows:

	Group			Bank		
	Land	Buildings	Total, excl. prepayments	Land	Buildings	Total, excl. prepayments
	<b>Acquisition value as at 01/01/2013</b>	<b>18,246</b>	<b>2,946</b>	<b>21,192</b>	<b>16,355</b>	<b>217</b>
Additions	784	522	1,306	784	-	784
Disposals	-	(2,257)	(2,257)	-	-	-
<b>Acquisition value as at 31/12/2013</b>	<b>19,030</b>	<b>1,211</b>	<b>20,241</b>	<b>17,139</b>	<b>217</b>	<b>17,356</b>
<b>Accumulated depreciation as at 01/01/2013</b>	<b>-</b>	<b>45</b>	<b>45</b>	<b>-</b>	<b>45</b>	<b>45</b>
Depreciation charge	-	8	8	-	8	8
<b>Accumulated depreciation as at 31/12/2013</b>	<b>-</b>	<b>53</b>	<b>53</b>	<b>-</b>	<b>53</b>	<b>53</b>
<b>Net carrying amount as at 01/01/2013</b>	<b>18,246</b>	<b>2,901</b>	<b>21,147</b>	<b>16,355</b>	<b>172</b>	<b>16,527</b>
<b>Net carrying amount as at 31/12/2013</b>	<b>19,030</b>	<b>1,158</b>	<b>20,188</b>	<b>17,139</b>	<b>164</b>	<b>17,303</b>

Rentals from investment properties in 2013 amounted to LVL 12.0 (22.0) thousand, whereas the related property maintenance expense was LVL 134.0 (101.0) thousand, including direct operating expenses arising from investment properties that did not generate rental income amounting to LVL 119.0 (84.0) thousand.

## Note 21

## Intangible and tangible fixed assets

	LVL'000			
	Group		Bank	
	31/12/2013	31/12/2012	31/12/2013	31/12/2012
Intangible fixed assets	3,481	3,419	3,206	3,151
Goodwill	161	161	-	-
Prepayments for intangible fixed assets	321	241	319	233
<b>Total intangible fixed assets</b>	<b>3,963</b>	<b>3,821</b>	<b>3,525</b>	<b>3,384</b>
Land	867	874	128	128
Buildings and property improvements	13,393	10,917	3,208	3,152
Production equipment	3,746	3,591	-	-
Office equipment and IT hardware	3,062	1,850	2,217	1,233
Vehicles	1,034	648	560	308
Leasehold improvements	414	82	414	82
Construction in progress	84	1,609	-	-
Prepayments for tangible fixed assets	362	39	322	3
<b>Total tangible fixed assets</b>	<b>22,962</b>	<b>19,610</b>	<b>6,849</b>	<b>4,906</b>

The movements in the group's intangible and tangible fixed assets in 2013 are as follows:

	LVL'000									
	Goodwill	Intangible fixed assets	Land	Production equipment	Construction in progress	Buildings and property improve- ments	Leasehold improve- ments	Vehicles	Office equipment	Total, excl. prepayments
<b>Acquisition value as at 01/01/2013</b>	<b>161</b>	<b>6,472</b>	<b>874</b>	<b>4,158</b>	<b>1,609</b>	<b>13,621</b>	<b>617</b>	<b>1,179</b>	<b>7,579</b>	<b>36,270</b>
Additions	-	913	29	581	73	1,631	400	816	2,196	6,639
Reclassification	-	-	(36)	21	(1,598)	1,593	-	-	30	10
Disposals	-	(554)	-	-	-	-	-	(531)	(1,139)	(2,224)
<b>Acquisition value as at 31/12/2013</b>	<b>161</b>	<b>6,831</b>	<b>867</b>	<b>4,760</b>	<b>84</b>	<b>16,845</b>	<b>1,017</b>	<b>1,464</b>	<b>8,666</b>	<b>40,695</b>
<b>Accumulated depreciation as at 01/01/2013</b>	<b>-</b>	<b>3,053</b>	<b>-</b>	<b>567</b>	<b>-</b>	<b>2,704</b>	<b>535</b>	<b>531</b>	<b>5,729</b>	<b>13,119</b>
Depreciation charge	-	851	-	447	-	748	68	224	970	3,308
Depreciation of disposals	-	(554)	-	-	-	-	-	(325)	(1,095)	(1,974)
<b>Accumulated depreciation as at 31/12/2013</b>	<b>-</b>	<b>3,350</b>	<b>-</b>	<b>1,014</b>	<b>-</b>	<b>3,452</b>	<b>603</b>	<b>430</b>	<b>5,604</b>	<b>14,453</b>
<b>Net carrying amount as at 01/01/2013</b>	<b>161</b>	<b>3,419</b>	<b>874</b>	<b>3,591</b>	<b>1,609</b>	<b>10,917</b>	<b>82</b>	<b>648</b>	<b>1,850</b>	<b>23,151</b>
<b>Net carrying amount as at 31/12/2013</b>	<b>161</b>	<b>3,481</b>	<b>867</b>	<b>3,746</b>	<b>84</b>	<b>13,393</b>	<b>414</b>	<b>1,034</b>	<b>3,062</b>	<b>26,242</b>

## Notes to the financial statements for the year ended 31 December 2013

The movements in the group's intangible and tangible fixed assets in 2012 are as follows:

	LVL'000									
	Goodwill	Intangible fixed assets	Land	Production equipment	Construction in progress	Buildings and property improvements	Leasehold improvements	Vehicles	Office equipment	Total, excl. prepayments
<b>Acquisition value as at 01/01/2012</b>	-	6 309	128	4 156	-	13 574	693	1 010	6 821	32 691
Additions	161	968	746	3	1 609	65	-	410	1 265	5 227
Disposals	-	(805)	-	(1)	-	(18)	(76)	(241)	(507)	(1 648)
<b>Acquisition value as at 31/12/2012</b>	161	6 472	874	4 158	1 609	13 621	617	1 179	7 579	36 270
<b>Accumulated depreciation as at 01/01/2012</b>	-	3 272	-	263	-	2 258	551	531	5 581	12 456
Depreciation charge	-	582	-	275	-	327	53	198	601	2 036
Depreciation of tangible assets of the subsidiaries acquired in the reporting year	-	-	-	30	-	120	-	-	39	189
Depreciation of disposals	-	(801)	-	(1)	-	(1)	(69)	(198)	(492)	(1 562)
<b>Accumulated depreciation as at 31/12/2012</b>	-	3 053	-	567	-	2 704	535	531	5 729	13 119
<b>Net carrying amount as at 01/01/2012</b>	-	3 037	128	3 893	-	11 316	142	479	1 240	20 235
<b>Net carrying amount as at 31/12/2012</b>	161	3 419	874	3 591	1 609	10 917	82	648	1 850	23 151

As at 31 December 2013, the group owned intangible and tangible fixed assets having the net carrying amount of LVL 0 and the cost value of LVL 5.4 (5.8) million, while the cost value of such intangible and tangible fixed assets owned by the bank totalled LVL 5.3 (5.8) million.

The movements in the bank's intangible and tangible fixed assets in 2013 are as follows:

	LVL'000							
	Intangible fixed assets	Land	Buildings and property improvements	Leasehold improvements	Vehicles	Office equipment	Total, excl. prepayments	
<b>Acquisition value as at 01/01/2013</b>	6 015	128	5 062	617	714	6 674	19 210	
Additions	847	-	272	400	382	1 759	3 660	
Reclassification	-	-	-	-	-	30	30	
Disposals	(554)	-	-	-	(273)	(1 117)	(1 944)	
<b>Acquisition value as at 31/12/2013</b>	6 308	128	5 334	1 017	823	7 346	20 956	
<b>Accumulated depreciation as at 01/01/2013</b>	2 864	-	1 910	535	406	5 441	11 156	
Depreciation charge	792	-	216	68	120	764	1 960	
Depreciation of disposals	(554)	-	-	-	(263)	(1 076)	(1 893)	
<b>Accumulated depreciation as at 31/12/2013</b>	3 102	-	2 126	603	263	5 129	11 223	
<b>Net carrying amount as at 01/01/2013</b>	3 151	128	3 152	82	308	1 233	8 054	
<b>Net carrying amount as at 31/12/2013</b>	3 206	128	3 208	414	560	2 217	9 733	

## Notes to the financial statements for the year ended 31 December 2013

The movements in the bank's intangible and tangible fixed assets in 2012 are as follows:

	LVL'000						
	Intangible fixed assets	Land	Buildings and property improvements	Leasehold improvements	Vehicles	Office equipment	Total, excl. prepayments
<b>Acquisition value as at 01/01/2012</b>	<b>6,047</b>	<b>128</b>	<b>5,017</b>	<b>693</b>	<b>741</b>	<b>6,460</b>	<b>19,086</b>
Additions	765	-	48	-	174	704	1,691
Disposals	(797)	-	(3)	(76)	(201)	(490)	(1,567)
<b>Acquisition value as at 31/12/2012</b>	<b>6,015</b>	<b>128</b>	<b>5,062</b>	<b>617</b>	<b>714</b>	<b>6,674</b>	<b>19,210</b>
<b>Accumulated depreciation as at 01/01/2012</b>	<b>3,135</b>	<b>-</b>	<b>1,702</b>	<b>551</b>	<b>456</b>	<b>5,401</b>	<b>11,245</b>
Depreciation charge	523	-	208	53	123	518	1,425
Depreciation of disposals	(794)	-	-	(69)	(173)	(478)	(1,514)
<b>Accumulated depreciation as at 31/12/2012</b>	<b>2,864</b>	<b>-</b>	<b>1,910</b>	<b>535</b>	<b>406</b>	<b>5,441</b>	<b>11,156</b>
<b>Net carrying amount as at 01/01/2012</b>	<b>2,912</b>	<b>128</b>	<b>3,315</b>	<b>142</b>	<b>285</b>	<b>1,059</b>	<b>7,841</b>
<b>Net carrying amount as at 31/12/2012</b>	<b>3,151</b>	<b>128</b>	<b>3,152</b>	<b>82</b>	<b>308</b>	<b>1,233</b>	<b>8,054</b>

Information about contractual commitments on the purchase of intangible and tangible fixed assets is disclosed in Note 27.

## Note 22

### Other assets

	LVL'000			
	Group	Group	Bank	Bank
	31/12/2013	31/12/2012	31/12/2013	31/12/2012
Receivables	1,242	2,060	401	1,154
Prepaid expense	1,209	1,095	778	480
Cash in transit	1,138	2,547	1,138	2,547
Balances due from MFGlobal	510	8,065	510	8,065
Tax assets	316	46	1	-
Precious metals	253	361	253	361
Payments for financial instruments	30	14	30	14
Receivables from disposal of subsidiaries	-	-	413	-
Other assets	1,727	1,130	608	483
<b>Total other assets</b>	<b>6,425</b>	<b>15,318</b>	<b>4,132</b>	<b>13,104</b>
Impairment expense	(341)	(1,357)	(295)	(1,340)
<b>Total other assets, net</b>	<b>6,084</b>	<b>13,961</b>	<b>3,837</b>	<b>11,764</b>

## Note 23

## Deposits

Customer type	LVL'000			
	Group 31/12/2013	Group 31/12/2012	Bank 31/12/2013	Bank 31/12/2012
<b>Corporate companies</b>				
current accounts	1,626,160	1,470,224	1,623,181	1,472,495
term deposits	26,535	142,727	26,535	143,349
<b>Total corporate companies</b>	<b>1,652,695</b>	<b>1,612,951</b>	<b>1,649,716</b>	<b>1,615,844</b>
<b>Other financial intermediaries</b>				
current accounts	3,852	14,873	14,160	18,479
term deposits	-	-	-	-
<b>Total other financial intermediaries</b>	<b>3,852</b>	<b>14,873</b>	<b>14,160</b>	<b>18,479</b>
<b>Other customers</b>				
current accounts	2,332	764	1,039	764
term deposits	-	702	-	702
<b>Total other customers</b>	<b>2,332</b>	<b>1,466</b>	<b>1,039</b>	<b>1,466</b>
<b>Total deposits from corporate customers</b>	<b>1,658,879</b>	<b>1,629,290</b>	<b>1,664,915</b>	<b>1,635,789</b>
<b>Retail customers</b>				
current accounts	268,715	214,493	268,504	214,493
term deposits	17,886	18,608	17,886	18,608
<b>Total deposits from retail customers</b>	<b>286,601</b>	<b>233,101</b>	<b>286,390</b>	<b>233,101</b>
<b>Total deposits</b>	<b>1,945,480</b>	<b>1,862,391</b>	<b>1,951,305</b>	<b>1,868,890</b>

The group's/ bank's top 20 customers in terms of the deposit amount account for 12.0% (17.3%) of the total deposits.

Of the total deposits placed with the group and the bank, 88.3% (88.0%) are from customers whose beneficiaries are CIS residents.



## Note 24

## Issued securities

Securities issued by the bank are as follows:

ISIN	Currency	Initial security emission amount	Par value	Date of issue	Date of maturity	Discount/ coupon rate, %	LVL'000	
							Group/ bank 31/12/2013	Group/ bank 31/12/2012
<b>Subordinated bonds</b>								
LV0000800712	EUR	125 000	100	01.10.2008.	01.10.2018.	10.0	-	7 516
LV0000800720	USD	200 000	100	01.10.2008.	01.10.2018.	9.5	-	9 508
LV0000800845	USD	200 000	100	15.09.2010.	15.09.2020.	6.5	9 221	8 931
LV0000800936	EUR	150 000	100	22.12.2011.	22.12.2021.	4.8	9 148	8 729
LV0000800977	EUR	50 000	100	25.06.2012.	25.06.2022.	4.5	3 005	1 555
LV0000800985	USD	200 000	100	27.06.2012.	27.06.2022.	4.5	10 305	10 620
LV0000801124	USD	200 000	100	18.03.2013.	18.03.2023.	4.5	8 454	-
LV0000801173	USD	200 000	100	27.06.2013.	27.06.2023.	4.3	8 527	-
LV0000801181	EUR	200 000	100	27.06.2013.	27.06.2023.	4.3	8 728	-
LV0000801223	USD	150 000	100	23.10.2013.	23.10.2023.	4.3	7 654	-
<b>Subordinated bonds, total</b>							<b>65 042</b>	<b>46 859</b>
<b>Ordinary bonds</b>								
LV0000800910	EUR	10 000	1 000	20.12.2011.	20.12.2013.	1.5+Euribor 6m	-	6 792
LV0000800928	USD	30 000	1 000	21.12.2011.	21.12.2013.	1.5+Libor 6m	-	15 813
LV0000800969	USD	50 000	1 000	30.07.2012.	30.07.2014.	1.2+Libor 6m	23 714	26 759
LV0000801033	USD	25 000	1 000	15.10.2012.	15.10.2013.	1.15	-	12 422
LV0000801041	EUR	15 000	1 000	05.11.2012.	05.11.2014.	1.55	9 610	8 713
LV0000801058	USD	50 000	1 000	06.11.2012.	06.11.2014.	1.45	22 072	7 461
LV0000801108	EUR	20 000	1 000	25.02.2013.	25.02.2015.	1.68	9 079	-
LV0000801116	USD	50 000	1 000	25.02.2013.	25.02.2015.	1.70	23 910	-
LV0000801199	USD	50 000	1 000	21.06.2013.	21.06.2015.	1.73	24 989	-
LV0000801207	EUR	20 000	1 000	21.06.2013.	21.06.2015.	1.73	12 982	-
LV0000801215	USD	50 000	1 000	16.10.2013.	16.10.2015.	1.90	25 337	-
<b>Ordinary bonds, total</b>							<b>151 693</b>	<b>77 960</b>
<b>Issued securities, total</b>							<b>216 735</b>	<b>124 819</b>

The group and the bank retain the right to exercise early redemption of subordinated bonds according to the information provided in base prospectus of the respective programmes.

## Note 25

## Subordinated liabilities

As at 31 December 2013, the group's and bank's subordinated liabilities of LVL 72.2 (59.8) million comprised subordinated bonds amounting to LVL 65.0 (46.9) million and subordinated deposits amounting to LVL 7.1 (12.9) million. Subordinated deposits consist from the total amount of USD 9.3 (20.7) million and EUR 3.3 (2.7) million.

The analysis of subordinated deposits as at 31 December 2013:

Lenders	Deposit amount LVL'000	Accumulated interest LVL'000	Interest rate, %	Currency
non-residents	4 761	51	1.75 - 3.15	USD
non-residents	2 316	5	3.00 - 3.90	EUR
<b>Total subordinated deposits</b>	<b>7 077</b>	<b>56</b>		

The analysis of subordinated deposits as at 31 December 2012:

	Deposit amount LVL'000	Accumulated interest LVL'000	Interest rate, %	Currency	Date of the agreement	Date of maturity
Harpic group Ltd	7 965	34	5.11	USD	14.08.2008.	19.08.2018.
<b>Other lenders*</b>						
non-residents	2 979	37	1.75 - 8.39	USD		
non-residents	1 894	3	3.15 - 3.90	EUR		
<b>Other lenders in total</b>	<b>4 873</b>	<b>40</b>				
<b>Total subordinated deposits</b>	<b>12 838</b>	<b>74</b>				

\*The proportionate share of other lenders (for each individual lender) does not exceed 10% of the total amount of the subordinated capital. The remaining weighted average maturity of subordinated deposits from other lenders is 5.98 (4.58) years.

Subordinated deposits are included in the second tier of equity calculation. According to the provisions of the subordinated loan agreements, the lenders have no right to demand anticipatory repayment of the loans and capitalise the subordinated loans into the bank's share capital. The basic conditions of the subordinated bonds issued by the Bank are disclosed in Note 24.

## Note 26

### Paid-in share capital

In the reporting year, the bank issued 6,570 (10,600) voting shares in addition to the existing 120,600 (110,000) voting shares. The issue of the bank's share capital was intended to ensure steady development of the group/ bank in the future. All the newly issued shares had the par value of LVL 150 (150) each, while the share premium totalled LVL 1,605 (1,260). Most of the newly issued shares have been acquired by the existing shareholders of the bank - Cassandra Holding Company, SIA and OF Holding, SIA.

As at 31 December 2013 the paid-in share capital of the bank amounted to LVL 21.1 million (19.7 million). All the shares have the par value of LVL 150 (150) each. The bank's share capital consists of 127,170 (120,600) ordinary registered voting shares and 13,400 (11,000) registered non-voting shares (personnel shares).

As at 31 December 2013, the bank had 118 (119) voting shareholders.

The major shareholders of the bank and the groups of related shareholders are as follows:

	31/12/2013		31/12/2012	
	Share of the bank's share capital, LVL'000	Share of the bank's voting capital (%)	Share of the bank's share capital, LVL'000	Share of the bank's voting capital (%)
<b>Group of shareholders related to Ernests Bernis</b>				
Ernests Bernis	1 005	5.27	1 004	5.55
Nika Berne	173	0.90	169	0.94
Cassandra Holding Company, SIA	7 025	36.83	6 606	36.52
<b>Group of shareholders related to Ernests Bernis, total</b>	<b>8 203</b>	<b>43.00</b>	<b>7 779</b>	<b>43.01</b>
<b>Group of shareholders related to Olegs Fijs</b>				
SIA OF Holding	8 203	43.00	7 779	43.00
<b>Group of shareholders related to Olegs Fijs, total</b>	<b>8 203</b>	<b>43.00</b>	<b>7 779</b>	<b>43.00</b>
Other shareholders, total	2 670	14.00	2 532	13.99
<b>Total voting shares</b>	<b>19 076</b>	<b>100.00</b>	<b>18 090</b>	<b>100.00</b>
Non-voting shares (personnel shares)	2 010		1 650	
<b>Total share capital</b>	<b>21 086</b>		<b>19 740</b>	

## Notes to the financial statements for the year ended 31 December 2013

The registered non-voting shares (personnel shares) are as follows:

	31/12/2013		31/12/2012	
	Number of employees	Personnel shares	Number of employees	Personnel shares
Chairman of the council and council members	3	-	3	-
Chairman of the board	1	-	1	-
Board members	6	7 250	6	5 850
Heads and deputy heads of divisions	17	6 150	15	5 150
<b>Non-voting shares (personnel shares), total</b>	<b>x</b>	<b>13 400</b>	<b>x</b>	<b>11 000</b>

Dividends declared and paid:

	LVL'000	
	Group/ bank	Group/ bank
	01/01/2013 - 31/12/2013	01/01/2012 - 31/12/2012
Dividends declared	16 415	19 106
Dividends paid	16 410	19 100

	LVL	
	Group/ bank	Group/ bank
	01/01/2013 - 31/12/2013	01/01/2012 - 31/12/2012
Dividends declared per share	123	158
Dividends paid per share	123	158

Note 27

### Memorandum items

	LVL'000			
	Group	Group	Bank	Bank
	31/12/2013	31/12/2012	31/12/2013	31/12/2012
<b>Contingent liabilities</b>				
Outstanding guarantees	5 398	7 009	5 404	7 014
Letters of credit	147	38	147	38
<b>Total contingent liabilities</b>	<b>5 545</b>	<b>7 047</b>	<b>5 551</b>	<b>7 052</b>
<b>Financial commitments</b>				
Loan commitments	16 865	13 146	16 865	13 146
Unutilised credit lines	15 153	8 172	15 369	8 252
Undrawn credit facilities on settlement cards	10 242	8 783	10 279	8 818
Contractual commitments on purchase of non-financial assets	217	60	217	60
<b>Total financial commitments</b>	<b>42 477</b>	<b>30 161</b>	<b>42 730</b>	<b>30 276</b>
<b>Total contingent liabilities and financial commitments</b>	<b>48 022</b>	<b>37 208</b>	<b>48 281</b>	<b>37 328</b>

Note 28

### Funds under trust management

As at 31 December 2013, funds under trust management by the group amounted to LVL 102.8 (137.8) million, while funds under trust management by the bank amounted to LVL 37.0 (99.7) million. The bank's funds under trust management comprise loans issued from the funds specifically assigned by customers to the bank. Meanwhile, the group's funds under trust management also include funds of the customers of ABLV Asset Management, IPAS managed by the said company based on the customers' authorisation and the funds under trust management of ABLV Bank Luxembourg, S.A.. For more detailed information on the funds of the customers of ABLV Asset Management, IPAS see Note 19. The related credit risk and other risks remain fully with the customer, which provided these funds to the group and/or the bank.

## Note 29

## Related party disclosures

Related parties of the group and the bank are defined as shareholders who have a qualifying holding in the bank, and chairman and members of the bank's council and board, staff of the Internal Audit Department, key management personnel of the group and the bank that are authorised to plan, manage and control bank's operations and are responsible for these functions, and spouses, parents and children of the individuals referred to previously, bank's subsidiaries and companies in which the bank has an interest, companies in which these individuals have a qualifying holding as well as other legal entities.

Group's transactions with related parties:

	31/12/2013				31/12/2012			
	Share holders	Management	Related companies	Other related individuals	Share holders	Management	Related companies	Other related individuals
<b>Assets</b>								
Loans	-	1,212	288	602	-	678	1,136	490
<b>Liabilities</b>								
Deposits	252	1,769	5,501	1,422	137	1,098	2,076	1,064
Ordinary bonds	-	-	-	30	-	-	-	1
Subordinated bonds	58	1,235	768	1,266	-	707	105	787
<b>Memorandum items</b>								
Undrawn credit facilities	-	116	211	66	-	118	60	58
Guarantees	-	132	-	-	-	133	-	-
<b>Income/ expense</b>	01/01/2013 - 31/12/2013				01/01/2012 - 31/12/2012			
Interest income	-	54	68	7	-	33	83	17
Interest expense	(5)	(71)	(22)	(37)	-	(35)	(10)	(20)
Commission and fee income	-	14	15	5	-	17	31	7
Net result of non-financial assets held for sale	-	(167)	(171)	(19)	-	-	-	-

Bank's transactions with related parties:

	31/12/2013					31/12/2012				
	Share holders	Management	Related companies	Subsidiaries	Other related individuals	Share holders	Management	Related companies	Subsidiaries	Other related individuals
<b>Assets</b>										
Loans	-	1,212	206	10,794	388	-	678	1,136	11,831	420
<b>Liabilities</b>										
Deposits	252	1,769	5,494	20,006	1,248	137	1,098	2,076	9,238	904
Ordinary bonds	-	-	-	14	30	-	-	-	-	1
Subordinated bonds	58	1,235	768	-	1,077	-	707	105	-	635
<b>Memorandum items</b>										
Undrawn credit facilities	-	116	211	253	59	-	118	60	114	56
Guarantees	-	132	-	5	-	-	133	-	5	-
<b>Income/ expense</b>	01/01/2013 - 31/12/2013					01/01/2012 - 31/12/2012				
Interest income	-	50	67	670	7	-	33	83	768	7
Interest expense	(5)	(70)	(22)	(6)	(24)	-	(35)	(10)	(26)	(5)
Commission and fee income	-	12	11	517	5	-	15	29	106	2
Commission and fee expense	-	-	-	(3,926)	-	-	-	-	(2,932)	-
Other operating income	-	-	-	1,414	-	-	-	-	690	-
Impairment allowances, net	-	-	-	-	-	-	-	-	174	-

Remuneration to the management is disclosed in Note 10, while information on registered non-voting shares (personnel shares) is presented in Note 26. Information on changes in investments in subsidiaries and associates is disclosed in Note 19.

Latvian banking legislation requires that the total credit exposure to related parties may not exceed 15% of credit institution's equity. As at 31 December 2013, the bank was in compliance with the above statutory requirements.

## Note 30

### Segment information

The group and the bank believe that the group's operations are organised into four segments based on the core business activities as follows: banking services, advisory services, investment management services, and management of non-financial assets held for sale and investments in real estate. The group defines its operating segments based on its organisational structure. The bank views its operations as one single segment, without making any separate disclosures, while at the group level the bank and all its subsidiaries are attributed to the group's operating segments as follows:

- banking services: ABLV Bank, AS, ABLV Bank Luxembourg, S.A;
- advisory services: ABLV Consulting Services, AS, ABLV Corporate Services, SIA, ABLV Corporate Services, LTD;
- investment management services: ABLV Asset Management, IPAS, ABLV Capital Markets, IBAS, ABLV Private Equity Management, SIA, ABLV Private Equity Fund 2010, KS, Vaiņode Agro Holding, SIA, Vaiņodes Agro, SIA, Vaiņodes bekons, SIA, Gas Stream, SIA, Bio Future, SIA, Orto klīnika, SIA, Orto māja, SIA, AmberStone Group, AS.
- management of non-financial assets held for sale and investments in real estate: Pillar Holding Company, KS, Pillar, SIA, Pillar Management, SIA, Pillar 2, SIA, Pillar 3, SIA, Pillar 4, SIA, Pillar 6, SIA, Pillar 7, SIA, Pina Breeze, SIA, Pillar 9, SIA, Pillar 10, SIA, Pillar 11, SIA, Pillar 12, SIA, Lielezeres Apartment House, SIA, Pillar 18, SIA, Pillar Parking, SIA, Elizabetes Park House, SIA, New Hanza City, SIA.

Operating segment information is prepared on the basis of internal reports.

## Notes to the financial statements for the year ended 31 December 2013

Analysis of the operating segments of the group as at 31 December 2013:

LVL'000

	Banking	Investment management	Advisory	Management of non-financial assets held for sale and investments in real estate
<b>Assets</b>				
Cash and deposits with central banks	250,730	8	-	-
Balances due from credit institutions	449,875	119	29	-
Securities and derivatives	990,372	-	-	-
Loans	559,420	2,947	-	4
Investments in subsidiaries and associates	-	4,663	-	-
Tangible and intangible fixed assets, investment properties	27,998	15,512	305	6,554
Other assets	2,727	2,482	269	52,244
<b>Total assets per internal reporting</b>	<b>2,281,122</b>	<b>25,731</b>	<b>603</b>	<b>58,802</b>
Impairment allowance*	(35,660)	-	-	(45)
<b>Total assets per IFRS</b>	<b>2,245,462</b>	<b>25,731</b>	<b>603</b>	<b>58,757</b>
<b>Liabilities</b>				
Balances due to credit institutions	7,488	2,553	-	-
Derivatives	1,438	-	-	-
Deposits and issued securities	2,168,818	529	-	1
Impairment allowances and other provisions	35,947	-	-	45
Other liabilities	11,070	2,688	685	2,035
<b>Total liabilities per internal reporting</b>	<b>2,224,761</b>	<b>5,770</b>	<b>685</b>	<b>2,081</b>
<b>Total liabilities and shareholders' equity</b>	<b>2,354,236</b>	<b>15,456</b>	<b>924</b>	<b>(4,358)</b>
Impairment allowance*	(35,660)	-	-	(45)
<b>Total liabilities per IFRS</b>	<b>2,318,576</b>	<b>15,456</b>	<b>924</b>	<b>(4,403)</b>
<b>Profit/ loss</b>				
Net interest income	29,480	484	-	5
Net commission and fee income	31,596	4,192	(7)	-
Net result of transactions with financial instruments and foreign exchange	15,469	(2)	(10)	-
Net other income/ expense	(85)	5,915	1,142	189
Net gain/(loss) on disposal of assets taken over	17	-	-	3,335
Income from dividends	74	-	-	-
Administrative expense and depreciation	(33,673)	(3,274)	(4,015)	(1,429)
Impairment allowances and provisions	(6,653)	-	-	-
Impairment of financial instruments	(856)	-	-	-
Impairment of other assets	766	1	-	(321)
Corporate income tax	(5,708)	(672)	(41)	(77)
<b>Net profit/ (loss) for the year</b>	<b>30,427</b>	<b>6,644</b>	<b>(2,931)</b>	<b>1,702</b>

\* - for internal reporting purposes the impairment allowance is disclosed separately as a liability rather than impairment of the respective assets.

## Notes to the financial statements for the year ended 31 December 2013

Analysis of the operating segments of the group as at 31 December 2012:

LVL'000

	Banking	Investment management	Advisory	Management of non-financial assets held for sale and investments in real estate
<b>Assets</b>				
Cash and deposits with central banks	216 081	4	-	-
Balances due from credit institutions	392 182	689	27	-
Securities and derivatives	903 256	-	-	-
Loans	539 202	7 952	-	56
Investments in subsidiaries and associates	-	2 668	-	-
Tangible and intangible fixed assets, investment properties	26 149	14 274	235	3 629
Other assets	11 662	2 315	189	57 690
<b>Total assets per internal reporting</b>	<b>2 088 532</b>	<b>27 902</b>	<b>451</b>	<b>61 375</b>
Impairment allowance*	(49 013)	-	-	(38)
<b>Total assets per IFRS</b>	<b>2 039 519</b>	<b>27 902</b>	<b>451</b>	<b>61 337</b>
<b>Liabilities</b>				
Balances due to credit institutions	2 198	999	-	-
Derivatives	4 579	-	-	-
Deposits and issued securities	1 997 612	2 510	-	-
Impairment allowances and other provisions	49 351	-	-	38
Other liabilities	9 648	2 756	430	4 425
<b>Total liabilities per internal reporting</b>	<b>2 063 388</b>	<b>6 265</b>	<b>430</b>	<b>4 463</b>
<b>Total liabilities and shareholders' equity</b>	<b>2 168 114</b>	<b>11 609</b>	<b>557</b>	<b>(2 020)</b>
Impairment allowance*	(49 013)	-	-	(38)
<b>Total liabilities per IFRS</b>	<b>2 119 101</b>	<b>11 609</b>	<b>557</b>	<b>(2 058)</b>
<b>Profit/ loss</b>				
Net interest income	22 368	1 098	-	(67)
Net commission and fee income	23 025	3 079	-	-
Net result of transactions with financial instruments and foreign exchange	14 605	(99)	(25)	130
Net other income/ expense	404	1 694	573	95
Net gain/(loss) on disposal of assets taken over	-	-	-	935
Income from dividends	7	-	-	-
Administrative expense and depreciation	(26 621)	(1 760)	(3 033)	(880)
Impairment allowances and provisions	(12 776)	-	-	-
Impairment of financial instruments	(322)	-	-	-
Impairment of other assets	(1 093)	-	-	(1 512)
Corporate income tax	(3 744)	(119)	(42)	(54)
<b>Net profit/ (loss) for the year</b>	<b>15 853</b>	<b>3 893</b>	<b>(2 527)</b>	<b>(1 353)</b>

\* - for internal reporting purposes the impairment allowance is disclosed separately as a liability rather than impairment of the respective assets.

### Note 31

#### Fair value of financial instruments

Fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The group and the bank disclose the fair values of the assets and liabilities in such a manner so as to be able to compare the fair values with the carrying amounts.

Fair value of financial instruments, such as financial assets at fair value through profit and loss, available for sale financial assets and held to maturity financial assets are mostly valued based on quoted price in active market. For some of the above mentioned financial instruments such price is not observable, as a result these instruments are valued based on observable price in market, where no active trading is done – this is applicable for several bonds and open ended investments funds which are redeemable at net asset value. Finally other valuation techniques are used for some available-for-sale financial assets not quoted in the market and for which no quoted prices for similar assets in active markets are



Notes to the financial statements for the year ended 31 December 2013

available. For such financial instruments the fair value is estimated based on valuation models which are based on the assumptions and estimates regarding the potential future income generated by the investment by taking into consideration the industry and geographical area risks in which the respective investment operates. Fair value of derivatives is calculated based on net present value method, where all inputs in the valuation model are observable, while exchanged traded derivatives, such as futures, as valued based on quoted price.

The management of the bank and the group believe that the most credible market value of investment properties was identified based on the evaluations presented by both external real estate appraisers and bank's real estate experts. Such experts use discounted cash flow method ("DCF") for valuation of its investment property. Under the DCF method, fair value is estimated using assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. This method involves the projection of a series of cash flows on a real property interest. To this projected cash flow series, a market-derived discount rate is applied to establish the present value of the income stream associated with the asset. The selling value of the investment properties may differ from the market value as defined, as the market of such kind of properties is not properly developed in Latvia. For other assets and liabilities for which fair value is disclosed and with a short remaining maturity (less than three months), except for loans and receivables, the group and the bank assume that the fair value approximates to their carrying amount. This assumption also applies to demand deposits and savings accounts.

The fair value of loans and advances to customers is estimated by discounting the expected cash flows at the discount rate calculated according to the money market rates at the end of the year and the loan interest margins. The fair value of deposits is estimated by discounting the expected cash flows at the average market interest rates at the end of the year.

The carrying amounts and fair values of the group's assets and liabilities are as follows:

	LVL'000			
	31/12/2013		31/12/2012	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Assets at fair value</b>				
Derivatives	317	317	81	81
<b>At fair value through profit or loss</b>				
Financial assets at fair value through profit or loss	11,803	11,803	3,333	3,333
<b>Available-for-sale</b>				
Available-for-sale financial assets	519,130	519,130	547,757	547,757
<b>Total assets at fair value</b>	<b>531,250</b>	<b>531,250</b>	<b>551,171</b>	<b>551,171</b>
<b>Assets at amortised cost</b>				
Cash and deposits with central banks	250,738	250,738	216,085	216,078
Balances due from credit institutions	450,023	450,023	392,898	392,905
Loans	527,171	526,007	499,787	493,729
Held-to-maturity financial assets	458,957	462,267	351,832	363,321
Investment properties	23,444	23,918	20,856	22,561
<b>Total assets at amortised cost</b>	<b>1,710,333</b>	<b>1,712,953</b>	<b>1,481,458</b>	<b>1,488,594</b>
<b>Liabilities at fair value</b>				
Derivatives	1,438	1,438	4,579	4,579
<b>Total liabilities at fair value</b>	<b>1,438</b>	<b>1,438</b>	<b>4,579</b>	<b>4,579</b>
<b>Liabilities at amortised cost</b>				
Demand deposits from credit institutions	7,488	7,488	967	967
Liabilities at amortised cost	2,171,901	2,171,314	2,002,352	2,006,382
<b>Total liabilities at amortised cost</b>	<b>2,179,389</b>	<b>2,178,802</b>	<b>2,003,319</b>	<b>2,007,349</b>

## Notes to the financial statements for the year ended 31 December 2013

The carrying amounts and fair values of the bank's assets and liabilities are as follows:

	31/12/2013		31/12/2012	
	Carrying amount	Fair value	Carrying amount	Fair value
LVL'000				
<b>Assets at fair value</b>				
Derivatives	317	317	81	81
<b>At fair value through profit or loss</b>				
Financial assets at fair value through profit or loss	11 803	11 803	3 333	3 333
<b>Available-for-sale</b>				
Available-for-sale financial assets	514 213	514 213	547 757	547 757
<b>Total assets at fair value</b>	<b>526 333</b>	<b>526 333</b>	<b>551 171</b>	<b>551 171</b>
<b>Assets at amortised cost</b>				
Cash and deposits with central banks	250 723	250 723	216 074	216 074
Balances due from credit institutions	435 062	435 062	388 665	388 665
Loans	535 022	533 858	503 611	497 553
Held-to-maturity financial assets	457 814	461 124	351 832	363 321
Investment properties	17 099	17 757	17 303	18 717
<b>Total assets at amortised cost</b>	<b>1 695 720</b>	<b>1 698 524</b>	<b>1 477 485</b>	<b>1 484 330</b>
<b>Liabilities at fair value</b>				
Derivatives	1 438	1 438	4 579	4 579
<b>Total liabilities at fair value</b>	<b>1 438</b>	<b>1 438</b>	<b>4 579</b>	<b>4 579</b>
<b>Liabilities at amortised cost</b>				
Demand deposits from credit institutions	10 184	10 184	2 406	2 406
Liabilities at amortised cost	2 175 173	2 174 586	2 015 026	2 019 056
<b>Total liabilities at amortised cost</b>	<b>2 185 357</b>	<b>2 184 770</b>	<b>2 017 432</b>	<b>2 021 462</b>

Hierarchy of input data for determining the fair value of assets and liabilities

The group and the bank use the following hierarchy of three levels of input data for determining and disclosing the fair value of financial assets and liabilities:

- Level 1: Quoted prices in active markets;
- Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable;
- Level 3: Other techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Level 1 instruments contain liquid securities and exchange traded derivatives. Level 2 instruments contain securities that do not have an active market, standardised OTC derivatives as well as certain open ended investment funds. Level 3 instruments contain private equity funds with no market price quotes, investment properties, term deposits and loans. For valuation methods and assumptions please see description above.

The group and the bank has made retrospective reclassification of certain fixed income securities classified as financial instruments as available for sale in amount of LVL 1,2 million and certain non-fixed income securities classified as fair value through profit or loss in amount of LVL1,3 million from Level 1 to Level 2.

There are changes in Level 3 assets that are recognised in financial statements at fair value, of which LVL 0,8 million is due to partial repayment and LVL 0,4 million is recognised through profit and loss as impairment expenses.

Notes to the financial statements for the year ended 31 December 2013

The group's assets and liabilities according to the hierarchy of input data for determining the fair value:

	31/12/2013				31/12/2012			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets at fair value</b>								
Derivatives	15	302	-	317	19	62	-	81
Financial assets at fair value through profit or loss	2,743	9,040	20	11,803	2,004	1,329	-	3,333
Available-for-sale financial assets	504,248	13,814	1,068	519,130	544,281	1,229	2,247	547,757
<b>Total assets at fair value</b>	<b>507,006</b>	<b>23,156</b>	<b>1,088</b>	<b>531,250</b>	<b>546,304</b>	<b>2,620</b>	<b>2,247</b>	<b>551,171</b>
<b>Assets at amortised cost</b>								
Cash and deposits with central banks	250,738	-	-	250,738	216,085	-	-	216,085
Balances due from credit institutions	448,301	1,722	-	450,023	392,569	329	-	392,898
Loans	-	-	527,171	527,171	-	-	499,787	499,787
Held-to-maturity financial assets	450,377	8,580	-	458,957	350,102	1,730	-	351,832
Investment properties	-	-	23,444	23,444	-	-	20,856	20,856
<b>Total assets at amortised cost</b>	<b>1,149,416</b>	<b>10,302</b>	<b>550,615</b>	<b>1,710,333</b>	<b>958,756</b>	<b>2,059</b>	<b>520,643</b>	<b>1,481,458</b>
<b>Liabilities at fair value</b>								
Derivatives	-	1,438	-	1,438	-	4,579	-	4,579
<b>Total liabilities at fair value</b>	<b>-</b>	<b>1,438</b>	<b>-</b>	<b>1,438</b>	<b>-</b>	<b>4,579</b>	<b>-</b>	<b>4,579</b>
<b>Liabilities at amortised cost</b>								
Demand deposits from credit institutions	7,488	-	-	7,488	967	-	-	967
Liabilities at amortised cost	2,115,462	2,553	53,886	2,171,901	1,825,173	2,230	174,949	2,002,352
<b>Total liabilities at amortised cost</b>	<b>2,122,950</b>	<b>2,553</b>	<b>53,886</b>	<b>2,179,389</b>	<b>1,826,140</b>	<b>2,230</b>	<b>174,949</b>	<b>2,003,319</b>

The bank's assets and liabilities according to the hierarchy of input data for determining the fair value:

	31/12/2013				31/12/2012			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets at fair value</b>								
Derivatives	15	302	-	317	19	62	-	81
Financial assets at fair value through profit or loss	2,743	9,040	20	11,803	2,004	1,329	-	3,333
Available-for-sale financial assets	499,331	13,814	1,068	514,213	544,281	1,229	2,247	547,757
<b>Total assets at fair value</b>	<b>502,089</b>	<b>23,156</b>	<b>1,088</b>	<b>526,333</b>	<b>546,304</b>	<b>2,620</b>	<b>2,247</b>	<b>551,171</b>
<b>Assets at amortised cost</b>								
Cash and deposits with central banks	250,723	-	-	250,723	216,074	-	-	216,074
Balances due from credit institutions	435,053	9	-	435,062	388,631	34	-	388,665
Loans	-	-	535,022	535,022	-	-	503,611	503,611
Held-to-maturity financial assets	449,234	8,580	-	457,814	350,102	1,730	-	351,832
Investment properties	-	-	17,099	17,099	-	-	17,303	17,303
<b>Total assets at amortised cost</b>	<b>1,135,010</b>	<b>8,589</b>	<b>552,121</b>	<b>1,695,720</b>	<b>954,807</b>	<b>1,764</b>	<b>520,914</b>	<b>1,477,485</b>
<b>Liabilities at fair value</b>								
Derivatives	-	1,438	-	1,438	-	4,579	-	4,579
<b>Total liabilities at fair value</b>	<b>-</b>	<b>1,438</b>	<b>-</b>	<b>1,438</b>	<b>-</b>	<b>4,579</b>	<b>-</b>	<b>4,579</b>
<b>Liabilities at amortised cost</b>								
Demand deposits from credit institutions	10,184	-	-	10,184	2,406	-	-	2,406
Liabilities at amortised cost	2,123,619	-	51,554	2,175,173	1,831,050	8,405	175,571	2,015,026
<b>Total liabilities at amortised cost</b>	<b>2,133,803</b>	<b>-</b>	<b>51,554</b>	<b>2,185,357</b>	<b>1,833,456</b>	<b>8,405</b>	<b>175,571</b>	<b>2,017,432</b>

## Note 32

### Capital management and capital adequacy

The primary objective of the group's and bank's capital management is to ensure that the group and the bank comply with externally imposed capital requirements (i.e. FCMC regulations and IFRS) and that the group and the bank maintain healthy capital ratios in order to support their business and maximise the shareholders' value.

The goals of the group's and bank's capital management are consistent with those of the previous years. According to the capital adequacy rules of Basel II, the group and the bank apply the standardised approach to calculate the capital requirements for credit risk and market risks and the basic indicator approach to calculate the capital requirement for operational risk.

Capital adequacy refers to the sufficiency of the group's and bank's capital resources to cover credit risk, operational risk, and market risks.

As at 31 December 2013, the group's capital adequacy ratio in accordance with the FCMC requirements was 17.02% (14.58%), while the bank's capital adequacy ratio was 17,53% (16.04%). The minimum capital requirement defined for the bank is 11.50% (12.40%), and the bank complies with it.

The group's and bank's equity consists of Tier 1 and Tier 2. Tier 1 comprises paid-in share capital, share premium, reserve capital, retained earnings, including current year's profit which is not to be paid in dividends, less negative fair value revaluation reserve of available-for-sale financial assets and intangible fixed assets. Tier 2 includes subordinated capital and positive fair value revaluation reserve of available-for-sale financial assets (45%).

The reserve capital is the value of the group's and bank's property, which, following the defined procedure, is accrued to cover unexpected losses or for other financing needs, based on the decision of the shareholders' meeting. There are no legal restrictions on utilisation of the reserves.

Apart from the calculation of the minimum capital adequacy ratio, the bank documents and assesses internal capital adequacy. The internal capital adequacy assessment (ICAAP) procedure performed by the bank comprises both quantitative capital adequacy assessment and qualitative aspects, including long-term business planning and formulation of the development strategy, identification of material risks, determination of acceptable risk exposure, development and improvement of risk management systems, as well as identification and control of risks inherent in the bank's business (risk profile) on an ongoing basis.

The methods employed for the ICAAP purposes and the calculation procedure are detailed in the Statement on Information Disclosure published on the bank's homepage [www.ablv.com](http://www.ablv.com).

## Notes to the financial statements for the year ended 31 December 2013

Calculation of equity and minimum capital requirements according to FCMC:

	LVL'000			
	Group	Group	Bank	Bank
	31/12/2013	31/12/2012	31/12/2013	31/12/2012
<b>Tier 1</b>				
paid-in share capital	21 086	19 740	21 086	19 740
share premium	29 156	18 611	29 156	18 611
reserve capital	1 500	1 500	1 500	1 500
retained earnings	42 436	43 293	48 322	48 643
intangible fixed assets	(3 963)	(3 821)	(3 525)	(3 384)
non-controlling interests	2 738	2 609	-	-
current year's profit/ (loss)	35 354	16 106	30 696	16 454
specific decrease in Tier 1 pursuant to the FCMC requirements (50%)	(640)	(14)	(1 922)	(14)
<b>Total Tier 1</b>	<b>127 667</b>	<b>98 024</b>	<b>125 313</b>	<b>101 550</b>
<b>Tier 2</b>				
fair value revaluation reserve of available-for-sale financial assets (45%)	311	835	311	835
decrease in Tier-2 capital by the difference between the allowances pursuant CFMC requirements and the allowances pursuant to IFRS (50%)	(640)	(14)	(1 922)	(14)
subordinated capital (according to remaining maturity with adjustment level of 40%-100%)	64 154	49 019	63 618	50 681
<b>Total Tier 2</b>	<b>63 825</b>	<b>49 840</b>	<b>62 007</b>	<b>51 502</b>
<b>Total equity</b>	<b>191 492</b>	<b>147 864</b>	<b>187 320</b>	<b>153 052</b>
Capital charge for credit risk on banking book	70 632	65 646	71 723	66 800
Total capital charge for market risks on trading book	8 694	7 064	5 191	2 273
incl. capital charge for foreign currency risk	4 746	5 659	1 243	868
incl. capital charge for position risk	3 910	1 374	3 910	1 374
incl. capital charge for counterparty risk	38	31	38	31
Capital charge for operational risk	10 672	8 399	8 581	7 264
<b>Total capital charge</b>	<b>89 998</b>	<b>81 109</b>	<b>85 495</b>	<b>76 337</b>
<b>Capital adequacy ratio (%)</b>	<b>17.02</b>	<b>14.58</b>	<b>17.53</b>	<b>16.04</b>
Minimum capital adequacy ratio (%)	8.00	8.00	8.00	8.00

The group's and bank's capital charge for credit risk exposures by the following exposure categories:

Exposure category	LVL'000			
	Group	Group	Bank	Bank
	31/12/2013	31/12/2012	31/12/2013	31/12/2012
Commercial companies	26 731	19 347	33 329	26 621
Other items	13 821	13 750	7 440	7 698
Institutions	12 561	13 535	13 435	13 467
Low risk portfolio	11 391	11 982	11 391	11 982
Central governments or central banks	2 876	2 770	2 876	2 770
Past due exposures	1 724	3 060	1 724	3 060
Regional or local governments	951	561	951	561
Secured by real estate	275	225	275	225
International development banks	190	158	190	158
High risk exposures	112	258	112	258
<b>Total capital charge for credit risk</b>	<b>70 632</b>	<b>65 646</b>	<b>71 723</b>	<b>66 800</b>

## Note 33

### Risk management

Risks are inherent in the group's and bank's business and risk management is one of the group's and bank's strategic values, which is based on the confidence that efficient risk management is critical for the success of the group and the bank. Managing risks permits keeping the group's and bank's exposure at a level meeting their willingness and ability to undertake risks.

In the ordinary course of business, the group and the bank are exposed to various risks, the most significant of them being credit risk, liquidity risk and market risk (including interest rate risk, currency risk), as well as operational risk.

Risk management stands for identification, assessment and control of potential risks.

The risk management process includes the following:

- identification, assessment and measurement of the significant risks;
- setting restrictions and limits defining the maximum permissible exposure;
- regular monitoring of the compliance with the risk management policies and procedures and with any limits set;
- defining the risk assessment procedures and limits before commencing new transactions;
- quantitative risk assessment for the group and the bank;
- regular revision and enhancement of the policies and instructions following the market changes.

For the purpose of managing risks, risk management policies have been developed and approved by the council. The introduction and efficiency of such policies are controlled by the board and the Chief Risk Officer (CRO), while the practical implementation is provided by the respective business structural units, including the Risk Management Division whose functions are strictly segregated from the business functions.

To create a highly disciplined, conservative and constructive risk management and control environment, training seminars for the staff are organised on a regular basis.

The goal of the risk management policies is to ensure efficient risk management, identify and analyse the risks inherent in the group's and bank's business, set relevant limits, introduce reliable control procedures, as well as control risk and exposure compliance with the applicable limits using administrative and IT resources.

The risk management system has been constantly improved following the group's and bank's operational and financial market development. The improvement process is controlled by the Internal Audit Department on a regular basis.

## Note 34

### Credit risk

Credit risk is exposure to potential losses in case the group's or bank's counterparty or debtor will be unable to pay the contractual obligations to the group or the bank.

#### Credit risk management framework

Credit risk is managed according to the Credit Policy. The group and the bank believe that their exposure to credit risk arises mainly from loans, investments in fixed income securities, and balances due from credit institutions.

Before entering into any cooperation with the customers, the group and the bank perform a comprehensive review of the customer's solvency and collateral.

In analysing any potential cooperation with financial institutions, the bank assesses each potential counterparty, analysing both its financial performance and other criteria, and further reviews these indicators on a regular basis. Meanwhile, to assess solvency of private individuals, the bank has developed an internal rating system whereby customers are divided in categories on the basis of their income level and quality of their credit histories. The group and the bank assess creditworthiness of corporate customers by conducting the financial due diligence for each new customer; subsequently, the borrower's financial position is reviewed on an annual basis. Corporate customers are also granted monitoring/ risk factors, and any instances of non-compliance with these factors indicate that credit risk might have increased before the financial position of such customer is reviewed.

For effective credit risk management, the bank has set up the permanent Assets Evaluation Committee which performs a regular analysis of assets and memorandum items, i.e., their recoverability. Depending on the results of such analysis, the amount of the allowance for credit losses (impairment) is determined. For the purposes of such analysis, both specific and collective (portfolio) risks are considered.

The bank analyses the quality of its loan portfolio on a regular basis to identify loss events. If a loss event is identified, the loan is assessed for impairment. The age of past due loans is used as one of the quality criteria. The criteria applied to corporate loans also include the borrower's business performance and prospects, its existing and forecasted cash flows to meet the liabilities, compliance with the monitoring/ risk factors set, collateral value, etc. The loans are deemed impaired if the bank has established respective allowances as a result of loss events, as well as if the contractual payments are more than 90 days overdue or if the loan recovery process is being planned.

Notes to the financial statements for the year ended 31 December 2013

Collateral is appraised by an independent appraiser accepted by the group and the bank. The bank may adjust (reduce) the value defined by the independent appraiser if, in the bank's opinion, the appraiser has not considered certain risk factors. For the purposes of loan collateral, the bank considers such reduced value. As collateral, the bank may accept real estate, new and used vehicles, commercial vehicles, goods held at customs or customer's warehouse, securities, technological equipment and machinery, receivables as the aggregation of property, etc. Based on the collateral type and liquidity, the group and the bank apply the maximum acceptable proportion of the loan to be issued.

The table below provides the credit quality analysis for the group:

						LVL'000	
	Mortgage loans	Business loans	Consumer loans	Other loans	Total	Fair value of collateral	
31/12/2013							
Neither past due nor impaired loans	197,397	239,767	847	16,849	454,860	648,666	
Past due but not impaired loans, incl.:	32,844	7,387	144	-	40,375	33,611	
less than 30 days	22,304	2,462	103	-	24,869	21,178	
31 to 59 days	9,308	197	36	-	9,541	8,195	
60 to 89 days	1,232	-	5	-	1,237	840	
more than 90 days	-	4,728	-	-	4,728	3,398	
Impaired loans	54,146	10,190	78	2,722	67,136	40,163	
<b>Total loans</b>	<b>284,387</b>	<b>257,344</b>	<b>1,069</b>	<b>19,571</b>	<b>562,371</b>	<b>722,440</b>	
Impairment allowance	(27,792)	(4,704)	(41)	(2,663)	(35,200)		
<b>Total loans, net</b>	<b>256,595</b>	<b>252,640</b>	<b>1,028</b>	<b>16,908</b>	<b>527,171</b>		
31.12.2012.							
Neither past due nor impaired loans	197,288	175,986	1,013	13,748	388,035	554,154	
Past due but not impaired loans, incl.:	46,811	10,121	201	-	57,133	62,078	
less than 30 days	36,710	9,868	141	-	46,719	52,733	
31 to 59 days	9,262	54	39	-	9,355	7,225	
60 to 89 days	733	199	21	-	953	955	
more than 90 days	106	-	-	-	-	1,165	
Impaired loans	78,439	20,927	49	2,626	102,041	62,787	
<b>Total loans</b>	<b>322,538</b>	<b>207,034</b>	<b>1,263</b>	<b>16,374</b>	<b>547,209</b>	<b>679,019</b>	
Impairment allowance	(37,652)	(7,129)	(54)	(2,587)	(47,422)		
<b>Total loans, net</b>	<b>284,886</b>	<b>199,905</b>	<b>1,209</b>	<b>13,787</b>	<b>499,787</b>		



## Notes to the financial statements for the year ended 31 December 2013

The table below provides the credit quality analysis for the bank:

	LVL'000					
	Mortgage loans	Business loans	Consumer loans	Other loans	Total	Fair value of collateral
31/12/2013						
Neither past due nor impaired loans	197,397	247,618	847	16,849	462,711	648,666
Past due but not impaired loans, incl.:	32,844	7,387	144	-	40,375	33,611
less than 30 days	22,304	2,462	103	-	24,869	21,178
31 to 59 days	9,308	197	36	-	9,541	8,195
60 to 89 days	1,232	-	5	-	1,237	840
more than 90 days	-	4,728	-	-	4,728	3,398
Impaired loans	54,146	10,190	78	2,722	67,136	40,163
<b>Total loans</b>	<b>284,387</b>	<b>265,195</b>	<b>1,069</b>	<b>19,571</b>	<b>570,222</b>	<b>722,440</b>
Impairment allowance	(27,792)	(4,704)	(41)	(2,663)	(35,200)	
<b>Total loans, net</b>	<b>256,595</b>	<b>260,491</b>	<b>1,028</b>	<b>16,908</b>	<b>535,022</b>	
31.12.2012.						
Neither past due nor impaired loans	197,288	179,810	1,013	13,748	391,859	554,154
Past due but not impaired loans, incl.:	46,811	10,859	147	-	57,817	62,078
less than 30 days	36,710	9,794	97	-	46,601	52,733
31 to 59 days	9,262	50	30	-	9,342	7,225
60 to 89 days	733	199	20	-	952	955
more than 90 days	106	816	-	-	-	1,165
Impaired loans	78,439	20,189	103	2,626	101,357	62,787
<b>Total loans</b>	<b>322,538</b>	<b>210,858</b>	<b>1,263</b>	<b>16,374</b>	<b>551,033</b>	<b>679,019</b>
Impairment allowance	(37,652)	(7,129)	(54)	(2,587)	(47,422)	
<b>Total loans, net</b>	<b>284,886</b>	<b>203,729</b>	<b>1,209</b>	<b>13,787</b>	<b>503,611</b>	

Regular stress tests of the group's and the bank's loan portfolio, balances due from credit institutions as well as securities portfolio are performed to assess the credit risk exposure and identify potential critical situations. The maximum exposure to credit risk is assessed without taking into account collateral and other credit enhancements, while the minimum exposure is assessed taking into account the fair value of the collateral at the reporting date. If the loan is secured against a financial instrument, its fair value is determined according to the market value of the respective financial instrument; if the loan is secured against a bank deposit, the fair value of the collateral is the nominal value of the respective deposit; if the loan is secured against real estate, its fair value is determined according to valuation provided by independent experts and adjusted (reduced) based on the bank's experience; the fair value of other collateral is their purchase value or carrying amount taking into consideration valuation provided by independent experts and the bank.

As at 31 December 2013, the gross amount of loans having the maturity date for principal or interest changed totalled LVL 43.1 (56.2) million. These changes were made on the basis of the agreements between the group or the bank and customers amending respective loan conditions, as otherwise the loans might be past due. A loan is deemed to be restructured from the moment of signing the above mentioned agreement and until the moment when no contractual payments have been past due for at least a year or the loan has been subject to a loss event.

The group and the bank manage the credit quality of their financial assets by applying internal ratings. Loans to customers are assigned internal ratings where higher-rating assets are standard assets with a sound credit standing, while lower-rating assets are those assets which have doubtful credit quality and require close monitoring by the group and the bank. Meanwhile, balances due from credit institutions and securities are granted credit ratings assigned by rating agencies. Higher-rating assets represent investment-grade assets, i.e., assets having a rating of no lower than BBB-, while lower-rating assets represent assets rated below investment grade.

Notes to the financial statements for the year ended 31 December 2013

Financial assets of the group by risk rating:

							LVL' 000
							31/12/2013
	Financial assets neither past due nor impaired			Financial assets past due		Gross financial assets	
	Higher rating	Lower rating	Individually assessed	Portfolio allowance and impaired	Portfolio allowance but not impaired		
<b>Financial assets</b>							
Cash and deposits with central banks	250,738	-	-	-	-	250,738	
Balances due from credit institutions	404,012	46,011	-	-	-	450,023	
Derivatives	317	-	-	-	-	317	
Financial assets at fair value through profit or loss	-	11,803	-	-	-	11,803	
Available-for-sale financial assets	508,699	10,326	189	-	-	519,214	
Held-to-maturity financial assets	399,897	58,917	224	-	-	459,038	
Loans to customers	441,122	13,737	12,436	55,217	39,859	562,371	
Mortgage loans	195,779	1,617	1,715	52,432	32,844	284,387	
Business loans	227,647	12,120	10,192	370	7,015	257,344	
Consumer loans	846	-	146	77	-	1,069	
Other	16,850	-	383	2,338	-	19,571	
<b>Total financial assets, gross</b>	<b>2,004,785</b>	<b>140,794</b>	<b>12,849</b>	<b>55,217</b>	<b>39,859</b>	<b>2,253,504</b>	

							LVL' 000
							31/12/2012
	Financial assets neither past due nor impaired			Financial assets past due		Gross financial assets	
	Higher rating	Lower rating	Individually assessed	Portfolio allowance and impaired	Portfolio allowance but not impaired		
<b>Financial assets</b>							
Cash and deposits with central banks	209,394	6,691	-	-	-	216,085	
Balances due from credit institutions	369,826	23,072	-	-	-	392,898	
Derivatives	-	81	-	-	-	81	
Financial assets at fair value through profit or loss	-	3,333	-	-	-	3,333	
Available-for-sale financial assets	540,469	7,307	61	-	-	547,837	
Held-to-maturity financial assets	301,593	50,239	-	-	-	351,832	
Loans to customers	387,259	777	29,355	79,496	50,322	547,209	
Mortgage loans	196,512	777	1,844	76,647	46,758	322,538	
Business loans	175,986	-	26,996	488	3,564	207,034	
Consumer loans	1,013	-	150	100	-	1,263	
Other	13,748	-	365	2,261	-	16,374	
<b>Total financial assets, gross</b>	<b>1,808,541</b>	<b>91,500</b>	<b>29,416</b>	<b>79,496</b>	<b>50,322</b>	<b>2,059,275</b>	

## Notes to the financial statements for the year ended 31 December 2013

Financial assets of the bank by risk rating:

	LVL`000					
	31/12/2013					
	Financial assets neither past due nor impaired			Financial assets past due		
<b>Financial assets</b>	Higher rating	Lower rating	Individually assessed	Portfolio allowance and impaired	Portfolio allowance but not impaired	<b>Gross financial assets</b>
Cash and deposits with central banks	250,723	-	-	-	-	250,723
Balances due from credit institutions	399,753	35,309	-	-	-	435,062
Derivatives	317	-	-	-	-	317
Financial assets at fair value through profit or loss	-	11,803	-	-	-	11,803
Available-for-sale financial assets	508,699	5,409	189	-	-	514,297
Held-to-maturity financial assets	398,754	58,917	224	-	-	457,895
Loans to customers	448,973	13,737	12,436	55,217	39,859	570,222
Mortgage loans	195,779	1,617	1,715	52,432	32,844	284,387
Business loans	235,498	12,120	10,192	370	7,015	265,195
Consumer loans	846	-	146	77	-	1,069
Other	16,850	-	383	2,338	-	19,571
<b>Total financial assets, gross</b>	<b>2,007,219</b>	<b>125,175</b>	<b>12,849</b>	<b>55,217</b>	<b>39,859</b>	<b>2,240,319</b>

	LVL`000					
	31/12/2012					
	Financial assets neither past due nor impaired			Financial assets past due		
<b>Financial assets</b>	Higher rating	Lower rating	Individually assessed	Portfolio allowance and impaired	Portfolio allowance but not impaired	<b>Gross financial assets</b>
Cash and deposits with central banks	209,387	6,687	-	-	-	216,074
Balances due from credit institutions	365,619	23,046	-	-	-	388,665
Derivatives	-	81	-	-	-	81
Financial assets at fair value through profit or loss	-	3,333	-	-	-	3,333
Available-for-sale financial assets	540,469	7,307	61	-	-	547,837
Held-to-maturity financial assets	301,593	50,239	-	-	-	351,832
Loans to customers	391,083	777	29,355	79,496	50,322	551,033
Mortgage loans	196,512	777	1,844	76,647	46,758	322,538
Business loans	179,810	-	26,996	488	3,564	210,858
Consumer loans	1,013	-	150	100	-	1,263
Other	13,748	-	365	2,261	-	16,374
<b>Total financial assets, gross</b>	<b>1,808,151</b>	<b>91,470</b>	<b>29,416</b>	<b>79,496</b>	<b>50,322</b>	<b>2,058,855</b>

### Credit risk concentration

To mitigate concentration risk, the group and the bank apply diversification and a system of limits. The group and the bank place limits on the amount of risk for individual borrowers, and for geographical and industry concentrations as well as exposures having only one type of collateral, etc. The exposure to any single borrower, including banks and brokers, is further restricted by sub-limits. The credit risk concentration is analysed also by estimating the credit exposure ratio to equity. According to the Law on Credit Institutions, the group and the bank treat as high the credit exposure exceeding 10% of equity.

For the purposes of the credit risk concentration analysis, the issuers incorporated in a country only for the purpose of attraction of funds are disclosed as attributable to the country or region where the guarantors of the issue are located.

## Notes to the financial statements for the year ended 31 December 2013

The credit risk inherent in the group's and bank's securities portfolios is reflected by the credit rating granted to respective securities and issuers. The group's and bank's securities portfolios are well-diversified and portfolio diversification is based on issues, credit rating classes, issuers and maturities.

In the event that any loan category is affected by economic factors deteriorating the condition of all loans belonging to this category, it is decided to place certain restrictions on lending in the specific industry, and potential credit losses are identified.

Apart from the effective management of credit risk concentration, the bank has set limits for credit institutions and financial companies in order to restrict balances held with one institution as well as defined the limit control regulations specifying the independent procedure for controlling compliance with the limits.

Analysis of concentration of the group's financial assets and liabilities by geographical area as at 31 December 2013:  
LVL'000

	Latvia	EMU countries	Other EU Member States	Other OECD countries	International organisations	Other countries	Total
<b>Assets</b>							
Cash and deposits with central banks	250 731	7	-	-	-	-	250 738
Balances due from credit institutions	4 723	202 817	140 399	51 193	-	50 891	450 023
Derivatives	-	68	1	235	-	13	317
Financial assets at fair value through profit or loss	9 091	168	-	898	-	1 646	11 803
Available-for-sale financial assets	14 940	120 115	86 929	250 648	28 284	18 214	519 130
Loans	400 395	20 904	14 812	5 347	-	85 713	527 171
Held-to-maturity financial assets	53 884	56 349	49 673	118 098	37 138	143 815	458 957
<b>Total financial assets</b>	<b>733 764</b>	<b>400 428</b>	<b>291 814</b>	<b>426 419</b>	<b>65 422</b>	<b>300 292</b>	<b>2 218 139</b>
<b>Liabilities</b>							
Derivatives	-	325	4	1 109	-	-	1 438
Financial liabilities at amortised cost	292 191	189 589	394 554	18 733	-	1 284 322	2 179 389
<b>Total financial assets</b>	<b>292 191</b>	<b>189 914</b>	<b>394 558</b>	<b>19 842</b>	<b>-</b>	<b>1 284 322</b>	<b>2 180 827</b>
<b>Memorandum items</b>	<b>15 766</b>	<b>1 698</b>	<b>718</b>	<b>50</b>	<b>-</b>	<b>29 790</b>	<b>48 022</b>

Analysis of concentration of the group's financial assets and liabilities by geographical area as at 31 December 2012:  
LVL'000

	Latvia	EMU countries	Other EU Member States	Other OECD countries	International organisations	Other countries	Total
<b>Assets</b>							
Cash and deposits with central banks	216 078	7	-	-	-	-	216 085
Balances due from credit institutions	3 346	110 588	117 709	113 136	-	48 119	392 898
Derivatives	-	25	5	19	-	32	81
Financial assets at fair value through profit or loss	1 361	155	-	1 221	-	596	3 333
Available-for-sale financial assets	1 097	113 818	68 663	277 938	62 337	23 904	547 757
Loans	385 129	29 396	12 593	9 069	-	63 600	499 787
Held-to-maturity financial assets	27 046	47 434	27 671	85 951	27 065	136 665	351 832
<b>Total financial assets</b>	<b>634 057</b>	<b>301 423</b>	<b>226 641</b>	<b>487 334</b>	<b>89 402</b>	<b>272 916</b>	<b>2 011 773</b>
<b>Liabilities</b>							
Derivatives	-	650	745	3 158	-	26	4 579
Financial liabilities at amortised cost	194 050	228 800	385 035	22 758	-	1 172 676	2 003 319
<b>Total financial assets</b>	<b>194 050</b>	<b>229 450</b>	<b>385 780</b>	<b>25 916</b>	<b>-</b>	<b>1 172 702</b>	<b>2 007 898</b>
<b>Memorandum items</b>	<b>14 120</b>	<b>2 245</b>	<b>3 990</b>	<b>195</b>	<b>-</b>	<b>16 658</b>	<b>37 208</b>

## Notes to the financial statements for the year ended 31 December 2013

Analysis of concentration of the bank's financial assets and liabilities by geographical area as at 31 December 2013:

	LVL'000						
	Latvia	EMU countries	Other EU Member States	Other OECD countries	International organisations	Other countries	Total
<b>Assets</b>							
Cash and deposits with central banks	250 723	-	-	-	-	-	250 723
Balances due from credit institutions	4 604	188 004	140 399	51 193	-	50 862	435 062
Derivatives	-	68	1	235	-	13	317
Financial assets at fair value through profit or loss	9 091	168	-	898	-	1 646	11 803
Available-for-sale financial assets	14 940	115 198	86 929	250 648	28 284	18 214	514 213
Loans	408 210	20 904	14 812	5 383	-	85 713	535 022
Held-to-maturity financial assets	53 884	55 206	49 673	118 098	37 138	143 815	457 814
<b>Total financial assets</b>	<b>741 452</b>	<b>379 548</b>	<b>291 814</b>	<b>426 455</b>	<b>65 422</b>	<b>300 263</b>	<b>2 204 954</b>
<b>Liabilities</b>							
Derivatives	-	325	4	1 109	-	-	1 438
Financial liabilities at amortised cost	308 617	192 636	393 769	18 733	-	1 271 602	2 185 357
<b>Total financial assets</b>	<b>308 617</b>	<b>192 961</b>	<b>393 773</b>	<b>19 842</b>	<b>-</b>	<b>1 271 602</b>	<b>2 186 795</b>
<b>Memorandum items</b>	<b>16 025</b>	<b>1 698</b>	<b>718</b>	<b>50</b>	<b>-</b>	<b>29 790</b>	<b>48 281</b>

Analysis of concentration of the bank's financial assets and liabilities by geographical area as at 31 December 2012:

	LVL'000						
	Latvia	EMU countries	Other EU Member States	Other OECD countries	International organisations	Other countries	Total
<b>Assets</b>							
Cash and deposits with central banks	216 074	-	-	-	-	-	216 074
Balances due from credit institutions	2 657	107 070	117 709	113 136	-	48 093	388 665
Derivatives	-	25	5	19	-	32	81
Financial assets at fair value through profit or loss	1 361	155	-	1 221	-	596	3 333
Available-for-sale financial assets	1 097	113 818	68 663	277 938	62 337	23 904	547 757
Loans	396 905	21 444	12 593	9 069	-	63 600	503 611
Held-to-maturity financial assets	27 046	47 434	27 671	85 951	27 065	136 665	351 832
<b>Total financial assets</b>	<b>645 140</b>	<b>289 946</b>	<b>226 641</b>	<b>487 334</b>	<b>89 402</b>	<b>272 890</b>	<b>2 011 353</b>
<b>Liabilities</b>							
Derivatives	-	650	745	3 158	-	26	4 579
Financial liabilities at amortised cost	199 556	237 407	385 035	22 758	-	1 172 676	2 017 432
<b>Total financial assets</b>	<b>199 556</b>	<b>238 057</b>	<b>385 780</b>	<b>25 916</b>	<b>-</b>	<b>1 172 702</b>	<b>2 022 011</b>
<b>Memorandum items</b>	<b>14 240</b>	<b>2 245</b>	<b>3 990</b>	<b>195</b>	<b>-</b>	<b>16 658</b>	<b>37 328</b>

## Note 35

### Financial risks

#### Liquidity risk

Liquidity is the group's and bank's ability to maintain or ensure sufficient cash and cash equivalents to meet the expected (everyday) or sudden (critical) legally justified claims of its creditors. This means the group's and bank's ability to turn their assets into cash with minimal loss or ensure reasonably priced credit facilities.

The Chief Risk Officer (CRO) is responsible for liquidity risk management. The Risk Management Division is responsible for liquidity risk evaluation and control. The Chief Financial Officer (CFO) is responsible for liquidity management and the Financial Market Division is responsible for ensuring the required liquidity level and compliance with the set limits according to the policies and instructions adopted.

The key principles and procedures to timely identify, analyse and control liquidity risk are laid down in the liquidity management policy.

For ordinary liquidity risk management purposes, the bank applies the following indicators having certain limits and restrictions set:

- deposit coverage ratio;
- net liquidity positions by all currencies in total and by each separate currency;
- current liquidity ratio;
- major deposits on demand ratio to liquid assets on demand;
- sum of term deposits of one customer (group of related customers).

To identify the potential deterioration in the liquidity position on a timely basis, an early warning indicators system has been designed:

- substantial daily reduction of the amounts to be claimed under savings accounts and term deposits with the remaining maturities of "Less than 30 days";
- simultaneous decrease of the weighted average duration and the total balance of term deposits;
- substantial growth of deposits claimed before their contractual maturity;
- decrease of the proportion of liquid assets in the total assets of the bank;
- negative information reported in the mass media about the bank or its related parties that may harm the bank's reputation;
- the increasingly reported instances of limits reduced or annulled by counterparties.

As at 31 December 2013, the bank's liquidity ratio was 79.20% (62.51%). The FCMC stipulates that the bank has to maintain the sufficient amount of liquid assets to meet its contractual liabilities, but no less than 30% of the bank's total current liabilities.

#### Contingency liquidity risk

Contingency liquidity risk relates to the organisation and planning for liquidity management in times of stress. Within the bank a specific crisis team is responsible for the liquidity management in times of crisis. This crisis team consists of the CEO, CRO, CFO, the Financial Market Division and the Risk Management Division. The group and the bank have defined principles to identify liquidity crisis stages and actions to overcome crisis situations. The main objective of bank's contingency plans is to enable senior management to act effectively and efficiently at times of crisis. The contingency plans are established for addressing temporary and long-term liquidity disruptions caused by a general event in the market or a bank specific event. These plans ensure that all roles and responsibilities are clearly defined and the necessary management information is in place.

According to the internal classification of the group and the bank, several liquidity crisis stages are distinguished: potential liquidity crisis, short-term and long-term liquidity crisis. Each stage has quantitative and qualitative indicators fixed which, if observed, also require certain actions to enhance liquidity.

The bank performs regular liquidity stress tests to identify the sources of potential liquidity problems, determine when the mandatory ratios may be breached or the crisis indicators listed in the Liquidity Crisis Manual may emerge as well as establish whether the bank's liquidity management documents need to be revised.

#### Liquidity gap analyses

The group and the bank have prepared these consolidated financial statements on a going concern basis. The group's and bank's management closely monitor and manage the group's and bank's liquidity position on a daily basis in accordance with the liquidity risk management framework. The liquidity gap analyses as disclosed in the following tables is prepared according to assumptions described below.

The liquidity gap analyses in below tables for assets, liabilities and memorandum items are disclosed into maturity bands according to the signed agreements, except as stated below.

Securities in the bank's portfolio are disclosed in the maturity range in which they can be sold without loss, i.e. at market value, except for held-to-maturity assets. The securities of the held-to-maturity asset portfolio are disclosed in the maturity range based on the ability to perform repo transactions with these securities in exchange for a secured loan. The share of the securities qualifying for repo transactions is disclosed in the "on demand and up to 1 month" maturity range, while the share of the securities not qualifying for repo transactions is disclosed according to the maturity date.

According to the bank's experience, current accounts and other similar deposits constitute a sound source of financing. Current accounts and conceptually similar deposit types due "on demand" are disclosed according to the maturity range in line with the bank's experience regarding the life cycle of these deposits with the bank, although the customers are entitled to receive the demand deposits from the bank at any time and without any penalties. The breakdown of the demand deposits by maturity does not exceed 5 years and complies with the bank's historical experience regarding the length of the

## Notes to the financial statements for the year ended 31 December 2013

period and the extent to which the demand deposits outflow from the bank. This principle is not applied to demand deposits placed by large customers as the bank considers them less stable and for these deposits the maturity band of "on demand and up to 1 month" is applied.

Term deposits are disclosed according to the contractual terms, however, the customers are entitled to demand the term deposits from the bank before the end of the contractual term thus losing part of the respective term deposit.

The assets, which have been impaired, are stated net of allowances.

Group's assets, liabilities and memorandum item liquidity gap analyses as at 31 December 2013:

	LVL'000					
<b>Assets</b>	On demand and up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	More than 5 years and undated	<b>Total</b>
Cash and deposits with central banks	250 738	-	-	-	-	250 738
Balances due from credit institutions	436 369	2 816	1 409	-	9 429	450 023
Derivatives	11	305	1	-	-	317
Financial assets at fair value through profit or loss	3 896	-	7 887	-	20	11 803
Available-for-sale financial assets	507 031	3 466	2 681	-	5 952	519 130
Loans	77 169	15 273	77 222	197 806	159 701	527 171
Held-to-maturity financial assets	358 707	3 762	4 491	48 323	43 674	458 957
Other assets	57 794	-	-	-	54 620	112 414
<b>Total assets</b>	<b>1 691 715</b>	<b>25 622</b>	<b>93 691</b>	<b>246 129</b>	<b>273 396</b>	<b>2 330 553</b>
<b>Liabilities</b>						
Derivatives	162	1 275	1	-	-	1 438
Financial liabilities at amortised cost	550 188	98 549	374 321	1 088 696	67 635	2 179 389
Other liabilities	12 413	-	4 352	-	-	16 765
<b>Total liabilities</b>	<b>562 763</b>	<b>99 824</b>	<b>378 674</b>	<b>1 088 696</b>	<b>67 635</b>	<b>2 197 592</b>
Shareholders' equity	-	-	-	-	132 961	132 961
<b>Total liabilities and shareholders' equity</b>	<b>562 763</b>	<b>99 824</b>	<b>378 674</b>	<b>1 088 696</b>	<b>200 596</b>	<b>2 330 553</b>
Total memorandum items	14 937	2 967	7 881	11 678	10 559	48 022
Net liquidity position	1 114 015	(77 169)	(292 864)	(854 245)	62 241	x
Total liquidity position	1 114 015	1 036 846	743 982	(110 263)	(48 022)	x

Group's assets, liabilities and memorandum item liquidity gap analyses as at 31 December 2012:

	LVL'000					
<b>Assets</b>	On demand and up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	More than 5 years and undated	<b>Total</b>
Cash and deposits with central banks	216 085	-	-	-	-	216 085
Balances due from credit institutions	356 216	2 656	-	-	34 026	392 898
Derivatives	44	37	-	-	-	81
Financial assets at fair value through profit or loss	2 553	-	780	-	-	3 333
Available-for-sale financial assets	529 762	5 029	2 747	-	10 219	547 757
Loans	85 383	17 520	53 165	161 834	181 885	499 787
Held-to-maturity financial assets	698	2 337	9 540	244 579	94 678	351 832
Other assets	90 889	-	118	74	26 355	117 436
<b>Total assets</b>	<b>1 281 630</b>	<b>27 579</b>	<b>66 350</b>	<b>406 487</b>	<b>347 163</b>	<b>2 129 209</b>
<b>Liabilities</b>						
Derivatives	496	4 083	-	-	-	4 579
Financial liabilities at amortised cost	683 222	242 315	337 923	729 927	9 932	2 003 319
Other liabilities	16 164	-	1 433	-	-	17 597
<b>Total liabilities</b>	<b>699 882</b>	<b>246 398</b>	<b>339 356</b>	<b>729 927</b>	<b>9 932</b>	<b>2 025 495</b>
Shareholders' equity	-	-	-	-	103 714	103 714
<b>Total liabilities and shareholders' equity</b>	<b>699 882</b>	<b>246 398</b>	<b>339 356</b>	<b>729 927</b>	<b>113 646</b>	<b>2 129 209</b>
Total memorandum items	21 801	1 661	1 515	7 731	4 500	37 208
Net liquidity position	559 947	(220 480)	(274 521)	(331 171)	229 017	x
Total liquidity position	559 947	339 467	64 946	(266 225)	(37 208)	x



## Notes to the financial statements for the year ended 31 December 2013

Bank's assets, liabilities and memorandum item liquidity gap analyses as at 31 December 2013:

	LVL'000					
	On demand and up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	More than 5 years and undated	Total
<b>Assets</b>						
Cash and deposits with central banks	250,723	-	-	-	-	250,723
Balances due from credit institutions	425,928	-	-	-	9,134	435,062
Derivatives	11	305	1	-	-	317
Financial assets at fair value through profit or loss	3,896	-	7,887	-	20	11,803
Available-for-sale financial assets	507,031	3,466	2,681	-	1,035	514,213
Loans	77,168	15,273	82,718	200,166	159,697	535,022
Held-to-maturity financial assets	358,707	3,762	4,491	47,180	43,674	457,814
Other assets	3,929	-	-	-	121,171	125,100
<b>Total assets</b>	<b>1,627,393</b>	<b>22,806</b>	<b>97,778</b>	<b>247,346</b>	<b>334,731</b>	<b>2,330,054</b>
<b>Liabilities</b>						
Derivatives	162	1,275	1	-	-	1,438
Financial liabilities at amortised cost	558,709	98,549	374,321	1,086,143	67,635	2,185,357
Other liabilities	8,021	-	3,787	-	-	11,808
<b>Total liabilities</b>	<b>566,892</b>	<b>99,824</b>	<b>378,109</b>	<b>1,086,143</b>	<b>67,635</b>	<b>2,198,603</b>
Shareholders' equity	-	-	-	-	131,451	131,451
<b>Total liabilities and shareholders' equity</b>	<b>566,892</b>	<b>99,824</b>	<b>378,109</b>	<b>1,086,143</b>	<b>199,086</b>	<b>2,330,054</b>
Total memorandum items	15,197	2,967	7,881	11,678	10,558	48,281
Net liquidity position	1,045,304	(79,985)	(288,212)	(850,475)	125,087	x
Total liquidity position	1,045,304	965,319	677,107	(173,368)	(48,281)	x

Bank's assets, liabilities and memorandum item liquidity gap analyses as at 31 December 2012:

	LVL'000					
	On demand and up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	More than 5 years and undated	Total
<b>Assets</b>						
Cash and deposits with central banks	216,074	-	-	-	-	216,074
Balances due from credit institutions	352,278	2,656	-	-	33,731	388,665
Derivatives	44	37	-	-	-	81
Financial assets at fair value through profit or loss	2,553	-	780	-	-	3,333
Available-for-sale financial assets	529,762	5,029	2,750	7,969	2,247	547,757
Loans	85,383	17,520	53,171	165,715	181,822	503,611
Held-to-maturity financial assets	698	2,337	9,637	248,256	90,904	351,832
Other assets	11,678	-	118	74	115,993	127,863
<b>Total assets</b>	<b>1,198,470</b>	<b>27,579</b>	<b>66,456</b>	<b>422,014</b>	<b>424,697</b>	<b>2,139,216</b>
<b>Liabilities</b>						
Derivatives	496	4,083	-	-	-	4,579
Financial liabilities at amortised cost	689,689	147,519	440,365	729,927	9,932	2,017,432
Other liabilities	10,064	-	338	-	-	10,402
<b>Total liabilities</b>	<b>700,249</b>	<b>151,602</b>	<b>440,703</b>	<b>729,927</b>	<b>9,932</b>	<b>2,032,413</b>
Shareholders' equity	-	-	-	-	106,803	106,803
<b>Total liabilities and shareholders' equity</b>	<b>700,249</b>	<b>151,602</b>	<b>440,703</b>	<b>729,927</b>	<b>116,735</b>	<b>2,139,216</b>
Total memorandum items	21,921	1,661	1,515	7,731	4,500	37,328
Net liquidity position	476,300	(125,684)	(375,762)	(315,644)	303,462	x
Total liquidity position	476,300	350,616	(25,146)	(340,790)	(37,328)	x

In estimating the amount of expected financial liabilities, the group and the bank have included in the maturity gap analysis also interest payable on financial liabilities and memorandum items effective as at 31 December 2013 and 2012 which is expected in the future but has not been assessed at the reporting date.

Financial liabilities, memorandum items and interest which is payable in the future, but has not been assessed, into relevant maturity bands based on the remaining period, as at the reporting date, to the contractual maturity date:

Notes to the financial statements for the year ended 31 December 2013

Analyses of undiscounted financial liabilities and memorandum items of the group as at 31 December 2013:

	LVL'000				
<b>Financial liabilities</b>	Up to 1 month	1 - 12 months	1 - 5 years	More than 5 years	<b>Total</b>
Demand deposits from credit institutions	7 488	-	-	-	7 488
Derivative inflow amount	(38 596)	(131 733)	-	-	(170 329)
Derivative outflow amount	38 390	132 583	-	-	170 973
Financial liabilities at amortised cost	1 912 493	91 618	114 113	85 174	2 203 398
<b>Total financial liabilities</b>	<b>1 919 775</b>	<b>92 468</b>	<b>114 113</b>	<b>85 174</b>	<b>2 211 530</b>
Memorandum items	14 937	10 848	11 678	10 559	48 022
<b>Total financial liabilities and memorandum items</b>	<b>1 934 712</b>	<b>103 316</b>	<b>125 791</b>	<b>95 733</b>	<b>2 259 552</b>

Analyses of undiscounted financial liabilities and memorandum items of the group as at 31 December 2012:

	LVL'000				
<b>Financial liabilities</b>	Up to 1 month	1 - 12 months	1 - 5 years	More than 5 years	<b>Total</b>
Demand deposits from credit institutions	967	-	-	-	967
Derivative inflow amount	(31 770)	(121 048)	-	-	(152 818)
Derivative outflow amount	32 218	124 402	-	-	156 620
Financial liabilities at amortised cost	1 747 185	163 875	104 483	26 603	2 042 146
<b>Total financial liabilities</b>	<b>1 748 600</b>	<b>167 229</b>	<b>104 483</b>	<b>26 603</b>	<b>2 046 915</b>
Memorandum items	21 801	3 176	7 731	4 500	37 208
<b>Total financial liabilities and memorandum items</b>	<b>1 770 401</b>	<b>170 405</b>	<b>112 214</b>	<b>31 103</b>	<b>2 084 123</b>

Analyses of undiscounted financial liabilities and memorandum items of the Bank as at 31 December 2013:

	LVL'000				
<b>Financial liabilities</b>	Up to 1 month	1 - 12 months	1 - 5 years	More than 5 years	<b>Total</b>
Demand deposits from credit institutions	10 184	-	-	-	10 184
Derivative inflow amount	(38 596)	(131 733)	-	-	(170 329)
Derivative outflow amount	38 390	132 583	-	-	170 973
Financial liabilities at amortised cost	1 918 525	91 618	111 560	85 174	2 206 877
<b>Total financial liabilities</b>	<b>1 928 503</b>	<b>92 468</b>	<b>111 560</b>	<b>85 174</b>	<b>2 217 705</b>
Memorandum items	15 197	10 848	11 678	10 558	48 281
<b>Total financial liabilities and memorandum items</b>	<b>1 943 700</b>	<b>103 316</b>	<b>123 238</b>	<b>95 732</b>	<b>2 265 986</b>

Analyses of undiscounted financial liabilities and memorandum items of the Bank as at 31 December 2012:

	LVL'000				
<b>Financial liabilities</b>	Up to 1 month	1 - 12 months	1 - 5 years	More than 5 years	<b>Total</b>
Demand deposits from credit institutions	2 406	-	-	-	2 406
Derivative inflow amount	(31 770)	(121 048)	-	-	(152 818)
Derivative outflow amount	32 218	124 402	-	-	156 620
Financial liabilities at amortised cost	1 747 185	163 875	104 483	26 603	2 042 146
<b>Total financial liabilities</b>	<b>1 750 039</b>	<b>167 229</b>	<b>104 483</b>	<b>26 603</b>	<b>2 048 354</b>
Memorandum items	21 921	3 176	7 731	4 500	37 328
<b>Total financial liabilities and memorandum items</b>	<b>1 771 960</b>	<b>170 405</b>	<b>112 214</b>	<b>31 103</b>	<b>2 085 682</b>

### Market risks

Market risk is exposure to potential losses due to the revaluation of assets and liabilities and memorandum items caused by changes in the market prices of financial instruments resulting from the fluctuations of currency exchange rates, interest rates and other factors. Market risk identification, assessment and management are prescribed by several regulations, i.e., the Interest Rate Risk Management Policy, the Derivative Financial Instrument Policy, and the bank's Securities Portfolio Policy.

The "loss" indicator is used by the bank as one of the tools to manage market risk inherent in the securities portfolio in order to identify any reductions in the securities prices below the mandatory level in a timely fashion. Based on the above, the heads of responsible structural units may decide whether the affected securities should be sold or kept in the portfolio.

The exposure of the trading portfolio to market risk and the capital charge for market risk are determined according to the standardised approach described in the FCMC Regulations for Calculation of Minimum Capital Requirement, calculating the general position risk of debt securities under the maturity method.

### Price risk

Non-fixed income financial instruments are held in the bank's trading portfolio. Price risk related to the non-fixed income financial instruments indicates to the potential fall of the market value of the securities during the holding period. To assess the risk level, the Bank applies the historical simulation method using a confidence level of 99%, considering the changes in the market value of the securities during the reporting year and the average security holding period in the trading portfolio.

In 2013, the estimated value-at-risk of the non-fixed income financial instruments totalled LVL 943.4 (462.9) thousand. The increase in the value-at-risk is related to the growth of the amount of the non-fixed income financial instruments in the trading portfolio.

### Currency risk

The group and the bank are exposed to negative effects of fluctuations in the foreign currency exchange rates on their financial position and cash flows. The exposure to currency risk is calculated for each separate currency and includes assets and liabilities denominated in foreign currencies, as well as cash flows arising from derivatives.

The bank has major open positions in EUR (euro) and USD (US dollars). From 1 January 2014, Latvia has joined the European Monetary Union, hence the currency position in EUR is not subject to currency risk. The bank's open currency position in USD is rather small as it is hedged by using currency forwards/ futures. As at 31 December 2013, the bank's open currency position in USD was 3.0% (3.8%) of bank's equity and, therefore, the effect of changes in the USD exchange rate is insignificant, and the bank does not conduct a more detailed sensitivity analysis, only controlling this risk by applying the limits specified in the Limits Policy. As at 31 December 2013, all the above limits were met.

The bank's Limits Policy defines major principles for limits application and control; limits for open foreign currency positions stipulate restrictions for each separate currency open position and total open position that are controlled on a daily basis.

Notes to the financial statements for the year ended 31 December 2013

The group's currency position as at 31 December 2013:

	LVL'000					
	LVL	USD	EUR	RUB	Other currencies	Total
<b>Assets</b>						
Cash and deposits with central banks	98 685	1 976	149 923	-	154	250 738
Balances due from credit institutions	119	355 025	29 027	21 905	43 947	450 023
Derivatives	317	-	-	-	-	317
Financial assets at fair value through profit or loss	51	4 879	4 135	2 738	-	11 803
Available-for-sale financial assets	12 618	482 246	11 092	9 707	3 467	519 130
Loans	341	123 711	397 402	365	5 352	527 171
Held-to-maturity financial assets	-	395 041	51 157	12 465	294	458 957
Other assets	108 801	1 777	1 562	2	272	112 414
<b>Total assets</b>	<b>220 932</b>	<b>1 364 655</b>	<b>644 298</b>	<b>47 182</b>	<b>53 486</b>	<b>2 330 553</b>
<b>Liabilities</b>						
Derivatives	1 438	-	-	-	-	1 438
Financial liabilities at amortised cost	13 731	1 502 671	557 154	51 887	53 946	2 179 389
Other liabilities	14 993	287	1 449	23	13	16 765
<b>Total liabilities</b>	<b>30 162</b>	<b>1 502 958</b>	<b>558 603</b>	<b>51 910</b>	<b>53 959</b>	<b>2 197 592</b>
<b>Net long/ (short) balance sheet position</b>	<b>-</b>	<b>(138 303)</b>	<b>85 695</b>	<b>(4 728)</b>	<b>(473)</b>	<b>x</b>
Net off-balance sheet position from FX transactions	-	149 728	(155 470)	4 023	578	x
<b>Net open (short)/ long currency position</b>	<b>-</b>	<b>11 425</b>	<b>(69 775)</b>	<b>(705)</b>	<b>105</b>	<b>x</b>
<b>Sensitivity gap if exchange rate against LVL drops by 10%</b>	<b>-</b>	<b>(1 143)</b>	<b>-</b>	<b>71</b>	<b>(11)</b>	<b>x</b>

The group's currency position as at 31 December 2012:

	LVL'000					
	LVL	USD	EUR	RUB	Other currencies	Total
<b>Assets</b>						
Cash and deposits with central banks	85 090	2 140	128 768	-	87	216 085
Balances due from credit institutions	689	324 326	18 348	16 190	33 345	392 898
Derivatives	81	-	-	-	-	81
Financial assets at fair value through profit or loss	33	1 396	309	1 595	-	3 333
Available-for-sale financial assets	-	534 970	1 298	6 953	4 536	547 757
Loans	6 764	102 102	381 010	1 474	8 437	499 787
Held-to-maturity financial assets	-	329 105	10 940	9 131	2 656	351 832
Other assets	105 830	3 233	1 388	2	6 983	117 436
<b>Total assets</b>	<b>198 487</b>	<b>1 297 272</b>	<b>542 061</b>	<b>35 345</b>	<b>56 044</b>	<b>2 129 209</b>
<b>Liabilities</b>						
Derivatives	4 579	-	-	-	-	4 579
Financial liabilities at amortised cost	16 931	1 421 778	470 970	39 414	54 226	2 003 319
Other liabilities	13 958	2 771	509	292	67	17 597
<b>Total liabilities</b>	<b>35 468</b>	<b>1 424 549</b>	<b>471 479</b>	<b>39 706</b>	<b>54 293</b>	<b>2 025 495</b>
<b>Net long/ (short) balance sheet position</b>	<b>-</b>	<b>(127 277)</b>	<b>70 582</b>	<b>(4 361)</b>	<b>1 751</b>	<b>x</b>
Net off-balance sheet position from FX transactions	-	133 216	(142 545)	4 783	495	x
<b>Net open (short)/ long currency position</b>	<b>-</b>	<b>5 939</b>	<b>(71 963)</b>	<b>422</b>	<b>2 246</b>	<b>x</b>
<b>Sensitivity gap if exchange rate against LVL drops by 10%</b>	<b>-</b>	<b>(594)</b>	<b>7 196</b>	<b>(42)</b>	<b>(225)</b>	<b>x</b>

## Notes to the financial statements for the year ended 31 December 2013

The bank's currency position as at 31 December 2013:

	LVL	USD	EUR	RUB	Other currencies	LVL'000 Total
<b>Assets</b>						
Cash and deposits with central banks	98 677	1 976	149 916	-	154	250 723
Balances due from credit institutions	-	349 923	19 305	21 893	43 941	435 062
Derivatives	317	-	-	-	-	317
Financial assets at fair value through profit or loss	51	4 879	4 135	2 738	-	11 803
Available-for-sale financial assets	12 618	482 246	6 175	9 707	3 467	514 213
Loans	341	123 711	405 253	365	5 352	535 022
Held-to-maturity financial assets	-	395 041	50 014	12 465	294	457 814
Other assets	37 481	1 666	85 680	1	272	125 100
<b>Total assets</b>	<b>149 485</b>	<b>1 359 442</b>	<b>720 478</b>	<b>47 169</b>	<b>53 480</b>	<b>2 330 054</b>
<b>Liabilities</b>						
Derivatives	1 438	-	-	-	-	1 438
Financial liabilities at amortised cost	20 426	1 502 678	556 420	51 887	53 946	2 185 357
Other liabilities	10 364	286	1 131	20	7	11 808
<b>Total liabilities</b>	<b>32 228</b>	<b>1 502 964</b>	<b>557 551</b>	<b>51 907</b>	<b>53 953</b>	<b>2 198 603</b>
<b>Net long/ (short) balance sheet position</b>	<b>-</b>	<b>(143 522)</b>	<b>162 927</b>	<b>(4 738)</b>	<b>(473)</b>	<b>x</b>
Net off-balance sheet position from FX transactions	-	149 728	(155 470)	4 023	578	x
<b>Net open (short)/ long currency position</b>	<b>-</b>	<b>6 206</b>	<b>7 457</b>	<b>(715)</b>	<b>105</b>	<b>x</b>
<b>Sensitivity gap if exchange rate against LVL drops by 10%</b>	<b>-</b>	<b>(621)</b>	<b>-</b>	<b>72</b>	<b>(11)</b>	<b>x</b>

The bank's currency position as at 31 December 2012:

	LVL	USD	EUR	RUB	Other currencies	LVL'000 Total
<b>Assets</b>						
Cash and deposits with central banks	85 086	2 140	128 761	-	87	216 074
Balances due from credit institutions	-	324 326	14 825	16 176	33 338	388 665
Derivatives	81	-	-	-	-	81
Financial assets at fair value through profit or loss	33	1 396	309	1 595	-	3 333
Available-for-sale financial assets	-	534 970	1 298	6 953	4 536	547 757
Loans	1 179	102 102	390 419	1 474	8 437	503 611
Held-to-maturity financial assets	-	329 105	10 940	9 131	2 656	351 832
Other assets	33 594	3 179	84 249	2	6 839	127 863
<b>Total assets</b>	<b>119 973</b>	<b>1 297 218</b>	<b>630 801</b>	<b>35 331</b>	<b>55 893</b>	<b>2 139 216</b>
<b>Liabilities</b>						
Derivatives	4 579	-	-	-	-	4 579
Financial liabilities at amortised cost	16 640	1 421 861	485 291	39 414	54 226	2 017 432
Other liabilities	7 006	2 723	321	289	63	10 402
<b>Total liabilities</b>	<b>28 225</b>	<b>1 424 584</b>	<b>485 612</b>	<b>39 703</b>	<b>54 289</b>	<b>2 032 413</b>
<b>Net long/ (short) balance sheet position</b>	<b>-</b>	<b>(127 366)</b>	<b>145 189</b>	<b>(4 372)</b>	<b>1 604</b>	<b>x</b>
Net off-balance sheet position from FX transactions	-	133 216	(142 545)	4 783	495	x
<b>Net open (short)/ long currency position</b>	<b>-</b>	<b>5 850</b>	<b>2 644</b>	<b>411</b>	<b>2 099</b>	<b>x</b>
<b>Sensitivity gap if exchange rate against LVL drops by 10%</b>	<b>-</b>	<b>(585)</b>	<b>(264)</b>	<b>(41)</b>	<b>(210)</b>	<b>x</b>

The Law on Credit Institutions requires that bank's open positions in each foreign currency may not exceed 10% of equity and that the total bank's foreign currency open position may not exceed 20% of equity.

As at 31 December 2013, the bank was in compliance with the above requirements of the Law on Credit Institutions.

### Interest rate risk

Interest rate risk represents the adverse effect of the market interest rate fluctuations on the bank's financial performance. The Risk Management Division ensures interest rate risk assessment and management for both trading and non-trading portfolios. The Financial Market Division is responsible for maintaining interest rate risk within specified limits.

## Notes to the financial statements for the year ended 31 December 2013

Assessment of interest rate risk is conducted to cover, to the maximum extent possible, all risk elements – repricing risk, yield curve risk, basis risk, and option risk.

Interest rate risk is assessed both in terms of income and economic value. The term “economic value” means the shareholders’ equity’s economic value that is the difference between the economic value of assets and that of liabilities. For the purposes of assessment of extraordinary circumstances, stress tests are applied.

For the purposes of hedging interest rate risk, the limits of acceptable reduction in economic value and modified duration of the investments’ held for undefined period portfolio are fixed. Derivative financial instruments are utilised to hedge interest rate risk.

The assets, liabilities and memorandum items distribution into maturity bands follows such principles:

- financial instruments with a fixed interest rate are presented by the earlier of the repayment/settlement/maturity date;
- financial instruments with a variable interest rate are presented according to next contractual repricing date or interest rate repricing date;
- demand deposits are shown in those maturity bands which are determined on the basis of sensitivity to changes in interest rates, which the bank evaluates from the following two aspects:
  - by analysing the depositors’ willingness to place their demand deposits under the terms of the bank’s proposed term deposits, depending on the changes of deposit interest rates offered in the bank’s price list;
  - by analysing the impact of market interest rate index changes on the demand deposit decay rate of the bank, stating the proportion of deposits that are sensitive to market interest rate index changes and their expected life cycle with the bank.

Derivatives are represented in two entries: the first entry describes the notional amount of the underlying assets, whereas the other one is a compensatory entry showing the opposite value.

The effect of interest rate risk on the economic value is calculated according to the duration method, i.e., the parallel increase in interest rates by 1 per cent (or 100 basis points), while the effect on profit/ loss is analysed applying the gap analysis, i.e., analysing the maturity gaps of interest rate sensitive assets and liabilities and aggregating the effect calculated (profit or loss) for each maturity band up to one year.

The bank regularly conducts interest rate sensitivity analyses, applying the gap technique. Based on the results of this analysis, the bank’s management assesses whether interest rate stress tests need to be performed and, if necessary, suggests stress testing scenarios for potential adverse changes in interest rates. These stress tests are aimed at assessing the effect of adverse changes in interest rates on the bank’s income and economic value in the event of a tough market situation.

When assessing the effect of interest rate risk on the equity, the potential changes in the market value of the available-for sale debt securities due to market interest rate fluctuations are considered. The profit is affected by changes in interest income due to market interest rate fluctuations taking into consideration all the assets and liabilities exposed to interest rate risk.

The following table presents the group’s and bank’s sensitivity to changes in interest rates and the effect of such changes on equity and profit in 2013 and 2012:

		LVL'000			
		Group/ bank		Group/ bank	
		01/01/2013- 31/12/2013		01/01/2012- 31/12/2012	
		+100bps	-100bps	+100bps	-100bps
<b>Total for all currencies</b>	Effect of changes on equity	(6,650)	6,650	(5,976)	5,976
	Effect of changes on profit	885	(885)	1,119	(1,119)
USD	Effect of changes on equity	(6,401)	6,401	(5,489)	5,489
	Effect of changes on profit	1,040	(1,040)	1,071	(1,071)
EUR	Effect of changes on equity	(249)	249	(487)	487
	Effect of changes on profit	(155)	155	48	(48)

In view of the accession of Latvia to the European Monetary Union on 1 January 2014, the sensitivity to changes in the LVL interest rates are not disclosed separately.

## Note 36

### Non-financial risks

During the course of their operations, the group and the bank encounter also non-financial risks (including operational risk, reputational risk, etc.) with exposure to sudden loss. The cause of such risks may be, for instance, clerical errors or fraud, break-downs in information systems, insufficient internal control and procedures, etc. The bank makes every effort to maintain the lowest possible risk level, meanwhile striving at not exceeding a reasonable level of expense. Internal control within the bank's structural units and the control exercised by the Risk Management Division are one of the measures taken to prevent the potential loss.

#### Operational risk

Operational risk is a risk of direct or indirect loss caused by non-complying or incomplete internal processes, human error or systems failure, as well as external factors. Operational risk comprises legal risk but excludes strategic and reputational risk.

Operational risk is inherent in all products, activities, processes, and systems of the group and the bank.

The Operational Risk Management Policy is approved by the council of the bank. The board of the bank is responsible for considering the risk analysis results and setting limits and other qualitative and quantitative indicators based on such results, so defining the level of operational risk acceptable for the group and the bank. The Chief Risk Officer (CRO) is responsible for monitoring the operational risk management process and making related final decisions within the limits fixed in the policy. The Risk Management Division is responsible for the centralisation and coordination of the operational risk management.

Given that businesses and processes for which operational risk is being assessed are different and specific, each risk event management is a responsibility of the head of a respective structural unit, according to the relevant internal regulations.

The key principles allowing efficient operational risk management are as follows:

- setting up an adequate operational risk management system;
- employing an adequate method to identify and assess operational risk;
- monitoring operational risk on a regular basis;
- controlling and/ or mitigating operational risk adequately;
- ensuring business continuity.

To manage the group's and bank's exposure to operational risk, an operational risk event database has been established.

The key objectives of the database are as follows:

- collection of data about operational risk events and losses of the group and the bank;
- analysis of operational risk events and losses;
- assessment of the frequency of operational risk events and significance of operational risk losses;
- prevention of potential losses, based on the event assessment;
- definition of the major tendencies and making forecasts of future operational risk losses.

Information is registered and categorised in the database following the good practice principles defined by the Operational Riskdata eXchange Association (ORX). In addition to events resulting in actual losses, information about events for which no actual losses have been registered is also aggregated in the database, which enables the bank to identify potential losses and take all required measures to prevent such losses.

In the reporting year, an operational risk stress test was carried out to assess the related potential loss. The test was based on external, internal events registered in the risk event database and results of scenario analysis which supplemented the model with probable risk events and potential related losses. Individual risk assessment models were designed for low-risk events and low-probability (rare) events having a significant effect (potential losses). The scenarios included changes in the bank's operational environment affected by both internal and external factors and the bank assessed a potential effect on its income and ability to continue as a going concern in the event of any material deterioration of circumstances in the sectors having the highest operational risk concentration for the bank's risk profile.

During the reporting year, 2,084 (1,031) events were registered in the database, of which only 67 (73) events were those which resulted in actual losses amounting to LVL 75.2 (45.3) thousand. The considerable number of the identified and registered events and, at the same time, rather a small amount of loss testify to the active involvement of the group's and bank's employees in the operational risk management and to the effectiveness of the control environment.



### Money laundering and terrorism financing risk

Money laundering and terrorism financing (MLTF) risk is a risk that the bank may be involved in money laundering and terrorism financing.

MLTF risk management and control are delegated to the Chief Compliance Officer (CCO). Experts of the Compliance Division perform MLTF risk management and design and implement risk mitigation activities to ensure the bank's compliance with the existing anti-MLTF laws, regulations and standards and prevent any involvement of the bank and the group in money laundering and terrorism financing.

To ensure efficient customer monitoring and MLTF risk management, the bank has set up a permanent Customer Control Committee whose functions include approval of procedures and instructions related to customer identification, acceptance and due diligence, consideration of the results of investigating suspicious transactions and adoption of relevant decisions, analysis of KYC (due diligence) results within the limits of its competence and decision-making on abstaining from/ termination or continuation of business relationships with a certain customer, as well as presentation to the board of recommendations for improvement of the MLTF risk prevention system.

The Customer Policy defines the principles of customer attraction and servicing based on the bank's and group's operational strategy that are implemented according to the local statutory requirements as well as good banking practice.

To mitigate MLTF risk, the bank has formulated and documented an internal MLTF risk management and prevention system encompassing activities and measures aimed at ensuring compliance with the requirements of the Anti-Money Laundering and Counter-Terrorism Financing Law, Cabinet Regulations, FCMC Regulations and other applicable regulations. All the group's employees and authorised representatives involved in customer servicing and KYC processes are subject to the procedure prescribed by the aforementioned documents and relevant internal regulations.

Bank's MLTF risk management regulations lay down the following:

- criteria to commence cooperation with customers and counterparties;
- potential customers;
- procedure for commencing business relationships;
- procedure for customer identification and establishing actual beneficiaries;
- indicators of unusual and suspicious transactions, the procedure for establishing and investigating such indicators;
- procedure for abstaining from and reporting suspicious transactions to the Financial Intelligence Unit;
- customer risk identification;
- KYC procedures;
- customer transactions monitoring and customer due diligence.

### Reputational risk

Reputational risk is a non-quantifiable risk and the consequences and losses that may be caused by this risk can hardly be determined. Reputational risk management by the bank (measurement, applicable methods, control) is governed by the Reputational Risk Management Policy. The bank intends to set reputational risk indicators and aggregate information about their level and then formulate a methodology to quantify reputational risk. It should be also noted that reputational risk is closely linked to operational risk (including legal risk) and for this reason those risks are hard to distinguish. At present, the bank has decided not to segregate reputational risk and not to establish a separate capital charge for this risk.

### Information system risk

The bank has formulated the Information Technology Security Policy, the Information System Risk Analysis Regulations, the Security Requirements for Information Systems Being Designed, and other regulations dealing with information system risk management. Information system risk is included in operational risk based on the Operational Risk Management Policy adopted by the bank and, therefore, for capital adequacy purposes it was resolved not to segregate it from the capital charge for operational risk. The bank analyses the data of the operational risk event and loss database to identify whether it is possible and necessary to establish a separate capital charge for information system risk.



Note 37

**Litigation and claims**

In the ordinary course of business, the bank has been involved in a number of legal proceedings to recover outstanding credit balances and maintain collateral, as well as other proceedings related to specific transactions. The management believe that any legal proceedings pending as at 31 December 2013 will not result in material losses for the bank and/ or the group.

Note 38

**Events after reporting date**

As of the last day of the reporting year until the date of signing these consolidated financial statements there have been no events requiring adjustment of or disclosure in the consolidated financial statements or notes thereto, except below mentioned.

From 1 January 2014, Latvia has joined the European Monetary Union and from 15 January 2014 the Latvian lats ceased to be a legal tender.



SIA "Ernst & Young Baltic"  
Muitas iela 1A  
Rīga, LV-1010  
Latvija  
Tālr.: +371 6704 3801  
Fakss: +371 6704 3802  
riga@lv.ey.com  
www.ey.com/lv

SIA Ernst & Young Baltic  
Muitas iela 1A  
Rīga, LV-1010  
Latvija  
Tel.: +371 6704 3801  
Fax: +371 6704 3802  
riga@lv.ey.com  
www.ey.com/lv

Reģ. Nr. 40003593454  
PVN maksātāja Nr. LV40003593454

Reg. No: 40003593454  
VAT payer code: LV40003593454

## INDEPENDENT AUDITORS' REPORT

To the shareholders of ABLV Bank AS

### Report on the financial statements

We have audited the accompanying consolidated financial statements of ABLV Bank AS and its subsidiaries (the "Group") and the accompanying financial statements of ABLV Bank AS (the "Bank"), set out on pages 10 through 73 of the accompanying 2013 Consolidated Annual Report, which comprise the statement of financial position as at 31 December 2013, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### Management's responsibility for the financial statements

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

#### Auditors' responsibility

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

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

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

#### Opinion

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

### Report on other legal and regulatory requirements

Furthermore, we have read the management report for the year ended 31 December 2013 (set out on pages 3 through 7 of the accompanying 2013 Consolidated Annual Report) and have not noted any material inconsistencies between the financial information included in it and the consolidated financial statements for the year ended 31 December 2013.

We have assured ourselves that the Bank has prepared the corporate management report for the year 2013 and verified information presented in the report according to the requirements listed in the article 56<sup>2</sup> third paragraph clause 1 in the Law on Financial Instruments Market.

SIA Ernst & Young Baltic  
Licence No. 17

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

Rīga,  
24 February 2014